Notice of meeting and agenda

Governance, Risk and Best Value Committee

10:00am, Thursday, 20 April 2017

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

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

Contact –

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1. Order of Business

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

2. Declarations of Interest

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 None.

4. Minutes

4.1 Minute of the Governance, Risk and Best Value Committee of 9 March 2017 – submitted for approval as a correct record (circulated)

5. Outstanding Actions

5.1 Outstanding Actions – April 2017 (circulated)

6. Work Programme

6.1 Governance, Risk and Best Value Work Programme – April 2017 (circulated)

7. Reports

7.1 Edinburgh Roads Services Improvement Plan – report by the Executive Director of Place (circulated)

7.2 Governance of Major Projects: progress report – report by the Chief Executive (circulated)

7.3 Annual Treasury Strategy 2017/18 – referral report from the City of Edinburgh Council (circulated)

7.4 Report by the Accounts Commission – Local Government in Scotland: Performance and Challenges 2017 – referral report from the Finance and Resources Committee (circulated)

7.5 Spot-checking on the Dissemination of Committee Policies – report by the Chief Executive (circulated)

7.6 Annual Workforce Controls Report – referral report from the Finance and Resources Committee (circulated)

7.7 Edinburgh Shared Repairs Service and Property Conservation Legacy Programme Reporting Arrangements – report by the Acting Executive Director of Resources (circulated)

8. Motions

8.1 None.

Laurence Rockey

Head of Strategy and Insight

Committee Members

Councillors Mowat (Convener), Balfour, Child, Dixon, Edie, Keil, Main, Munro, Orr, Redpath, Ritchie, Robson, and Tymkewycz.

Information about the Governance, Risk and Best Value Committee

The Governance, Risk and Best Value Committee consists of 13 Councillors appointed by the City of Edinburgh Council. The Governance, Risk and Best Value Committee usually meet every four weeks in the City Chambers, 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 Gavin King, Committee Services, City of Edinburgh Council, Waverley Court, Business Centre 2.1, Edinburgh EH8 8BG, Tel 0131 529 4239, e-mail gavin.king@edinburgh.gov.uk

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

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

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

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Item 4.1 - Minutes

Governance, Risk and Best Value Committee

10.00am, Thursday, 9 March 2017

Present

Councillors Mowat (Convener), Balfour, Child, Dixon, Gardner (substituting for Councillor Redpath), Godzik (substituting for Councillor Robson) Keil, Main, Munro, Orr and Tymkewycz.

1. Minute

Decision

To approve the minute of the Governance, Risk and Best Value Committee of 2 February 2017 as a correct record.

2. Outstanding Actions

Details were provided of the outstanding actions arising from decisions taken by the Committee.

Decision

1) To agree to close item 11.

2) To request that the report on the Governance of the Edinburgh Partnership would be referred from the Communities and Neighbourhoods Committee to the Governance, Risk and Best Value Committee.

3) To note the remaining outstanding actions.

(Reference – Outstanding Actions – March 2017, submitted.)

3. Work Programme

Decision

To note the work programme.

(Reference – Governance, Risk and Best Value Work Programme – March 2017, submitted.)

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4. Internal Audit Plan 2017/18

A summary was presented on the annual planning process for the Internal Audit Plan for the period 1 April 2017 to 31 March 2018. Work was ongoing on the 2016/17 plan in advance of the annual report which was scheduled for Committee consideration in June 2017.

Decision

1) To approve the Internal Audit Plan for the period 1 April 2017 to 31 March 2018.

2) To investigate bringing forward the audit on the Local Development Plan Phase 2: Education from quarter 4 provided there were no operational issues preventing this.

(Reference – report by the Chief Internal Auditor, submitted.)

5. Internal Audit follow-up arrangements: status report from 1 October 2016 to 31 December 2016

An overview of the Internal Audit process for following up the status of audit recommendations was provided. All open audit recommendations past their estimated closure date at 31 December 2016 were highlighted.

Decision

To note the status of the overdue outstanding recommendations.

(Reference – report by the Chief Internal Auditor, submitted.)

6. Internal Audit Quarterly Update Report: 1 October – 31 December 2016

Committee considered details of the Internal Audit activity from 1 October to 31 December 2016.

Decision

1) To note the progress of Internal Audit in issuing 13 internal audit reports during the quarter and to note the areas of higher priority findings for reviews issued in this quarter.

2) To refer the report noted in Appendix 1 of the report by the Chief Internal Auditor to the Audit and Risk Committee of the Edinburgh Integrated Joint Board (IJB).

(Reference – report by the Chief Internal Auditor, submitted.)

7. Internal Audit Charter Update

The Internal Audit Charter set out the scope of the Internal Audit function, roles, responsibilities, objectives and reporting structures. This would be updated and submitted for approval annually.

Decision

To approve the revised Internal Audit Charter.

(Reference – report by the Chief Internal Auditor, submitted.)

8. Roads Contract Management: Follow up

An update was provided on management's progress in implementing the actions identified by the Internal Audit review issued in April 2016.

Decision

1) To note the report.

2) To close the outstanding actions from audit SFC 1505: Roads Contract Management as they have been superseded by the Edinburgh Roads Service (ERS) Improvement Plan.

3) To note that the Portfolio and Governance team within Strategy and Insight would include the Edinburgh Roads Services Improvement Plan within the portfolio of projects that they support and assured going forwards.

4) To note that Internal Audit would undertake a review of the service delivery model proposed under the Edinburgh Roads Services Improvement Plan in quarter 3, 2017/18.

5) To request a report on the Edinburgh Roads Services Improvement Plan with short, medium and long terms actions, timescales and progress and that it was brought to the Governance, Risk and Best Value Committee in April 2017.

6) To request a report on the relationship between services based in the localities and services based centrally to the Governance, Risk and Best Value Committee.

7) To refer the report to the Transport and Environment Committee for scrutiny.

(Reference – report by the Chief Internal Auditor, submitted.)

9. Corporate Leadership Team Risk Update

The current highest priority risks and mitigating actions in place from the Corporate Leadership Team were considered.

Decision

To note the prioritised risk information for the Corporate Leadership Team.

(References – Governance, Risk and Best Value Committee, 22 December 2016 (item 8); - report by the Acting Executive Director of Resources, submitted.)

10. City of Edinburgh Council: External Audit Plan 2016/17

The draft 2016/17 External Audit plan for the Council and its charitable trusts by Scott-Moncrieff was presented.

Representatives from Scott-Moncrieff were in attendance for this item.

Decision

1) To note the contents of the External Audit Plan for 2016/17.

2) To note that periodic updates on the work set out therein will be provided to the Committee.

(References – Governance, Risk and Best Value Committee, 18 December 2016 (item 5); - report by the Chief Executive and Acting Executive Director of Resources, submitted.)

11. Welfare Reform – Update – referral from the Corporate Policy and Strategy Committee

The Corporate Policy and Strategy Committee on 28 February 2017 considered a report which provided an update on the progress being made by the Council and partners to develop arrangements in regard to the UK Government's welfare reforms. The report was referred to the Governance, Risk and Best Value Committee for scrutiny.

Decision

1) To request that information on the number of people in arrears due to being placed in accommodation too large for their needs by the Council was included in future reports.

2) To request a briefing for members of the Governance, Risk and Best Value Committee on the results from the operational changes in Advice Services

(References – Corporate Policy and Strategy Committee, 9 August 2016 (item 4); - report by the Acting Executive Director of Resources, submitted.)

12. Whistleblowing Annual Report

A high level overview of whistleblowing activity between 1 December 2015 and 30 November 2016 was provided.

Decision

To note the report.

(References – Finance and Resources Committee, 27 August 2015 (item 20); - report by the Chief Executive, submitted.)

13. Whistleblowing Update

The Committee considered a high level overview of the operation of the Council's whistleblowing hotline for the period 1 October to 31 December 2016.

Decision

To note the report

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

14. Resolution to Consider in Private

The Committee, in terms of Section 50(A)(4) of the Local Government (Scotland) Act 1973, excluded the public from the meeting for consideration of item 15 below on the grounds that it involved the disclosure of exempt information as defined in Paragraphs 1, 3, and 4 of Part 1 of Schedule 7(A) of the Act.

15. Whistleblowing: Monitoring Report

An overview was provided of the disclosures received and investigation outcome reports completed during the period 1 October to 31 December 2016.

Decision

To note the report.

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

Item 5.1 Outstanding Actions

Governance, Risk and Best Value Committee

April 2017

No	Date	Report Title	Action	Action Owner	Expected completion date	Actual completion date	Comments
1	19/10/2015	Committee Report Process	To investigate technology offered by the new IT provider with a view to improving report format and reducing officer workload. To request a progress report back to Committee in one year.	Chief Executive	April 2017		The project has been delayed due to other connected ICT projects being re-planned. A meeting has been scheduled with ICT and CGI to scope an expected completion date.
2	21/04/2016	Internal Audit – Audit and Risk Service: Delivery Model Update	To ask that an update report on the internal audit function be provided to the Governance, Risk and Best Value Committee a year after implementation.	Acting Executive Director of Resources	April 2018		Verbal update on appointments provided at February meeting and update on new service

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No	Date	Report Title	Action	Action Owner	Expected completion date	Actual completion date	Comments
							model will be provided after one year – April 2018
3	26/05/16	Spot Checking on the Dissemination of Committee Decisions and Late Committee Reports	To request an update report to the Governance, Risk and Best Value Committee on 2 February 2017.	Chief Executive	April 2017		Recommended for closure, *Spot-checking on the Dissemination of Committee Policies* on April agenda.
4	23/06/16	Recent Developments in Gaelic Education Provision in Edinburgh	1) To request a report to the Education, Children and Families Committee then to the Governance, Risk and Best Value Committee on the Council's current policy for GME access to secondary schools, the corresponding Government policy and an assessment on whether this was being met.	Acting Executive Director of Children and Families	April 2017		The Education, Children and Families Committee considered a report: *Schools and Lifelong Learning Estate Update* on 7 March 2017. The report confirms that the future asset requirements for GME will be

No	Date	Report Title	Action	Action Owner	Expected completion date	Actual completion date	Comments
			2) To request that the current policy for GME access to secondary schools was published on the Council website and to review the appropriateness of the distance from school criteria for GME admissions to secondary school. A work-plan of how this would be achieved, including actions in place to avoid any future legal challenge, should be in place by November 2016.				considered as part of a Strategic Review, the outputs of which will be reported back to Committee in June. The Strategic Review will include consideration of an appropriate admissions and placement policy for all schools including GME.
5	26/09/16	Corporate Leadership Team Risk Update	To request that progress reports on the additional precautionary surveys currently being undertaken in buildings sharing similar design features to those of the PPP1 schools, would	Acting Executive Director of Resources	April 2017		The City of Edinburgh Council will receive an update in Summer 2017; it is suggested consideration of

No	Date	Report Title	Action	Action Owner	Expected completion date	Actual completion date	Comments
			be referred to the Governance, Risk and Best Value Committee for scrutiny.				this report is delayed to accommodate this.
6	24/10/16	The City of Edinburgh Council – 2015/16 Annual Audit Report to members and the Controller of Audit	To request a briefing note to members of the Governance, Risk and Best Value Committee and the Finance and Resources Committee in January 2017 on the changes to funding arrangements from the updated Local Government Accounting Code including specific information on Highways Network Assets.	Acting Executive Director of Resources	March 2018		Following an assessment of the volume of work the changes entail and the benefits derived, CIPFA have decided not to proceed with these changes unless there is a material change of circumstances in the future. Recommended for closure – briefing note sent to members 15/11/2016

7	24/10/16	Home Care and Re-ablement Service Contact Time	To request an update report 6 months after the implementation of the new ICT system for shift allocation.	Chief Officer, Edinburgh Health and Social Care Partnership	Date TBC		
8	24/10/16	Governance of Major Projects: progress report	To request a follow-up report on the New Boroughmuir High School project including information on lessons learnt, cost implications and risks to the Council.	Chief Executive	April 2017		An Assurance Review will be undertaken in December 2016, the output was circulated to elected members on 31 January 2017. Recommended for closure, update included in *Governance of Major Projects* on April agenda.
9	17/11/16	Emergency Repairs: Processes to approve and pay framework	To include an update on the new IT system in the quarterly report to be considered at the Governance, Risk and	Acting Executive Director of Resources	April 2017		Recommended for closure, update included in *Edinburgh Shared Repairs Service*

		contractor invoices – report by the Acting Executive Director of Resources	Best value Committee In April 2017.				*Reporting Arrangements* on April agenda.
10	22/12/2016	Internal Audit Quarterly Update Report: 1 July 2016 – 30 September 2016	To request an update report on the recommendation for Edinburgh Buildings Services by November 2017.	Executive Director of Place	November 2017		
11	22/12/2016	Resources Team Risk Update	To circulate information to members of the Governance, Risk and Best Value Committee on employee surveys.	Acting Executive Director of Resources	April 2017		A detailed report on employee engagement in June would fit in the timeline for employee survey activity.
12	09/03/2017	Outstanding Actions	To request that the report on the Governance of the Edinburgh Partnership would be referred from the Communities and Neighbourhoods Committee to the Governance, Risk and	Chief Executive			

			Best Value Committee.				
13	09/03/2017	Roads Contract Management: Follow up	1) To request a report on the Edinburgh Roads Services Improvement Plan with short, medium and long terms actions, timescales and progress and that it was brought to the Governance, Risk and Best Value Committee in April 2017. 2) To request a report on the relationship between services based in the localities and services based centrally was brought to the Governance, Risk and Best Value Committee.	Executive Director of Place	April 2017		Action 1 recommended for closure, update included in *Edinburgh Roads Services Improvement Plan* on April agenda.
14	09/03/2017	Welfare Reform – Update – referral from the Corporate Policy and Strategy Committee	To request a briefing for members of the Governance, Risk and Best Value Committee on the results from the operational changes in	Acting Executive Director of Resources			

			Advice Service				

Item 6.1 - Work programme

Governance, Risk and Best Value Committee

April 2017

	Title / description	Sub section	Purpose/Reason	Category or type	Lead officer	Stakeholders	Progress updates	Expected date
Section A – Regular Audit Items								
1	Internal Audit Overview of internal audit follow up arrangements		Paper outlines previous issues with follow up of internal audit recommendations, and an overview of the revised process within internal audit to follow up recommendations, including the role of CLG and the Committee	Internal Audit	Chief Internal Auditor	Council Wide	Quarterly	June 2017
2	Internal Audit Quarterly Activity Report		Review of quarterly IA activity with focus on high and medium risk findings to allow committee to challenge and request to see further detail on findings or to question relevant officers about findings	Internal Audit	Chief Internal Auditor	Council Wide	Quarterly	June 2017

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	Title / description	Sub section	Purpose/Reason	Category or type	Lead officer	Stakeholders	Progress updates	Expected date
3	IA Annual Report for the Year		Review of annual IA activity with overall IA opinion on governance framework of the Council for consideration and challenge by Committee	Internal Audit	Chief Internal Auditor	Council Wide	Annually	June 2017
4	IA Audit Plan for the year		Presentation of Risk Based Internal Audit Plan for approval by Committee	Internal Audit	Chief Internal Auditor	Council Wide	Annually	March 2018
5	Accounts Commission	Annual report	Local Government Overview	External Audit	Acting Executive Director of Resources	Council Wide	Annually	January 2018
6	Annual Audit Plan	Scott Moncrieff	Annual audit plan	External Audit	Acting Executive Director of Resources	Council Wide	Annually	March 2018
7	ISA260	Scott Moncrieff	Annual ISA 260 Report	External Audit	Acting Executive Director of Resources	Council Wide	Annually	September 2017
8	Annual Audit Report	Scott Moncrieff	Annual Audit Report	External Audit	Acting Executive Director of Resources	Council Wide	Annually	October 2017
9	Internal Controls Report	Scott Moncrieff	Annual report on Council wide control framework	External Audit	Acting Executive Director of Resources	Council Wide	Annually	Date TBC

Section B – Scrutiny Items								
10	Governance of Major Projects	6 monthly updates	To ensure major projects undertaken by the Council were being adequately project managed	Major Project	TBC	All	Every 6 months	October 2017
11	Welfare Reform	Review	Regular update reports	Scrutiny	Acting Executive Director of Resources	Council Wide	Quarterly	August 2017
12	Review of CLT Risk Scrutiny	Risk	Quarterly review of CLT's scrutiny of risk	Risk Management	Chief Executive	Council Wide	Quarterly	June 2017
13	Whistleblowin g Quarterly Report		Quarterly Report	Scrutiny	Chief Executive	Internal	Quarterly	June 2017
14	Pride in our People	Staff	Annual report of progress	Scrutiny	Chief Executive	Council Wide	Annual	February 2018
15	Workforce Control	Staff	Annual report	Scrutiny	Acting Executive Director of Resources	Council Wide	Annual	April 2018
16	Committee Decisions	Democracy	Annual report	Scrutiny	Chief Executive	Governance, Risk and Best Value Committee	Annual	October 2017
17	Disseminatio n of Committee Decisions	Democracy	Bi-annual report	Scrutiny	Chief Executive	Council Wide	Six-monthly	October 2017

18	Property Conservation – Legacy Closure programme and Defect Costs	Review	Progress reports	Scrutiny	Acting Executive Director of Resources	All		Date TBC
19	Property Conservation Project Closure Review	Review	Closure Report	Internal Audit	Chief Internal Auditor	Council Wide		June 2017
20	Revenue Monitoring	Review	Progress reports	Scrutiny	Acting Executive Director of Resources	Council Wide	February 2018 Septembe r 2017 Decembe r 2017	September 2017
21	Capital Monitoring	Review	Progress reports	Scrutiny	Acting Executive Director of Resources	Council Wide	February 2018 Septembe r 2017 Decembe r 2017	September 2017
22	Revenue Outturn	Review	Progress reports	Scrutiny	Acting Executive Director of Resources	Council Wide	Annual	September 2017

23	Capital Outturn and Receipts	Review	Progress reports	Scrutiny	Acting Executive Director of Resources	Council Wide	Annual	September 2017
24	Treasury – Strategy report	Review	Progress reports	Scrutiny	Acting Executive Director of Resources	Council Wide	Annual	April 2018
25	Treasury – Annual report	Review	Progress reports	Scrutiny	Acting Executive Director of Resources	Council Wide	Annual	September 2017
26	Treasury – Mid-term report	Review	Progress reports	Scrutiny	Acting Executive Director of Resources	Council Wide	Annual	December 2017

GRBV Upcoming Reports

Appendix 1

Report Title	Type	Flexible/Not Flexible
20 April 2017 Committee		
Edinburgh Shared Repairs Service Reporting Arrangements including update on new IT system	Scrutiny	Flexible
Treasury Strategy	Scrutiny	Flexible
Workforce Control	Scrutiny	Flexible
Committee Decisions - Annual Report	Scrutiny	Flexible
Governance of Major Projects	Scrutiny	Flexible
Report by the Accounts Commission – Local Government in Scotland: Performance and Challenges 2017	Scrutiny	Flexible
22 June 2017 Committee		
Looked After Children: Transformation Programme	Scrutiny	Flexible
Recent Developments in Gaelic Education Provision in Edinburgh	Scrutiny	Flexible
Internal Audit Follow-up Arrangements	Internal Audit	Flexible
Internal Audit Quarterly report	Internal Audit	Flexible
Internal Audit Annual Report for the Year	Internal Audit	Flexible
Corporate Leadership Risk Update	Internal Audit	Flexible

Review of the Policy Reporting Procedure	Internal Audit	Flexible
Property Conservation Project Closure Review	Internal Audit	Flexible
Whistleblowing Quarterly Report	Scrutiny	Flexible
Employee Engagement	Scrutiny	Flexible

Governance, Risk and Best Value Committee

10:00am, Thursday, 20 April 2017

Edinburgh Road Services Improvement Plan

Item number	7.1
Report number	
Executive/routine	Executive
Wards	All

Executive Summary

The Roads Contract Management: follow up report which was presented to Governance, Risk and Best Value Committee on 9 March 2017, recommended that the outstanding actions from audit SFC 1505: Roads Contract Management be closed as they had been superseded by the Edinburgh Roads Service (ERS) Improvement Plan.

This recommendation was approved and Committee requested a report outlining the scope of the ERS Improvement Plan be brought to the meeting on 20 April 2017.

Committee also requested a report on the relationship between services based in the localities and services based centrally. This report outlines the scope of the Improvement Plan and the relationship between services based in the localities and services based centrally.

Links

Coalition Pledges	P27, P29, P30, P44
Council Priorities	CP9, CP13
Single Outcome Agreement	SO4

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Report

Edinburgh Road Services Improvement Plan

1. Recommendations

1.1 To note the scope of the Edinburgh Road Services Improvement Plan;

1.2 To note that the detailed Improvement Plan will be reported to Transport and Environment Committee in August 2017; and

1.3 To note the relationship between services based in the localities and services based centrally.

2. Background

2.1 In Audit SFC1505: Roads Contract Management, issued April 2016, Internal Audit reported the findings of a review of Council's controls over scheduling and delivering maintenance and improvement works. Testing during the audit was limited to work completed by the internal Edinburgh Roads Service (ERS), and commissioned by the West Neighbourhood Office. The auditor also considered the processes used by the Transport Design and Delivery team (TDD) to manage works carried out by ERS.

2.2 There were two high risk findings relating to budgetary control and quality assurance arising from the original review, and four medium risk findings. Both high risk findings and two of the medium risk findings remained open in December 2016.

2.3 The Roads Contract Management: follow up report, presented to Governance, Risk and Best Value Committee on 9 March 2017 recommended that the outstanding actions from audit SFC 1505: Roads Contract Management be closed as they had been superseded by the ERS Improvement Plan.

2.4 This recommendation was approved and Committee requested a report on the ERS Improvement Plan be brought to the Governance, Risk and Best Value Committee on 20 April 2017.

2.5 Following discussion with colleagues across the three service areas involved in these activities it has been agreed to prepare a comprehensive Road Services Improvement Plan which will be reported to the Transport and Environment Committee in August 2017.

2.6 This report outlines the scope of that Improvement Plan.

3. Main report

3.1 ERS, the 'operational arm' of the Council's Roads and Transport services, implemented a new organisational structure on 1 October 2016 as part of the Council's Transformation Programme. Transformation has removed costs from the service, delayering management and reducing front line staff numbers. Several key vacancies remained, particularly in the new Commercial Team.

3.2 ERS formerly operated as a Significant Trading Operation (STO) which required the service to operate on a profit and loss account basis and has led to several inefficient internal processes.

3.3 Internal Audit's findings in Audit SFC1505: Roads Contract Management, issued April 2016, focussed on many of these processes and identified budgetary control and quality assurance weaknesses. The report also confirmed the need for rationalisation and modernisation as identified in the review.

3.4 The Edinburgh People Survey for 2016 showed satisfaction with roads maintenance at 49% and pavement maintenance at 53%. While this is in line with the UK average it has dropped from 54% satisfaction with roads and 62% satisfaction with pavements in 2012.

3.5 Elected Members regularly raise concerns regarding the quality and responsiveness and this Committee highlighted its concerns in relation to these services during the meeting on 9 March 2017.

3.6 The ERS Improvement Plan will target the achievement of above average satisfaction levels, through effective and efficient delivery of services supported by additional investment in assets.

3.7 ERS will address the specific findings relating to its service operations and the changes required following Transformation, within a local Improvement Plan which will sit within the overall plan.

3.8 These plans will be submitted to Transport and Environment Committee in August 2017 with regular performance updates prepared thereafter. Initial actions will be identified and progressed in the interim period to ensure momentum continues.

3.9 It should be noted that a number of internal services have a role in maintaining our road network. These services also include ERS, the Locality Teams, Transport Infrastructure and Transport Network functions.

3.10 The ERS Improvement Plan, will:

3.10.1 Improve the customer journey – making it easier for issues to be reported accurately and for the provision of feedback on progress.

3.10.2 Improve responsiveness – confirm appropriate timescales to attend to actions and resolve issues within these times.

3.10.3 Improve quality of work – carry out maintenance and repairs in the most effective and efficient manner, only carrying out temporary repairs when necessary.

3.10.4 Improve defect ‘pot hole’ maintenance and information – with consistent and appropriate inspections, categorisation, recording, repair method and quality.

3.10.5 Review business processes – ensuring that use of IT systems and business processes are optimised for work flow, quality assurance and monitoring and to provide management and financial information.

3.10.6 Improve working relationships – ensuring that individual service team goals are better aligned.

3.10.7 Improve job costing and monitoring – embedding accurate design with commercially competitive cost estimating and outturn cost.

3.10.8 Improve workforce management and engagement – engaging staff to design, deliver and ‘own’ the Improvement Plan. Develop and train staff, providing career development opportunities and service succession planning as well as maintaining the levels of skills and competencies required across the service.

3.11 Appendix 1, Core Transport and Localities Relationships, outlines the relationship between services based in the localities and services based centrally. It describes the investment strategy for roads and pavements, developed using the principles within the Roads Asset Management Plan and the partnership working to plan, deliver and monitor the capital programmes. It will be noted that many of the action areas referred to above, especially 3.9. - 2, 3, 4, 6 and 7 are referenced in this Core Transport and Localities Relationships appendix.

4. Measures of success

4.1 The level of resident satisfaction with roads and pavements is a key measure of success.

4.2 The responsiveness of these services will be measured by performance indicators measuring the full-length customer journey.

4.3 The financial performance of these services will be measured through revenue and capital monitoring to ensure that best value is being delivered.

5. Financial impact

5.1 The majority of actions within the ERSImprovement Plan will be implemented from existing resources.

5.2 A number of planned improvements and business critical changes will require additional investment. A more detailed assessment of the costs and potential avenues for funding will be carried out as and when these are developed

6. Risk, policy, compliance and governance impact

6.1 The Council is required to ensure that it discharges its Best Value duty in all functions. Delivering a fit for purpose Roads service will contribute towards fulfilling this duty. The Council also has a legal duty to maintain the roads network within the city and ensure that it is safe for all users.

7. Equalities impact

7.1 Delivering improved roads maintenance activities will positively impact on all equality groups by improving accessibility and removing potential hazards.

8. Sustainability impact

8.1 The provision of an efficient and effective roads maintenance service will reduce the need for return visits to repair work, resulting in a correlating reduction in fuel usage. Better use of materials will also reduce waste.

8.2 The fleet rationalisation and modernisation programme will reduce harmful vehicle emissions and contribute towards improvements in air quality.

9. Consultation and engagement

9.1 Workshops have been held and consultation will continue between ERS, Trade Unions, Localities and Transport Design and Delivery to ensure this comprehensive plan addresses all of the issues previously outlined.

10. Background reading/external references

10.1 None

Paul Lawrence

Executive Director of Place

Contact: Ian Buchanan, Edinburgh Road Services Manager

E-mail: ian.buchanan@edinburgh.gov.uk | Tel: 0131 458 8020

11. Links

Coalition Pledges	P27 - Seek to work in full partnership with Council staff and their representatives
	P29 - Ensure the Council continues to take on apprentices and steps up efforts to prepare young people for work
	P30 - Continue to maintain a sound financial position including long-term financial planning
	P44 - Prioritise keeping our streets clean and attractive
Council Priorities	CP9 - An attractive city
	CP13 Transformation, workforce, citizen & partner engagement, budget
Single Outcome Agreement	SO4 -Edinburgh's communities are safer and have improved physical and social fabric
Appendices	Appendix 1 – Core Transport and Localities Relationships

Appendix 1 - Core Transport and Localities Relationship

Background

Traditionally the Locality Road Teams have controlled the roads revenue budget that deal with reactive repairs. This covers carriageway and footway defect repairs, carriageway lining, street furniture repairs and other roads maintenance. The localities also control several capital allocations. These include: Surface Enhancement, Dropped Crossings, Drainage Repairs and bus stop maintenance. In recent years a Neighbourhood Environmental Project (NEP) budget has been allocated for the roads capital budget which enables Locality Managers to respond to the local issues identified by the Neighbourhood Partnerships.

The centrally located Transport Infrastructure teams are responsible for capital investment. This is primarily the planning, programming, design and delivery of all major roads renewals including; carriageways, footways, structures, street lighting and traffic signals.

In the past there have been a lack of collaborative working between Localities and core Transport teams in the planning and delivery of both capital and revenue roads maintenance and renewals. Since Transformation, Localities and central Infrastructure have been working closer in order to achieve the desired improvements to the carriageway and footway network in Edinburgh. Revenue budgets, controlled by the Localities, and Capital budgets, controlled by Core Infrastructure Teams, will need to be better aligned to ensure that investment is being targeted into improvements and minimising duplication.

Roads Asset Management

The investment strategy for carriageways and footways has been developed, using the principles within the Roads Asset Management Plan and in line with the SCOTS RAMP project.

The Road Condition Index (RCI) consists of three categories of deterioration: Red, Amber 1 and Amber 2, with roads in the red category being in the worst condition. Roads in the Amber condition indicate that further investigations are required to establish if preventative treatments are viable and beneficial. Roads in the red category have deteriorated beyond preventative maintenance and will require more robust treatments in order to prolong their service life.

As part of the existing modelling work for the Roads Asset Management Plan (RAMP), alternative scenarios for capital investment were developed. These scenarios were predicated on a more preventative approach, aimed at roads that are in the Amber condition categories. Investment on these roads require less expensive treatments (eg surface dressing, slurry sealing), which improve the condition of the carriageway or footway and delay the need for more expensive resurfacing or strengthening treatments. Owing to the lower cost of the treatments required on Amber condition roads, more roads can be treated each year.

Monthly RAMP meetings have already been established between Locality Transport & Environment Managers and Infrastructure Managers. Improvements to the RAMP are discussed to ensure better co-ordination of schemes and where possible combining schemes for more efficient delivery. The RAMP meetings are also an opportunity for knowledge and skill sharing between the core and locality teams. All aspects of roads management are discussed, including improvements and innovation in road maintenance.

Locality Road Teams will also assist with improving the RCI. There are several areas of defects within the RCI that are too small to be considered for capital investment. These will be passed to Localities to be

repaired. This means that they will be able to plan more repairs throughout the year and be slightly less reactive. This will also ensure that how both revenue and capital budgets are delivered is scrutinised to ensure that both revenue and capital budgets support the improvements to the condition of Edinburgh's transport infrastructure.

Planning, Delivery and Monitoring

An annual meeting has now been established between all Transport teams responsible for capital delivery, Localities and Road Services to discuss future capital programmes. This gives the Localities the opportunity to feed into the programmes before they are finalised for committee approval.

The Transport Design and Delivery teams are responsible for the delivery of the capital schemes. Pre-construction meeting take place between core and Locality teams for all carriageway, footway and other infrastructure schemes. The extent of the scheme construction method, traffic management arrangements and the affect of other planned developments in the area that could affect the road network are discussed at these meetings. Once a scheme is complete a post construction meeting will take place. This includes a walk over of the scheme and gives the Localities the opportunity to raise any concerns they have with the scheme to ensure they are satisfied with the final scheme.

Monthly capital finance meetings have been held over the last year attended by the core Infrastructure team, Locality Roads teams and a representative from finance. Similar revenue finance meetings have been set up to start in April 2017. Revenue and capital budgets will be monitored in parallel to ensure, accurate forecasting and budget delivery. Capital and revenue budget monitoring spreadsheets have already been produced that will consolidate the financial information and budget spend from all the financial systems currently being used.

Roles and Responsibilities

A Roles and Responsibilities document has been produced, in collaboration with central Transport teams and Localities. The document sets out the assets and services throughout Edinburgh's transport and infrastructure network and details the ownership and responsibility for each of these assets and services. The document was completed in March 2017.

Other Collaboration

As well as carriageway and footway maintenance there are several other areas of existing collaborative working and knowledge sharing between the Localities and core Transport teams:

- Roads Framework Agreement – The existing roads framework, used by both core and locality teams, is currently being updated jointly for renewal in 2018. Collaborative working is essential to ensure that all Core and Locality teams' requirements are included in the new retendered Agreement.
- Quality Assurance (QA)-. Both the Core and Locality teams hold the same 3rd Party accredited. The QA procedures and records for the different teams share similar basic best practice principles and where appropriate joint documentation is produced. An example of this is the revised Construction Design and Management Regulations (CDM 2015) internal procedures for both the Core and Locality Road Teams.
- City Wide Traffic Management – Monthly meeting take place between core teams, Localities, Police, and bus operators to discuss future traffic management arrangements and co-ordination of Roadworks on the main arterial routes in Edinburgh.

- Local RAUC – The core team facilitate quarterly co-ordination meetings between Transport teams, Localities and utility companies.
- Specialised Advice – The core teams provide the Localities with specialised advice on structures, flood prevention, street lighting, drainage, road safety and active travel.
- As part of Transformation a number of staff moved from the Core teams to the Locality Roads Teams, hence distributing knowledge and experience,

Governance, Risk and Best Value Committee

10:00am, Thursday, 20 April 2017

Governance of Major Projects: progress report

Item number	7.2
Report number	
Executive/routine	
Wards	All

Executive summary

This report contains an update of the major projects portfolio and assurance reviews.

Links

Coalition pledges	P03, P20, P23, P27, P28, P36, P41, P44, P47, P49, P51, P53
Council priorities	CP1, CP2, CP5, CP6, CP7, CP9, CP10, CP11, CP12
Single Outcome Agreement	All

Report

Governance of Major Projects: progress report

Recommendations

It is recommended that Committee notes:

1.1 the current dashboard reports for the major projects portfolio in appendix 1;

1.2 the schedule of assurance reviews in appendix 2;

1.3 that we are reviewing how change is reported and managed across the Council which will also include strengthening of governance arrangements around project and programme delivery. We will come back to Committee with developed proposals in the next reporting period.

Background

2.1 On 7 August 2012 the former Policy and Strategy Committee agreed the oversight of major projects, namely those with a value of over £5million or which are particularly sensitive to the Council's reputation.

2.2 In the summer of 2016 responsibility for the Governance of Major Projects transferred from the Corporate Programmes Office (CPO) to the Transformation Team within the Strategy and Insight division. The Transformation Team is currently developing a model for how all significant change, including major projects, is reported, prioritised and managed to ensure transparency and that resource is invested in the 'right' initiatives.

Main report

Current Reporting Arrangements

3.1 Project Managers for each major project are required to complete bi-monthly dashboard report for each project. These reports seek to establish how key elements of the project are progressing and to ensure there is clear visibility of the status of each major project within the Council.

3.2 Content and sign off of each dashboard report continues to remain the responsibility of the SRO/Sponsor. However, this is independently reviewed in detail and challenged by the Portfolio and Governance Manager within the

Transformation Team. A synopsis of the latest set of dashboard summaries is contained in Appendix 1.

Major Project trends

3.3 The overall trend in the status (RAG) of major projects in this reporting period has remained pretty static, 83% (15 projects) have seen no change in their overall RAG status. 11% (two projects) have seen their RAG status improve whilst, 6% (one project) has seen its RAG status worsen.

3.4 Improvement in overall 'RAG' status has been seen for Northbridge and the Meadowbank redevelopment. Northbridge moved from Red to Amber and Meadowbank from Amber to Green following confirmation of capital funding being available to both programmes.

3.5 Corstorphine Nursery has moved from Green to Amber as sufficient design detail is incomplete in relation to the project play workstream. Action is being taken to address this and there is confidence there will be no overall impact to delivery.

Composition of the Portfolio

3.6 Initiatives added to the major project programme since the previous reporting to committee are:

3.6.1 the Transformation Programme (Asset Management, Customer and Localities);

3.6.2 Early Years Programme; and

3.6.3 a pipeline of further strategic transformation priorities is being worked on that will be closely aligned to the Local Outcomes Improvement Plan, Council business and locality improvement plans.

3.7 The following legacy projects will now be formally closed and removed from the Major Projects Portfolio with post project reviews scheduled for each:

- Connected Capital
- James Gillespie Campus
- New Portobello High School
- Recycling Service
- Programme Momentum

Change, Governance and future reporting

3.8 As set out above, the Council are currently reviewing our overall change and major project reporting arrangements to ensure transparency and effective oversight and governance. It is proposed that the major projects portfolio will be included as part of this work and would therefore in future be reported through this mechanism.

3.9 The proposed new approach will aim to have a single view of significant change and major projects across the council. In this new approach, we are aiming to:

- improve overall reporting;
- improve the management of risks and issues;
- standardise delivery approach and project/programme documentation and the development of KPI's.

These governance enhancements will be embedded and supported through the set up of a permanent PMO function. Detail of this proposed new model is being developed and will be shared with Committee in the next reporting cycle. Until changes have been agreed Major Projects reporting will continue as currently agreed.

3.10 The content of future reports to committee will also be refreshed to include a new major projects dashboard that reflects good practice portfolio reporting (see appendix 3).

Assurance Reviews

3.11 Appendix 2 details the schedule of assurance reviews through to the start of Q2 2017/18.

Measures of success

4.1 A successful project delivers its output(s) on time, on or under budget and to quality standards agreed with its stakeholders. The reporting arrangements seek to ensure transparent and consistent reporting across all major projects by analysing key milestones, benefits, financials, risk and governance processes.

Financial impact

5.1 There are no financial implications directly arising from this report. The financial impacts of major projects will also be reported through the revenue and capital monitoring process.

5.2 The cost of resourcing the PMO will be met within the existing Transformation Team budgets.

Risk, policy, compliance and governance impact

6.1 The process of reporting and senior management oversight of risk within the project portfolio serves to strengthen the control environment and where appropriate prompt mitigating action. The Transformation Team forms an independent risk assessment of each key project aspect taking account of a number of factors including the adequacy of resources, confidence in ability to deliver, and the potential impact of the risk.

Equalities impact

7.1 Equalities impact assessments are carried out within individual major projects and addressed in separate reports to Council or committee.

Sustainability impact

8.1 Each project within the major projects portfolio is responsible for undertaking its own sustainability impact assessment.

Consultation and engagement

9.1 Consultation and engagement is carried out within individual projects and is addressed in separate reports to Council or committee.

Background reading / external references

Governance of Major Projects- Governance, Risk and Best Value Committee, 24 October 2016

Andrew Kerr

Chief Executive

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Links

Coalition pledges	P20 - Work with the Scottish Government to deliver a larger return of business rate receipts as part of the Business Rates Incentivisation Scheme (BRIS) P23 - Identify unused Council premises to offer on short low-cost lets to small businesses, community groups and other interested parties P27 - Seek to work in full partnership with Council staff and their representatives P28 - Further strengthen our links with the business community by developing and implementing strategies to promote and protect the economic well being of the city P36 - Develop improved partnership working across the Capital and with the voluntary sector to build on the "Total Craigroyston" model P41 - Take firm action to resolve issues surrounding the Council's property services P44 - Prioritise keeping our streets clean and attractive P47 - Set up a city-wide Transport Forum of experts and citizens to consider our modern transport needs P49 - Continue to increase recycling levels across the city and reducing the proportion of waste going to landfill P51 - Investigate the possible introduction of low emission zones P53 - Encourage the development of Community Energy Co-operatives
Council priorities	CP1 Children and young people fulfil their potential CP2 Improved health and wellbeing: reduced inequalities CP5 Business growth and investment CP6 A creative, cultural capital CP7 Access to work and learning CP9 An attractive city CP10 A range of quality housing options CP11 An accessible connected city CP12 A built environment to match our ambition
Single Outcome Agreement	All
Appendices	Appendix 1 - Major Projects Dashboard 3 March 2017. Appendix 2 – Assurance Review Schedule – Q4 2016/17 and Q1 2017/18 Appendix 3 – Basic Project and Programme Governance Proposals

Appendix 1 – Major Projects Dashboard

ID	Project / Programme	Overall	Time	Cost	Quality	Benefits	Risk (reputational / deliverability)
MP10	**National Housing Trust**	The National Housing Trust (NHT) is a national funding mechanism for the delivery of mid market rent affordable housing funded by local authority on-lending and backed by Scottish Government guarantees. **NHT Phase 1** – completed All 422 homes are completed and tenanted. **NHT Phase 2B** – completed All six settlements have successfully taken place at Sandpiper Road for 96 homes which are all tenanted. **All NHT Phase 3** All NHT Phase 3 projects are now in contract and either on site, or about to commence construction of 368 new affordable homes.	Delivery on Plan	Delivery within Budget.	Previous Assurance Review completed with status of Green.	Provision of affordable housing. Neighbourhood regeneration and creation of jobs and training opportunities.	Overall Risk: Green.
MP11	**21st Century Homes**	Programme progresses on target. Work continues to identify and progress suitable sites for further development as outlined in the Housing Revenue Account Budget Strategy agreed by Council on 21 January 2016. Greendykes G: tenders have been invited for the projects. Approval to be sought, from F&R Committee, to award the contract in June 2017.	Delivery on Plan	Delivery within Budget.	Greendykes was a runner up at the Homes for Scotland awards in the Best Partnership in Affordable Housing Delivery category. West Pilton Crescent won Saltire Awards for Multiple Housing Development, and Landscape in Housing.	Community Benefits including employment and training opportunities. Increasing affordable housing supply across the city.	Overall Risk: Green.

		Pennywell: works have commenced on Phase 2 which will see 75 Council and 102 Private homes delivered and progressing to plan. North Sighthill: Development agreement signed and a site start expected in early 2017, subject to granting of planning consent for private housing, building warrant and road construction consent. Leith Fort: completion expected mid 2017 delivering 32 Council and 62 RSL homes. Small Sites Project: 7 additional sites of mixed tenure delivering 246 Council homes.			Pennywell won the City Regeneration of the Year award at the Scottish Property Awards in March 2016, and the RICS award for Regeneration in April. The project was a finalist in the Scottish Home Awards Affordable Housing Development of the Year.	Providing support to the economy and construction industry.	
MP37	**St John's RC Primary School**	The St John's Primary School project will see delivery of a new build 14 class 2 stream primary school accommodating 462 pupils on the site of the existing Portobello High School and will incorporate a 40/40 nursery with additional accommodation for 20 2-3 year olds. In addition the project will also see; ● The formation of a secure seven aside all-weather pitch. ● The creation of a 2.16 hectare public space to be known as Treverlen Park. This will be a separate project to follow completion of St John's RC Primary School. ● Demolition of St John's RC Primary School. ● Demolition of the current Portobello High School. The project is being procured under a traditional form of contract. Delivery is currently in RIBA Design Stage 4 having successfully passed Gateway Review Stage 2 (RIBA Stage 3).	Delivery on Plan.	The tender process is complete and the costs are within available budget .	Assurance Review focussng on project initiation scheduled to take place in April 2017.	Supports the following Council outcomes; - Our children have the best start in life, are able to make and sustain relationships and are ready to succeed. - Our children and young people are successful learners, confident individuals and responsible citizens making a positive	Overall Risk: Green.

		Tenders were issued on 8 Nov 2016 and returns submitted on 16 Jan 2017. Coleman and Company have concluded demolition of structures and formal site possession scheduled for 24 April 2017. A project launch date took place on 24 March 2017.				contribution to their communities.	
MP38	**New Queensferry High School**	Delivery of new Queensferry High School, under the Scottish Government's Schools for the Future Programme Phase 4. Due to the way in which the (part) funding will be provided by the Scottish Government the project will require to be delivered through a DBFM contract with Hub South East Scotland Limited (HSESL). hubSE and their supply chain have commenced the stage 1 process of developing the stage 1 design and cost.	Delivery on Plan.	An affordability cap and priced risk register have been developed for the project and at this stage the estimated costs are within budget. More detailed cost analysis will be provided at stage1 and stage 2 of the hub south east process.	The project is to be delivered in line with Scottish Future Trust metrics for new schools.	Supports the following Council outcomes; - Our children have the best start in life, are able to make and sustain relationships and are ready to succeed. - Our children and young people are successful learners, confident individuals and responsible citizens making a positive contribution to their communities	Overall Risk: Green.

MP41	**Ross Bandstand**	Work scheduled to commence on the Ross Fountain and the Gardeners Cottage in April 2017 and scheduled for completion by November 2017. The design competition for the Ross Bandstand is underway and a winner will be announced in August 2017. An event to shortlist entries will take place in April. The council project team continue to work closely with the trust and are currently working up a joint project and communications plan, to support the project. The shortlisted designing will be exhibited to the public in the gardens Mid June with an larger event planned for September to announce the winner	Delivery on Plan.	Scheduled works contained within agreed funding package.	Assurance Review to be undertaken in Q1 2017/18 led by Internal Audit.	Supports strategic priorities including building excellent places and ensuring economic vitality.	Overall Risk: Green.
MP45	**Early Years Programme**	**Corstorphine Nursery** – site works commenced on 21 Nov 2016. to deliver a 50:50 nursery building and external play surface within the grounds of Corstorphine PS, replacing the current temporary provision**.** The project has followed a competitive tender process and use of Public Contracts Scotland Tender Portal **Ferryhill Nursery** – site works commenced on 9 Jan 2017 to deliver a new 60:60 nursery building and associated external play space at Ferryhill PS. The project has followed a competitive tender process and use of Public Contracts Scotland Tender Portal**.** **Davidson Mains Nursery** – site works commenced on 30 Jan 2017 to deliver a detached 60:60 nursery building and associated play space at Davidson Mains Primary School. The project has followed a competitive tender process and use of Public Contracts Scotland Tender Portal**.**	**Corstorphine Nursery** – projected completion date 25 May 2017. **Ferryhill Nursery** – projected completion date Jun 2017. **Davidson Mains Nursery** – projected completion date July 2017. **Longstone Nursery**- projected completion date August 2017. **Granton Early Years Centre** – projected	**Corstorphine Nursery** – progressing within budget. **Ferryhill Nursery** – progressing within budget. **Davidson Mains Nursery** – progressing within budget. **Longstone Nursery** – progressing within budget. **Granton Early Years Centre** – progressing within budget.		Supports the following Council outcomes; - Our children have the best start in life, are able to make and sustain relationships and are ready to succeed. - Our children and young people are successful learners, confident individuals and	Overall Risk: Green

		Longstone Nursery - site works commenced on 14 Feb 2017 to deliver a detached 40:40 nursery building and associated play space at Longstone Primary School. The project has followed a competitive tender process and use of Public Contracts Scotland Tender Portal**.** **Granton Early Years Centre -** site works commenced on 16 Jan 2017 to deliver a detached 40:40 Early Years Centre in adjoining land to the existing Granton Early Years Centre. The project has followed a competitive tender process and use of Public Contracts Scotland Tender Portal**.**	completion (Phase 1 – main building – Aug 2017), and (Phase 2 – external play area - Oct 2017).			responsible citizens making a positive contribution to their communities.	
MP29	**Water of Leith, Flood Prevention Scheme** **Phase 2**	All designs for the project have been completed with the exception of RB08/RB09 due to ground conditions and existing Scottish Water sewer. Design solutions have been developed and are subject to final design checks. This issue does not impact on progress of the project currently but will be managed closely. Construction works continue to progress well. And at the time of writing 60% of earthworks have been completed including the demolition works of Saughtonhall Bridge.	An updated programme submitted on 28 Feb 2017 was accepted by the project team.	Programme delivery within budget.	Ongoing stakeholder engagement activities have raised no significant issues. Majority of stakeholders are content with the current stakeholder engagement arrangements and measures. Health and Safety and Environment plans are in place. Neo Environmental continue to monitor compliance.	Protect 492 residential and commercial properties. Reduce dependency on temporary flood defences. Provide enhanced access to the riverside. Improve quality of life for residents affected by flooding.	Overall Risk: Amber. Due to unforeseen ground conditions that may cause change to the design
MP22	**Zero Waste: Edinburgh and Midlothian**	Construction of the facility is complete and service commencement was achieved as per the revised timetable (mid December '16). The facility is operating well and the interface between the	**Food Waste Transition -** service commencement	**Food Waste** - the Power On Delay compensation claim of £72K has been		Benefits Realisation Plan remains under construction. All	Overall Risk: Amber

		contractor and the Council is well established with monthly contractual review meetings. Residual Waste - The Residual Waste Project reached Financial Close in October 2016 and is now in the Construction Phase. The Works are progressing ahead of schedule. The Council's Contract Management Team has assisted the Contractor in resolving a number of risks, including completion of servitude/lease agreements with Scottish Power, that have enabled the Contractor to keep ahead of schedule.	achieved as per revised timetable. **Residual Waste** - reached Financial Close (FC) around one year later than planned.	dropped by the Contractor. This has been confirmed in writing. **Residual waste –** While the cost of the new access road and bridge rose by around £650k, this was off-set by savings of over £750k in regard to utilities procurement.		CEC food waste is now delivered directly to Millerhill which has reduced additional handling and haulage costs previously incurred through use of Powderhall. The Residual Waste Project provides long-term security for the treatment and processing of the Council's waste and long-term price certainty at a price that will achieve substantial savings over the life of the contract.	
MP25	**Forth Replacement Crossing**	Transport Scotland (TS) is the lead agency for construction of the bridge. The Forth Crossing Act sets out the process of some enabling road and property assets to the Council as the Local Authority and Roads Authority.	As Transport Scotland (TS) is the lead agency, CEC has no influence on delivery timescales. On 29.03.17 it was announced further	As TS is the lead agency no budget information reported.	Work in progress with Transport Scotland to define adoption extents, clarify handover, and quality assurance processes. The North West locality team will liaise with TS to ensure	Enhance transportation links locally and nationally.	Overall Risk: Amber

			delay to the bridge opening. Now scheduled to be between mid Jul – end Aug,		that transferred assets are of good quality and do not expose the authority to maintenance liability and risk.		
MP31	**Fleet Review**	The scope of this programme is currently under review and with support from the Transformation Team will be re-scoped, the business case reviewed and developed which will also include the wider transport components.	The wider fleet review is behind schedule however action has now been taken to provide robust management to this project. Re-scoping and review and revision of the business case will be priority activities as described.	Procurements completed to date have seen significant reductions in spend on external hires and vehicles off road (VOR) due to maintenance and servicing. The Fleet budget has been adjusted to reflect the £1.3m of savings and managed to deliver a £0.5m surplus in 2015/16 and is forecasting a balanced out-turn for 16/17	Working with department and the transformation programme to define future requirements.	The programme is designed to deliver efficiencies and it is anticipated that in the longer term this can be exceeded.	Overall Risk: Amber Behind schedule, but remedial action now being taken to drive this project forward
MP33	**Edinburgh St James**	Although Edinburgh St James is ultimately a developer-led initiative, however to support the development opportunity the programme adopted a partnership approach between CEC, the Scottish Government and the developer THRE. CEC has committed public-sector investment to deliver the enabling infrastructure linked to the wider development at the St James Quarter. A Growth Accelerator Model (GAM) Agreement was agreed between the Scottish Government and the Council.		Contractual arrangements have been structured to minimise financial risk to CEC. To date all costs incurred by the Council have been reimbursed by the developer.		Redevelopment creating 42,500m2 of high-quality retail space, deliver 2,300m2 of grade A office space, a 210-bedroom five-star hotel, a 152-bedroom four-star hotel, a 55-bedroom	Overall Risk: Amber

						apart-hotel, a theatre, restaurants and 138 residential units.. There are a number of Community Benefits including increased employment and training for unemployed and harder to reach group.	

MP36	**Tram Extension and Leith Programme**	In January 2015 there was a decision to integrate the Tram Extension and Leith Programme Boards. Governance arrangements are now in place and work broken down into five workstreams, namely Commercial, Technical, Finance, Acquisition and Work. The tram extension mobilisation is underway and site investigation procurement now complete. McNicholas Construction Services commenced site investigation works on 9 Jan 2017 and are now compete. Stage 1 enabling works are on track to be complete by agreed plan date of 27 April 2017. Mitigation to delays to Phase 4 of the Leith Programme are underway with the project team working with Land Engineering on an alternative delivery approach which proposes increasing the number of work sites.	Committee Decision Point around the Tram Extension is currently scheduled for June 2017. Leith Programme currently projected to complete Phase 4 in Jul 2017 and Phase 5 in Jun 2018.	Tram Stage 1 works within budget.	Programme Board has reviewed lessons learned to date in developing the extension to Newhaven and these have been integrated into Outline Business Case and Commercial Strategy. Consideration to retaining legal knowledge in supporting the Council through completion	The tram extension is to support the overall level of economic growth of Edinburgh through enhancing the viability and attractiveness of major housing and employment sites identified in Local Development Plans.	Overall Risk: Amber Ongoing work to manage the interface with the St James Quarter development.

		Phase 5 TRO consultation concluded on 25 November 2016. The Project Team will review and respond to remaining objections. Detailed design is ongoing and is in line with the baseline programme. The PQQ was drafted for issue on 2 December 2016.					
MP39	**Meadowbank Redevelopment**	The way forward for the project to redevelop Meadowbank Sport Centre was approved by Council on 10 March 2016. The project comprises the development of a Masterplan proposal for the site for which Planning Permission in Principle will be obtained and the proposed redevelopment of the Meadowbank sports facility itself. A report to Culture and Sport Committee on 14 December 2016 approved the estimated funding gap of £7.9M would be referred to the Council's budget setting process meeting in February 2017. Approval of this funding was made by Council on 9 Feb 2017.	On schedule	Council approved funding of £7.9M on 9 Feb 2017. Full funding package to be finalised.	Design is not currently formally in alignment with BREEAM procedures and processes. Design requires to be reviewed and BREEAM process implemented along with revisit of Stage 2 and value engineering.	Supports strategic priorities including building excellent places and ensuring economic vitality.	Overall Risk: Significant major works and new infrastructure. Design and early engagement with utilities to be progressed.
MP40	**Northbridge**	**Intervention Works:** Complete with the exception of the north abutment and netting on South Pier which is on hold pending possession availability. **Refurbishment:** Appointment of contractor for ECI stage 1 scheduled for early May 2017. Approval to award contract for construction planned for early in 2018 and work to commence on site summer 2018.	Possession in both intervention and refurbishment works to be carefully planned in conjunction with Network Rail.	Intervention: Cost within forecast.			Overall Risk: Issue relating to contractor performance with slippage in delivery.

MP42	**Council Transformation Programme**	**Projects/Programmes**: **Customer** – Business Cases prepared and the programme team working closely with Finance to ensure alignment and accuracy of savings figures. c £1m of the total £6m savings are ICT dependant and regular meetings being held with ICT to track delivery of ICT dependencies. **H&SC** – Allocation and assignment is now in its final stages, with locality structures being populated. The management structure will go live from 3 April 2017 and transition plans are being developed to support the full move to the new operating model over the coming weeks. **Asset Management** – Key Committee reports to be tabled for approval Jan/Feb 2017. Phase 3A Organisational Review underway, 3B implementation date pushed back and will be delivered in phases. **Localities** – Programme delivery scheduled in three tranches. Detailed planning sessions complete to 'flesh' out tranche 1. Locality Improvement Planning....Phase 1 complete and Phase 2 underway. **Safer and Stronger** – Business case for Advice Services in development. **Next Phase -** Transformation Team to work with service areas to create a pipeline of future saving proposals. **Organisational Reviews** - 29 reviews complete.	On plan to deliver 2016/17 savings. Work to embed transformation activities to accelerate. Options for future savings to be developed.	2016/17: £35.6M of the targeted £40.8M secured.	PMO unit in place to ensure quality of management information is available for senior management to make informed decisions.		Overall Risk: Delivery against savings targets and ensuring transformation and embedding change is delivered.

MP34	**ICT Transformation Programme**	As part of the contract with CGI, a number of key ICT transformation projects were agreed as a key element of the partnership. A number were completed and entered service early in the contract including bulk printing, secure cheque printing and BACS. Furthermore, over the last two months additional significant projects have been successfully delivered including. - ParentPay online school payments (incremental rollout now underway) - Transformation of the libraries management Systems - Phase 1 of myBookings for internal rooms. A number of other business critical projects are behind schedule	Transition activities are completed. The transformation programme has however fallen behind schedule. This is being addressed with stronger governance, additional technical resources and closer engagement with business transformation teams.	Currently projected to be delivered within budget.	Major improvements seen in Service and steadily working through the change backlog. Still room for improvement within the transformation programme.	Benefits are due to accrue from 2016/17 onwards; the planning for Benefits Realisation and delivery of Community Benefits and use of local SMEs is at an advanced stage. SME engagement has started early. New WAN circuits (for example Drummond Community High School are noticeable faster)	Risk: Red Due to slippage in delivery of key transformational projects.
MP12	**New Boroughmuir High School**	Boroughmuir High School's contractors, O'Hare & McGovern, have recently informed the Council that they are now unable to achieve the handover date of 16 June and are proposing a new date of 11 August. While O'Hare & McGovern consider that the school could still be occupied for the start of the new school year, the Council consider that, given that is only six days later, on 17 August, it	Contract completion date of 18 October 2016 has been missed and project now in delay.	A total of 48 Employer's Instructions have been raised. Three in this reporting period. The estimated order of cost remains within the client contingency	A Clerk of Works is employed to ensure the works are undertaken to the expected quality standard. A Technical Advisor is employed to carry out further inspections and to ensure the main contractor undertakes all quality inspection and	C01 – Our children have the best start in life, are able to make and sustain relationships and are ready to succeed.	Overall Risk: Red. Contract completion date passed and project now in delay.

		is in the school community's best interests not to rush the completion by targeting a handover date so close to the new school year. The health and safety of our pupils and staff is the Council's highest priority and following a review of progress on site and the new works programme that has been put forward by the contractor the opening will be postponed to January 2018. It is considered that by postponing the opening until after the Christmas holidays, sufficient time can be taken to get the new school ready and ensure a smooth transition from the old to new building. This also provides time before the move for orientation visits to take place. The Council has undertaken an independent review of the contractors' programme and in the circumstances it has been agreed that postponing the opening is the right thing to do. Works on site will continue to be monitored rigorously and everyone with an interest in the school will be kept up to date.		retained in the project budget.	completes all the necessary quality documentation. Lessons Learned exercise undertaken with the contractor and representatives from the School and Council.	C02- Our Children and young people are successful learners, confident individuals and responsible citizens making a positive contribution to their communities.	
MP2	**Connected Capital**	Programme to be formally closed and removed from the Major Projects Portfolio. Close report to be completed by end march 2017. Concession Contract and remaining rollout will continue as part of BAU activities.					
MP8	**James Gillespie's Campus**	Programme to be formally closed and removed from the Major Projects Portfolio. Close report to be completed by end of March 2017.					

MP13	**New Portobello High School**	Programme to be formally closed and removed from the Major Projects Portfolio. Close report to be completed by end March 2017.					
MP30	**Recycling Service Project**	Programme to be formally closed and removed from the Major Projects Portfolio. Close report to be completed end March 2017.					
MP32	**Programme Momentum (previously Property Conservation / Shared Repairs)**	Programme to be formally closed and removed from the Major Projects Portfolio. Close report to be completed end March 2017.					

Appendix 2 – Assurance Review Schedule Q4 2016/17 and Q1 2017/18

Ref	Project/Programme	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Lead
MP10	National Housing Trust	Assurance Review					Transformation
MP11	21st Century Homes		Assurance Review				Transformation
MP29	Water of Leith, Flood Prevention Scheme - Phase 2			Assurance Review			Transformation
MP22	Zero Waste: Edinburgh and Midlothian					Assurance Review	Internal Audit
MP 31	Fleet Review		Assurance Review				Internal Audit
MP36	Tram Extension & Leith Programme		Assurance Review				Transformation
MP37	St Johns RC PS		Assurance Review				Transformation
MP38	New Queensferry HS		Assurance Review				Transformation
MP39	Meadowbank Redevelopment					Assurance Review	Internal Audit
MP40	Ross Bandstand		Assurance Review				Internal Audit

Appendix 3 – Portfolio Dashboard (proposed)

Name	ID	Type	Priority	SRO	Stage	Management & Control		Delivery		Notes	Delivery Date	R
						This mth	Last mth	This mth	Last mth			
Project 1	12	Efficiency	4	M Smith	Delivery	⇧		⇧			Feb 2017	
Project 2	23	Legislative	7	L Brown	Initiation	⇩		⇧			Jul 2017	
Project 3	31	Revenue	2	J Roland	Close	⇧		⇩			Mar 2018	

The project's alignment to key strategic drivers.

Project's priority as agreed by Change Board.

Summary of how well the project complies with project/programme management standards, e.g. schedule, risk, quality.

Summary of actual status of the project compared to it's approved plans as at the reporting date, e.g.

- Actual progress against planned schedule
- Actual spend against planned budget (and use of contingency).
- Benefits realisation progress
- Level of risk

Summary of project aims and any corrective actions required, owners and timescales to address deliverability, risk, benefit realisation issues.

Has reporting been submitted on time and to the required quality.

Governance, Risk and Best Value Committee

10.00am, Thursday, 20 April 2017

Annual Treasury Strategy 2017-18 - referral from the City of Edinburgh Council

Item number	7.3
Report number	
Wards	All

Executive summary

The City of Edinburgh Council on 16 March 2017 considered a report on the proposed Treasury Management Strategy for the Council for 2017/18 which included an Annual Investment Strategy and Debt Management Strategy. The report was referred to the Governance, Risk and Best Value Committee for scrutiny.

Links

Coalition pledges	See attached report
Council outcomes	See attached report
Single Outcome Agreement	See attached report
Appendices	See attached report

EDINBVRGH
THE CITY OF EDINBURGH COUNCIL

Terms of Referral

Annual Treasury Strategy 2017-18

Terms of referral

1.1 The City of Edinburgh Council on 16 March 2017 considered a report on the proposed Treasury Management Strategy for the Council for 2017/18 which included an Annual Investment Strategy and Debt Management Strategy.

1.2 The City of Edinburgh Council agreed:

1) To approve the Treasury Management Strategy for 2017/18.

2) To refer the report to the Governance, Risk and Best Value Committee for scrutiny.

For Decision/Action

2.1 The City of Edinburgh Council has referred the attached report to the Governance, Risk and Best Value Committee for scrutiny.

Background reading / external references

Minute of the City of Edinburgh Council 16 March 2017

Laurence Rockey

Head of Strategy and Insight

Contact: Louise Williamson, Assistant Committee Clerk

E-mail: louise.p.williamson@edinburgh.gov.uk | Tel: 0131 529 4264

Links

Coalition pledges	See attached report
Council outcomes	See attached report
Single Outcome Agreement	See attached report
Appendices	See attached report

The City of Edinburgh Council

10.00am, Thursday 16 March 2017

Annual Treasury Strategy 2017/18 - referral report from the Finance and Resources Committee

Item number	
Report number	
Executive/routine	
Wards	

Executive Summary

On the 23 February 2017 the Finance and Resources Committee considered a report that that proposed a Treasury Management strategy for the Council for 2017/18 that included an Annual Investment Strategy and a Debt Management Strategy. The report has been referred to the City of Edinburgh Council for approval of the Treasury Management Strategy and would be subsequently referred to the Governance, Risk and Best Value Committee for scrutiny.

Links

Coalition Pledges	See attached report
Council Priorities	See attached report
Single Outcome Agreement	See attached report

EDINBVRGH
THE CITY OF EDINBURGH COUNCIL

Terms of Referral

Annual Treasury Strategy 2017/18

Terms of Referral

1.1 The report set out a Treasury Management Strategy for 2017/18 that included estimates of funding requirements, an economic forecast and borrowing and investment strategies.

1.2 Under the provisions of the Treasury Policy Statement, a report should be submitted on the proposed Treasury Management Policy for the ensuing year. The Treasury Strategy aimed to ensure that the Council had sufficient and appropriate facilities available to meet its short term and long-term borrowing requirements and funding needs, to secure new funding at the lowest cost and to ensure that surplus funds were 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 that were consistent with those risks.

1.3 The Finance and Resources Committee agreed:

1.3.1 To note the Treasury Management Strategy for 2017/18.

1.3.2 To refer the report to the City of Edinburgh Council for approval of the Treasury Strategy for 2017/18 and subsequent referral to the Governance, Risk and Best Value Committee for scrutiny.

For Decision/Action

2.1 The City of Edinburgh Council is asked to approve the Treasury Management Strategy for 2017/18 and subsequently refer it to the Governance, Risk and Best Value Committee for scrutiny.

Background reading/external references

Minute of the Finance and Resources Committee, 23 February 2017

Laurence Rockey

Head of Strategy and Insight

Contact: Veronica MacMillan, Team Leader, Committee Services

E-mail: veronica.macmillan@edinburgh.gov.uk | Tel: 0131 529 4283

Links

Coalition Pledges	See attached report
Council Priorities	See attached report
Single Outcome Agreement	See attached report
Appendices	See attached report

Finance and Resources Committee

10.00am, Tuesday, 23 February 2017

Annual Treasury Strategy 2017/18

Item number	
Report number	
Executive/routine	
Wards	

Executive summary

The report proposes a Treasury Management strategy for the Council for 2017/18, including an Annual Investment Strategy and a Debt Management strategy.

Links

Coalition Pledges	P30
Council Priorities	CP13
Single Outcome Agreement	SO1

Report

Annual Treasury Strategy 2017/18

1. Recommendations

1.1 It is recommended that the Committee:

1.1.1 notes the Treasury Management Strategy for 2017/18; and

1.1.2 refers the report to Council for approval and remit to the Governance, Risk and Best Value Committee for scrutiny.

2. Background

2.1 This report sets out a Treasury Management Strategy for 2017/18 including estimates of funding requirements, an economic forecast and borrowing and investment strategies.

2.2 The Council's Treasury Management activities are carried out in accordance with the Council's Treasury Policy Statement. Under the provisions of the Treasury Policy Statement, a report should be submitted on the proposed Treasury Management Strategy for the ensuing year. The Treasury Strategy aims to:

- ensure that the Council has sufficient and appropriate facilities available to meet its short and long-term borrowing requirements and funding needs;
- secure new funding at the lowest cost; and
- ensure that surplus funds are invested in accordance with the list of approved organisations for investment, minimising the risk to the capital sum and optimising the return on these funds consistent with those risks.

2.3 Treasury Management is undertaken with regard to CIPFA's Code of Practice for Treasury Management in the Public Services and the Prudential Code. It also adheres to the statutory requirements in Scotland which require this report, including Capital Programme and Prudential Indicators to be approved by the full Council. Appendix 2 gives details of the capital investment programme and prudential indicators which were approved by Council as part of the budget process.

3. Main report

3.1 Key Points

3.1.1 The key points in the report are that:

- The Council's total capital expenditure is forecast to be £973m between 2017/18 and 2021/22;
- The Council's underlying need to borrow at 31 March 2022 is forecast to be £1.463bn, down from the 31 March 2015 figure of £1.510bn;
- Between 1 April 2016 and 31 March 2022, £318m of the Council's external debt is due to mature;
- It is intended to continue to fund the Council's Capital Financing Requirement from temporary investment balances over the next year; and
- Investment return is forecast to remain low in absolute terms as no increase in UK Bank Rate is anticipated in 2017/18.

3.2 Capital Expenditure

Overview

3.2.1 This section summarises the Council's anticipated capital expenditure in the period to March 2022 based on the Capital Investment Programme. It also details how that expenditure will be funded.

Total Capital Expenditure (Prudential Indicator 1)

3.2.2 Tables 1 and 2 below show the anticipated expenditure on capital assets for both General Services and the Housing Revenue Account.

Capital Expenditure - General Services

	2015/16 Actual £000	2016/17 Estimate £000	2017/18 Estimate £000	2018/19 Estimate £000	2019/20 Estimate £000	2020/21 Estimate £000	2021/22 Estimate £000
General Services							
Children and Families	48,181	0	0	0	0	0	0
Corporate Governance	7,407	0	0	0	0	0	0
Economic Development	42	0	0	0	0	0	0
Health and Social Care	5,680	0	0	0	0	0	0
Services for Communities (SFC)	77,149	0	0	0	0	0	0
SFC - Asset Management Programme	14,516	0	0	0	0	0	0
Other Capital Projects	3,014	0	0	0	0	0	0
Chief Executive	0	15,789	1,125	0	0	0	0
Communities and Families	0	44,308	27,278	12,984	6,709	165	165
Edinburgh Integrated Joint Board	0	4,532	108	0	0	0	0
Place	0	89,210	125,659	32,154	72,698	19,835	19,835
Resources	0	0	0	0	0	0	0
Resources - Asset Management Works	0	16,307	11,132	7,229	27,107	14,000	14,000
Recommended Expenditure Priorities	0	0	4,202	11,889	17,369	7,020	450
Unallocated	0	0	2,278	0	0	0	0
Unallocated - indicative 5 year plan funding	0	0	0	0	0	0	7,000
Total General Services Capital Expenditure	**155,989**	**170,146**	**171,782**	**64,256**	**123,883**	**41,020**	**41,450**

Table 1 - Capital Expenditure on General Services

Capital Expenditure - Housing Revenue Account

	2015/16 Actual £000	2016/17 Estimate £000	2017/18 Estimate £000	2018/19 Estimate £000	2019/20 Estimate £000	2020/21 Estimate £000	2021/22 Estimate £000
HRA Core Programme	28,513	29,550	37,320	39,951	35,985	34,655	32,057
21st Century Homes	7,113	10,258	42,139	60,982	61,429	71,194	115,331
Total Housing Revenue Account Cap. Ex.	**35,626**	**39,808**	**79,459**	**100,933**	**97,414**	**105,849**	**147,388**

Table 2 - Capital Expenditure on the Housing Revenue Account

Funding Capital Expenditure

3.2.3 Tables 3 and 4 below show how the capital expenditure in Tables 1 and 2 is going to be funded by the Council.

	2015/16 Actual £000	2016/17 Estimate £000	2017/18 Estimate £000	2018/19 Estimate £000	2019/20 Estimate £000	2020/21 Estimate £000	2021/22 Estimate £000
General Services Capital Expenditure	**155,989**	**170,146**	**171,782**	**64,256**	**123,883**	**41,020**	**41,450**
Receipts -:							
Central Government Grants -:							
Government Capital Grants	57,461	41,626	53,708	44,500	48,264	38,000	38,000
Cycling, Walking and Safer Streets	729	540	683	0	0	0	0
Development Funding	31,663	29,248	29,115	0	0	0	0
Trams Funding (Scot Govt grant and 3rd party)	-350	0	0	0	0	0	0
Total Central Government Grants	**89,503**	**71,414**	**83,506**	**44,500**	**48,264**	**38,000**	**38,000**

Use of Capital Receipts	107,572	14,412	28,111	4,538	9,318	3,000	3,000
Use of Capital Receipts - Transfer to Capital fund	-51,889	0	-5,559	0	0	0	0
Other Capital Contributions	18,354	13,846	174	0	585	0	0
Draw down of capital fund - per budget update	6,600	0	0	9,161	10,369	20	450
Total Receipts	**170,140**	**99,672**	**106,232**	**58,199**	**68,356**	**41,020**	**41,450**
GF Cap Ex to be funded by Borrowing	**-14,151**	**70,474**	**65,550**	**6,057**	**55,347**	**0**	**0**

Table 3 - Funding for General Services Capital Expenditure

	2015/16 Actual £000	2016/17 Estimate £000	2017/18 Estimate £000	2018/19 Estimate £000	2019/20 Estimate £000	2020/21 Estimate £000	2021/22 Estimate £000
HRA Core Programme	**28,513**	**29,550**	**37,320**	**39,951**	**35,985**	**34,655**	**32,057**
CFCR	0	0	12,500	13,000	11,000	11,000	10,500
Receipts from other HRA Assets	0	1,607	1,560	2,250	0	0	0
Capital Receipts and other income	24,087	12,400	3,800	2,800	2,800	2,800	2,800
Total Funded	24,087	14,007	17,860	18,050	13,800	13,800	13,300
HRA Core to be funded by Prudential Borrowing	**4,426**	**15,543**	**19,460**	**21,901**	**19,935**	**18,605**	**16,507**
21st Century Homes	**7,113**	**10,258**	**42,139**	**60,982**	**61,429**	**71,194**	**115,331**
Strategic Housing Investment Fund	0	0	9,500	17,740	2,000	7,500	15,480
HRA Reserves – CFCR	2,298	3,533	0	0	0	0	0
21st Century Homes Receipts	1,527	2,332	0	0	0	0	0
Capital Grant Drawdown	2,000	0	0	0	0	0	0
Developers Contributions	0	0	1,439	1,541	332	3,848	6,972
Scottish Government Subsidy	1,288	4,247	8,215	5,821	5,871	16,701	22,537
Total Funded	7,113	10,112	19,154	25,102	8,203	28,049	44,989
21st C H to be funded by Prudential Borrowing	**0**	**146**	**22,985**	**35,880**	**53,225**	**43,145**	**70,342**
Total HRA Cap Ex to be funded by Borrowing	**4,426**	**15,689**	**42,445**	**57,781**	**73,160**	**61,750**	**86,849**

Table 4 - Funding for HRA Capital Expenditure

3.3 Economic and Market Outlook

Overview

3.3.1 The major influence on the UK and global economy will be the UK's progress in triggering Article 50 and negotiating a smooth exit from the European Union. Negotiations will start after the UK formally triggers exit, which is widely expected to be in early 2017, and will last for at least two years. Uncertainty over future economic prospects will therefore remain throughout 2017/18.

World Economy

3.3.2 The Global environment continues to be riddled with uncertainty, with repercussions for financial market volatility and long term interest rates. Events such as the unexpected result of the UK's EU Brexit referendum and the result at the US polls electing Donald Trump as the 45th President of the United States will continue to create uncertainty.

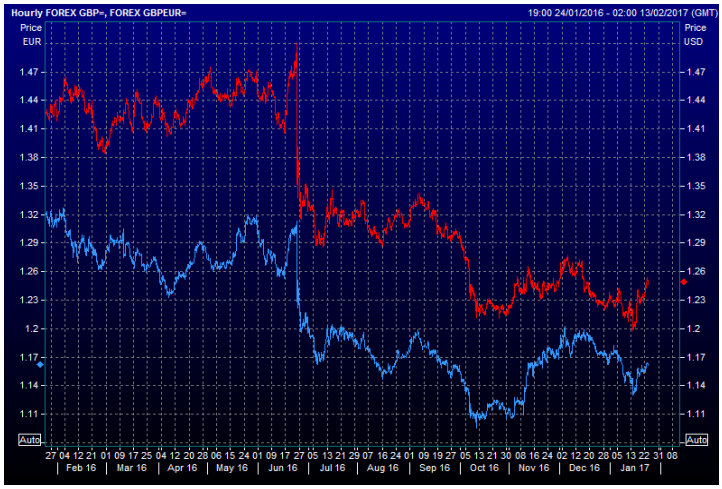

Figure 1 – EUR and USD V GBP - 2016

Source: Reuters

3.3.3 Figure 1 shows the continuing depreciation of Sterling against both the Euro and the US Dollar following the result of the EU Referendum and after the announcement of a Brexit press conference from PM Theresa May Sterling hit a new 31 year low against the USD. The fall and continuing weakness in Sterling and near doubling in price of oil in 2016, from a low base, have combined to drive inflation expectations higher. On the 24 January it was announced at the Supreme Court that Parliament must vote on whether the government can start the Brexit process meaning Theresa May cannot begin talks with the EU until MPs and peers give their backing.

UK Inflation Outlook

3.3.4 Figure 2 below shows CPI and RPI since March 2004.

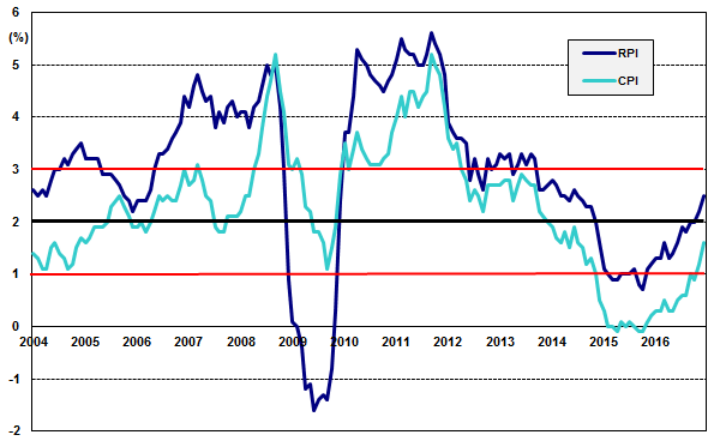

Figure 2 – CPI and RPI

Source: ONS

3.3.5 The Government's preferred measure of inflation, CPI, was at 1.6% in December 2016. At 1.6% the annual rate of inflation (CPI) is at the highest it has been for over two years and is within the Bank of England's target range of 2% +/- 1.

3.3.6 CPI inflation will continue to increase and is expected to overshoot its target range in 2017 and through 2018. The Bank of England have forecast that growth will slow in 2017 as a result of the higher inflation weighing down on consumer spending.

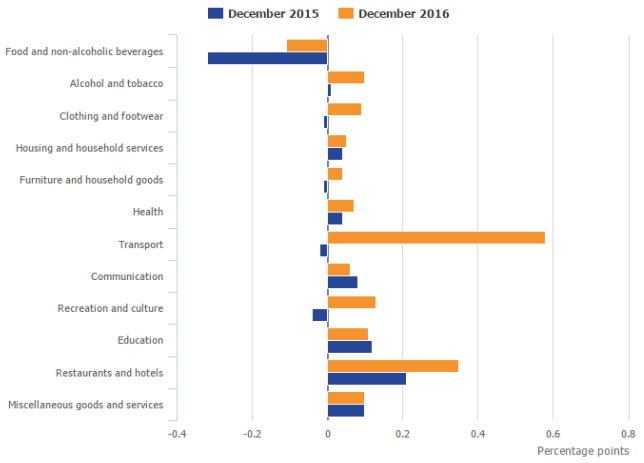

Figure 3 – Contributions to CPI

Source: ONS

3.3.7 As can be seen in figure 3 above, the increase in CPI to 1.6% in December was due mainly to the effect of transport and increased food costs as well as the depreciation in sterling. Increasing inflation may have a knock on to GDP growth. Companies such as Next and Premier Foods (owner of Mr Kipling, Bachelors and Bisto brands) have warned of lower profits due to rising costs. The weaker pound has pushed up prices on costs and will have an effect on prices at the tills. If spending slows then growth may follow suit.

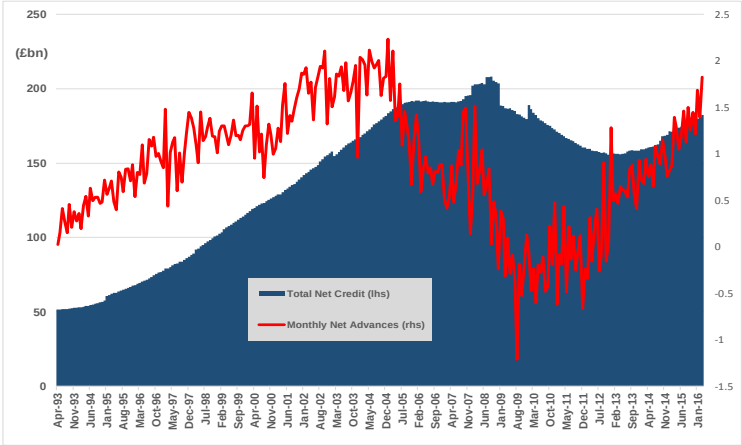

Figure 4 – UK Net Consumer Credit

Source: Bank of England

3.3.8 Figure 4 shows the total net UK Consumer Credit Outstanding (ex-Student Loans and Seasonally Adjusted) along with the net monthly advances. Net new advances are nearly back to pre-Global Financial Crisis (GFC) levels. However, it is interesting to note that the balance of the new advances has changed. Of the net £1.926bn credit advanced in November 2016, £0.558bn was in credit card loans, £0.495bn was in loans from banks / other financial institutions, and £0.873bn was in other unsecured consumer lending. This compares with the pre-GFC peak in January 2005 where net advances were £2.234bn, made up of £0.942bn in credit card loans, £0.813bn in loans from banks / other financial institutions, and £0.479bn in other unsecured consumer lending. Although banks have stepped back from personal unsecured lending (other than via credit cards), other options such as “Personal Contract Purchase” allowing individuals to take out contract hire style leasing contracts for vehicle acquisition have filled the gap.

Interest Rate Outlook

3.3.9 Table 5 below, the Reuters poll of up to 53 economists, taken 7 December, shows their forecasts for UK Bank Rate until Quarter 1 2018. This shows most economists polled believe that the UK Bank Rate will remain at 0.25% through to Q1 2018. This is in line with our long standing forecast.

		2017			2018
	Q1/17	Q2/17	Q3/17	Q4/17	Q1/18
Median	0.25	0.25	0.25	0.25	0.25
Mean	0.24	0.23	0.23	0.24	0.26
Mode	0.25	0.25	0.25	0.25	0.25
Min	0.05	0.05	0.05	0.05	0
Max	0.25	0.5	0.75	1	1.25
Count	53	53	53	52	38

Table 5 – Economic Forecasts for UK Bank Rate

Source: Reuters

3.3.10 At its December meeting the US Federal Reserve Board (FED) opted to raise its interest rate to between 0.50% and 0.75% and indicated three more rate hikes in 2017, followed by three hikes in each of 2018 and 2019. The minutes of the December meeting said "the upside risks to their forecasts for economic growth had increased as a result of prospects for more expansionary fiscal policies in coming years" which may mean the central bank might be forced to quicken the pace of interest rate increases due to higher inflation. Uncertainty surrounds whether President Trump will make good on the fiscal, regulatory and policy initiatives and changes which were central to his campaign and, if so, their timing, size and effect on growth, employment and inflation both domestically and globally.

3.3.11 The European Central Bank (ECB) maintained its benchmark interest rate at 0% since March 2016 and its overnight deposit rate also remained at -0.40%. Annualised inflation in the Euro Area for the year to December was 1.1%, the highest rate in more than 3 years. This was a sharp rise from 0.6% in November and the highest rate since September 2013, which was also 1.1%. It remains under the 2% target of the ECB. GDP growth grew a modest 0.3% in the second and third quarter of 2016 and is expected to grow by 0.5% in quarter four. Germany ended the year with its strongest growth in five years expanding in quarter 4 by 0.5% and in 2016 by 1.9%.

3.4 Treasury Management Strategy – Debt

Overview

3.4.1 The overall objectives of the Council's Strategy for Debt Management are to:

- forecast average future interest rates and borrow accordingly;
- secure new funding at the lowest cost in a manner that is sustainable in the medium term;

- ensure that the Council's interest rate risk is managed appropriately;
- ensure smooth debt profile with a spread of maturities; and
- reschedule debt to take advantage of interest rates.

Loans Fund Borrowing Requirement

3.4.2 Table 6 below shows the anticipated out-turn for the current year and summarises how much the Council needs to borrow for the following five years, based on the capital investment programme summarised in Tables 1 to 4 above.

Capital Funding v. External Debt	**2015/16**	**2016/17**	**2017/18**	**2018/19**	**2019/20**	**2020/21**	**2021/22**
	Actual	**Estimate**	**Estimate**	**Estimate**	**Estimate**	**Estimate**	**Estimate**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Debt b/fd	1,412,998	1,369,745	1,317,761	1,263,406	1,258,446	1,304,865	1,299,298
Cumulative Capital Expenditure b/fd	1,510,154	1,424,417	1,432,579	1,460,742	1,444,683	1,493,319	1,469,548
Over/underborrowed b/fd	-97,156	-54,672	-114,818	-197,335	-186,237	-188,454	-170,250
GF Capital Financed by borrowing	-14,151	70,474	65,550	6,057	55,347	0	0
HRA Capital Financed by borrowing	16,705	15,689	42,446	57,781	73,161	61,750	86,849
less scheduled repayments by GF	-57,883	-58,454	-59,077	-58,206	-57,058	-60,008	-65,959
less scheduled repayments by HRA	-27,156	-16,585	-18,275	-20,116	-22,297	-24,969	-27,069
less scheduled repayments by Joint Boards	-3,252	-2,962	-2,481	-1,575	-517	-544	-556
Underlying Need to Borrow	**-85,737**	**8,162**	**28,162**	**-16,059**	**48,636**	**-23,771**	**-6,734**
plus total maturing debt	43,605	51,984	54,355	54,960	53,581	55,567	47,238
Total Borrowing Requirement	**-42,132**	**60,146**	**82,517**	**38,901**	**102,217**	**31,796**	**40,504**
Planned PWLB or short borrowing for year	352	0	0	50,000	100,000	50,000	60,000
Debt at end of the year	**1,369,745**	**1,317,761**	**1,263,406**	**1,258,446**	**1,304,865**	**1,299,298**	**1,312,060**
Cumulative Capital Expenditure	**1,424,417**	**1,432,579**	**1,460,742**	**1,444,683**	**1,493,319**	**1,469,548**	**1,462,814**
Cumulative Over/Under Borrowed	**-54,672**	**-114,818**	**-197,335**	**-186,237**	**-188,454**	**-170,250**	**-150,754**

Table 6 - Capital Funding v. External Debt

3.4.3 Table 6 shows that the Council's underlying need to borrow (shown as the Cumulative Capital Expenditure funded by borrowing) projected at 31 March 2022 is £1,463m, down from the figure at 31 March 2015. Current projections show that the Council's under-borrowed position is projected to increase from £55m to £115m at the end of the 2016/17 financial year. The Council's investments are therefore projected to reduce by £60m to temporarily fund capital expenditure in the current financial year. Based on the projections in the

table, the Council can continue to fund its borrowing requirement by reducing investments further during 2017/18.

3.4.4 The underlying need to borrow is forecast to increase by £28m in 2017/18 and thereafter is forecast to be a total of £2m in the next four years. In addition, there is around £50m of debt maturing each year. Some of this was borrowed at much higher interest rates in the 1990s, and some of it is more recent and was designed to give some flexibility in a period when the level of the Council's underlying need to borrow was unclear. However, within the underlying need to borrow there is a substantial net HRA funding requirement for the HRA Core Programme and more specifically, the 21st Century Homes programme for affordable housing.

3.4.5 On top of the projects included in the Capital Investment Programme, there are other projects which will require significant funding if they go ahead, in particular the Edinburgh and East of Scotland City Region Deal, Edinburgh Homes, and the extension of the Trams network. However, the quantum and tenure of the borrowing requirement for these is still being developed as part of the business cases.

3.4.6 The Council's last borrowing from the PWLB was undertaken in mid-December 2012. Since then, the Council's strategy has been to reduce its temporary investment balances to fund capital expenditure in the short term. Figure 5 below shows the interest rates for borrowing new maturity loans from the Government via the Public Works Loans Board since April 2005.

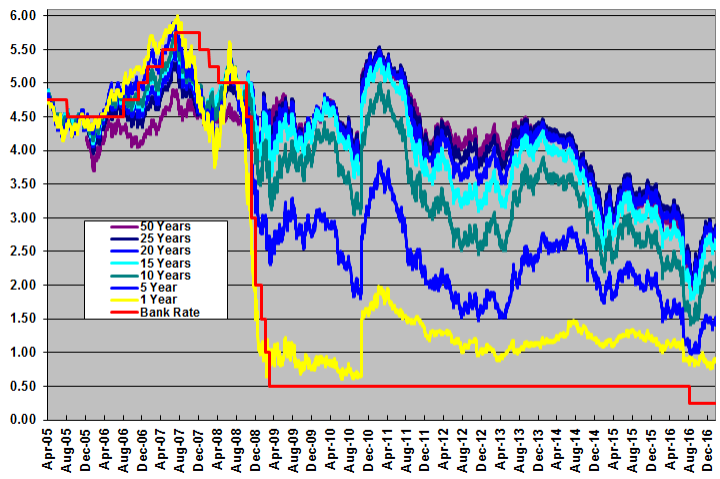

Figure 5 – PWLB Borrowing Rates

Source: PWLB

3.4.7 Figure 5 shows the sharp reduction in yields immediately after the result of the UK's EU referendum in June, and their reversal over the course of the following few months. Consideration was given to taking some debt in the period following the referendum result. However in light of the significant cost of carry

along with the uncertainty over the Council's potential future borrowing requirement it was decided to continue with the existing strategy. It is proposed to continue to fund the borrowing requirement by reducing investments further at present. Discussions are continuing with external organisations to explore all the alternatives to PWLB borrowing.

3.4.8 The reduction in Loans Charges relating to PWLB debt which is maturing at higher interest rates has already been included within the Council's long term financial plan.

3.4.9 Appendix 1 lists the maturity of the Council's debt as of January 2016.

Loans Fund Repayment Policy

3.4.10 The Council operates a consolidated loans fund under the terms of the Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016. 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 being repaid using the previous hybrid annuity structure with fixed principal repayments.

3.4.11 The Council operates the loans fund to manage historic debt and the balance therefore represents historic borrowing for capital spend. Table 5 above shows the cumulative, current and projected capital advances from the loans fund.

3.5 Treasury Management Strategy – Investment of Surplus Funds

3.5.1 In line with CIPFA's Code of Practice, the overall objectives of the Council's Strategy for Investment Management are to:

- ensure the security of funds invested;
- ensure that the Council has sufficient liquid funds to cover its expenditure commitments; and
- pursue optimum investment return within the above two objectives.

3.5.2 The Council's cash balances are pooled and invested via the Treasury Cash Fund subject to the limits set out in the Treasury Management Policy Statement. The Cash Fund's Investment Strategy continues to be based around the security of the investments. Figure 6 below shows the distribution of Cash Fund deposits since inception.

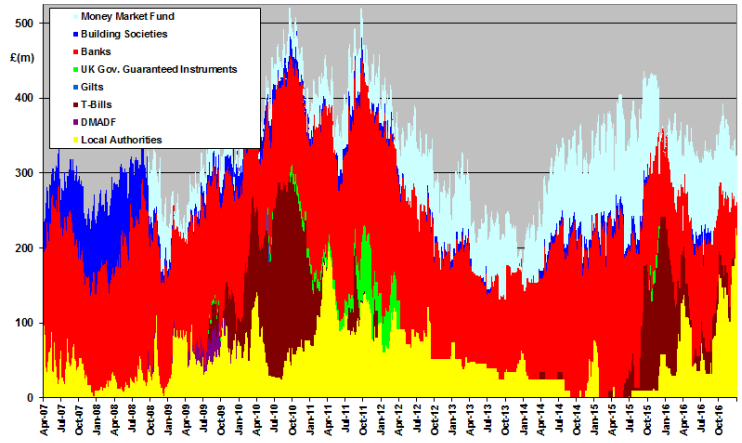

Figure 6 – Counterparty Analysis of Cash Fund Monies

3.5.3 As can be seen in Figure 6 above the large amount invested in UK Treasury Bills at the end of 2015 has been replaced at the end of 2016 by a large amount of fixed deposits with Local Authorities. Yields available on UK Treasury Bills reduced greatly and in December 2016 with both 1 and 3 month Treasury Bills being priced at negative yields in two successive auctions. Investing in fixed deposits with Local Authorities has provided the Council with a higher yield whilst retaining a pseudo sovereign exposure. Figure 7 below shows the lowest and highest accepted yields in the Treasury Bill auctions since 2010. This clearly shows the drop in UK Treasury Bill yields into negative territory in December 2016.

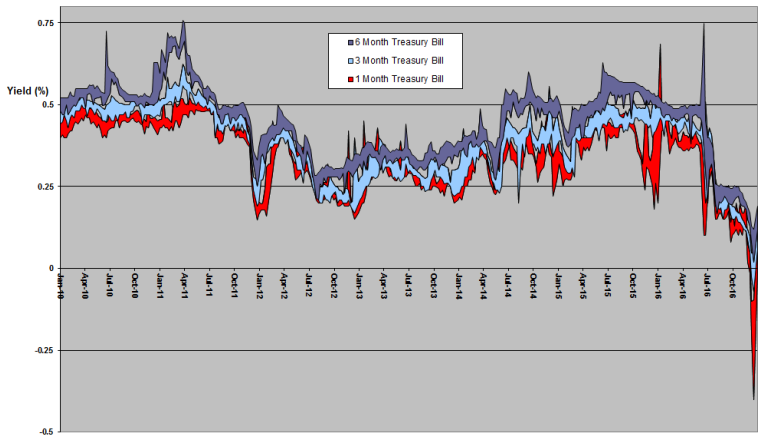

Figure 7 – UK Treasury Bill Yields since 2010

Source: DMO

3.5.4 It is intended to continue the current investment strategy centred around the security of the investments, taking advantage of longer rates where liquidity allows. Investment will continue to be made via the Cash Fund arrangement and there are no major changes to the investment instruments or counterparty limits in the Cash Fund Treasury Policy Statement.

3.6 Other Issues

New Borrowing Regulations

3.6.1 A new set of regulations governing local authority borrowing came into force on 1 April 2016, with Scottish Government Guidance on them issued later in the year. Changes to the old regulations, which dated from 1975, were required to support City Deal structures in Scotland. Following the perceived success of the 2010 Investment Regulations, the Scottish Government took a similar "prudential" approach to the regulations. The old list of what types of borrowing could be undertaken and what constituted capital expenditure have been replaced with a general borrowing power and capital defined by proper accounting practice, subject to appropriate governance and risk management.

3.6.2 One of the key changes is that there are now a number of options available to repay the principal on capital advances. The options now available to a Council for the Prudent Repayment of loans fund advances are:

- Option 1: The Statutory Method (only until 31 March 2021);
- Option 2: The Depreciation Method;
- Option 3: The Asset Life Method; and
- Option 4: The Funding / Income Method.

3.6.3 The major implications for the Council are twofold. Firstly, Option 4 gives the Council the ability to sculpt capital advance repayments to the income that will be generated by the expenditure or other future funding. This is essential to the Council for the delivery of the Edinburgh and South East of Scotland City Region Deal and is likely to be very helpful in designing the business cases of other CEC projects. However, given the risks regarding future income streams, robust business cases will be required to justify any borrowing. Secondly, it is likely that the Council will use Option 3 for most of its capital advances. However, the presumption is that this option would use Equal Instalments of Principal (EIP) rather than the previous "Annuity" repayments, which will result in increase costs to the Council in the early years of loan repayments, unless the benefits of the expenditure can be shown to be weighted towards the latter part of the project. This is why it was agreed that there would be a five year period where the existing repayment arrangements could be used for new advances up until 2021 (Option 1).

MiFID II

3.6.4 The Financial Conduct Authority (FCA) has undertaken a third consultation on the introduction of the EU Directive "Markets in Financial Instruments Directive" (MiFID) II. The directive originates in the EU's concern over the mis-selling of derivate products to some local authorities in continental Europe which resulted in some Municipalities incurring large losses during the financial crisis. As a result, it is the FCA's intention under the new directive that local authorities are classified as Retail rather than Professional Investors. There will be an option for local authorities to choose to opt up but subject to certain qualitative and quantitative criteria and the process would be administratively burdensome. The case has been made to the FCA that large authorities such as the City of Edinburgh Council should automatically be treated as Professional Investors as we are at present using a principles based approach, but we await the outcome of the consultation.

Review of the Prudential Code

3.6.5 CIPFA is going to undertake a review of the Prudential Code for Capital Finance in Local Authorities during 2017. They are therefore undertaking a consultation on the Code and the associated Prudential Indicators early in the year. Any comments from Elected Members on the Code or Indicators would be welcome.

4. Measures of success

4.1 The success of the Treasury Section can be measured by the out-performance of the Treasury Cash Fund against its benchmark and managing the Council's debt portfolio to minimise the cost to the Council while mitigating risk.

5. Financial impact

5.1 The Council continues to manage its debt portfolio so as to minimise the medium term cost of funding its capital projects. Provision for the revenue implications arising from this report have already been included in the Council's long term financial plan.

5.2 The Treasury Cash Fund has generated significant additional income for the Council.

6. Risk, policy, compliance and governance impact

6.1 The changes to the Treasury Management Policy Statement and strategy are designed to manage and mitigate the risk to which the Council is exposed.

7. Equalities impact

7.1 There are no adverse equality impacts arising from this report.

8. Sustainability impact

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

9. Consultation and engagement

9.1 None.

10. Background reading / external references

10.1 None.

Hugh Dunn

Acting Executive Director of Resources

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Links

Coalition pledges	P30 - Continue to Maintain a sound financial position including long-term financial planning
Council priorities	CP13 – Deliver lean and agile Council services
Single Outcome Agreement	SO1 - Edinburgh's Economy Delivers increased investment, jobs and opportunities for all
Appendices	Appendix 1 – Maturing Debt Profile as at January 2017
	Appendix 2 – Prudential Indicators
	Appendix 3 – Treasury Management Policy Statement – The City of Edinburgh Council
	Appendix 4 – Treasury Management Policy Statement – Treasury Cash Fund

Appendix 1

Debt January 2017

Market Debt (non LOBO)

Start Date	Loan Type	Maturity Date	Principal Outstanding £	Interest Rate %	Annual Interest £
30/03/1992	M	30/03/2017	1,000,000.00	10.25	102,500.00
21/08/1992	M	21/08/2017	500,000.00	9.75	48,750.00
21/08/1992	M	21/08/2017	500,000.00	9.75	48,750.00
30/06/2005	M	30/06/2065	5,000,000.00	4.4	220,000.00
07/07/2005	M	07/07/2065	5,000,000.00	4.4	220,000.00
21/12/2005	M	21/12/2065	5,000,000.00	4.99	249,500.00
28/12/2005	M	24/12/2065	12,500,000.00	4.99	623,750.00
14/03/2006	M	15/03/2066	15,000,000.00	5	750,000.00
18/08/2006	M	18/08/2066	10,000,000.00	5.25	525,000.00
01/02/2008	M	01/02/2078	10,000,000.00	3.95	395,000.00
			64,500,000.00		

Market Debt (LOBO)

Start Date	Loan Type	Maturity Date	Principal Outstanding £	Interest Rate %	Annual Interest £
12/11/1998	M	13/11/2028	3,000,000.00	4.75	142,500.00
15/12/2003	M	15/12/2053	10,000,000.00	5.25	525,000.00
18/02/2004	M	18/02/2054	10,000,000.00	4.54	454,000.00
28/04/2005	M	28/04/2055	12,900,000.00	4.75	612,750.00
01/07/2005	M	01/07/2065	10,000,000.00	3.86	386,000.00
24/08/2005	M	24/08/2065	5,000,000.00	4.4	220,000.00
07/09/2005	M	07/09/2065	10,000,000.00	4.99	499,000.00
13/09/2005	M	14/09/2065	5,000,000.00	3.95	197,500.00
03/10/2005	M	05/10/2065	5,000,000.00	4.375	218,750.00
23/12/2005	M	23/12/2065	10,000,000.00	4.75	475,000.00
03/04/2006	M	01/04/2066	10,000,000.00	4.875	487,500.00
03/04/2006	M	01/04/2066	10,000,000.00	4.875	487,500.00
03/04/2006	M	01/04/2066	10,000,000.00	4.875	487,500.00
07/04/2006	M	07/04/2066	10,000,000.00	4.75	475,000.00
06/03/2006	M	04/03/2066	5,000,000.00	4.625	231,250.00
17/03/2006	M	17/03/2066	10,000,000.00	5.25	525,000.00
05/06/2006	M	07/06/2066	20,000,000.00	5.25	1,050,000.00
05/06/2006	M	07/06/2066	16,500,000.00	5.25	866,250.00
26/02/2010	M	26/02/2060	5,000,000.00	8.2	410,000.00
26/02/2010	M	26/02/2060	10,000,000.00	8.2	820,000.00
25/02/2011	M	25/02/2060	15,000,000.00	8.245	1,236,750.00
25/02/2011	M	25/02/2060	10,000,000.00	8.245	824,500.00
			212,400,000.00		

PWLB

Start Date	Loan Type	Maturity Date	Principal Outstanding £	Interest Rate %	Annual Interest £
15/06/1951	E	15/05/2031	3,398.21	3	107.22
14/07/1950	E	03/03/2030	3,412.54	3	108.06
27/03/1992	M	25/09/2017	10,000,000.00	10.625	1,062,500.00
03/04/1992	M	25/03/2018	30,000,000.00	10.875	3,262,500.00
17/09/1992	M	15/05/2018	8,496,500.00	9.75	828,408.75
17/09/1993	M	15/11/2018	5,000,000.00	7.875	393,750.00
20/09/1993	M	14/09/2023	2,997,451.21	7.875	236,049.28
20/09/1993	M	14/09/2023	584,502.98	7.875	46,029.61
18/10/1993	M	25/03/2019	5,000,000.00	7.875	393,750.00
14/03/1994	M	11/03/2019	2,997,451.21	7.625	228,555.65
23/03/1994	M	15/11/2018	5,000,000.00	8	400,000.00
23/03/1994	M	15/11/2019	5,000,000.00	8	400,000.00
28/04/1994	M	25/09/2021	5,000,000.00	8.125	406,250.00
16/08/1994	M	03/08/2021	2,997,451.21	8.5	254,783.35
21/10/1994	M	15/05/2020	5,000,000.00	8.625	431,250.00
21/10/1994	M	15/05/2021	10,000,000.00	8.625	862,500.00
07/12/1994	M	15/11/2019	10,000,000.00	8.625	862,500.00
07/12/1994	M	15/05/2020	5,000,000.00	8.625	431,250.00
09/12/1994	M	15/11/2020	5,000,000.00	8.625	431,250.00
15/02/1995	M	25/03/2020	5,000,000.00	8.625	431,250.00
16/02/1995	M	03/02/2023	2,997,451.21	8.625	258,530.17
10/03/1995	M	15/05/2021	11,900,000.00	8.75	1,041,250.00
31/03/1995	M	25/09/2022	6,206,000.00	8.625	535,267.50
24/04/1995	M	25/03/2023	10,000,000.00	8.5	850,000.00
12/06/1995	M	15/05/2022	10,200,000.00	8	816,000.00
12/06/1995	M	15/05/2021	10,000,000.00	8	800,000.00
16/08/1995	M	03/08/2020	2,997,451.21	8.375	251,036.54
28/09/1995	M	28/09/2024	2,895,506.10	8.25	238,879.25
05/12/1995	M	15/05/2023	5,200,000.00	8	416,000.00
05/12/1995	M	15/11/2023	10,000,000.00	8	800,000.00
21/12/1995	M	21/12/2025	2,397,960.97	7.875	188,839.43
08/05/1996	M	25/09/2023	10,000,000.00	8.375	837,500.00
29/08/1997	M	15/11/2026	5,000,000.00	7	350,000.00
23/01/2006	M	23/07/2046	10,000,000.00	3.7	370,000.00
23/01/2006	M	23/07/2046	10,000,000.00	3.7	370,000.00
27/01/2006	M	27/07/2051	1,250,000.00	3.7	46,250.00
19/05/2006	M	19/11/2046	10,000,000.00	4.25	425,000.00
16/01/2007	M	16/07/2052	40,000,000.00	4.25	1,700,000.00
30/01/2007	M	30/07/2052	10,000,000.00	4.35	435,000.00
13/02/2007	M	13/08/2052	20,000,000.00	4.35	870,000.00
20/02/2007	M	20/08/2052	70,000,000.00	4.35	3,045,000.00
22/02/2007	M	22/08/2052	50,000,000.00	4.35	2,175,000.00

PWLB contd

Start Date	Loan Type	Maturity Date	Principal Outstanding £	Interest Rate %	Annual Interest £
08/03/2007	M	08/09/2052	5,000,000.00	4.25	212,500.00
30/05/2007	M	30/11/2052	10,000,000.00	4.6	460,000.00
11/06/2007	M	11/12/2052	15,000,000.00	4.7	705,000.00
12/06/2007	M	12/12/2052	25,000,000.00	4.75	1,187,500.00
05/07/2007	M	05/01/2053	12,000,000.00	4.8	576,000.00
25/07/2007	M	25/01/2053	5,000,000.00	4.65	232,500.00
10/08/2007	M	10/02/2053	5,000,000.00	4.55	227,500.00
24/08/2007	M	24/02/2053	7,500,000.00	4.5	337,500.00
13/09/2007	M	13/03/2053	5,000,000.00	4.5	225,000.00
12/10/2007	M	12/04/2053	5,000,000.00	4.6	230,000.00
05/11/2007	M	05/05/2057	5,000,000.00	4.6	230,000.00
10/12/2007	M	10/12/2037	10,000,000.00	4.49	449,000.00
07/01/2008	M	07/01/2048	5,000,000.00	4.4	220,000.00
15/08/2008	M	15/02/2058	5,000,000.00	4.39	219,500.00
09/10/2008	M	09/10/2017	5,000,000.00	4.39	219,500.00
12/11/2008	A	12/11/2019	1,583,825.88	3.96	77,256.58
01/12/2008	A	01/12/2019	1,566,340.12	3.65	70,501.07
30/03/2009	M	30/03/2019	5,000,000.00	3.46	173,000.00
21/04/2009	M	21/04/2019	10,000,000.00	3.4	340,000.00
21/04/2009	M	21/04/2020	10,000,000.00	3.54	354,000.00
23/04/2009	M	23/04/2018	15,000,000.00	3.24	486,000.00
23/04/2009	M	23/04/2019	5,000,000.00	3.38	169,000.00
23/04/2009	M	23/04/2022	5,000,000.00	3.76	188,000.00
12/05/2009	M	12/05/2020	10,000,000.00	3.96	396,000.00
09/06/2009	M	09/06/2018	5,000,000.00	3.75	187,500.00
13/10/2009	M	13/10/2023	5,000,000.00	3.87	193,500.00
01/12/2009	M	01/12/2019	5,000,000.00	3.77	188,500.00
01/12/2009	A	01/12/2025	9,482,868.43	3.64	369,162.00
14/12/2009	M	14/12/2019	10,000,000.00	3.91	391,000.00
14/12/2009	A	14/12/2024	6,002,174.17	3.66	237,165.61
10/05/2010	M	10/05/2024	10,000,000.00	4.32	432,000.00
10/05/2010	M	10/05/2025	5,000,000.00	4.37	218,500.00
10/05/2010	A	10/05/2021	2,250,909.52	3.09	80,227.02
02/06/2010	M	02/06/2021	5,000,000.00	3.89	194,500.00
14/06/2010	M	14/06/2022	10,000,000.00	3.95	395,000.00
06/09/2010	M	06/09/2028	10,000,000.00	3.85	385,000.00
06/09/2010	M	06/09/2031	20,000,000.00	3.95	790,000.00
14/07/2011	M	14/07/2029	10,000,000.00	4.9	490,000.00
14/07/2011	M	14/07/2030	10,000,000.00	4.93	493,000.00
09/08/2011	M	09/02/2046	20,000,000.00	4.8	960,000.00
08/09/2011	M	08/09/2038	10,000,000.00	4.67	467,000.00
15/09/2011	M	15/09/2036	10,000,000.00	4.47	447,000.00
15/09/2011	M	15/09/2039	10,000,000.00	4.52	452,000.00

PWLB contd

Start Date	Loan Type	Maturity Date	Principal Outstanding £	Interest Rate %	Annual Interest £
22/09/2011	M	22/09/2036	10,000,000.00	4.49	449,000.00
06/10/2011	M	06/10/2043	20,000,000.00	4.35	870,000.00
21/11/2011	M	21/05/2020	15,000,000.00	2.94	441,000.00
02/12/2011	M	02/06/2017	5,000,000.00	2.28	114,000.00
02/12/2011	M	02/12/2061	5,000,000.00	3.98	199,000.00
15/12/2011	M	15/06/2032	10,000,000.00	3.98	398,000.00
14/05/2012	M	14/11/2024	10,000,000.00	3.36	336,000.00
16/11/2012	M	16/05/2025	20,000,000.00	2.88	576,000.00
13/12/2012	M	13/06/2027	20,000,000.00	3.18	636,000.00
17/10/1996	M	25/03/2025	10,000,000.00	7.875	787,500.00
13/02/1997	M	18/05/2025	10,000,000.00	7.375	737,500.00
20/02/1997	M	15/11/2025	20,000,000.00	7.375	1,475,000.00
21/05/1997	M	15/05/2026	10,000,000.00	7.125	712,500.00
28/05/1997	M	15/05/2026	10,000,000.00	7.25	725,000.00
24/06/1997	M	15/11/2026	5,328,077.00	7.125	379,625.49
07/08/1997	M	15/11/2026	15,000,000.00	6.875	1,031,250.00
13/10/1997	M	25/03/2027	10,000,000.00	6.375	637,500.00
22/10/1997	M	25/03/2027	5,000,000.00	6.5	325,000.00
13/11/1997	M	15/05/2027	3,649,966.00	6.5	237,247.79
17/11/1997	M	15/05/2027	5,000,000.00	6.5	325,000.00
12/03/1998	M	15/11/2027	8,677,693.00	5.875	509,814.46
			1,022,166,390.97		

SALIX INTEREST FREE

Start Date	Loan Type	Maturity Date	Principal Outstanding £	Interest Rate %	Annual Interest £
07/01/2015	E	01/09/2021	394,785.70	0	0.00
31/03/2015	E	01/04/2023	1,171,883.31	0	0.00
22/09/2015	E	01/10/2023	307,719.58	0	0.00
			1,874,388.59		

Appendix 2

PRUDENTIAL INDICATORS

Indicator 1 - Estimate of Capital Expenditure

The actual capital expenditure that was incurred in 2015/16 and the estimates of capital expenditure to be incurred for the current and future years that are recommended for approval are:

	Capital Expenditure General Services						
	2015/16 Actual £000	**2016/17 Estimate £000**	**2017/18 Estimate £000**	**2018/19 Estimate £000**	**2019/20 Estimate £000**	**2020/21 Estimate £000**	**2021/22 Estimate £000**
Children and Families	48,181	0	0	0	0	0	0
Corporate Governance	7,407	0	0	0	0	0	0
Economic Development	42	0	0	0	0	0	0
Health and Social Care	5,680	0	0	0	0	0	0
Services for Communities (SFC)	77,149	0	0	0	0	0	0
SFC - Asset Management Programme	14,516	0	0	0	0	0	0
Other Capital Projects	3,014	0	0	0	0	0	0
Chief Executive	0	15,789	1,125	0	0	0	0
Communities and Families	0	44,308	27,278	12,984	6,709	165	165
Edinburgh Integrated Joint Board	0	4,532	108	0	0	0	0
Place	0	89,210	125,659	32,154	72,698	19,835	19,835
Resources	0	0	0	0	0	0	0
Resources - Asset Management Works	0	16,307	11,132	7,229	27,107	14,000	14,000
Recommended Expenditure Priorities (Appendix 3)	0	0	4,202	11,889	17,369	7,020	450
Recommended Expenditure Priorities (SG grant)	0	0	2,278	0	0	0	0
Unallocated - indicative 5 year plan funding	0	0	0	0	0	0	7,000
Total General Services Capital Expenditure	**155,989**	**170,146**	**171,782**	**64,256**	**123,883**	**41,020**	**41,450**

Note that the 2017-2022 CIP includes slippage / acceleration brought forward based on projected capital expenditure reported at the nine month stage.

	Capital Expenditure Housing Revenue Account						
	2015/16 Actual £000	**2016/17 Estimate £000**	**2017/18 Estimate £000**	**2018/19 Estimate £000**	**2019/20 Estimate £000**	**2020/21 Estimate £000**	**2021/22 Estimate £000**
Housing Revenue Account	35,626	39,808	79,459	100,933	97,414	105,849	147,388

Indicator 2 - Ratio of Financing Costs to Net Revenue Stream

Estimates of the ratio of financing costs to net revenue stream for the current and future years and the actual figures for 2015/16 are:

	Ratio of Financing Costs to Net Revenue Stream						
	2015/16 Actual %	**2016/17 Estimate %**	**2017/18 Estimate %**	**2018/19 Estimate %**	**2019/20 Estimate %**	**2020/21 Estimate %**	**2021/22 Estimate %**
General Services	11.51	12.16	11.78	11.84	11.73	11.53	N/A
HRA	36.35	34.51	37.61	39.58	42.28	44.79	46.76

Note: Figures for 2018/19 onwards are indicative as the Council has not set a General Services or HRA has set a budget for these years. The figures for General Services are based on the current long term financial plan that ends to 2025/26. HRA figures are based on the business plan which was reported to Finance and Resources Committee on 19 January 2017.

The estimates of financing costs include current commitments and the proposals in this budget.

Indicator 3 - Capital Financing Requirement

Estimates of the end of year capital financing requirement for the authority for the current and future years and the actual capital financing requirement at 31 March 2016 are:

	Capital Financing Requirement						
	2015/16 Actual £m	**2016/17 Estimate £m**	**2017/18 Estimate £m**	**2018/19 Estimate £m**	**2019/20 Estimate £m**	**2020/21 Estimate £m**	**2021/22 Estimate £m**
General Services	1,275	1,276	1,272	1,211	1,240	1,171	1,095
HRA	358	357	381	418	469	506	566

The capital financing requirement measures the authority's underlying need to borrow for a capital purpose. In accordance with best professional practice, the Council does not associate borrowing with particular items or types of expenditure. The authority has an integrated treasury management strategy and has adopted the CIPFA Code of Practice for Treasury Management in the Public Services. The Council has, at any point in time, a number of cashflows both positive and negative, and manages its treasury position in terms of its borrowings and investments in accordance with its approved treasury management strategy and practices. In day to day cash management, no distinction can be made between revenue cash and capital cash. External borrowing arises as a consequence of all the financial transactions of the authority and not simply those arising from capital spending. In contrast, the capital financing requirement reflects the authority's underlying need to borrow for a capital purpose.

CIPFA's Prudential Code for Capital Finance in Local Authorities includes the following as a key indicator of prudence:

"In order to ensure that the medium term debt will only be for a capital purpose, the local authority should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years."

	Gross Debt and the Capital Financing Requirement						
	2015/16 Actual £m	**2016/17 Estimate £m**	**2017/18 Estimate £m**	**2018/19 Estimate £m**	**2019/20 Estimate £m**	**2020/21 Estimate £m**	**2021/22 Estimate £m**
Gross Debt	1,578	1,518	1,456	1,393	1,332	1,268	1,212
Capital Financing requirements	1,633	1,633	1,653	1,629	1,709	1,677	1,661
(Over) / under limit by:	55	115	197	236	377	409	449

The authority does not currently envisage borrowing in excess of its capital financing requirement over the next few years. This view takes into account current commitments, existing plans and assumptions around cash balances and the proposals in this budget. The figures do not include any expenditure and associated funding requirements, other than projects specifically approved by Council, for the Local Development Plan (LDP) or City Deal.

Indicator 4 – Authorised Limit for External Debt

The authorised limit should reflect a level of borrowing which, while not desired, could be afforded, but may not be sustainable. Previously, the definition of long term liabilities was used to include funding required in respect of finance leases and PFI assets. Under the changes to Financing Regulations which came into force on 1 April 2016, the definition of 'credit arrangements' has been used to calculate the authorised and operational limits requiring both the short and long term liabilities relating to finance leases and PFI assets to be considered rather than solely long term liabilities as before. In respect of its external debt, it is recommended that Council approves the following authorised limits for its total external debt gross of investments for the next five financial years. These limits separately identify borrowing under credit arrangements including finance leases and PFI assets. Council is asked to approve these limits and to delegate authority to the Acting Executive Director of Resources / Head of Finance, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and credit arrangements, in accordance with option appraisal and best value for money for the authority. Any such changes made will be reported to the Council at its meeting following the change:

	Authorised Limit for External Debt				
	2017/18	**2018/19**	**2019/20**	**2020/21**	**2021/22**
	£m	**£m**	**£m**	**£m**	**£m**
Borrowing	1,970	1,960	1,990	1,900	1,800
Credit Arrangements	220	200	200	230	220
	2,190	2,160	2,190	2,130	2,020

These authorised limits are consistent with the authority's current commitments, existing plans and the proposals in this budget for capital expenditure and financing, and with its approved treasury management policy statement and practices. They are based on the estimate of most likely, prudent but not worst case scenario, with in addition sufficient headroom over and above this to allow for operational management, for example unusual cash movements. Risk analysis and risk management strategies have been taken into account, as have plans for capital expenditure, estimates of the capital financing requirement and estimates of cashflow requirements for all purposes.

Indicator 5 – Operational Boundary for External Debt

The Council is also asked to approve the following operational boundary for external debt for the same time period. The proposed operational boundary equates to the estimated maximum of external debt. It is based on the same estimates as the authorised limit but reflects directly the estimate of the most likely, prudent but not worst case scenario, without the additional headroom included within the authorised limit to allow for example for unusual cash movements. The operational boundary represents a key management tool for in year monitoring. Within the operational boundary, figures for borrowing and credit arrangements are separately identified. The Council is also asked to delegate authority to the Acting Executive Director of Resources / Head of Finance, within the total operational boundary for any individual year, to effect movement between the separately agreed figures for borrowing and credit arrangements, in a similar fashion to the authorised limit. Any such changes will be reported to the Council at its next meeting following the change:

	Operational Boundary for External Debt				
	2017/18	**2018/19**	**2019/20**	**2020/21**	**2021/22**
	Estimate £m	**Estimate £m**	**Estimate £m**	**Estimate £m**	**Estimate £m**
Borrowing	1,580	1,570	1,610	1,600	1,590
Credit Arrangements	220	200	200	230	220
	1,800	1,770	1,810	1,830	1,810

The Council's actual external debt at 31st March 2016 was £1,396.210m, comprising borrowing (including sums repayable within 12 months). Of this sum, £18.203m relates to borrowing carried out by the Council on behalf of the former Police and Fire Joint Boards.

In taking its decisions on this budget, the Council is asked to note that the estimate of capital expenditure determined for 2016/17 (see paragraph 1 above) will be the statutory limit determined under section 35(1) of the Local Government in Scotland Act 2003.

Indicator 6 – Impact on Council Tax and House Rents

The estimate of the incremental impact of capital investment decisions proposed in this budget, together with changes in projected interest rates, over and above capital investment decisions that have previously been taken by the Council are:

	2017/18	2018/19	2019/20	2020/21	2021/22
	£	£	£	£	£
a) for the band "D" Council Tax	-0.27	-0.75	-0.50	-0.93	N/A
b) for average weekly housing rents	0.27	1.22	2.39	3.19	4.97

In calculating the incremental impact of capital investment decisions on the band "D" Council Tax, investment decisions relating to National Housing Trust Phases have been omitted. As agreed with the Scottish Government, the borrowing and associated interest costs related to this expenditure are directly rechargeable to the Limited Liability Partnerships (LLPs) at agreed periods in the future. As such, there is no cost to the Council in relation to this element of borrowing and therefore it has been omitted in calculating the incremental impact of capital investment decisions.

Consideration of options for the capital programme

In considering its programme for capital investment, Council is required within the Prudential Code to have regard to:

-affordability, e.g., implications for Council Tax / House Rents;
-prudence and sustainability, e.g., implications for external borrowing;
-value for money, e.g., option appraisal;
-stewardship of assets, e.g., asset management planning;
-service objectives, e.g., strategic planning for the authority;
-practicality, e.g., achievability of the forward plan.

A key measure of affordability is the incremental impact on the Council Tax / rents, and the Council could consider different options for its capital investment programme in relation to their differential impact on the Council Tax / rents.

Indicators included in Treasury Management Strategy

The Council's treasury management strategy and annual plan for 2017/18 will include the following:

- The Council has adopted the CIPFA Code of Practice for Treasury Management in the Public Services;

- It is recommended that the Council sets an upper limit on its fixed interest rate exposures for 2017/18, 2018/19, 2019/20, 2020/21 and 2021/22 of 100% of its net outstanding principal sums;

-It is further recommended that the Council sets an upper limit on its variable interest rate exposures for 2017/18, 2018/19, 2019/20, 2020/21 and 2021/22 of 75% of its net outstanding principal sums;

-This means that the Acting Executive Director of Resources / Head of Finance will manage fixed interest rate exposures within the range 25% to 100% and variable interest rate exposures within the range 0% to 75%. This reflects the need for a high level of liquidity to assist in managing counterparty exposure in the current market environment;

-It is recommended that the Council sets upper and lower limits for the maturity structure of its borrowing as follows.

Amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate:

	Upper Limit	**Lower Limit**
	%	**%**
under 12 months	25	0
12 months and within 24 months	25	0
24 months and within 5 years	50	0
5 years and within 10 years	75	0
10 years and above	100	20

The maximum total principal sum which may be invested with a maturity of up to 3 years is £100m.

In relation to Gross and Net Debt, the Council will continue its current practice of monitoring throughout the year that the projected Gross Debt position for the financial year does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years.

Appendix 3

The City of Edinburgh Council

Treasury Management Policy Statement

Summary

The Council has adopted the CIPFA Code of Practice on Treasury Management in the Public Services. As part of the adoption of that code, the Council agreed to create and maintain, as the cornerstones for effective treasury management:

- a Treasury Management Policy Statement (TMPS), stating the policies and objectives of its treasury management activities; and
- suitable Treasury Management Practices (TMPs), setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

This document outlines the Council's Treasury Management Policy Statement which provides a framework for the Council's treasury management activities. Any reference in the Treasury Policy Statement to the Chief Financial Officer should be taken to be any other officer to whom the Chief Financial Officer has delegated his powers.

Approved Activities

The Council defines its treasury management activities as:

> "The management of the Council's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks".

Subject to any legal restrictions, this definition covers the following activities:

- arranging, administering and managing all capital financing transactions
- approving, arranging and administering all borrowing on behalf of the Council
- cash flow management
- investment of surplus funds
- ensuring adequate banking facilities are in place, negotiating bank charges, and ensuring the optimal use by the Council of banking and associated facilities and services

The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the Council.

The Council also acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management.

Treasury Management Strategy

The treasury management strategy for the cash fund is to:

- Secure both capital and revenue funding at the lowest cost in the medium term; 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

Approved Sources of Finance

Finance will only be raised in accordance with legislation and within this limit the Council has a number of approved methods and sources of raising capital finance. No other instrument other than those listed below may be used

- Bank Overdraft
- Temporary Loans
- Loans from the Public Works Loan Board and other government bodies
- Loans from the European Community institutions
- Long-Term Market Loans
- Bonds
- Stock Issues
- Negotiable Bonds
- Internal (such as Capital Receipts, capital income from third parties and Revenue Balances)
- Commercial Paper
- Medium Term Notes
- Finance and Operating Leases
- Deferred Purchase Covenant Agreements
- Government and European Community Capital Grants
- Lottery Monies
- Public and Private Partnership funding initiatives

Permitted Instruments

Where possible the Chief Financial Officer will manage all of the Council's temporary surplus funds together and invest them using the Council's Treasury Cash Fund. The investment restrictions contained in the Treasury Cash Fund Policy Statement therefore apply to the City of Edinburgh Council's monies.

However small operational balances will need to be retained with the Council's bankers, and in other cases – such as devolved schools – relatively small investment balances may be operated locally. Some allowance for temporary deposits has therefore been made.

In addition, the Council has some non-cash investment types and these are also included in the Policy Statement.

The Head of Finance may invest monies in accordance with the Council's requirements only by using the following instruments:

(a) Temporary deposit with an approved institution of the Bank of England or with any other approved organisation for investment (see below)

(b) Money Market Funds

(c) Debt Management Office's Debt Management Agency Deposit Facility

(d) Investment Properties

(e) Loans to Other Organisations

(f) Investment in share capital of Council Companies and Joint Ventures

(g) Loans to / investment in the Loan Stock of Council Companies

(h) Investment in Shared Equity Housing Schemes

(i) Investment in the Subordinated Debt of projects delivered via the "HubCo" model

Approved Organisations for Investment

The approved counterparty limits are as follows:

(a) *The Council's bankers with no limit.*

(b) *DMO's DMADF with no limit.*

(c) *AAA Money Market Funds with no limit.*

(d) *financial institutions on the Bank of England's authorised list* where the lowest of their long term ratings from the three main Credit ratings agencies, S&P, Moodys and Fitch is the equivalent of A- or above *up to a maximum of £10 million per institution*

(e) *building societies* where the lowest of their long term ratings from the three main Credit ratings agencies, S&P, Moodys and Fitch is the equivalent of A- or above *up to a maximum of £5 million per institution.*

(f) *Subordinated debt of projects delivered via "HubCo" model up to a maximum of £1 million.*

In addition, there is no explicit limit at present for the non-cash investment types. However, it is anticipated that each specific investment of these types would be reported individually to Council and a full list of them will be contained in the Treasury Annual Report.

The investment risks and controls to mitigate those risks are outlined to the end of this document.

Policy on Delegation

Responsibility for the implementation and regular monitoring of the Council's treasury management policies and practices is retained by the Council.

The Council delegates responsibility for the execution and administration of Treasury Management decisions to the Chief Financial Officer who will act in accordance with the organisation's policy statement and TMPs and, if he/she is a CIPFA member, CIPFA's Standard of Professional Practice on Treasury Management.

The Council nominates the Governance, Risk and Best Value Committee to be responsible for the ensuring effective scrutiny of the treasury management strategy and policies.

Reporting Arrangements

This will include, as a minimum, an annual strategy and plan in advance of the year, and an annual report after its close, in the form prescribed in its TMPs. The Head of Finance will report to the Council as follows:

(a) A Treasury Strategy prior to the commencement of the financial year.

(b) A mid-term report during the financial year

(c) A Treasury Annual Report as soon as practicable after the end of the financial year.

(d) Ad hoc reports according to need.

Type of Investment	Treasury Risks	Mitigating Controls
a. Deposits with the Debt Management Account Facility (UK Government) (**Very low risk)**	This is a deposit with the UK Government and as such counterparty and liquidity risk is very low, and there is no risk to value. Deposits can be between overnight and 6 months.	As this is a UK Government investment the monetary limit is unlimited to allow for a safe haven for investments.
b. Money Market Funds (MMFs) **(low/medium risk)**	Pooled cash investment vehicle which provides short term liquidity. It is difficult to effectively monitor the underlying counterparty exposure, so will be sparingly used.	Funds will only be used where the MMFs are Constant Net Asset Value (CNAV), and the fund has a "AAA" rated status from either Fitch, Moody's or Standard & Poors.
c. Call account deposit accounts with financial institutions (banks and building societies) **(Risk is dependent on credit rating)**	These tend to be moderately low risk investments, but will exhibit higher risks than the category (a) above. Whilst there is no risk to value with these types of investments, liquidity is high and investments can be returned at short notice. These will be used to provide the primary liquidity source for Cash Management	The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody's and Standard and Poors. On day to day investment dealing with this criteria will be further strengthened by the use of additional market intelligence
d. Term deposits with financial institutions (banks and building societies) **(Low to medium risk depending on period & credit rating)**	The risk on these is determined, but will exhibit higher risks than category (a) above. Whilst there is no risk to value with these types of investments, liquidity is low and term deposits can only be broken with the agreement of the counterparty, and penalties may apply	The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody's and Standard and Poors On day to day investment dealing with this criteria will be further strengthened by the use of additional market intelligence.
e. Investment properties	These are non-service properties which are being held solely for a longer term rental income stream or capital appreciation. These are highly illiquid assets with high risk to value (the potential for property prices to fall).	Property holding will be re-valued regularly and reported annually with gross and net rental streams.
f. Loans to third parties, including soft loans	These are service investments either at market rates of interest or below market rates (soft loans). These types of investments may exhibit substantial credit risk and are likely to be highly illiquid.	Each third party loan requires Member approval and each application is supported by the service rational behind the loan and the likelihood of partial or full default.
g. Loans to a local authority company	These are service investments either at market rates of interest or below market rates (soft loans). These types of investments may exhibit significant credit risk and are likely to be highly illiquid.	Each loan to a local authority company requires Member approval and each application is supported by the service rational behind the loan and the likelihood of partial or full default.

h. Shareholdings in a local authority company	These are service investments which may exhibit market risk and are likely to be highly illiquid.	Each equity investment in a local authority company requires Member approval and each application will be supported by the service rational behind the investment and the likelihood of loss.
i. Investment in Shared Equity Schemes	These are service investments which exhibit property market risk and are likely to be highly illiquid, with funds tied up for many years.	Each scheme investment requires Member approval and each decision will be supported by the service rational behind the investment and the likelihood of loss.
j. Investment in the Subordinated Debt of projects delivered via the “Hubco” model	These are investments which are exposed to the success or failure of individual projects and are highly illiquid	The Council and Scottish Government (via the SFT) are participants in and party to the governance and controls within the project structure. As such they are well placed to influence and ensure the successful completion of the project’s term

The City of Edinburgh Council

Treasury Cash Fund

Treasury Management Policy Statement

Summary

The Council operates the Treasury Cash Fund on a low risk low return basis for cash investments on behalf of itself, Lothian Pension Fund and other associated organisations. This Policy Statement covers the type of investments which are permitted for monies held with the Cash Fund and should be read in conjunction with the Treasury Policy Statement for the City of Edinburgh Council.

Approved Activities

The activity undertaken in the management of cash balances and their investment in cash and near cash instruments. In undertaking this activity, the key objective is the security of the monies invested. Accordingly, the investment types and counterparty limits below represent a prudent attitude towards the instruments with which and the institutions with whom investment will be undertaken.

Treasury Management Strategy

The treasury management strategy for the cash fund is to 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

Permitted Instruments

The Chief Financial Officer may invest monies in accordance with the Council's requirements only by using the following instruments:

(a) Temporary deposit, Certificate of Deposit, collaterised deposit, structured deposit, commercial paper, floating rate note or Bonds with an approved institution of the Bank of England or with any other approved organisation for investment (see below)

(b) UK Treasury Bills

(c) Gilt-edged securities

(d) Reverse Repurchase Agreements

(e) Money Market Funds and Bond Funds

(f) Debt Management Office's Debt Management Agency Deposit Facility

Limits on Investment

The approved limits on counterparties and investment types are as follows (where money limits and percentages are stated, the greater of the two should be applied):

(a) DMO's DMADF, UK Treasury Bills and UK Gilts with no limit

(b) UK local authorities with no limit.

(c) other public bodies up to a maximum of £20 million per organisation.

(d) The Council's bankers, where not otherwise permitted under (k) below, up to a limit of £20m on an overnight only basis other than when funds are received into the Council's bank account without pre-notification.

(e) Money Market Funds with no limit in total but with no more than £30 million or 15% of the funds under management with any one Fund.

(f) Bond Funds with no more than £20 million or 10% of the funds under management.

(g) Supranational Bonds with a limit of £60 million or 20% of the fund in total.

(h) financial institutions where the relevant deposits, CDs or Bonds are guaranteed by a sovereign government of AA or above up to a maximum of £60 million or 20 percent of the fund per institution for the duration of the guarantee in addition to the appropriate counterparty limit for the institution.

(i) Local Authority Collateralised deposits up to a maximum of £30 million or 15 percent of the fund per institution up to a maximum of 5 years in addition to the appropriate counterparty limit for the institution.

(j) Structured deposits up to a maximum of £20 million or 10 percent of the fund, subject to the appropriate counterparty limits for the institution also being applied.

(k) financial institutions included on the Bank of England's authorised list under the following criteria:

Credit Rating	**Banks Unsecured**	**Banks Secured**	**B. Socs. Unsecured**	**B. Socs. Secured**
AAA	20% or £60m	20% or £60m	20% or £60m	20% or £60m
AA+	15% or £30m	20% or £60m	15% or £30m	20% or £60m
AA	15% or £30m	20% or £60m	15% or £30m	15% or £30m
AA-	15% or £30m	20% or £60m	10% or £20m	15% or £30m
A+	10% or £20m	15% or £30m	10% or £20m	10% or £20m
A	10% or £20m	15% or £30m	10% or £20m	10% or £20m
A-	10% or £20m	15% or £30m	5% or £20m	10% or £20m
BBB+	5% or £10m	5% or £10m	n/a	n/a
None	n/a	n/a	n/a	n/a

The credit ratings quoted in the above table are for the financial institution, instrument or security provided and are the lowest of the relevant long term ratings from the three main Credit ratings agencies, S&P, Moodys and Fitch.

Time Limits

In addition to the monetary limits above, the following maximum time limits will be placed on investments:

Category	Max. Time Limit
20% of Assets Under Management / £60m	5 Years
15% of Assets Under Management / £30m	1 Years
10% of Assets Under Management / £20m	6 months
5% of Assets Under Management / £10m	3 months

In addition to the above limits, no more than 25% of assets under management will have a maturity greater than 1 year.

In considering an investment, consideration is given to a wide range of information, not simply the credit ratings of the institution being considered. This will include financial information on the institution, relevant Credit Default Swaps and equity pricing data, and the general macro-economic, market and sector background. The investment risks and controls to mitigate those risks are outlined to the end of this document.

Policy on Delegation

The Treasury Cash Fund is operated under the Council's Treasury Policy Statement and the delegations are defined in that document.

Reporting Arrangements

This will include, as a minimum, an annual strategy and plan in advance of the year, and an annual report after its close, in the form prescribed in its TMPs. The Head of Finance will report to the Council as follows:

(a) A Treasury Strategy prior to the commencement of the financial year.

(b) A mid-term report during the financial year.

(c) A Treasury Annual Report as soon as practicable after the end of the financial year.

(d) Ad hoc reports according to need.

Type of Investment	Treasury Risks	Mitigating Controls
a. Deposits with the Debt Management Account Facility (UK Government) (**Very low risk)**	This is a deposit with the UK Government and as such counterparty and liquidity risk is very low, and there is no risk to value. Deposits can be between overnight and 6 months.	As this is a UK Government investment the monetary limit is unlimited to allow for a safe haven for investments.
b. UK Treasury Bills **(Very Low Risk)**	These are marketable securities issued by the UK Government and as such counterparty and liquidity risk is very low, although there is potential risk to value arising from an adverse movement in interest rates unless held to maturity. Maturity at issue is only 1, 3 or 6 months so will be used mainly in the 1 to 3 month period to provide a high level of security but a better return than the DMADF in (a).	As this is a UK Government investment the monetary limit is unlimited to allow for a safe haven for investments.
c. UK Gilts **(Very Low Risk)**	These are marketable securities issued by the UK Government and as such counterparty and liquidity risk is very low, although there is potential risk to value arising from an adverse movement in interest rates unless held to maturity. There is a risk to capital if the Gilt needed to be sold, so should only be used on a hold to maturity basis as a proxy for a slightly longer maturity Treasury Bill	As this is a UK Government investment the monetary limit is unlimited to allow for a safe haven for investments. Would only be used on a hold to maturity basis at the very short end of the yield curve.
d. Deposits with other local authorities or public bodies **(Very low risk)**	These are considered quasi UK Government debt and as such counterparty risk is very low, and there is no risk to value.	Little mitigating controls required for local authority deposits, as this is a quasi UK Sovereign Government investment.
e. Money Market Funds (MMFs) **(low/medium risk)**	Pooled cash investment vehicle which provides short term liquidity. It is difficult to effectively monitor the underlying counterparty exposure, so will be used for only a small proportion of the Fund	Funds will only be used where the MMFs are Constant Net Asset Value (CNAV), and the fund has a “AAA” rated status from either Fitch, Moody’s or Standard & Poors.
f. Bond Funds **(low/medium risk)**	AAA Rated Pooled cash investment vehicle investing in a range of Government, Financial Institutions and Government Bonds.	Fairly liquid vehicle investing in Bonds with a high average credit rating, will only be used for a relatively small proportion of the fund.
g. Call account deposit accounts with financial institutions (banks and building societies) **(Risk is dependent on credit rating)**	These tend to be moderately low risk investments, but will exhibit higher risks than the categories (a) to (d) above. Whilst there is no risk to value with these types of investments, liquidity is high and investments can be returned at short notice. These will be used to provide the primary liquidity source for Cash Management	The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody’s and Standard and Poors. On day to day investment dealing with this criteria will be further strengthened by the use of additional market intelligence.

h. Term deposits with financial institutions (banks and building societies) **(Low to medium risk depending on period & credit rating)**	The risk on these is determined, but will exhibit higher risks than categories (a) to (d) above. Whilst there is no risk to value with these types of investments, liquidity is low and term deposits can only be broken with the agreement of the counterparty, and penalties may apply.	The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody's and Standard and Poors On day to day investment dealing with this criteria will be further strengthened by the use of additional market intelligence.
i. Certificates of deposits with financial institutions **(risk dependent on credit rating)**	These are short dated marketable securities issued by financial institutions and as such counterparty risk is low, but will exhibit higher risks than categories (a) to (d) above. There is risk to value of capital loss arising from selling ahead of maturity if combined with an adverse movement in interest rates. Liquidity risk will normally be low.	The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody's and Standard and Poors. On day to day investment dealing with this criteria will be further strengthened by the use of additional market intelligence.
j. Structured deposit facilities with banks and building societies (escalating rates, de-escalating rates etc.) **(Low to medium risk depending on period & credit rating)**	These tend to be medium to low risk investments, but will exhibit higher risks than categories (a) to (d) above. Whilst there is no risk to value with these types of investments, liquidity is very low and investments can only be broken with the agreement of the counterparty (penalties may apply).	The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody's and Standard and Poors. On day to day investment dealing with this criteria will be further strengthened by the use of additional market intelligence.
k. Bonds **(Low to medium risk depending on period & credit rating)**	This entails a higher level of risk exposure than gilts and the aim is to achieve a higher rate of return than normally available from gilts. They do have an exposure to movements in market prices of assets held.	The counterparty selection criteria approved above restricts lending only to high quality counterparties, on a hold to maturity basis. Bonds may also carry an explicit Government Guarantee.
l. Floating Rate Notes **(Low to medium risk depending on credit rating)**	These are Bonds on which the rate of interest is established periodically with reference to short term interest rates.	The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody's and Standard and Poors. Will be used in an increasing interest rate environment but only for a limited proportion of the portfolio.
m. Commercial Paper **(Low to medium risk depending on credit rating)**	These are short term promissory notes issued at a discount par. They entail a higher level of risk exposure than gilts and the aim is to achieve a higher rate of return than normally available from gilts. They do have an exposure to	The counterparty selection criteria approved above restricts lending only to high quality counterparties, on a hold to maturity basis. They are relatively short maturity.

	movements in market prices of assets held.	
n. Secured Investments **(relatively low risk due to dual recourse)**	These include Reverse Purchase Agreements (Repo) and Covered Bonds issued by banks and building societies.	Both Repo and Covered Bonds provide opportunities to lower credit risk by having any exposure supported by an enhanced level of high quality collateral such as Gilts in the case of Repo. The lower credit risk is reflected in the Cash Fund being able to invest larger % or value amounts as shown in the criteria for financial institutions in (k).

Governance, Risk and Best Value Committee

10.00am, Thursday 20 April 2017

Report by the Accounts Commission – Local Government in Scotland: Performance and Challenges 2017- referral report from the Finance and Resources Committee

Item number	7.4
Report number	
Executive/routine	
Wards	

Executive Summary

On the 23 March 2017 the Finance and Resources Committee considered a report by the Accounts Commission that assessed Councils' readiness to confront the growing challenges ahead. The report has been referred to the Governance, Risk and Best Value Committee for consideration as part of its work programme.

Links

Coalition Pledges	See attached report
Council Priorities	See attached report
Single Outcome Agreement	See attached report

EDINBVRGH
THE CITY OF EDINBURGH COUNCIL

Terms of Referral

Report by the Accounts Commission – Local Government in Scotland: Performance and Challenges 2017

Terms of Referral

1.1 An initial financial overview report was considered by the Finance and Resources Committee on 19 January 2017. The report concluded that, across local government as a whole, financial health in 2015/16 was generally good, with a slight increase in reserve levels and a reduction in overall debt. In view of on-going increases in demographic-led demand and additional pressures linked to inflation, legislative reform and reducing real-terms resources levels however, the report reiterated the importance of effective budget management and long-term financial planning.

1.2 The report's findings were aimed primarily at councillors and senior officers to support them in their increasingly complex and demanding roles. As with previous similar reports, a self-assessment checklist was provided to assist councillors in understanding their own Council's position and to scrutinise its performance, thereby informing the difficult decisions that lay ahead.

1.3 The Finance and Resources Committee agreed:

1.3.1 To note the report.

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

For Decision/Action

2.1 The Governance, Risk and Best Value Committee is asked to consider the report as part of its work programme.

Background reading/external references

Minute of the Finance and Resources Committee, 23 March 2017

Laurence Rockey

Head of Strategy and Insight

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Links

Coalition Pledges	See attached report
Council Priorities	See attached report
Single Outcome Agreement	See attached report
Appendices	See attached report

Finance and Resources Committee

10.00am, Thursday, 23 March 2017

Report by the Accounts Commission – Local Government in Scotland: Performance and Challenges 2017

Item number	
Report number	
Executive/routine	
Wards	

Executive summary

Following the publication in November 2016 of its Scotland-wide review of 2015/16 local government financial performance, the Accounts Commission has now issued a complementary, more forward-looking report assessing councils' readiness to confront the growing challenges that lie ahead. The report re-emphasises a number of previous messages of relevance to all councils in Scotland. These messages include the importance of long-term financial planning, the need for active consideration of all appropriate service delivery options and the increasingly wide required skills set for elected members across the areas of option appraisal, scrutiny, audit and risk management.

Links

Coalition Pledges	P30
Council Priorities	CP13
Single Outcome Agreement	SO1, SO2, SO3, SO4

EDINBVRGH
THE CITY OF EDINBURGH COUNCIL

Report

Report by the Accounts Commission – Local Government in Scotland: Performance and Challenges 2017

1. Recommendations

1.1 Members of the Finance and Resources Committee are asked to:

1.1.1 note the contents of the report; and

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

2. Background

2.1 In recent years, as an integral part of its annual programme of scrutiny and inspection across Scotland's local authorities, the Accounts Commission has published a high-level, independent overview report. This annual report has drawn upon work undertaken in the preceding audit year, summarising findings and key themes emerging from financial statement, Best Value, Community Planning and wider performance audits.

2.2 For 2015/16, a slightly different approach has been adopted. Rather than providing coverage across all of the above areas within the overview, a series of discrete reports will instead be issued. In this vein, an initial financial overview report was issued in late November 2016 and considered by the Finance and Resources Committee on 19 January 2017. The report concluded that, across local government as a whole, financial health in 2015/16 was generally good, with a slight increase in reserve levels and a reduction in overall debt. In view of on-going increases in demographic-led demand and additional pressures linked to inflation, legislative reform and reducing real-terms resource levels, however, the report reiterated the importance of effective budget management and long-term financial planning.

2.3 The follow-up *Performance and Challenges 2017* report, released on 7 March, provides a high-level, independent view of the challenges facing councils, assessing how well they are addressing these and what more they can do going forward. The recommendations of the report intentionally complement those set out in the earlier Financial Overview.

2.4 The report's findings are aimed primarily at councillors and senior officers, supporting them in their increasingly complex and demanding roles. As with previous similar reports, a self-assessment checklist is provided to assist councillors in understanding their own council's position and scrutinising its performance, thereby informing the difficult decisions that lie ahead. A brief good practice supplement accompanies the report.

2.5 Given its Scotland-wide coverage, the report's recommendations are correspondingly general, although two Edinburgh-based examples are quoted in the good practice supplement. Other reports focusing specifically on the Council's activities are, however, regularly considered by the Finance and Resources and Governance, Risk and Best Value Committees. Of particular relevance is the Council's Annual Audit Report, considered by the Finance and Resources Committee on 1 December 2016. Additional commentary in some of the areas covered in the Annual Audit Report was set out in the External Audit Plan 2016/17 reported to the Governance, Risk and Best Value Committee on 9 March 2017.

3. Main report

Overview of report content

3.1 The Accounts Commission report comprises three distinct sections. The first provides a succinct, high-level overview of the challenges facing all councils (summarised on pages 15 to 17 of the report). This overview incorporates commentary and analysis of the impact on councils of demographic change. It also highlights significant legislative reform affecting several core local government services, all set against a backdrop of on-going reductions in real-terms funding levels.

3.2 The second and third sections then proceed to examine how councils have responded to these challenges, emphasising that further incremental changes are unlikely to be sufficient to deliver the required level of savings and sustain performance improvement. The report reiterates the importance of longer-term financial planning, comprehensive workforce plans and further control of sickness absence levels, as well as a need for effective leadership in considering all options for service delivery and transformation, underpinned by robust option appraisal.

Relevance to Edinburgh

3.3 As noted above, given the report's Scotland-wide coverage, there are few Edinburgh-specific references but the following observations may be made:

3.3.1 **Exhibit 3** – the Council's change in revenue grant funding over the period from 2010/11 to 2017/18 has been similar to that for Scotland as a whole. While its share of most needs-based indicators has increased slightly, these relative gains have been offset by a proportionately larger reduction in the level of support for historic borrowing based on debt repayment profiles. In light of this level of funding reduction, some £240m of savings have been approved for delivery between 2012/13 and 2017/18 inclusive to maintain financial balance;

3.3.2 **Paragraphs 15 – 21 –** including payments made in respect of the operation and maintenance of PPP facilities, almost 75% of the Council's frontline service expenditure relates to the provision of education and

social work services. In view of both pupil:teacher ratio commitments and significant on-going demographic pressures affecting these areas (particularly within the early years and school-age population, as shown in Exhibit 4 on page 14 of the report), this reinforces the need for transformational and/or service prioritisation approaches to be adopted across all influenceable areas of expenditure if financial sustainability is to be maintained;

3.3.3 **Paragraphs 24 – 32** – as the largest single element of Council expenditure, significant savings have been delivered through staffing efficiencies, with the roll-out of the transformation programme seeing overall staff numbers reduce by 1,009 FTE (6.7%) between December 2015 and December 2016. The Council also has an organisation-wide workforce plan, informed by a comprehensive review of good practice adopted elsewhere, in place. In view of steady increases in sickness-related absence levels in recent months, however, a refreshed action plan has been approved by the Council's Leadership Team. This plan includes weekly reporting on actions taken and proposed, simplification of associated policies and procedures and renewed promotion of the Employee Assistance Programme. Successful approaches adopted in areas with higher sickness absence levels are also being publicised more widely;

3.3.4 **Paragraphs 33 – 38** – as noted above, the Council's transformation programme has targeted the securing of £70.5m of recurring annual savings by 2018/19. Progress in implementation has been closely tracked, with the latest assessment indicating that over 99% of these savings are expected to be delivered. In-year delivery of all approved savings (including more challenging, demand management and service redesign initiatives within Health and Social Care), at 92%, also continues to reflect the improvements in realisation of savings apparent in recent years. These achievements contributed to Audit Scotland's conclusion within the Council's most recent Annual Audit Report that the Council had made significant progress in addressing its medium-term financial challenges. In view of current forecasts of future grant funding settlements, however, it is anticipated that further savings will be required both to bridge residual funding gaps and provide for major infrastructural investment requirements within the city;

3.3.5 **Paragraphs 41 – 53** – provide a Scotland-wide overview of performance across a range of cost-based and more outcome-focused indicators. Despite real-terms reductions in funding, service performance shows general improvement. While the report includes specific reference to significant reductions in the cost of street cleaning within Edinburgh over recent years, a detailed assessment across a more balanced range of performance measures, linked to the four strategic themes in the Council's business plan, was reported to Council on 15 December 2016. Further analysis of the results of the Local Government Benchmarking

Framework (LGBF) will also be undertaken once finalised data are available;

3.3.6 **Case Study 2, page 31** – the report highlights the successful *£eith Decides* participatory budgeting initiative as an example of good practice. In view of the Scottish Government's wider aspiration for 1% of councils' budgets to be allocated by means of such approaches, however, opportunities are being explored to extend the principles to further areas of Council expenditure, consistent with both the Community Empowerment Act and the Council's locality-based operating structures.

3.4 The final section of the report sets out a number of key messages and priorities for councils in the coming years, highlighting the importance of:

3.4.1 effective, strategic leadership from elected members;

3.4.2 the development and/or refresh of long-term financial strategies and plans; and

3.4.3 appraisal of all possible options for change in the delivery of services, involving local communities in this process.

3.5 The Council's business and financial planning framework is built from an understanding and a vision of the pressures the Council is likely to face in the next few years.

3.6 In view of the anticipated increase in the Council's overall savings requirement relative to current planning assumptions, a revised business plan, informed by consideration of a range of service delivery models, will be presented to the incoming Administration before the summer recess.

3.7 While the Council was one of the first in Scotland to develop a long-term financial plan and approved a medium-term financial strategy in June 2015, opportunities to link these plans more closely with wider organisational plans and strategies will be examined.

3.8 Direction provided by the Scottish Government and the responsibilities which local authorities are asked to deliver will change the public policy environment in which the Council operates. The Community Empowerment Act, passed in June 2015, represents one key programme of reform underway across Scotland to address these issues and increase community involvement in public service delivery. This act reformed a range of policy areas relating to community participation, including community planning, community right to buy of land, involvement of communities in public service delivery and communities taking on public assets and public goods. The legislation has been significant and is leading to a renewed focus towards increased community involvement in the way local authorities deliver services.

3.9 In light of the challenges, the Council needs to keep a clear focus on ensuring that it continues to provide universal service delivery at the right standard and to the right quality, while still responding to the wider environment in which it operates. The Council's strategic direction will ensure that performance is

retained and services are transformed to deliver a financially sustainable future Council.

3.10 Given the certainty of both significant numbers of newly-elected councillors and changes in political leadership roles after the Local Government elections in May 2017, a comprehensive elected member induction and training programme is being developed.

4. Measures of success

4.1 The report reiterates a number of principles of sound financial management and assesses councils' current practices against these. The Council's own arrangements were assessed to be effective as set out in this year's Annual Audit Report, with expenditure contained within budget for the ninth successive year and a significant improvement in the delivery of approved savings.

4.2 In the more immediate context of the 2017/18 financial year, the key targets are achieving a balanced overall budget outturn position and successful delivery of approved savings and 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 in January 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 templates. Subsequent delivery is being reported to the Finance and Resources Committee on a bi-monthly basis.

6.3 Wider progress in the delivery of targeted outcomes is assessed as part of twice-yearly performance updates, the most recent of which was reported to Council in December 2016. The effectiveness of the Council's wider governance framework is similarly assessed on an annual basis, with the most recent such review reported to the Governance, Risk and Best Value Committee on 18 August 2016.

7. Equalities impact

7.1 Proposals comprising the budget framework are assessed for their corresponding potential equalities and human rights impacts. The results of this assessment are reported to the Finance and Resources Committee to allow members to pay due regard to them in setting the Council's budget.

8. Sustainability impact

8.1 The proposals comprising the budget framework are also subject to an assessment of their likely corresponding carbon, climate change adaptation and sustainable development impacts, with the results reported to the Council as part of annual budget-setting.

9. Consultation and engagement

9.1 Building on last year's successful engagement, a similar process focusing on future service delivery arrangements as part of the Council's wider transformation programme was undertaken in October and November 2016. The insight generated through this exercise informed the content of the Council's budget as approved on 9 February 2017.

10. Background reading/external references

City of Edinburgh Council: External Audit Plan 2016/17, Governance, Risk and Best Value Committee, 9 March 2017

Report by the Accounts Commission – Local Government in Scotland: Financial Overview 2015/16, Governance, Risk and Best Value Committee, 19 January 2017

The City of Edinburgh Council: 2015/16 Annual Audit Report to Members and the Controller of Audit, Finance and Resources Committee, 1 December 2016

Corporate Governance Framework, Governance, Risk and Best Value Committee, 19 August 2016

Financial Strategy 2015/16 to 2019/20, Finance and Resources Committee, 4 June 2015

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11. Links

Coalition Pledges	P30 – Continue to maintain a sound financial position including long term financial planning
Council Priorities	CP13 – Deliver lean and agile Council services
Single Outcome Agreement	SO1 – Edinburgh's economy delivers increased investment, jobs and opportunities for all SO2 – Edinburgh's citizens experience improved health and wellbeing, with reduced inequalities in health SO3 – Edinburgh's children and young people enjoy their childhood and fulfil their potential SO4 – Edinburgh's communities are safer and have improved physical and social fabric
Appendices	One – Report by the Accounts Commission - Local Government in Scotland: Performance and Challenges 2017

Local government in Scotland

Performance and challenges 2017

ACCOUNTS COMMISSION

Prepared by Audit Scotland
March 2017

The Accounts Commission

The Accounts Commission is the public spending watchdog for local government. We hold councils in Scotland to account and help them improve. We operate impartially and independently of councils and of the Scottish Government, and we meet and report in public.

We expect councils to achieve the highest standards of governance and financial stewardship, and value for money in how they use their resources and provide their services.

Our work includes:

- securing and acting upon the external audit of Scotland's councils and various joint boards and committees
- assessing the performance of councils in relation to Best Value and community planning
- carrying out national performance audits to help councils improve their services
- requiring councils to publish information to help the public assess their performance.

You can find out more about the work of the Accounts Commission on our website: www.audit-scotland.gov.uk/about-us/accounts-commission

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. We help the Auditor General for Scotland and the Accounts Commission check that organisations spending public money use it properly, efficiently and effectively.

Contents

Links

PDF download

Web link

Exhibit data

When viewing this report online, you can access background data by clicking on the graph icon. The data file will open in a new window.

These question mark icons appear throughout this report and represent questions for councillors.

Chair's introduction

Scotland's councils are operating in an increasingly demanding environment. New and returning councillors face major challenges from continued reductions in their funding from the Scottish Government, and greater demands for services from an ageing population and, in parts of the country, a growing school population. The scale of these challenges mean it is more important than ever that councillors provide effective leadership in setting a clear strategy and make the difficult decisions that will be needed. We have repeatedly stressed the importance of councils having established clear priorities and effective long-term plans. As reported in our 2015/16 financial overview, only 14 councils have long-term financial strategies in place to support delivery of their wider strategic priorities. We acknowledge that annual funding settlements from the Scottish Government make this more challenging but we remain firmly of the view that the absence of indicative funding should not prevent councils from projecting future income and expenditure, and planning accordingly.

Any council tax increases in 2017 may increase public expectations of local government. Paying more for potentially fewer or reduced services will be a difficult argument to sustain, and even more so if compounded by possible increases in other charges. In our report *Charging for services – are you getting it right?* (2013), we said 'charges should not be set in isolation. Any decision to vary or introduce charges should take account of the council's priorities and financial objectives; they should not be seen solely as a means of generating income'.

Councils are increasingly relying on the use of reserves to bridge projected funding gaps. Moreover, recent Best Value audits have highlighted a dependency on incremental changes to services, increasing charges and reducing employee numbers in order to make savings. These are neither sufficient nor sustainable solutions for the scale of the challenge facing councils. We stress the need for a greater openness to alternative forms of service delivery and the consequences of not conducting comprehensive option appraisals; services may not be as efficient or effective as they could be; and may not be achieving value for money; resources may not be directed to priority areas, and councils may not be able to demonstrate that they are achieving best value. The extent to which councils are evaluating their performance and appraising all available options for service delivery will be an important feature of our revised approach to auditing Best Value.

We recognise that councils are generally maintaining or improving performance in many services. But benchmarking data shows a wide variation in the cost of delivering services throughout the country, suggesting there are potential opportunities for councils to make further savings.

These are not the only challenges that councils face. They will need to respond effectively to national policy priorities in the Scottish Government's Programme for Government and, along with their partners, will need to demonstrate progress in integrating health and social care and in meeting the requirements of the Community Empowerment Act.

Local government elections in 2017 could see a significant change in elected members. Any change in leadership and administrations may delay the process of change as new priorities are established and new working relationships develop. In our recently published report, *Roles and working relationships in councils – Are you still getting it right?* (2016), the Commission highlighted how local government has become much more complex and fragmented and that this additional complexity demands a broader set of skills for councillors, not only in option appraisal but also in scrutiny, audit and risk management all of which are becoming increasingly important. Councillors elected in May must have the necessary training and tools to do an increasingly complex job. We asked councils to ensure comprehensive training is in place for these key roles.

The Commission hopes that this overview report will be a helpful tool to enable councillors and officers to stand back and assess their council's progress. Indeed one of the most important documents in the next iteration of best value will be a councils self evaluation. The more effectively a council can demonstrate a high degree of self awareness of the challenges and improvements it needs to make, the better placed will be that council in becoming one that can demonstrate continuous improvement.

As always, the Commission welcomes feedback on its overview report.

Douglas Sinclair
Chair of the Accounts Commission

Summary

Key messages

1 Councils have faced significant challenges from a long-term decline in revenue funding and from an ageing and growing population. The scale of these challenges continues to grow. Policy and legislative changes are also placing additional demands on councils and changing how councils work.

2 Councils are responding to the challenges by continuing to adopt alternative ways of working, reducing the level of service they provide and reviewing fees and charges. While some councils are making good progress in managing services and delivering savings, others are not. The pace and scale of reform needs to increase in some councils. Despite these challenges, councils' performance has been maintained or improved.

3 With reducing budgets and workforces, councils will find delivering improvements increasingly difficult. It is critical, therefore, that they set clear long-term strategies and plans that target effort on priority areas. This includes organisation-wide workforce plans to ensure councils have the capacity to manage change and deliver services going forward. A councillor's role is complex, demanding and evolving. They are required to provide effective and strategic leadership, and it is therefore critical that their knowledge is up to date and skills are refreshed to enable them to establish strategic priorities, fully assess options for change and hold services to account.

Recommendations

Councils should:

- set clear priorities supported by long-term strategies and medium-term plans covering finances, services, performance and workforce. These plans should inform all council decision-making, service redesign, savings and investment decisions. Exhibit 14 (page 34) sets out the main elements of a councils' financial planning processes and how these link with other council plans

- ensure that budgets are clearly linked to their medium-term financial plans and long-term financial strategies. Budgets should be revised to reflect true spending levels and patterns. This requires good

financial management and real-time information to ensure spending is accurately forecast and monitored within the year

- have an organisation-wide workforce plan to ensure the council has the people and skills to manage change and deliver services into the future
- ensure workforce data allows thorough analysis of changes to the workforce at an organisation-wide and department level. This will allow councils to better assess the opportunities and risks in staff changes
- thoroughly evaluate all options for change and service redesign, including options for investing to save, and monitor the impact of change on council priorities and desired outcomes
- support communities to develop their ability to fully participate in setting council priorities and making decisions about service redesign and use of resources
- ensure councillors get support to develop the right skills and knowledge to fulfil their complex and evolving roles
- ensure there is clear public reporting of performance linked to council priorities to help communities gauge improvements and understand reduced performance in lower priority areas
- continue to work to understand the reasons for variation in unit costs and performance, and collaborate to identify and adopt good practice from each other.

About this report

1. This report provides a high-level, independent view of the challenges facing councils, how well they are addressing these and what more they can do. It draws on findings from *Local government in Scotland: Financial overview 2015/16*, local government audit work in 2016 (including annual audit reports, Best Value audit reports and national performance audits) and published performance data. All audit reports are available on our website.

2. This report is primarily for councillors and senior council officers as a source of information and to support them in their complex and demanding roles. It covers three areas:

- The current and future challenges facing councils.
- Councils' progress in meeting these challenges, including performance in key service areas, public satisfaction and unit costs.
- What more councils can do to ensure they are best placed to successfully manage the changes and challenges they face.

3. The 2017 local government elections could result in new councillors and changes to the political make-up of councils. To help councillors who are new to the role, those who are re-elected, and council officers, we have produced the following supplements to accompany this report:

- *A self-assessment checklist for councillors* – this has questions that councillors could ask to help them understand their council's position, scrutinise performance and make difficult decisions. Councillors should feel they fully understand, and are satisfied with, the answers to the questions most relevant to them in their role within the council.

- *Good practice supplement* – a summary of the good practice we identified during the audit. It is not an exhaustive list of all good practice across Scotland but provides examples of councils improving performance and processes or using innovative techniques. This may be a useful source of reference for councillors or senior officers when appraising options for changes.

4. Councillors may also find it helpful to refer to our recently published report, *How councils work: Roles and working relationships in councils – are you still getting it right?*. This highlights the increasingly complex nature of local government and includes a series of questions designed to help councillors and officers review current practice and make sure governance arrangements are fit for purpose.

5. We refer to real-terms changes in the report, meaning that figures are adjusted for inflation, when we are showing financial information from past and future years. Our analysis of local government funding adjusts figures into 2016/17 prices to reflect the current financial year. Where the report focuses on council performance in 2015/16, figures have been adjusted to 2015/16 prices.

Part 1

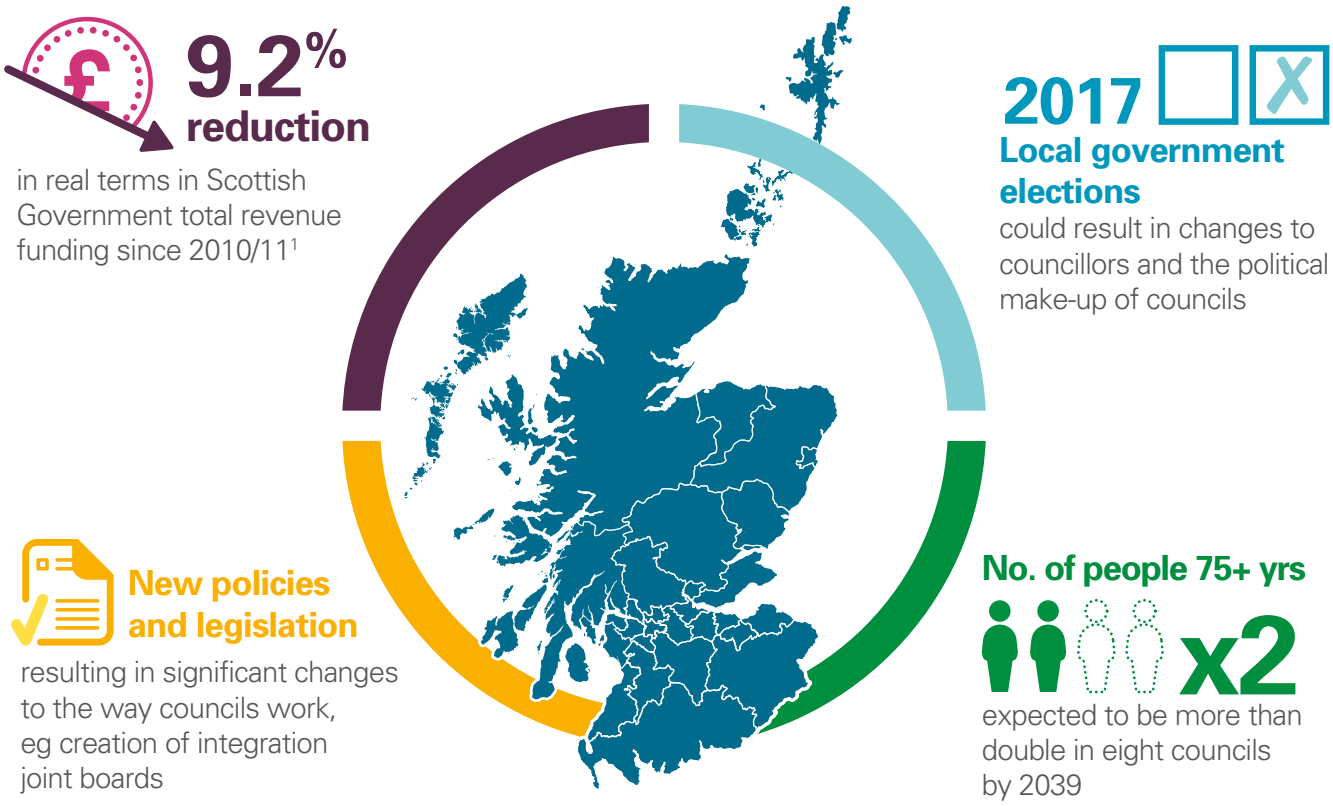
The challenge for councils

6. Councils continue to face significant financial and demographic challenges, and the scale of these continues to grow. Council budgets are under increasing pressure from a long-term decline in revenue funding (in real terms) from the Scottish Government, and council services are under pressure from an ageing and growing population. Policy and legislative requirements are also changing how councils work and the services they must deliver (Exhibit 1).

Exhibit 1

The environment in which Scotland's councils are operating

Councils are facing a number of different challenges.



Note: 1. Scottish Government funding for 2017/18 is subject to Parliamentary approval.

Source: Audit Scotland

The funding challenge for councils continues to deepen

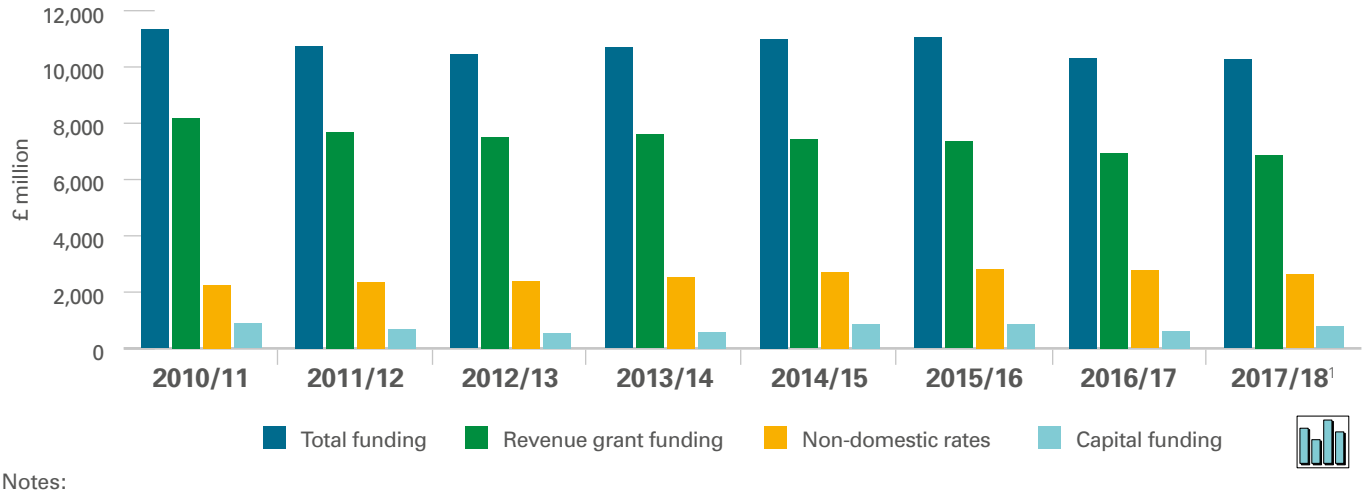
7. Councils receive most of their income (about 60 per cent) from the Scottish Government.[1] We previously reported that there has been a long-term reduction in total Scottish Government revenue funding, for day-to-day spending, to local government; and that further reductions were expected.[2] Since then, the Scottish Government has published its 2017/18 budget and a single year local government funding settlement for 2017/18. This is subject to Parliamentary approval.

8. Based on Scottish Government proposals, between 2016/17 and 2017/18, total revenue funding from the Scottish Government will reduce by about £216 million in real terms (2.2 per cent). Both non-domestic rates and revenue grant funding will reduce, by 5.1 per cent and 1.1 per cent respectively (Exhibit 2).

Exhibit 2

Scottish Government funding to councils from 2010/11 to that proposed in 2017/18 (at 2016/17 prices)

The most recent local government funding settlement continues the trend of a long-term reduction in revenue funding.



Notes:
1. Figures for 2017/18 are subject to Parliamentary approval.
2. Funding allocations up to 2012/13 have been adjusted to remove funding for police and fire. Responsibility for these services transferred from local to central government in April 2013. We have also adjusted figures for specific elements of funding related to adjustments for police and fire pensions.
3. Since 2013/14, Scottish Government revenue funding has included payments of about £350 million per year to fund council tax reductions, replacing council tax benefit which previously came from the UK Government.
4. The 2016/17 figures do not include £250 million the Scottish Government allocated to health and social care integration authorities specifically for social care. This is an allocation from the Scottish Government health budget to NHS boards rather than councils, and NHS boards allocate funding to the integration authorities. Integration funding, including the uplifted integration funding for 2017/18 and additional £107 million primarily to support implementation of the living wage for social care staff, is also excluded from 2017/18 figures.

Source: *Local Government Finance Circulars 2011-16*, Scottish Government

9. If approved, the 2017/18 settlement means that total revenue funding will decrease by 9.2 per cent from £10.5 billion in 2010/11 to £9.5 billion in 2017/18. A 16.3 per cent decrease in revenue grant funding has been partially offset by a 16.5 per cent increase in non-domestic rate income.[3] The Fraser of Allander Institute predicts a total reduction of £1 billion to local government revenue funding between 2016/17 and 2020/21.[4]

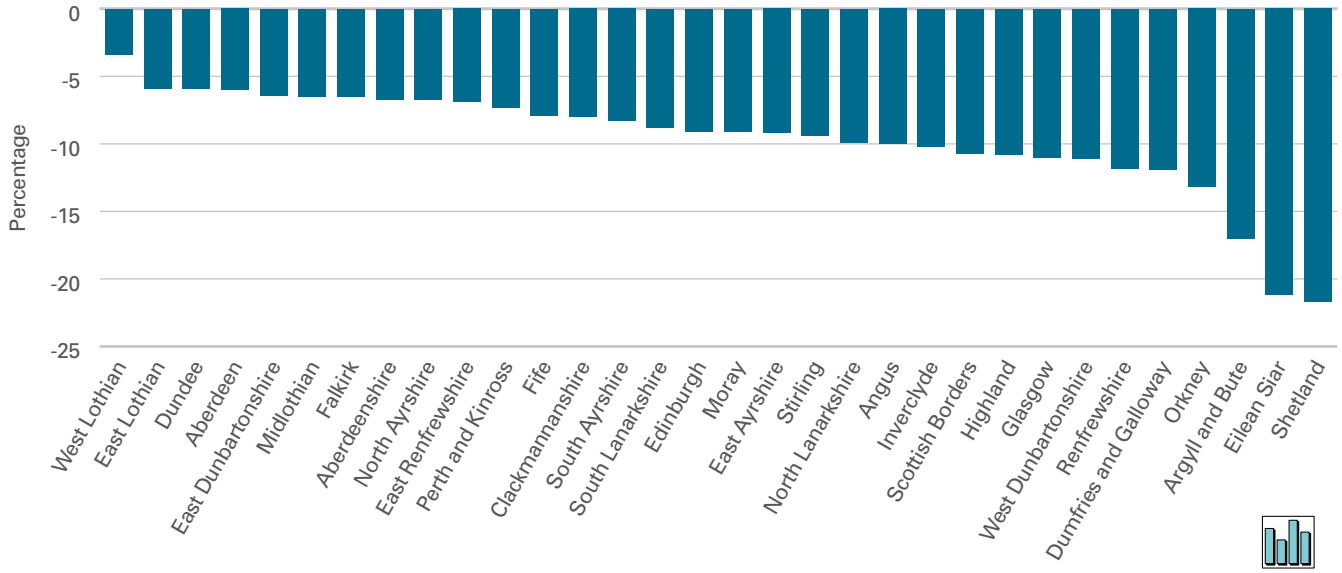
10. Although some elements of total revenue funding are allocated separately, such as funding for probationary teachers or elements of the council tax reduction scheme, the majority of revenue funding is distributed to individual councils. This funding is made up of non-domestic rate income, a small number of specific grants and general revenue grant funding. The Scottish Government distributes this funding to councils using a formula based on factors such as population, deprivation and rurality.

11. This means that not all councils have experienced the same level of reductions in funding. For example, Scottish Government funding for Comhairle nan Eilean Siar and Shetland Islands Council will reduce by over 20 per cent between 2010/11 and funding proposed in 2017/18, whereas 21 councils saw a reduction of less than ten per cent (Exhibit 3).

Exhibit 3

Changes in Scottish Government revenue funding by council, 2010/11 to that proposed in 2017/18 (at 2016/17 prices)

There is wide variation in changes in revenue funding allocated to councils.



Notes:
1. Figures for 2017/18 are subject to Parliamentary approval.
2. Figures are based on the distributable elements of initial funding allocations and include grant revenue funding, non-domestic rate income and a small number of specific grants.
3. 2010/11 funding has been adjusted to remove funding for police and fire. We have removed the specific police grant and the police grant element of the general revenue grant and estimated the share of distributable funding specifically for fire based upon councils' share of the total Grant Aided Expenditure and Scottish Government budget documentation.
4. There are elements of distributable funding that may not feature in all years across the period.

Source: *Local Government Finance Circulars 2011-16*, Scottish Government

Councils' ability to increase council tax in 2017 will have a limited impact on their financial position

12. The Scottish Government and councils agreed to freeze council tax levels in 2007. Although the Scottish Government provided funding of £70 million each year to compensate councils financially, the freeze did limit councils' flexibility to respond to changes in demand and grant funding by varying their tax rate accordingly. The council tax freeze will be lifted from April 2017. This gives councils the opportunity to increase their council tax charges by up to three per cent a year.

13. Not including direct funding for the council tax relief scheme, councils raised £2.1 billion from council tax in 2015/16 (10.9 per cent of total income). If councils had the ability to increase council tax rates by three per cent in 2015/16, and all had done so, this would have marginally increased the share of total income raised from council tax by 0.3 per cent to 11.2 per cent.[5]

14. In 2017/18, any additional income raised from increasing the general rate of council tax will be supplemented by income generated because of Scottish Government reforms to higher council tax bands. As part of the 2017/18 local government funding settlement, the Scottish Government has estimated these reforms will generate £110.5 million. Due to the make-up of council funding, however, the ability to increase council tax by up to three per cent per year will continue to have a relatively limited impact on the total income available to councils.

Education and social work make up an increasing proportion of council spending

15. In 2015/16, councils' net spending on services, that is spend minus service income, was £12.4 billion. Our *Local government in Scotland: Financial overview 2015/16* report shows that £8.8 billion (71 per cent) of this was spent on providing education and social work services. Between 2011/12 and 2015/16, the proportion of relevant council spending on these two services increased from 69 per cent to 71 per cent. This increase is likely the result of a number of factors including:

- growing service demands, particularly on social care from an ageing population
- commitments to deliver national policy priorities, such as maintaining pupil to teacher ratios.

16. The proportion of spending on education and social work varies across councils, from about 60 per cent in Orkney Islands, Shetland Islands and Aberdeen City councils to about 80 per cent in Clackmannanshire Council. This could have implications for where councils can make future savings, particularly once charges associated with privately financed assets (via the Public Finance Initiative, Public Private Partnership and Non-profit distributing models) and debt repayment costs are factored in.

17. Analysis by Inverclyde Council in April 2016 shows that, of its £190 million spending in 2016/17, £145 million is on education and social work or on areas the council considers protected. This leaves £45 million to spend on other services such as roads, environmental services and corporate services. The council has estimated that it needs to make savings of £25.8 million between 2017/18 and 2019/20. Even if it makes five per cent of savings in education, social work and other protected budgets, it will potentially need to make savings of over 40 per cent in other service budgets such as roads and environmental services.

18. Research on Scotland's 2016 budget analysed the impact on other council services of the Scottish Government's commitment to protect areas such as healthcare and childcare spending. It found that other services could face average reductions of ten to 17 per cent over the next four years.[6]

19. Increasing demand for education and social care services from population change and national initiatives may make it harder for councils to control spending in these two services. Indeed, about a third of councils overspent their social

care budgets in 2015/16. However, these services do need to be included in councils' discussions on savings as it is possible to make savings and improve performance. We have previously reported that a group of seven councils decreased spending on education by more than five per cent between 2010/11 and 2012/13, while their percentage of S4 pupils achieving five awards at level five increased by more than the national average.[7]

Councils face further challenges from a growing and ageing population

20. Predictions of population change suggest that, if all other things remain the same, councils will continue to spend an increasing proportion of their budgets on education and, through integration joint boards, on social work. Between 2014 and 2039, the number of children (defined as aged 0-15) is expected to increase by 1.4 per cent to about 924,000; and the number of people aged 75 and over by 85 per cent to over 800,000.

21. The challenge of population change is expected to vary across the country. Some councils will see their total populations falling while the number of people aged 75 and over will increase. For example, Comhairle nan Eilean Siar's population is expected to fall by 14 per cent by 2039 with an increase of 64 per cent of residents who are aged 75 and over. In other councils, the whole population is projected to increase. The number of people aged 75 and over is expected to more than double in eight councils by 2039.[8] This is likely to have a significant impact on demand for health and social care services. The number of people aged 15 and under is expected to increase by 25 per cent in Midlothian Council and decrease by 28 per cent in Comhairle nan Eilean Siar over the same period (Exhibit 4, page 14).

The environment within which councils operate is changing

22. Legislative and policy changes affect the way councils work. Councils will have to implement and manage significant legislative and national policy changes initiated by the Scottish Government, although some of the detail is still not clear (Exhibit 5, page 15). Some of these changes, such as the creation of integration joint boards (IJBs), have already fundamentally altered the role of councils. Some change the relationship between councils and the Scottish Government, NHS boards and local communities. While these changes provide opportunities for positive change, implementing them will require council capacity in terms of staff time, knowledge and skills. Additional funding may also be required, at least in the short term.

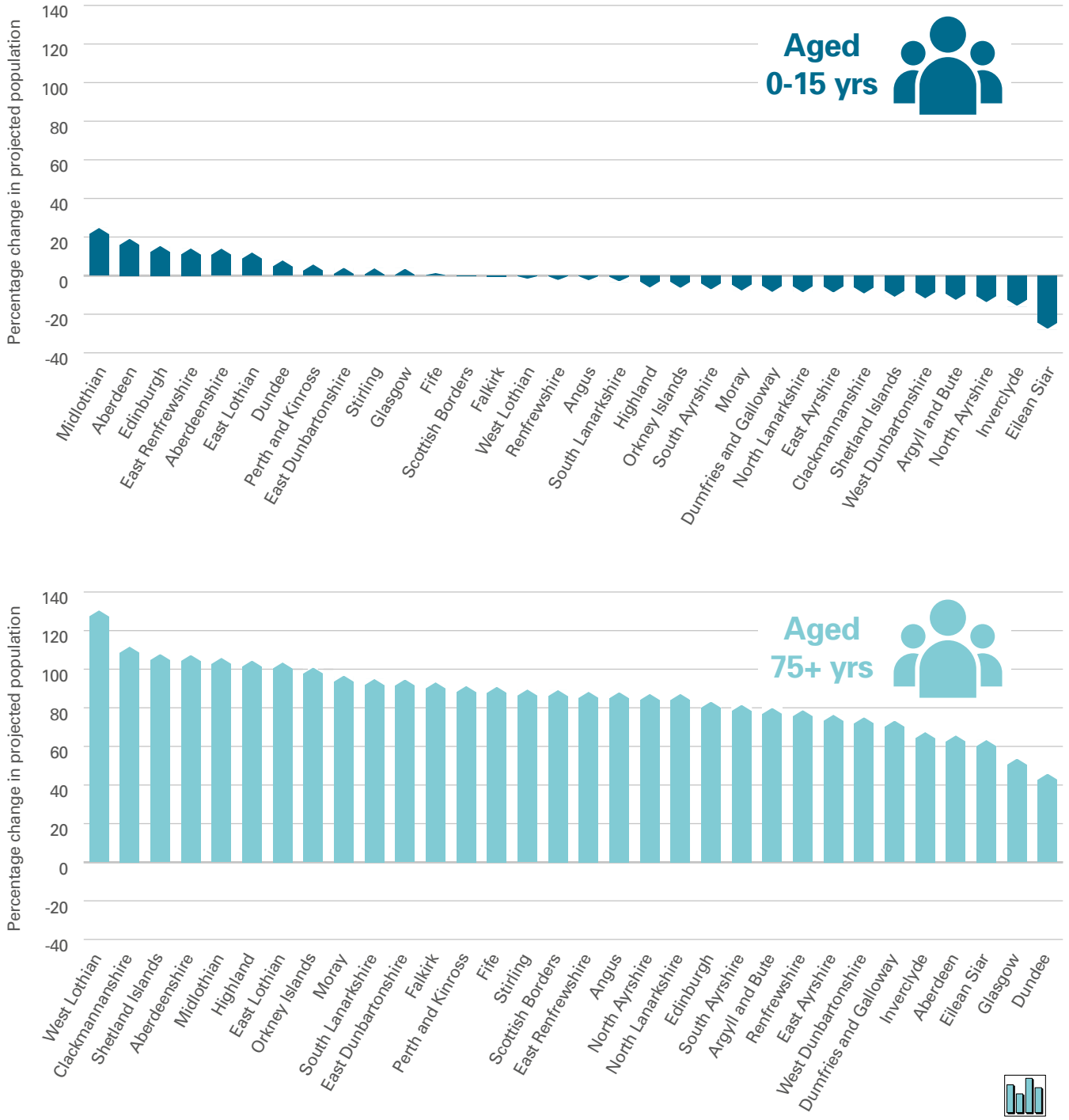
23. Councils also face further challenges and uncertainties:

- The United Kingdom's decision to leave the European Union will have an impact on councils' work. It is unclear what impact it will have and where, but some councils are starting to plan for a number of scenarios.
- The Scottish Government is currently considering a local democracy bill. This is still at an early stage so the details and impact on councils are not known.
- Equal pay remains an issue across local government. We are auditing equal pay in councils and will publish a report later in 2017.

Exhibit 4

Projected percentage change in population, 2014 to 2039

The projected change in population varies significantly by council.



Source: National Records Scotland, 2016

Exhibit 5

Ongoing and planned legislative and policy changes

Councils will have to change the way they work to successfully implement a wide range of reforms.

Legislative and policy changes

Public Bodies (Joint Working) (Scotland) Act 2014

Councils and NHS boards must integrate health and social care services. Almost all councils have chosen to do this by creating an integration joint board (IJB) with their NHS partners to commission health and social services through joint budgets.[1] Councils will no longer be wholly responsible for adult social work services.

Opportunity

- Fully integrate health and social care services to meet the Scottish Government's 2020 Vision of people living longer at home and more health and social care in local communities.
- To provide services which are better targeted to local communities.

Challenge

- Agreeing and managing budgets for the IJBs at a time of reduced funding and an ageing population.
- Agreeing how governance in IJBs will work in practice, including lines of accountability, systems and process for decision-making and managing performance.
- Ensuring continuity of progress after the 2017 local government election.
- Promoting public understanding and managing expectations.
- Localities and locality planning are defined differently in the Public Bodies Act and the Community Empowerment Act. This could lead to confusion.

Living Wage

Scottish Government commitment to replace the minimum wage (£7.20 an hour) with a living wage (£8.25 an hour) from 1 October 2016.

Opportunity

- Reduce inequalities.
- Provide financial benefits for low-paid workers.
- Improve recruitment and retention.

Challenge

- Significant increases in employee costs and the costs of some contracts, notably for social care. Costs could become unaffordable. The potential cost for councils of the Living Wage for social care workers is £199 million a year by 2019/20.[2]
- Impact on existing pay structures means new pay models may need to be developed.

Community Empowerment (Scotland) Act 2015

To help empower community bodies and ensure communities are involved in planning and decision-making.

Opportunity

- Improve outcomes for communities by improving the process of community planning and ensuring local service providers work more closely with communities to meet the needs of the people who use services.

Challenge

- Requires new ways of working – councils and other public bodies need to promote and involve communities in local decisions and activities. This includes decisions about how a council's money should be used, including a target of one per cent of all council spending being decided by communities.[3]
- Engaging with harder-to-reach groups could be challenging and expensive, particularly for rural councils.
- Duty to tackle inequalities at a time of budgetary pressures.
- Councils must focus on local community planning and contribute to developing Local Outcome Improvement Plans. This has resource issues.
- Localities and locality planning are defined differently in the Public Bodies Act and the Community Empowerment Act. This could lead to confusion.

Cont.

Exhibit 5 (continued)

Legislative and policy changes

Education reform
Additional funding from Scottish Government will be targeted at specific schools to help close the attainment gap (ie, differences in pupil performance in richer and poorer areas). Attainment challenge funding will also go to councils.

Opportunity
- Additional money for education and potential increased flexibility for using money.

Challenge
- The additional money is to go to head teachers in some schools, removing some decisions about resources from councils.
- Proposed changes to education funding model are causing uncertainty and have an impact on longer-term planning.

City Deals
UK and Scottish Government funding initiative which provides significant funding to city regions to develop infrastructure and economy in line with agreed plans.

Opportunity
- Economic growth and improved outcomes for communities.
- Councils could benefit from investment in infrastructure such as roads, technology, housing and transport.

Challenge
- Requires partnership working with a wide range of public and private partners.
- Governance arrangements, such as roles, responsibilities, accountability and performance reporting, will need to be determined.
- Ensuring continuity of progress after the 2017 local government elections.
- May take longer for some, particularly rural, councils to see benefits.

Community Justice (Scotland) Act 2016
Changes arrangements for managing community justice services and creates a new national body, Community Justice Scotland, to be formally established on 1 April 2017.

Opportunity
- Integrating community justice planning with wider community planning.
- Improved outcomes for communities and people at risk of offending.

Challenge
- Replace eight Community Justice Authorities with community justice governance structures within each Community Planning Partnership.
- Councils are expected to consult with other community justice partners when developing community justice outcome improvement plans to ensure consistency.

Named Person provisions
The Scottish Government plans to implement a Named Person service for every child or young person in Scotland. This means that every child will have someone who is responsible for helping them get the support they need. This is expected to start in August 2017.

Opportunity
- To promote, support or safeguard the wellbeing of children and young people.

Challenge
- Head teachers, deputy head teachers or guidance teachers could be the Named Person for a large number of school-aged children but it is unclear if a limit applies to the number of children assigned to each Named Person.
- Detailed arrangements for how the Named Person will function during school holidays will be left to councils to organise, with the intention being that they build on current practice.
- There may be an impact on teachers' workloads and councils must ensure that people have the skills to deliver the Named Person service.

Cont.

Exhibit 5 (continued)

Legislative and policy changes

Early learning and childcare (ELC)

Scottish Government commitment to increase access to funded hours of high-quality and flexible early learning and childcare. Includes plans to increase the entitlement to 1,140 hours per year by August 2020.

Opportunity

- To improve outcomes for children, especially those who are most vulnerable.
- To support parents to work, train or study, especially those who need routes into sustainable employment and out of poverty.

Challenge

- Councils will need to assess demand, and commission and provide flexible services.
- Councils, private and third sector ELC providers may face challenges in expanding workforces and extending buildings and facilities.

Council tax reform

Removal of council tax freeze and increases to the ratios for higher-banded properties.

Opportunity

- Removing the council tax freeze will give councils greater control over their income.
- Increased ratios for higher-banded properties will provide additional council tax income.

Challenge

- The changes to ratios will lead to increased charges of over 20 per cent for properties within the highest band. However, residents could be paying more for the same level of services which could be a difficult message for councils to manage.

We are carrying out performance audits in these areas later in 2017/18.

Notes:
1. Some have also included children's services and community justice services in their IJBs. NHS Highland and Highland Council are the only partners to not create an IJB. They are continuing with lead agency arrangements whereby NHS Highland leads on adult health and care services, with Highland Council leading on children's community health and social care services. These arrangements have been in place since 2012.
2. *Social work in Scotland*, Audit Scotland, September 2016.
3. *A Plan For Scotland: the Scottish Government's Programme for Scotland 2016-17*, Scottish Government, September 2016.

Source: Audit Scotland

Part 2

Councils' responses to the challenges

Councils have reduced staff numbers to save money but many do not have workforce plans

Councils' workforce has fallen by seven per cent in the last five years

24. Councils spend a significant amount on staff and staff-related costs. Most councils have reduced their workforces as a way to reduce costs. Our *Local government in Scotland: Financial overview 2015/16* highlighted that, between 2011/12 and 2015/16, 13,029 individuals left councils through exit packages costing a total of £518.5 million (at 2015/16 prices). Councils' decisions to reduce their workforce numbers through exit packages should be supported by business cases that outline:

- associated costs
- potential savings
- the impact that this will have on the level of skills and experience within the council.

25. At March 2016, approximately 198,000 full-time equivalent (FTE) employees worked in Scotland's councils. Between 2011 and 2016, 27 councils reduced their number of FTE employees and councils' total workforce fell by 15,100 FTE (seven per cent).[9] In the last year, 14 councils reduced their number of FTEs, with councils' total workforce reduced by 2,700 (one per cent) (Exhibit 6, page 19). From the data that is collected centrally by the Scottish Government, it is not clear how many of these moved to arm's-length external organisations (ALEOs).[10]

Only half of councils have organisation-wide workforce plans, risking their ability to deliver services and manage change

26. Reducing council workforces, if not planned and managed appropriately, can affect the skills mix and capacity of the organisation to deliver, manage and scrutinise services effectively. Councils should have effective systems in place for managing their workforce and monitoring staffing levels. Councils should hold accurate information on staff numbers by grade and department to help them prepare and implement organisation-wide workforce plans. These should be aligned with other long-term plans such as financial plans.

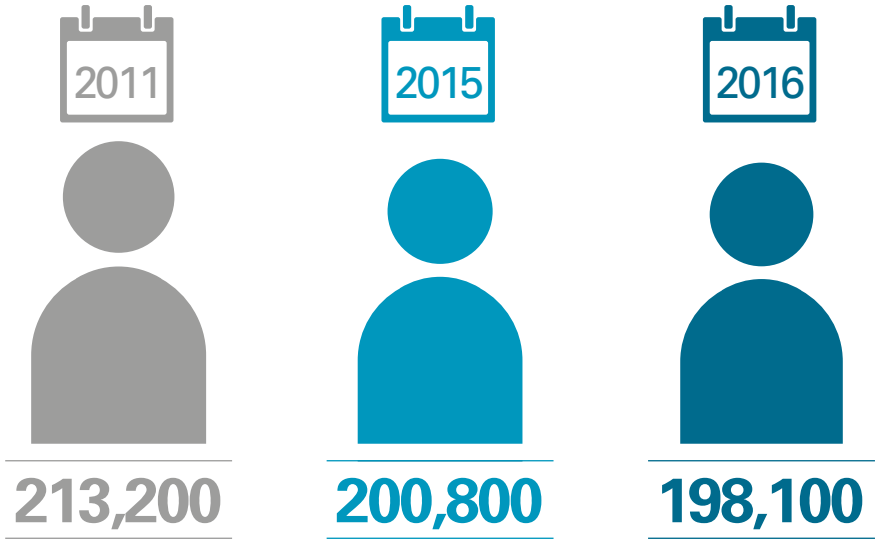
What do you need the workforce to look like in terms of numbers, skills and knowledge?

Does your workforce data allow accurate analysis of changes to the workforce at an organisation and department level?

Exhibit 6

Number of full-time equivalent employees in councils in 2011, 2015 and 2016

Councils reduced their workforce by seven per cent between 2011 and 2016.



Source: *Public Sector Employment in Scotland*, Scottish Government, 2016

27. Half of Scotland's councils do not have organisation-wide workforce plans in place. For those that do, the quality of these varies and they do not all include information on:

- the numbers and skills of the current workforce
- the numbers, costs and skills of the desired workforce
- how the move from the current to the desired workforce will be achieved.[11]

28. Where comprehensive organisation-wide workforce plans are not in place, councils risk losing capacity in key areas. For example:

- Our report *Maintaining Scotland's roads: a follow-up report* highlighted concerns about a loss of technical and commercial expertise within roads maintenance departments.[12]
- Auditors for East Dunbartonshire Council raised concerns about the capacity within both the finance and the revenue and benefits teams. Within these teams, staff reductions and changes have led to individual officers having sole responsibility for, and knowledge of, certain areas of work.

29. National initiatives impact on workforce planning. The Scottish Government's commitment to maintaining teacher to pupil ratios means councils cannot reduce the number of teachers below a certain level. This limits councils' flexibility to reduce staff numbers among a sizeable proportion of staff. The planned expansion of early learning and childcare could mean councils either have to redeploy staff or recruit additional early years workers.

Do you have an organisation-wide workforce plan with realistic targets and timescales for meeting objectives?

Do you think your organisation-wide workforce plan will ensure staff reductions do not have a negative impact on the skills mix and ability of your council to scrutinise, manage and deliver services effectively?

30. The absence of organisation-wide workforce plans means that it is harder for councils to manage workforce changes effectively and ensure that they have the right number of staff with appropriate skills and experience throughout the organisation. This is particularly important given the scale of the challenges and policy and legislative changes councils face. Councils must ensure they have the capacity to manage change and deliver services effectively.

Do you have the staff and skills necessary to manage change and deliver services?

Do you need to invest in any skills, for example, change management?

Councils have the potential to further reduce staff sickness absence

31. Reducing staff sickness absence increases a council's capacity. Nationally, the average number of sickness days for all council staff (excluding teachers) reduced between 2010/11 and 2015/16; however, there is variation across councils. In 2015/16, sickness absence per non-teaching employee varied across councils from an average of 8.8 days a year in Aberdeenshire Council to 14.8 days a year in Comhairle nan Eilean Siar. If councils with high absence levels could reduce these to be in line with the top eight performing councils, they would gain the equivalent staff time of about 650 full-time employees across Scotland. This is a reduction of about ten per cent since 2014/15.

32. Sickness absence also varied among teachers in 2015/16, from an average of 4.2 days a year in Midlothian Council to 8.7 days a year in Perth and Kinross Council. If councils with high teacher absences could reduce these to be in line with the top eight performing councils, they would gain the equivalent staff time of over 160 full-time teachers across Scotland. This is a reduction of about 18 per cent since 2014/15.

The pace and scale of reform need to increase

Councils approved savings of over £500 million in 2016/17

33. Councils have managed their finances well so far in responding to the pressures they face.[13] In 2016/17, councils approved £524 million of savings and intended to use £79 million of reserves to balance their budgets and meet their funding gaps. Evidence from annual audit reports shows that some councils have made better progress than others. For example, Midlothian Council did not achieve its savings target in 2015/16 and auditors reported that there is a risk that Orkney Islands Council will have to rely heavily on reserves to achieve its target savings. In contrast, auditors highlight the good track record of Inverclyde Council in delivering efficiency savings and note that Renfrewshire Council is expected to make significant savings. East Ayrshire Council has made savings of over £34 million in the five years to 2016/17.

Councils are adopting a range of approaches to deliver savings

34. Councils are adopting a range of approaches to address their forecasted gap in funding (Exhibit 7, page 21). While there is some evidence of positive change delivering better services for less money, there is limited progress in other areas.

Some councils are better placed to meet future challenges than others

35. Looking forward, councils are predicting significant funding gaps up to 2018/19. Using information available at the time councils were setting their 2016/17 budgets, we estimated that councils would have funding gaps of £358 million in 2017/18 and £544 million in 2018/19.[14] These figures are likely to change as councils approve their 2017/18 budgets and continue to identify and deliver savings. However, they do demonstrate the scale of the challenge facing councils.

Exhibit 7

Councils have been adopting different approaches to make savings

There is little evidence of progress in some areas but there are also examples of positive change.

Key fact | Good practice

Council approach	Progress
Sharing services	Key fact: In 2007, the Scottish Government published guidance relating to shared services. Ten years later, there is limited evidence of councils sharing services. Evidence suggests that most shared services are on a small scale and for back office functions.
	Good practice: East Dunbartonshire, Inverclyde, and West Dunbartonshire councils are exploring opportunities to share a range of services, beginning with roads and transportation services. In February 2016, the councils estimated that they may be able to generate recurring savings of about £3.5 million by 2020 (15 per cent of current spending on these services).
	When councils are considering sharing services, it is important that they have mutually understood and compatible objectives. Differing objectives can be a barrier to sharing services. Councils, together with their citizens, need to agree what their primary aims are, for example reducing costs or improving customer experience, or both.
Using ALEOs	Arm's-length external organisations (ALEOs) can provide services more flexibly than councils, generate income and deliver savings.
	Key fact: Evidence suggests that the number of council ALEOs has reduced slightly in 2016 from about 140 to 130. ALEOs provide a range of services across Scotland, with around one third providing leisure and culture services.
	We are planning to undertake an audit of ALEOs later in 2017.
Using digital and online solutions	Key fact: Digital and on-line solutions provide opportunities for councils to significantly reduce costs. The estimated cost of a face-to-face visit is £8.21, a telephone call is £2.59 and an online transaction is £0.09.[1]
	Good practice: Glasgow City Council has launched a myglasgow app and a new website which allows users to access or request services online (for example, request a bulk uplift). This is expected to deliver savings of £3 million a year and improve the customer experience.
	In recognition that more could be done, 27 councils have recently appointed a chief digital officer and chief technology officer to drive change across local services. It is too early to judge the success of this initiative.
Increasing fees and charges	Increasing fees and charges is one way councils can increase their income. National information is not available on changes to charges and fees although there is some evidence of increases in charges in the last year. For example, research by Citizens Advice Scotland shows that burial charges increased by eight per cent between 2015 and 2016.
Reducing/ restricting services	There is evidence of councils reducing front-line services.
	Key fact: Most councils, through IJBs, now only provide adult social care to people assessed as being of critical and substantial risk. This has reduced the percentage of older people receiving homecare between 2006 and 2015, from just under 70 per 1,000 population to 50 per 1,000. While this has saved councils money in the short term, there is a risk that removing more preventative services will cost more in the longer term.
	In education, Dundee City Council has closed a high school, saving £756,000. Aberdeen City Council has saved £440,000 a year by removing class size limits for S1 and S2 maths and English classes.

Cont.

Exhibit 7 (continued)

Council approach	Progress
Improving procurement	Councils have made significant savings in the cost of homecare and care homes through competitive tendering and the national care home contract.
	Through service redesign, councils are also procuring new models of care. For example, in East Ayrshire Council, changes to its model of care for supported living from 24-hour care per person to more flexible care that promotes independence has saved the council almost £500,000 in 2016/17 (about 40 per cent of costs). The council also reports improved service user satisfaction.
	All councils have signed up to Scotland Excel, the Centre of Procurement Expertise for the local government sector.

Note: 1. 2012/13 figures for councils published by the Society of Information Technology Management (Soctim)

Source: Audit Scotland

36. In response, many councils have established corporate change, or transformation, programmes. These are significant council-wide programmes that look at what services councils provide and how they are delivered to identify how a council can save money and improve services. It is clear that some councils are taking a strategic approach and looking at what services they provide as a whole. Others are not. Rather, they are making individual departments responsible for identifying an equal proportion of desired savings. Evidence from annual audit reports shows that some councils are making faster progress than others. For example, Fife Council is still developing its change programme; progress is slow in Clackmannanshire Council; and behind schedule in East Dunbartonshire Council. In contrast, East Ayrshire Council is now working on its second transformation programme.

37. Best Value reports also raise concern over the pace of change and the small-scale nature of savings to date. For example, in Falkirk Council, the pace of change remains slow and the council needs to urgently agree its priorities and identify significant savings over the next two years.[15]

38. Some councils have lacked capacity to manage their corporate change and transformation programmes. In response, councils, through the Improvement Service, have established the Change Managers Network to support the exchange of skills, knowledge and practice to build capacity in corporate change. As part of councils' financial and savings plans, councils should actively consider options for investing to save such as investing in change management skills.

Effective leadership is required to explore all options for change

39. Effective leadership is required to set a clear strategy for how the council will achieve its priorities and outcomes, and make the difficult decisions that will be needed. Councillors must set the strategy and officers must work up options to implement the change required. The importance of effective leadership has been

demonstrated in our Best Value audit work. For example, South Ayrshire Council has made considerable progress in delivering improvements and meeting financial challenges as a result of effective political and managerial leadership.[16]

40. Comprehensive option appraisals, risk assessments and scrutiny are required to assess options for change and to monitor the impact and progress. Auditors at Stirling Council reported that the council has a project-driven approach where all projects need to be fully backed up by business cases and completed option appraisals before a decision is taken. Options are effectively challenged throughout the process to ensure that they are achievable and that the project provides value for money. Evidence also suggests that South Ayrshire Council has a robust system in place to review and improve services (Case study 1). However, it is a mixed picture in other councils. In Falkirk Council, auditors reported a good level of scrutiny and challenge by councillors. But they also noted a lack of detailed reporting on anticipated and achieved outcomes, with no process in place for providing updates on all projects.

How well do you scrutinise decisions on financial and service performance?

How do you ensure you have the knowledge and expertise you need to scrutinise effectively?

Case study 1

South Ayrshire Council

The council has developed a comprehensive review system to help approve and reform services. This follows a nine-step process and includes topic selection, approval, consultations and options appraisal. The reviews and consultation procedures involve staff at all levels, trade unions and service users.

Through this approach, the council has reported that it is starting to achieve positive results. For example, in April 2015, the council carried out a property maintenance service review that concluded that there has been an overall average increase in productivity of staff of 15 per cent from 2014; and an increase in the number of jobs completed on time, from 68 per cent in 2013/14 to 87 per cent in 2015/16.

Source: Audit reports

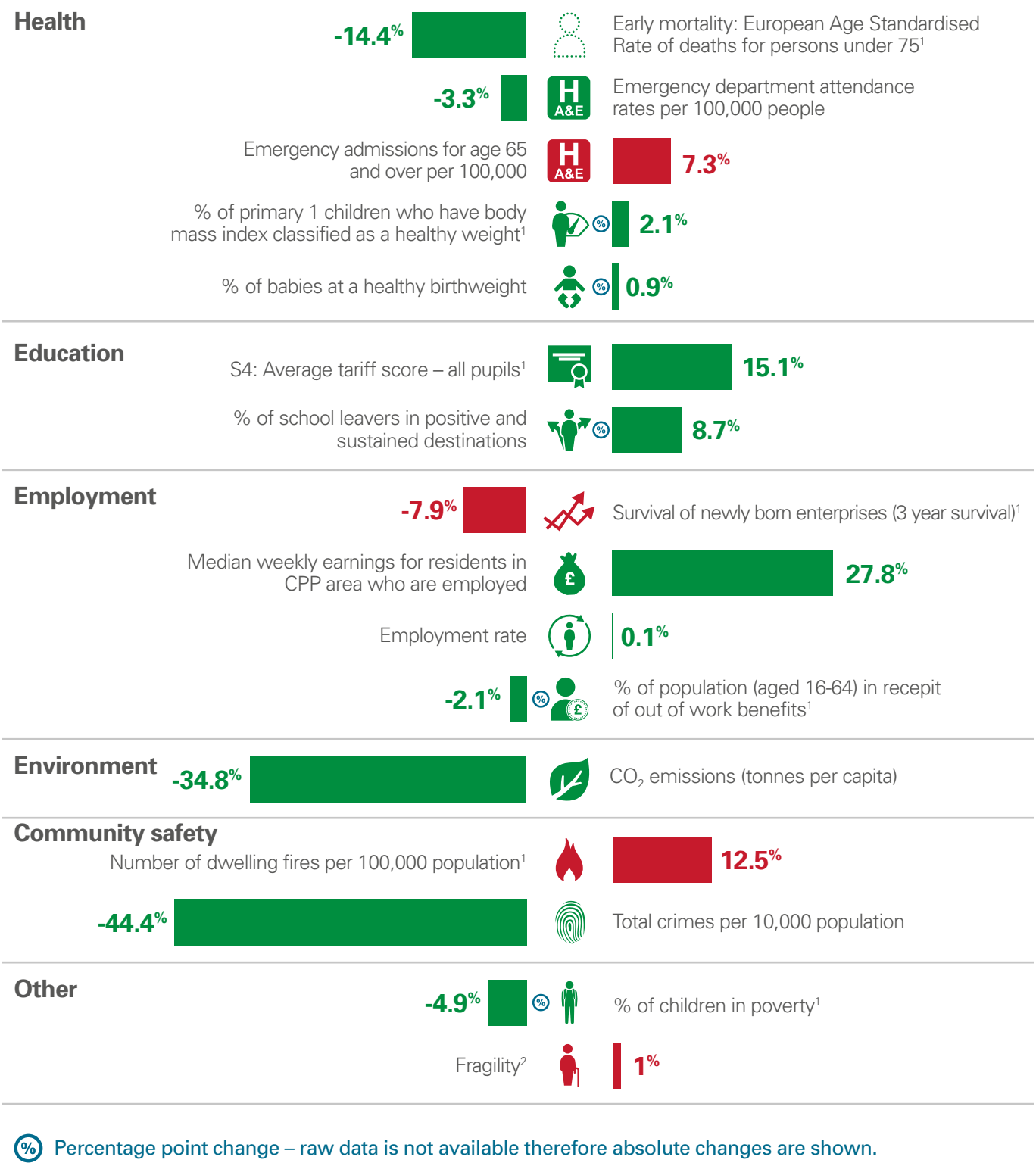
Despite challenges, performance has been maintained or improved

41. The Improvement Service reports on progress against 18 outcomes, supported by 16 performance measures, through the Community Planning Outcomes Profile. This is a new tool which allows outcomes and equalities data to be measured on a consistent basis. Councils need to work with partners and communities through, for example, community planning partnerships (CPPs) and integration joint boards (IJBs) to improve outcomes for communities. Changes in outcomes will be influenced by factors wider than council activity so cannot be solely linked to council activity. The 16 performance measures suggest that outcomes are generally improving across Scotland (Exhibit 8, page 24).

Exhibit 8

Changes in performance measures for Scotland's outcomes, 2004/05 to 2014/15

Performance measures suggest that outcomes for Scotland's communities are generally improving.



% Percentage point change – raw data is not available therefore absolute changes are shown.

Notes:
1. Imputed and projected data has been calculated using different methodologies for different measures where raw data is not yet available.
2. Fragility is a weighted combination of three indicators: de-population, rural de-population and old age dependency ratio.

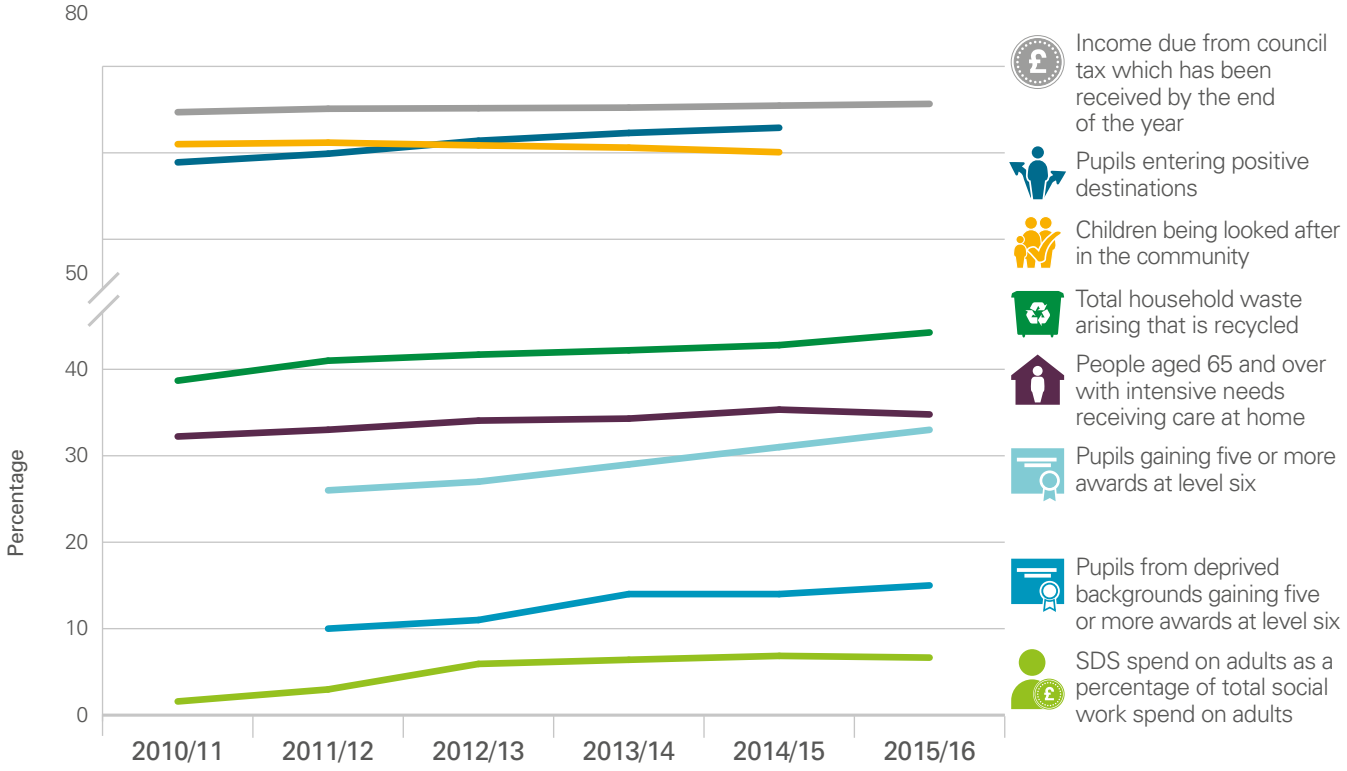
Source: Audit Scotland; and *Community planning outcomes profile*, Improvement Service, 2014/15

42. The Improvement Service, in partnership with councils, collates and reports on the Local Government Benchmarking Framework (LGBF) to provide information for councils to improve performance and costs. The framework covers a range of over 60 performance indicators covering a wide range of areas. We have selected those measures which give an indication of council performance in key service areas for the public.[17] This shows that councils' performance in the last five years has been maintained or improved (Exhibit 9).

Exhibit 9

Performance against selected indicators, 2010/11 to 2015/16

Councils' performance has been maintained or improved over the last five years.



Notes:
1. Data is not available for all indicators for 2010/11 to 2015/16.
2. We have not included measures of public satisfaction or cost indicators in this analysis.

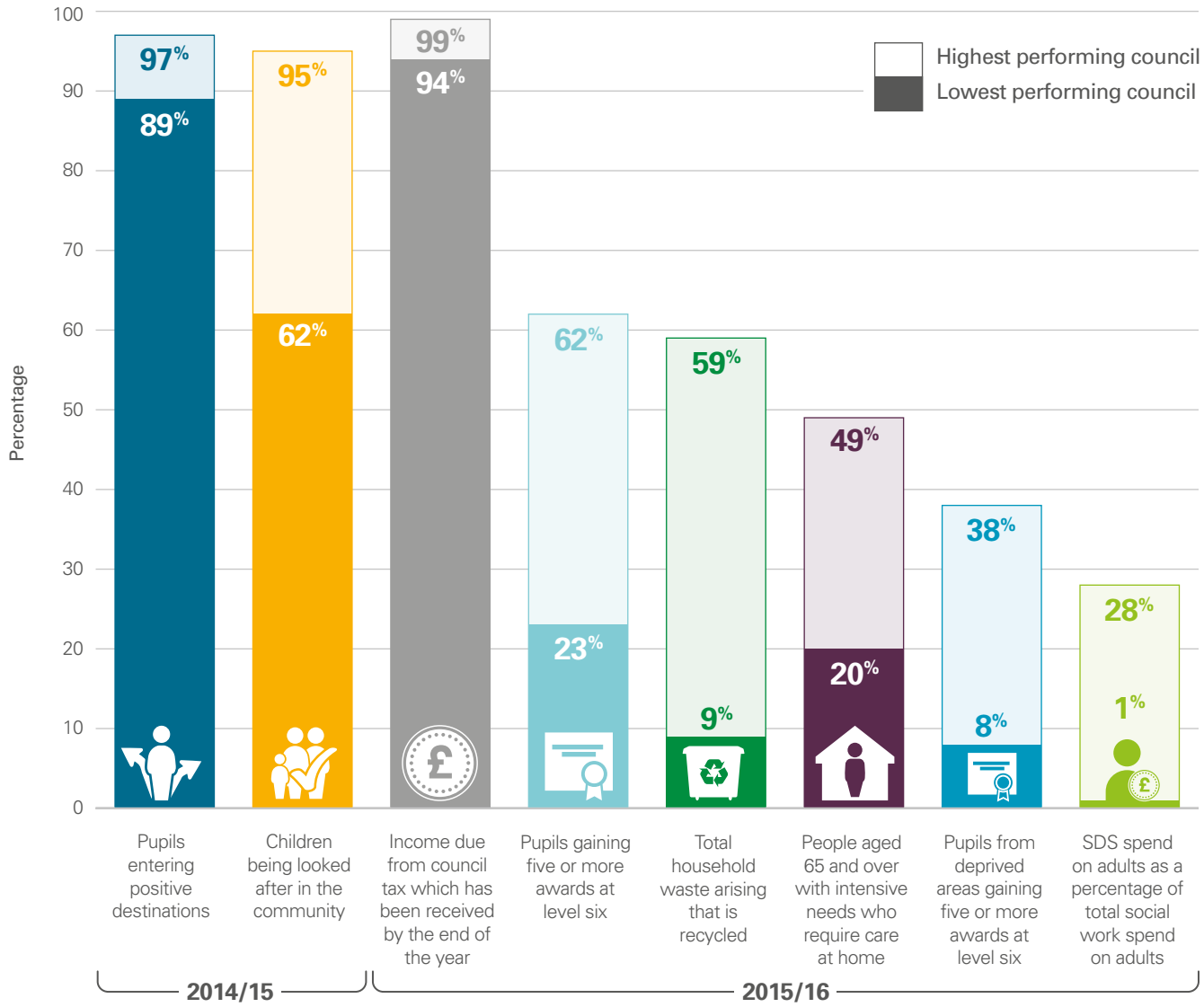
Source: Audit Scotland; and *Local Government Benchmarking Framework*, Improvement Service, 2015/16

43. Analysis also shows significant variation in performance among councils (Exhibit 10, page 26). The amount of waste recycled and the percentage of pupils gaining five or more awards at level six show the biggest variation. However, there is also variation in social care indicators. There may be valid reasons for some of this variation; however, councils need to work to understand reasons for any lower performance in these measures, learn what has been successful in other councils and apply these lessons to their own services.

Exhibit 10

Variation in highest and lowest performing councils

There is significant variation in council performance in most performance measures.



Source: Audit Scotland; and *Local Government Benchmarking Framework,* Improvement Service, 2015/16

Some unit costs have reduced but there is variation across councils

44. We have also analysed selected unit cost indicators over the last five years (Exhibit 11, page 27). The unit costs of these selected indicators have all reduced over the last five years. Some culture and leisure unit costs reduced by around one-third whilst education unit costs reduced by less than ten per cent.

45. The cost of providing similar services varies between councils. In some cases, cost variation will be heavily influenced by geography, population density and deprivation. The Local Government Benchmarking Framework has placed councils with similar profiles into family groups based on factors such as population density and levels of deprivation. This allows similar councils to compare themselves.

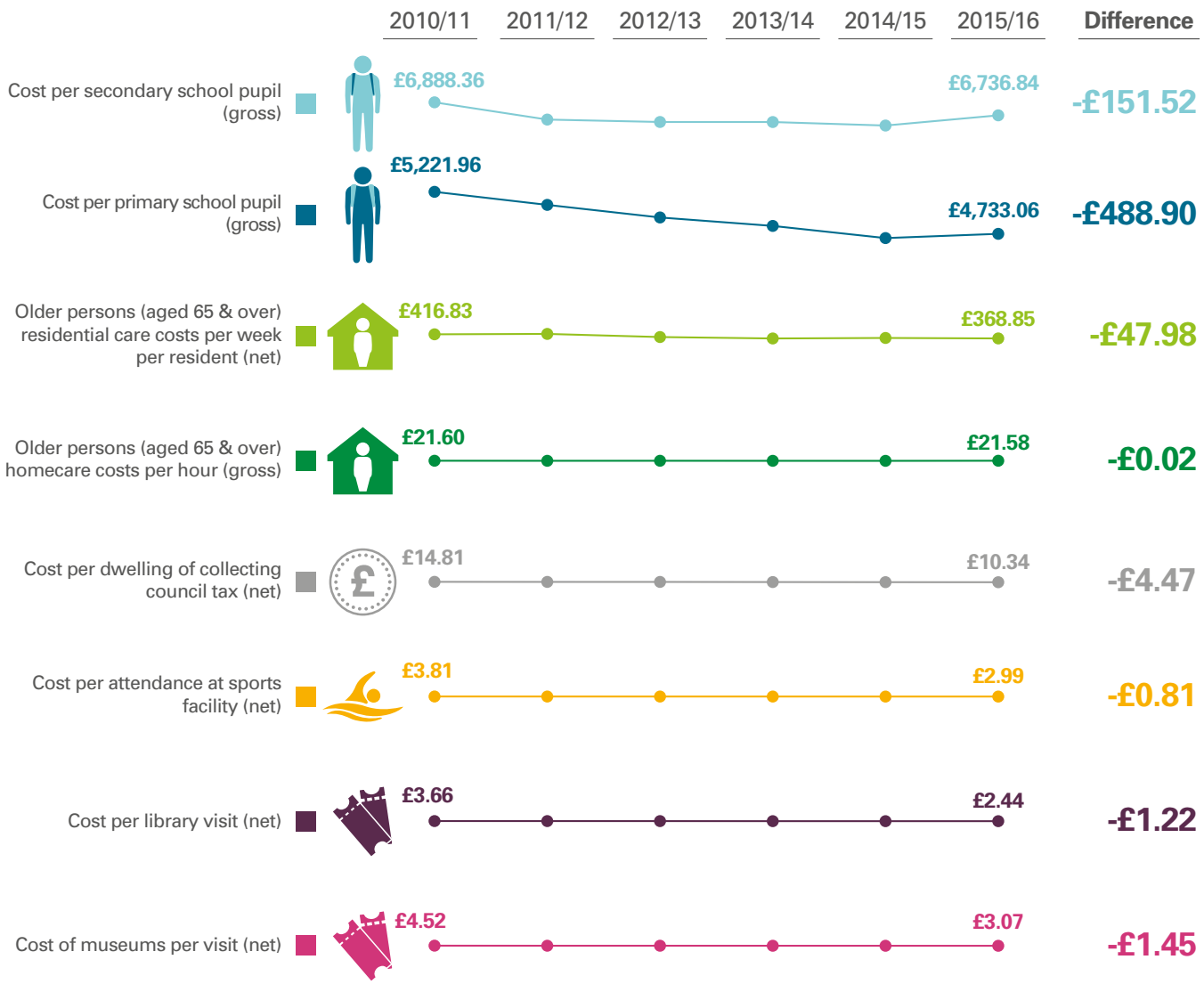
However, some councils in the same family group have significant variation in unit costs. For example, the cost of street cleaning per 1,000 population is almost three times greater in Glasgow City Council (£26,460 in 2015/16) than Aberdeen City Council (£9,312 in 2015/16).

46. Analysis of 2015/16 family group data for the cost of collecting council tax shows that, if all councils were able to reduce their cost of council tax collection per dwelling to the lowest in their family group, collectively they could save over £13 million. These figures are only indicative and there will be reasons for some variation, however they do indicate that savings can be made. Councils should continue to work to understand the reasons for their unit costs, learn from each other, identify possible savings that can be made and agree the acceptable impact on performance and policy.

Exhibit 11

Change in selected unit costs since 2010/11 to 2015/16

Unit costs have varied over the past five years.



Source: Audit Scotland; and *Local Government Benchmarking Framework*, Improvement Service, 2015/16

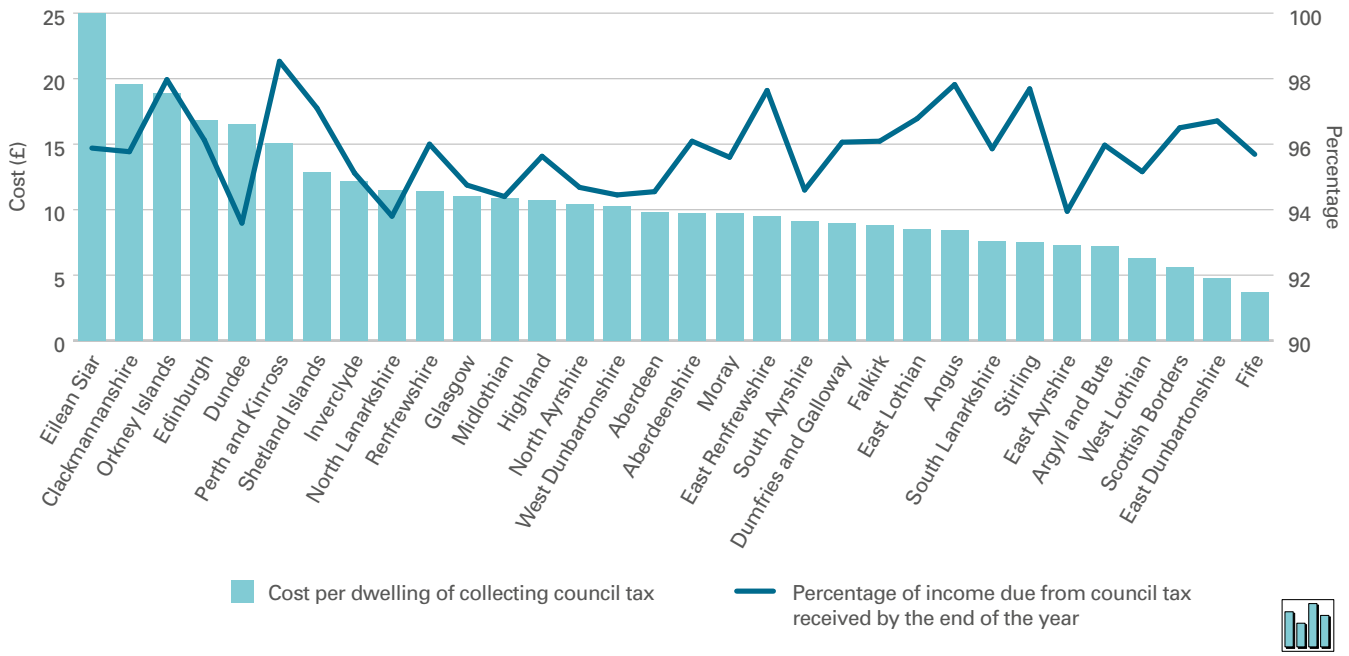
The link between performance and cost is not always clear

47. Variation in unit costs is not always reflected in performance measures at a local level. For example, there is no link between the cost and collection of council tax in 2015/16 (Exhibit 12). Similarly, changes in unit costs do not always have the expected impact on performance. For example, between 2010/11 and 2015/16, 11 councils improved their cleanliness score, of these; three increased their unit costs while eight reduced their costs (Exhibit 13, page 29).

Exhibit 12

The cost and collection rate of council tax, 2015/16

There is no link between the cost of collecting council tax and the collection rate.



Source: Audit Scotland; and *Local Government Benchmarking Framework*, Improvement Service, 2015/16

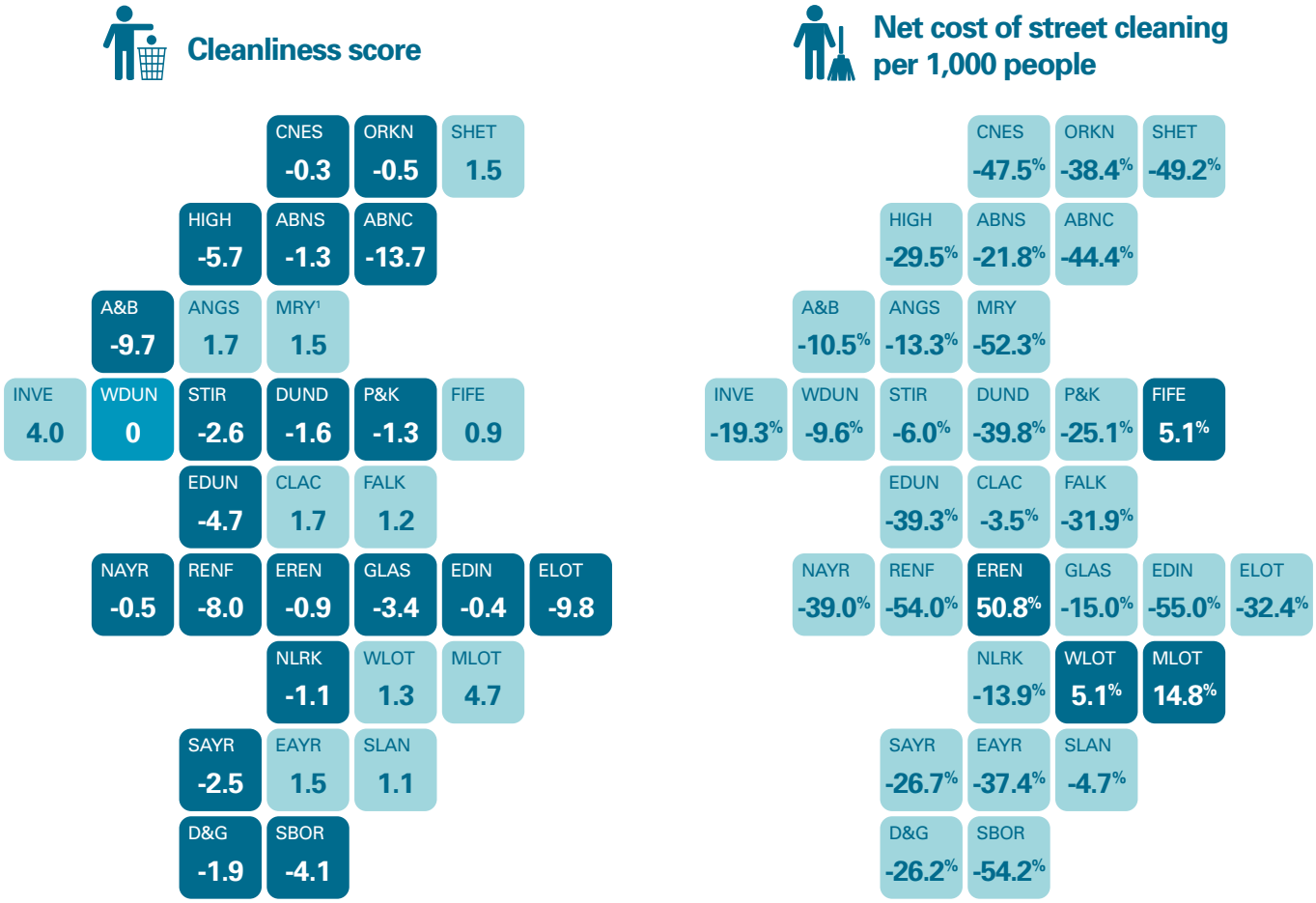
Councils have reduced some costs with no negative impact on performance

48. There is evidence of councils reducing costs and improving performance. Between 2010/11 and 2015/16, the average cost of collecting council tax reduced from £14.81 in real terms to £10.34 while the rate of collecting council tax improved from 94.7 per cent to 95.7 per cent. At council level, Glasgow City Council reduced the cost of collecting council tax in real terms from £18.48 per dwelling in 2010/11 to £10.98 in 2015/16. It achieved this by redesigning processes, better use of technology and closer working with partner organisations. Over the same period, the collection rate increased from 92.3 per cent to 94.7 per cent. City of Edinburgh Council has reduced the net cost of street cleaning per 1,000 residents by over 50 per cent in real terms, from £37,006 to £16,646, with the council's cleanliness score only falling by 0.4 percentage points from 90.5 per cent to 90.1 per cent.

Exhibit 13

The cost and cleanliness of streets in Scotland, 2010/11 to 2015/16

The majority of councils have reduced the cost of street cleaning but there has also been a reduction in street cleanliness.



Councils

ABNC	Aberdeen	**EDIN**	Edinburgh	**ORKN**	Orkney Islands
ABNS	Aberdeenshire	**CNES**	Eilean Siar	**P&K**	Perth and Kinross
ANGS	Angus	**FALK**	Falkirk	**RENF**	Renfrewshire
A&B	Argyll and Bute	**FIFE**	Fife	**SBOR**	Scottish Borders
CLAC	Clackmannanshire	**GLAS**	Glasgow	**SHET**	Shetland Islands
D&G	Dumfries and Galloway	**HIGH**	Highland	**SAYR**	South Ayrshire
DUND	Dundee	**INVE**	Inverclyde	**SLAN**	South Lanarkshire
EAYR	East Ayrshire	**MLOT**	Midlothian	**STIR**	Stirling
EDUN	East Dunbartonshire	**MRY**	Moray	**WDUN**	West Dunbartonshire
ELOT	East Lothian	**NAYR**	North Ayrshire	**WLOT**	West Lothian
EREN	East Renfrewshire	**NLRK**	North Lanarkshire		

Note: 1. The data presented for The Moray Council is calculated using data for 2010/11 and 2012/13 as no further data is available.

Source: Audit Scotland; and *Local Government Benchmarking Framework*, Improvement Service, 2015/16

49. The Accounts Commission has previously stated that given the challenges facing local government, not least the future financial challenges, it does not expect to see performance improving in all measures for all councils. It is up to individual councils and their communities to agree local priorities and identify where improvements are required.

Public satisfaction is declining and complaints are increasing

50. Public satisfaction with services is falling. The latest information from the Scottish Household Survey shows that between 2010 and 2015, satisfaction with schools fell from 83 to 74 per cent.[18] However, around the same period, there was an increase in the percentage of school pupils gaining five or more awards at level six. As reported in *Social work in Scotland*, satisfaction with social care and social work fell from 62 per cent in 2010/11 to 51 per cent in 2014/15. We recognise that there are limitations with this data, particularly for some rural councils. Many councils therefore supplement this data with locally collected information.

51. In 2015/16, the Scottish Public Service Ombudsman (SPSO) received 1,722 complaints relating to Scottish councils. This is 13 per cent more than in 2011/12. It upheld 55 per cent of complaints in 2015/16 compared to 47 per cent in 2014/15. The health sector experienced a similar level of complaints being upheld in 2015/16. The SPSO records complaints by category. For councils, housing has the largest number of complaints (423 complaints in 2015/16), followed by social work (231 complaints). The number of complaints about environmental health and cleansing more than trebled between 2011/12 and 2015/16 to 126.

Greater community involvement could improve public satisfaction

52. The decline in satisfaction measures may be expected given the financial challenges councils have faced. It may also suggest that councils need to have frank and wide-ranging debates with communities to determine what they can realistically deliver in reduced budgets. Our 2016 report on *Social work in Scotland* highlighted that councillors had a key role in consulting more fully with the public about service priorities. It stated that councillors also needed to manage people's expectations of services that councils can afford to provide in the future.[19] North Ayrshire Council reviewed its library opening hours in consultation with local communities and reduced the service by 475 hours a year, saving £315,000.

53. The Community Empowerment (Scotland) Act 2015 should ensure councils work more closely with public bodies and communities to design, develop and deliver better-quality services. Some councils already do this through participatory budgeting (Case study 2, page 31). One per cent of a council's spending should be decided by communities.[20] This allows communities to be actively involved in decision-making and to influence where public funds should be spent.

How are you involving local communities and empowering them to design and deliver services to suit local needs?

How can you better engage with local communities to understand why public satisfaction is declining?

What level of complaints does your council receive? For which departments? How has this changed?

Are appropriate systems in place to deal with complaints?

Does your council have regular discussions with communities about service priorities and what level of service the council can afford to provide going forward?

What is the your role as councilor in this?

Case study 2

Participatory budgeting

Comhairle nan Eilean Siar

Community members were involved in designing and procuring the Uist and Barra public bus service. The procurement process involved using an 'output performance specification'. In this, participants were asked at various public meetings to define their priorities, rank types of services and vote for their preferred price/quality ratio. The final decisions were made by panels of local people. This participatory budgeting approach has provided a more responsive service for the local community and the council has reported an increase in uptake since it began in March 2016.

City of Edinburgh Council

'£eith Decides' is the longest-running participatory budgeting project in Scotland and has been used by Leith Neighbourhood Partnership since 2010/11. The approach involves the local community deciding how 50 per cent of the partnership's community grants fund is spent. In 2014/15, a total of 1,625 people took part in scoring projects (an increase of 66 per cent on the previous year) and £22,092 (in grants of up to £1,000) was allocated to 25 projects. In addition to this, the number of people engaged in local decisions has increased significantly, from 320 in 2010/11 to 1,625 in 2014/15.

North Ayrshire Council

In November 2016, the council launched one of Scotland's largest online participatory budgeting projects in collaboration with Young Scot. About 5,000 young people aged 11-25 years in North Ayrshire used Young Scot's online voting platform to allocate a share of £60,762 to youth projects in their local area

Source: Audit reports

Part 3

Looking ahead

Councillors need to provide effective, strategic leadership

54. The next council term is likely to bring significant challenges and uncertainties for councils. The role of local government in Scotland is under review and is the subject of planned Scottish Government legislation. The impact of the United Kingdom's decision to leave the European Union is currently unknown but will have to be worked out and managed. The ongoing financial and population pressures are set to increase.

55. Our audit work has shown that there are still areas that councils need to strengthen in responding to the challenges they face. We recognise that, with reducing resources, councils will find delivering services and improvements increasingly difficult. It is critical therefore, that they set clear long-term strategies and plans that target effort on improving priority areas. This will require councils to evaluate all possible options to make improvements for their communities in the most efficient ways.

56. The 2017 local government elections could result in changes to elected members and the political make-up of councils. Councillors have a critical role in setting their council's strategies and need to have the right knowledge, skills and time to lead and scrutinise how councils are achieving these. Councils will also need to continue to involve citizens in decisions about local services and report their performance in ways that help local citizens gauge improvement. Our audit work has highlighted the importance of effective leadership in developing robust strategies and making difficult decisions.

57. Councillors need to provide effective strategic leadership if councils are to successfully change the way they work. Councillors need to make informed decisions on the increasingly difficult and complex choices they face and to scrutinise whether the council is achieving its priorities. Council officers must support new and returning councillors effectively by providing them with clear and understandable information, and access to necessary and essential training to help them fulfil their role. We have recently published a report on *Roles and working relationships in councils – Are you still getting it right?* (2016) to support councillors in their difficult and challenging role. The Improvement Service's induction materials may be a useful resources here.

How can you ensure that you have the right skills and knowledge to help carry out increasingly complex and challenging roles efficiently?

Councils need comprehensive long-term financial strategies and plans in place

58. Our recent financial overview for 2015/16 highlighted the increasing challenges that councils are having in managing their budgets. About a third overspent social work budgets in 2015/16, similarly about a third underspent education budgets. The need for budgets and forecasts to reflect actual spending becomes increasingly important for councils with decreasing or low levels of usable reserves to draw on. Councils cannot continue to rely on underspends in certain services offsetting overspending elsewhere. Budgets should be revised to reflect true spending levels and patterns. This requires good financial management to ensure spending is accurately forecast and monitored within the year, including systems that allow budgets to be monitored in real time. The impact of current spending approved by councillors on the financial position can only be accurately assessed if budgets are accurate.

59. Councils are developing their financial strategies and plans in an increasingly complex environment. The Accounts Commission recognises that the Scottish Government providing funding settlement figures for a single year presents challenges to councils updating medium-term financial plans and having long-term strategies in place. But the absence of indicative funding should not prevent councils projecting future income, and spending and planning accordingly. A longer-term approach to finances provides a context for current decisions and, along with a clear set of financial strategies and principles, creates an overall framework for financial decision-making and sustainability. It is imperative that long-term financial strategies (covering five to ten years) link spending to councils' strategic priorities and that spending plans are considered in this context. Our *Local government in Scotland: Financial overview 2015/16* highlighted that this is an area where councils can continue to improve.

60. Council priorities should be supported by long-term strategies and medium-term plans. Using tools such as scenario planning, councils can consider a range of different scenarios and become more agile in developing their responses. Financial strategies and plans must be aligned to workforce, service and operational plans to ensure that they take account of councils' operating environments. This will ensure the council is financially aware, takes decisions based on financial information and manages the financial risk. Exhibit 14 (page 34) sets out the main elements of the financial planning process and how these interact with key council planning documents.

Councils need to appraise all possible options for change and involve local communities

61. A crucial element of achieving Best Value is using options appraisal effectively to evaluate current and alternative ways to deliver services. There should be rigorous and challenging appraisal of all the options. It is important that councils consider a wide range of alternatives, including fundamentally different approaches, to help each council find the most effective and efficient way to achieve its priorities for its local communities. This includes examining opportunities to work with and give communities powers to deliver services in different ways as well as learning lessons from other councils across the United Kingdom and from wider public service reform. Councillors should get all necessary information and support from officers to help them fully assess the benefits and risks of each option.

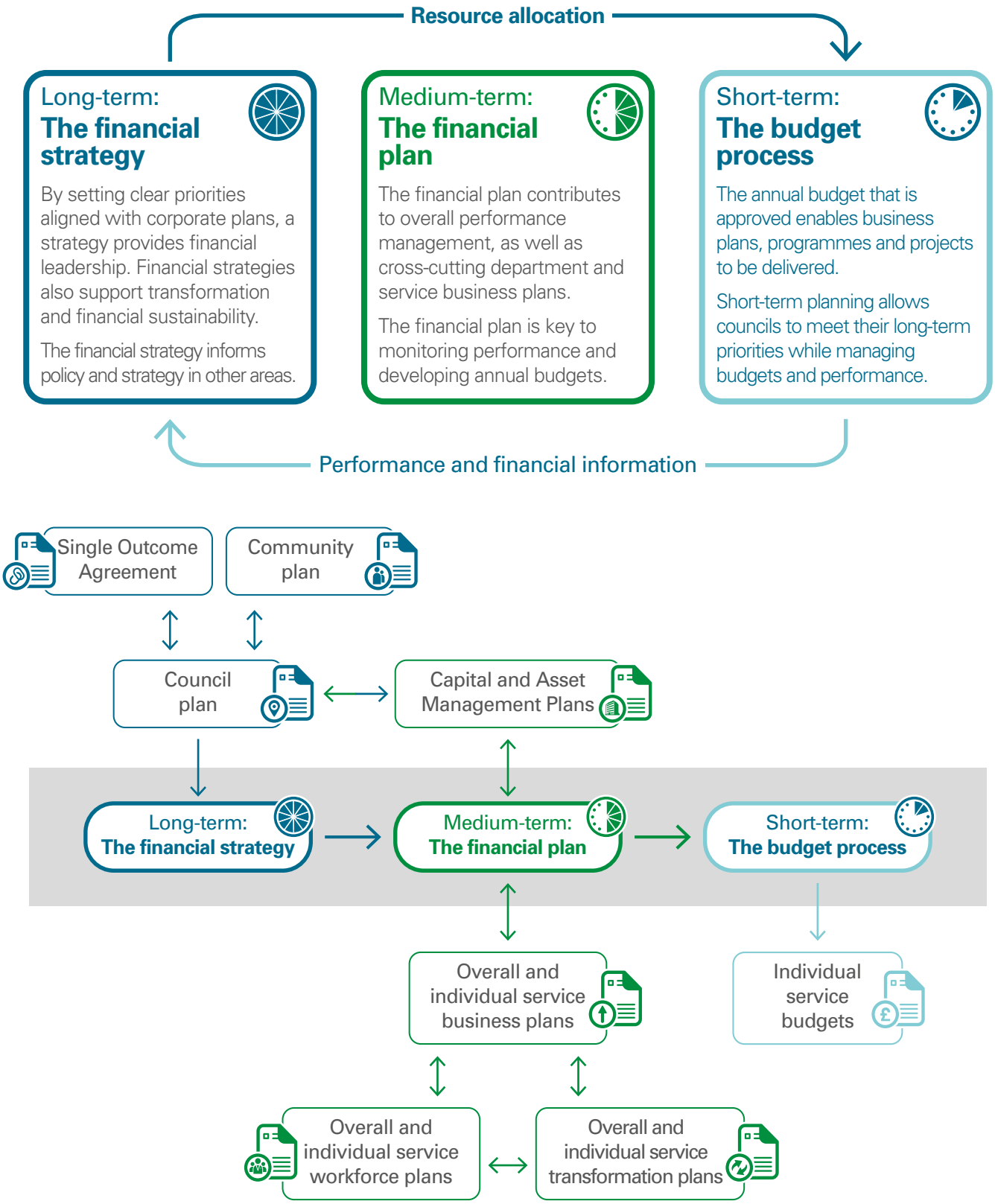
How fully have you appraised all options for delivering services differently?

How can you consider more business in public?

Exhibit 14

Key components of council strategic planning and operational management

Financial planning should be linked to operational delivery plans.



Source: Audit Scotland

62. When councils and councillors are identifying and approving savings in any service area, it is important that they consider, assess and monitor the impact of their decisions. Councils should:

- identify expected savings
- consider the potential impact on people using services, communities and staff
- monitor how they are achieving savings
- review the impact of reforms on the outcomes that services are delivering.

63. We have seen examples of councils engaging well with their communities on important local issues. The Community Empowerment (Scotland) Act 2015 provides, among other things, a statutory basis for local people to be more involved in decision-making and to take ownership of councils' assets. Councils need to understand local expectations of services and to work closely with their communities and the people who use services to redesign how services are delivered. New guidance issued in December 2016 places a statutory duty on CPPs to improve local outcomes. An increased emphasis on joint working is expected to improve community involvement and address inequalities.[21]

Endnotes

1 This is gross income. Councils' total income in 2015/16 was £18.9 billion, with £10.9 billion being provided by the Scottish Government.

2 *Local government in Scotland: Financial overview 2015/16*, Audit Scotland, November 2016.

3 The Scottish Government guarantees the combined general revenue grant and non-domestic rate income figure approved by the Parliament for each council. This means that any reduction in one component of funding is compensated for by an increase in the other.

4 *Scotland's Budget – 2016, Fraser of Allander Institute*, 2016.

5 This assumes that council tax collection rates (and the households this was collected from) would have remained the same and that total funding, and therefore income, would have been adjusted to exclude £70 million of revenue funding provided annually by the Scottish Government to councils to support the council tax freeze.

6 *Scotland's Budget – 2016, Fraser of Allander Institute*, 2016.

7 *School education*, Audit Scotland, June 2014. This report shows that performance improved between 2002/03 and 2012/13 against the ten attainment measures examined.

8 Aberdeenshire, Clackmannanshire, East Lothian, Highland, Midlothian, Orkney Islands, Shetland Islands and West Lothian councils.

9 *Public Sector Employment in Scotland,* Scottish Government, June 2016. These figures will include staff who have transferred to or from ALEOs over the period.

10 We reported in our November 2013 audit, *Scotland's public sector workforce*, that councils transferred 9,100 FTE posts to ALEOs between 2009/10 and 2012/13.

11 Information collected by auditors as a follow up to *Scotland's public sector workforce*, Audit Scotland, November 2013.

12 *Maintaining Scotland's roads: a follow-up report*, Audit Scotland, August 2016.

13 *Local government in Scotland: Financial overview 2015/16*, Audit Scotland, November 2016.

14 Auditors provided this information in July 2016. We report more information on funding gaps in *Local government in Scotland: Financial overview 2015/16*, Audit Scotland, November 2016.

15 *Falkirk Council: Best Value audit report*, Audit Scotland, December 2016.

16 *South Ayrshire Council: Best Value audit report*, Audit Scotland, June 2016.

17 The full range of indicators includes unit costs and public satisfaction. These are available on the Improvement Service website – www.improvementservice.org.uk/benchmarking/

18 *Scotland's People Annual Report: Results from the 2015 Scottish Household Survey*, 2016. There are limitations when using this data as survey questions do not fully distinguish the views of the whole adult population on services from the views of those who are direct users of the services. Sample size may also be an issue in some councils.

19 *Social work in Scotland*, Audit Scotland, September 2016.

20 *A Plan For Scotland, the Scottish Government's Programme For Scotland 2016-17*, Scottish Government, September 2016.

21 *Community Empowerment (Scotland) Act – Part 2: Community Planning Guidance*, Scottish Government, December 2016.

Local government in Scotland

Performance and challenges 2017

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Governance, Risk and Best Value Committee

10am, Thursday, 20 April 2017

Spot-checking on the Dissemination of Committee Policies

Item number	7.5
Report number	
Executive/routine	
Wards	All

Executive summary

The Governance, Risk and Best Value Committee on 19 June 2015, agreed to strengthen existing arrangements and provide greater assurance with regard to the dissemination of committee decisions. This report provides a spot-check that actions have been undertaken by directorates in order to ensure that policies are being effectively communicated to staff.

Links

Coalition pledges

Council outcomes

Single Outcome Agreement

EDINBVRGH
THE CITY OF EDINBURGH COUNCIL

Report

Spot-checking on the Dissemination of Committee Policies

Recommendations

1.1 To note the response to the staff surveys on the dissemination of council policies and that further work was ongoing to improve communication methods.

Background

2.1 The Governance, Risk and Best Value Committee had previously agreed a revised approach for the dissemination and implementation of committee decisions by directorates.

2.2 It was agreed that an annual report outlining all decisions taken in the previous year and an update on the implementation of decisions and recommendations to discharge actions be presented to the Corporate Policy and Strategy Committee, executive committees and the Governance, Risk and Best Value Committee.

2.3 It was also agreed to introduce a spot-check on the dissemination of committee policies with updates being provided to the Governance, Risk and Best Value. This is the third of these updates.

Main report

Decision of Committee and Report

3.1 Following the decision of Committee on 19 June 2014, reports have been submitted to the Corporate Policy and Strategy Committee, executive committees and the Governance, Risk and Best Value Committee outlining all the decisions taken by each committee over the previous year with an update on the implementation of decisions and recommendations to discharge necessary actions.

3.2 This report focuses on the dissemination of relevant policies to staff. The setting and agreeing of policies is one of the key functions of committees and focusing on this provides an effective way of gauging whether important decisions are being effectively disseminated to appropriate Council officers. An outline of the procedure for the dissemination of existing and new policies to staff is outlined below.

Council Policies

3.3 As part of the compliance, risk and governance workstream within the Efficient Effective Transformation Programme, a review of council policies was undertaken in September 2013 to rationalise existing council policy, publish agreed policies on the council's website and ensure an appropriate process of update and review going forward.

3.4 As the initial step in rationalising Council policies, a policy register was developed and is available on the Council's website.

3.5 It is essential for good governance and the efficient and effective running of the Council that officers clearly understand the policies applicable to their role, and their responsibilities in relation to the implementation of Council policy.

3.6 Directorates are responsible for the dissemination of policies to their staff and the process adopted by each can vary.

Spot-Check of Policies and Staff Survey Results:

3.7 The most recent spot checking exercise in May 2016 focussed on dissemination to Council officers of two Council policies by way of a questionnaire to randomly selected officers from two service areas. This was emailed to officers by Business Managers using the Survey Monkey platform.

3.8 The spot-checking exercise in this report has been undertaken using similar methods as outlined in paragraph 3.7 above, however an expanded sample size was utilised and questions were tailored to gain an understanding of officer's awareness regarding where to find policies. The selected policies were the Smoke Free Policy and the Information Rights Policy. Results are listed in paragraph 3.11 and 3.12 below.

3.9 The Smoke Free Policy was originally agreed at Corporate Policy and Strategy Committee in September 2015 and was recently reviewed in December 2016. The policy was communicated by the Health and Safety Team using the following methods:

3.9.1 Messages via Manager's News, Newsbeat and an 'all staff communication' email;

3.9.2 Display on the Council's public and intranet websites;

3.9.3 Signage inside Council buildings, and at the entrances to the curtilage of Council buildings and public play parks;

3.9.4 A smoke free poster campaign was run in Primary Schools and the winning design was used as the smoke free sign in schools and play parks. A media release on the new policy and winning posted was published in the local press.

3.10 The Information Rights Policy was a new policy when approved by the Corporate Policy and Strategy Committee in October 2016 and is part of a suite of information governance policies. It sets out the Council's approach to upholding the information rights of individuals.

3.11 **Policy 1 – Smoke Free Policy (94 respondents)** (agreed at Corporate Policy and Strategy Committee on 1 September 2015 – reviewed on 6 December 2016)

	Yes	No
Are you aware of the policy	77.66%	22.34%
Does the policy place any specific responsibilities or obligations on you in your role?	40.74%	59.26%
Do you know where you could find this policy if required	86.15%	13.85%
I understand the aims of the policy	Strongly agree – 51.85% Agree – 40.74% Neither – 7.41% Disagree – 0% Strongly disagree – 0%	
I understand the steps needed to implement the policy to ensure it is effective	Strongly agree – 38.46% Agree – 50% Neither – 3.85% Disagree – 0% Strongly disagree – 7.69%	

3.12 **Policy 2 – Information Rights Policy (77 respondents)** (agreed at Corporate Policy and Strategy Committee on 4 October 2016)

	Yes	No
Are you aware of the policy	37.66%	62.34%
Does the policy place any specific responsibilities or obligations on you in your role?	55.82%	41.18%
Do you know where you could find this policy if required?	85.19%	14.81%
I understand the aims of this policy	Strongly agree – 29.41% Agree – 64.71% Neither – 5.88% Disagree – 0% Strongly disagree – 0%	
I understand the steps needed to implement the policy to ensure it is effective	Strongly agree – 17.65% Agree – 82.35% Neither – 0% Disagree – 0% Strongly disagree – 0%	

Survey Responses

3.13 Awareness and understanding of the aims and steps required to implement each policy was generally high.

3.14 Awareness of the Information Rights Policy was less prevalent than the Smoke Free Policy, however further awareness raising initiatives have been organised for 2017. To ensure that the policy is visible, understood and followed, it will be included as part of the Essential Learning for All Council Employees Key Policies and Procedures Handbook. The policy also forms an important part of the Information Governance Annual Communication Plan for 2017 which is supplemented by training and awareness raising sessions for staff.

3.15 Almost all respondents directly impacted in their role by the policies indicated that they knew where they could find more information if required. This high awareness correlated with the original key aims of creating a central policy register; to foster greater transparency, accountability and openness for officers and members of the public.

3.16 The large volume of policies that impact upon individual officers can make it impractical to maintain a fully comprehensive detailed knowledge of all documents, however, the online register and existing framework allows for relevant policies to be easily accessed for more detailed inspection when required.

3.17 Respondents were invited to provide comments as to how policies or strategies should ideally be disseminated, answers tended not to vary from methods currently utilised by directorates. This included one-to-one briefings, emails, team meetings, mandatory training sessions and use of the orb intranet site. Alternative suggestions included the use of notice boards and newsletters.

3.18 As with previous surveys, a recurring theme was that a one-size-fits-all approach was not appropriate and that flexibility should be allowed when disseminating policies and strategies.

3.19 Feedback from this exercise has been recorded by the Governance and Democratic Services Team and will be fed into any immediate efforts to help refine and improve processes. The medium to long-term ambition of the service is to implement holistic reporting and Committee management software to help improve Committee decision dissemination and end-to-end report workflow. It is anticipated that this will provide a step-change in how decisions are notified and implemented at an officer level.

Measures of success

4.1 Sufficient knowledge of Council policies by relevant officers.

Financial impact

5.1 There are no direct financial impacts as a result of this report.

Risk, policy, compliance and governance impact

6.1 The improvements in business processes help ensure increased transparency and assurance across the Council's decision making processes.

Equalities impact

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

Sustainability impact

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

Consultation and engagement

9.1 Officers from across the Council were consulted by anonymous questionnaire.

Background reading/external references

Compliance, risk and governance programme: review of Council policy (Corporate Policy and Strategy Committee 3 September 2013)

Minute of the Governance, Risk and Best Value Committee 19 June 2014

Minute of the Governance, Risk and Best Value Committee 12 November 2015

Minute of the Governance, Risk and Best Value Committee 26 May 2016

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Links

Coalition pledges	
Council outcomes	
Single Outcome Agreement	
Appendices	None

Governance, Risk and Best Value Committee

10.00am, Thursday 9 March 2017

Annual Workforce Controls Report - referral report from the Finance and Resources Committee

Item number	7.6
Report number	
Executive/routine	
Wards	

Executive Summary

On the 23 February 2017 the Finance and Resources Committee considered an annual report on the progress of the implementation of the workforce control framework. The report has been referred to the Governance, Risk and Best Value Committee for consideration as part of its work programme.

Links

Coalition Pledges	See attached report
Council Priorities	See attached report
Single Outcome Agreement	See attached report

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Terms of Referral

Annual Workforce Controls Report

Terms of Referral

1.1 An overview of data was provided to show an up to date position and analysis of trends across five core areas of workforce controls. The analysis considered Council staff numbers, salary costs, overtime costs, agency expenditure and sickness absence. For each of the measures, the data showed a position as at the end of December 2016 and considered year on year changes recorded since the same period in 2015, as well as analysis of short term month to month trends, and where possible, expected future patterns over the next quarter.

1.2 Overall, data showed a year on year decrease in staff numbers and basic salary costs for 2016 compared to 2015, alongside little net change in agency and overtime expenditure and a year on year increase in sickness Absence rates. Within these long term trends, data showed evidence of shorter term increases in staff numbers and salary costs incurred over the last quarter. The shorter term trends had been driven by contractual changes affecting existing staff members, including completion of organisational reviews, a shift away from reliance on supply staff and towards permanent contracted staff in some areas, or an increase in the contracted hours worked by existing permanent staff.

1.3 The Finance and Resources Committee agreed:

1.3.1 To note the progress made to date.

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

For Decision/Action

2.1 The Governance, Risk and Best Value Committee is asked to consider the report as part of its work programme.

Background reading/external references

Minute of the Finance and Resources Committee, 23 February 2017

Laurence Rockey

Head of Strategy and Insight

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Links

Coalition Pledges	See attached report
Council Priorities	See attached report
Single Outcome Agreement	See attached report
Appendices	See attached report

Finance and Resources Committee

10.00am, Thursday, 23 February 2017

Annual Workforce Controls Report

Item number	
Report number	
Executive/routine	
Wards	

Executive Summary

This accompanying report provides a summary of the key findings from workforce metrics across all current Service Areas in the City of Edinburgh Council.

The report provides the most up to date view on these metrics at the time of publication. The information illustrates current data and trends in staff numbers, annual salary, organisational new starts and leavers, agency and overtime costs and sickness absence rates.

Links

Coalition Pledges	P25,26.27,29 &30
Council Priorities	CO24,25,26 &27
Single Outcome Agreement	

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Report

Annual Workforce Controls Report

1. Recommendations

1.1 To note progress made to date.

1.2 To refer this report to Governance, Risk and Best Value Committee as part of its work programme.

2. Background

2.1 A report on the development of a workforce control framework was first reported to the Finance and Resources Committee on 19 March 2015.

2.2 Employee costs form the largest single element of the Council's budget. The application of the workforce control framework is critical to achieving the savings set out in the Council's budget.

2.3 It was therefore agreed that the committee should receive an annual update on the implementation of this framework. The last update was reported to committee on 14 January 2016.

3. Main Report

3.1 This report provides an overview of data to show an up to date position and analysis of trends across five core areas of workforce controls. The analysis considers:

- Council staff numbers: including trends in Full Time Equivalent council employees, alongside trends in new starts and leavers.
- Salary costs: including trends in the basic salary cost associated with staff employed by the Council
- Overtime costs: covering trends in overtime expenditure by council services
- Agency expenditure: includes trends in the cost of temporary agency staff employed by council services, and
- Sickness absence: covering trends in the number of days lost to sickness absence among council staff.

3.2 For each of these measures, the data shows a position as at end of December 2016 and considers year on year changes recorded since the same period in 2015,

as well as analysis of short term month to month trends and, where possible, expected future patterns over the next quarter.

3.3 Due to the scale of organisational restructure and service reviews completed or commenced across the Council during 2016, detailed analysis of workforce data for this period has been more complex than in previous years. The scale of reviews and restructures underway during the year, for instance, have required the making of significant changes to the way data is structured with the Council's Trent HR recording system – including changes to reporting lines, and the scope of all Council service areas. These changes have made it difficult to draw robust, like-for-like analysis of historical trends at the level of individual Council directorates and service areas.

3.4 For this reason, the majority of data shown in this report presents analysis of trends for the Council as a whole, at which level data remains robust, and provides service level analysis of the factors underlying these trends where reliable data is available. Officers in HR, ICT and Strategy and Insight are continuing to work to address these issues and refine the reports available as more services progress through the Transformation programme and service reviews. Future reports will follow new organisational structures, with trend data presented by Council Directorates once all organisational reviews are completed.

Summary

3.5 Overall, data shows a year on year decrease in staff numbers and basic salary costs for 2016 compared to 2015, alongside little net change in Agency and Overtime expenditure and a year on year increase in Sickness Absence rates. Within these long term trends, data presented here shows evidence of shorter term increases in staff numbers and salary costs incurred over the last quarter. These shorter term trends have been driven by contractual changes affecting existing staff members, including completion of organisational reviews, a shift away from reliance on supply staff and towards permanent contracted staff in some areas, or an increase in the contracted hours worked by existing permanent staff.

3.6 Across all of these measures, analysis of trends for early 2017 show evidence of a likely continuation of downward trends. Organisational reviews planned for completion by April 2017 are expected to result in an additional 187 FTE staff leaving Council employment. At the same time, early data for January 2017 shows a return to declining trends for Overtime and Agency expenditure.

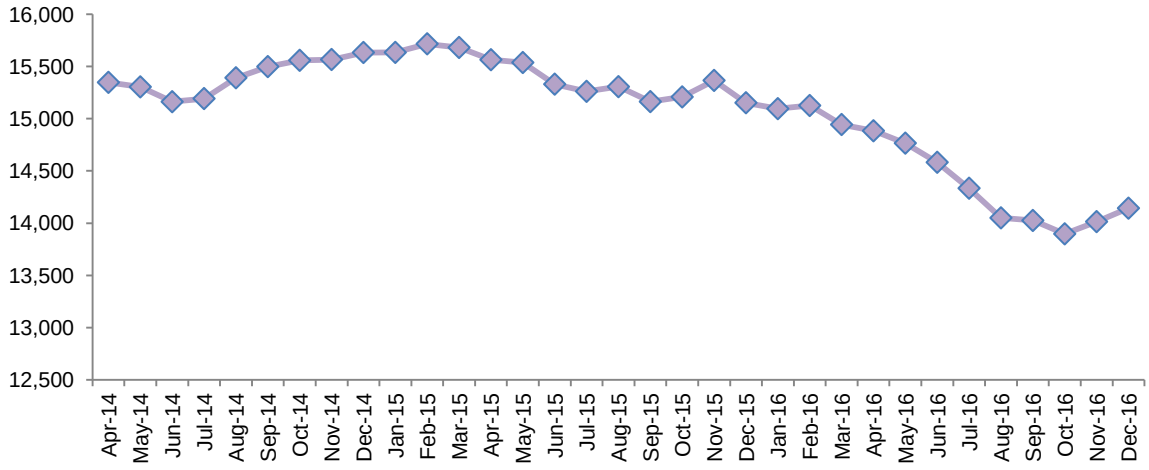
3.7 Despite these positive trends, continued monitoring of workforce measures remains important. Not least, the evidence shown here highlights the potential impact of continuing transformation and service change on sickness absence, and the need for use of overtime and agency expenditure to protect service provision during periods of workforce change.

Council staff numbers

3.8 Data on Council staff numbers is based on a monthly analysis of the number of staff in council employment, considered in terms of full time equivalents (FTE) staff. These data are calculated using a ratio based on standard contractual hours in which a single FTE post relates to staff with a contracted working week of 36 hours a week, or 35 hours a week for teaching staff. This way of presenting data, it should be noted, differs from analysis of a basic headcount, or number of posts within the organisation at any given time, but provides a useful basis for making a meaningful and consistent analysis of trends across a period of time.

3.9 On this basis, as at December 2016, a total of 14,143 full time equivalent staff were employed by the Council. This represents a drop of 1,009 FTEs in the period since December 2015, and a drop of almost 1,500 FTEs over the longer term since the same month in 2014.

Council staff numbers, total FTE



3.10 Changes in Council FTE staffing numbers over any period are driven by the interaction of two main drivers – the net balance of recruitment over the period (i.e. the balance of new starts against leavers), and any changes in the contractual position and working hours of existing staff members. Over the 12 months to December 2016, the major driver in change has been the former of these two drivers. During 2016 data show that more than 2,000 FTE staff left Council employment, compared against new recruitment equivalent to some 1,200 FTE staff. These trends show a significant year on year shift compared to 2015, with a 33% increase in the number of leavers compared against little change in new recruitment during the year.

3.11 Further analysis of this change shows that the largest proportionate drop in FTE staff numbers is recorded among staff at senior officer grades 8-9. Staff numbers at this level showed a 13% drop year on year, compared against a 3% drop for staff at Grades 1-4, and no change for staff on Teaching grades.

3.12 While the data presented in this report show a long-term decline in staff numbers, month on month data points do sometimes show a shorter-term deviation away

from this trend. Data for October 2016, for instance, showed a low point in Council staff numbers, with a recorded workforce equivalent to 13,900 FTE staff. Since this point, the data show a slow increase in FTE staff through November and December 2016, mirroring to some extent a similar two-month increase recorded in the period to November 2015.

3.13 Analysis of this most recent short term increase in FTE numbers show that the increases are not explained by patterns of recruitment – data for the period show a net excess of leavers against new starts – but rather by a series of contractual changes affecting existing staff members. These changes can arise as a result of the completion of organisational reviews or implementation of other policies and include, for instance, a shift away from reliance on supply staff and towards permanent contracted staff in some areas, or an increase in the contracted hours worked by existing permanent staff. For the month to December 2016, for instance, most of the change recorded occurred amongst cleaning staff at Grades 1-4 (+95 FTE posts), and among staff in care and support roles within Health and Social Care (+75 FTE posts).

3.14 Looking forward, 2,697 staff across the Council are currently involved in ongoing organisational reviews while further voluntary redundancy cases are expected to arise over the coming months. Current estimates suggest that the impact of these reviews will be to reduce the size of the Council workforce by 187 FTE staff over and above that already recorded.

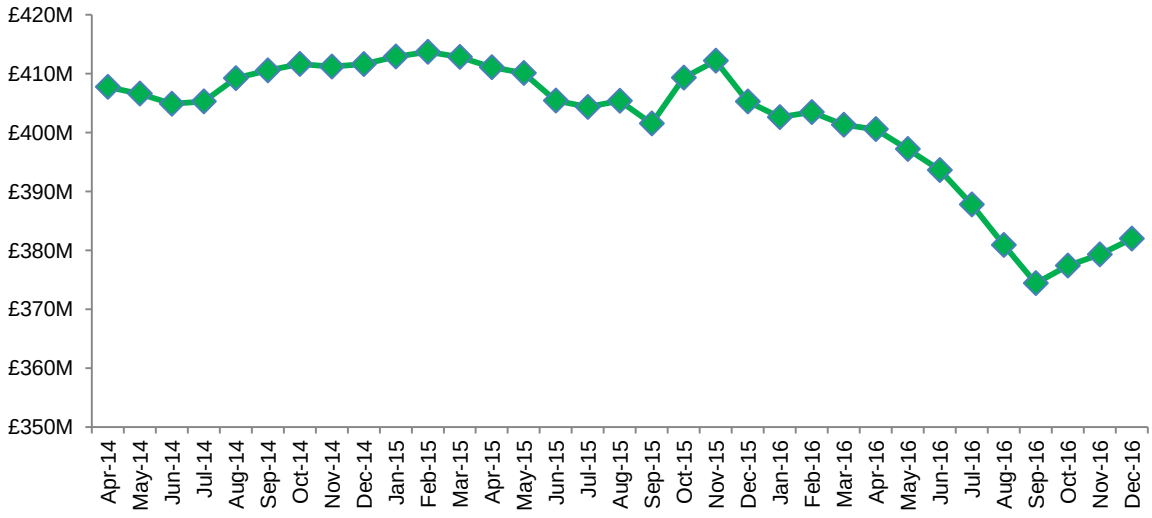
3.15 Overall, during the period of Council Transformation undertaken to date, a total of 848.2 FTE staff have been confirmed as having left, or leaving the Council under VERA and VR arrangements. Reviews currently underway include services across Governance and Democratic Services, Health and Social Care, Schools and Lifelong Learning, and Facilities Management (Phase 3a). It is anticipated that all these reviews will be completed and implemented by 1 April 2017 and will increase the total number of staff leaving the Council under VERA and VR arrangements to 1,035 FTE.

Council Salary Costs

3.16 Data in this report shows trends in the total annual basic salary associated with staff employed by the Council at any given point in time. The data provides a good measure to track change in the total salary cost for all Council employees, but includes only basic contracted salary costs at a given point in time. As such, the dataset does not consider retrospective payments made, claims based payments (such as overtime payments, working time payments, payments to supply or casual staff), or National Insurance and Pension contributions made. Information is only available for positions that have non-zero FTE record. In this report there are over 2,000 positions with either blank or zero FTE records. This means that payments to mostly casual and supply contract positions are not included in the totals. These are typically locum social care workers, supply teachers, learning assistants and front of house staff at Edinburgh venues.

3.17 On this basis, the analysis shows that total basic salary costs of £382m were associated with staff employed by the Council as at the end of December 2016. This represented at £23m (or 6%) drop in like for like salary costs compared to the same month in 2015, and a drop of almost £30m (or 7%) compared against December 2014. These changes, it should be noted, incorporate annual pay awards of 1.5% in October 2015, and the 1% cost of living uplift added in March 2016, the last of which added an estimated £4m to the existing pay bill for Council staff.

Basic salary costs, £m



3.18 In line with the short term trends in FTE numbers discussed above, while data on salary costs show a long term declining trend over the past two years, data for the final quarter of 2016 show a month on month rising trend in the short term. As with FTE trends, this pattern is explained not by an increase in net recruitment, but by changes in the contractual position of existing staff, including the impact of organisation reviews on grade structure in some areas and, as noted above, an increase in contracted working hours for some staff – particularly cleaning staff and care and support workers.

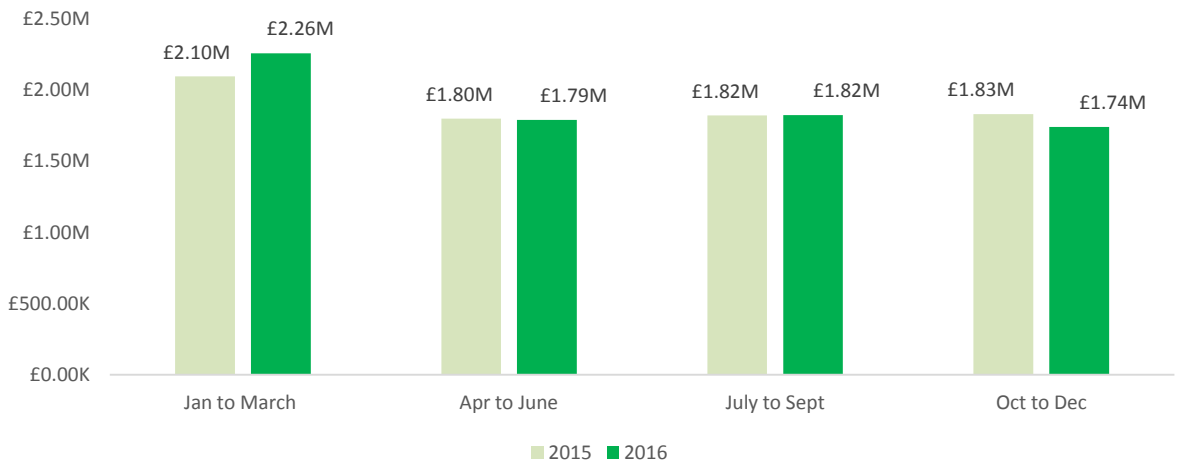
Overtime costs

3.19 The total annual spend on overtime in 2016 was £7.61m, up slightly from £7.55m in 2015. Across the organisation, the Place directorate was the largest single contributor to the total, with £4.47m. Within this grouping, Environment spent £1.62m and Planning & Transport spent £1.06m. Health and Social Care overtime expenditure accounted for £1.18m in 2016, the majority of which came from Older People and Disability Services.

3.20 Analysis of trends in overtime expenditure by quarter shows that spend for the first 3 months of 2016 was higher than that recorded in the previous year, but that spend over the rest of 2016 was either in line with, or below 2015 expenditure levels. Notably, data for the most recent quarter to December 2016 shows a total overtime expenditure of £1.7m, a 5% reduction on spend for the same period in 2017.

3.21 The data below also illustrates the strong seasonal pattern in overtime expenditure, with the months January to March typically incurring higher spend than other parts of the year. Data here, it should be noted, is presented at the point of payment and does include claims for overtime work undertaken in previous months. As such, this annual January and February increase in spend to some degree reflects overtime worked during the Christmas and New Year period. On this basis, early analysis of data for January 2017 shows evidence of a continuation of the downward year on year trend recorded over the last quarter. Overtime expenditure for January 2017 is estimated at 4% below the level spent in the same month of 2016.

Overtime expenditure by quarter, 2015 to 2016



3.22 Controls on overtime have been strengthened within Directorates to better oversee and manage overtime spend. For some directorates overtime results are a standing item on monthly SMT meeting agendas for scrutiny. Stretch targets have also been put in place to reduce overtime spend in Customer Services and Corporate Property with some success already evident. Despite these controls, and the drop in overtime recorded for January 2017, It is anticipated that services who are about to proceed through Organisational Reviews throughout the Spring and Summer may see a short term increase in overtime spend during periods of 2017 to protect service provision until new structures are fully operational.

Agency Spend

3.23 Analysis of expenditure on agency staff in this report focuses on expenditure made with Adecco. Adecco represents the majority of total agency costs and are the council's main contractual supplier of agency staff. As such, analysis of data from this source provides a strong and robust basis for understanding overall patterns in agency expenditure. When making this analysis, however, it is important to consider other agency providers used by Council services, including:

- ASA international (which accounts for around one-third of total spend) who provide care and support agency staff for health and social care services, and

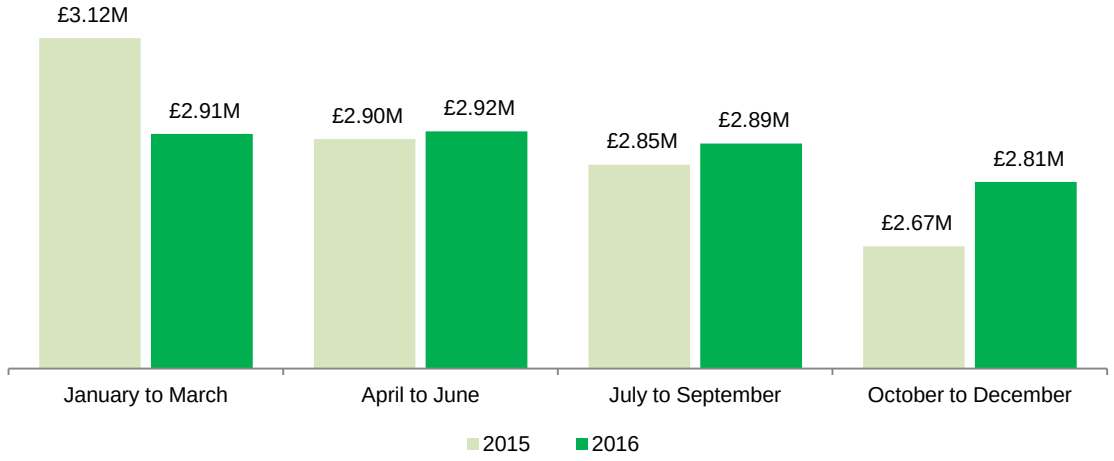
- Places for People Scotland Care & Support (which account for around one-tenth of total spend) who provide housing with support services to older and young people, people with physical and learning disabilities and mental health issues.

3.24 The total annual agency staff cost from Adecco in 2016 was £11.53m. The total annual agency staff costs from Adecco in 2015 were £11.54m. The largest contributors at the service areas was the previous Services of Communities and Place (£6.37m, including £1.41 expenditure from Environment services and £0.92 from Transport), followed by Health and Social Care (£1.91m). Other areas of the council showing significant levels of expenditure include Corporate Property (£1.19m expenditure) and Customer Services (£0.92m of expenditure).

3.25 Overall, data for 2016 shows a slight reduction in agency expenditure when compared with 2015.

3.26 These patterns do, however, mask significant differences in short to medium trends within this period. Quarter 1 of 2016, for instance, recoded a significant drop in expenditure compared to the previous year, while data for the most recent quarter shows an increasing trend. The three months to December 2016 recorded total Addeco agency expenditure of £2.81m, a significant increase of 9% (£140k) compared to the same period in 2015.

Adecco Agency staff expenditure by quarter, 2015 to 2016



3.27 Despite this increase, early indications are that expenditure for January 2017 show a return to a downwards trend in expenditure. In January 2017, £850k was spent on agency staffing, a significant reduction when compared with the previous two years. Additionally, January 2017 shows the lowest monthly spend recorded since April 2016 and the 5th lowest monthly spend in the last 2 years. This is significant as traditionally January is consistently one of the highest agency spending months of the year.

Adecco Agency Expenditure, January 2015-2017			
Period	Spend	% reduction vs 2017	£ reduction vs 2017
January 2017	£0.850m		
January 2016	£0.928m	+9%	+£78k
January 2015	£1.210m	+30%	+£360k

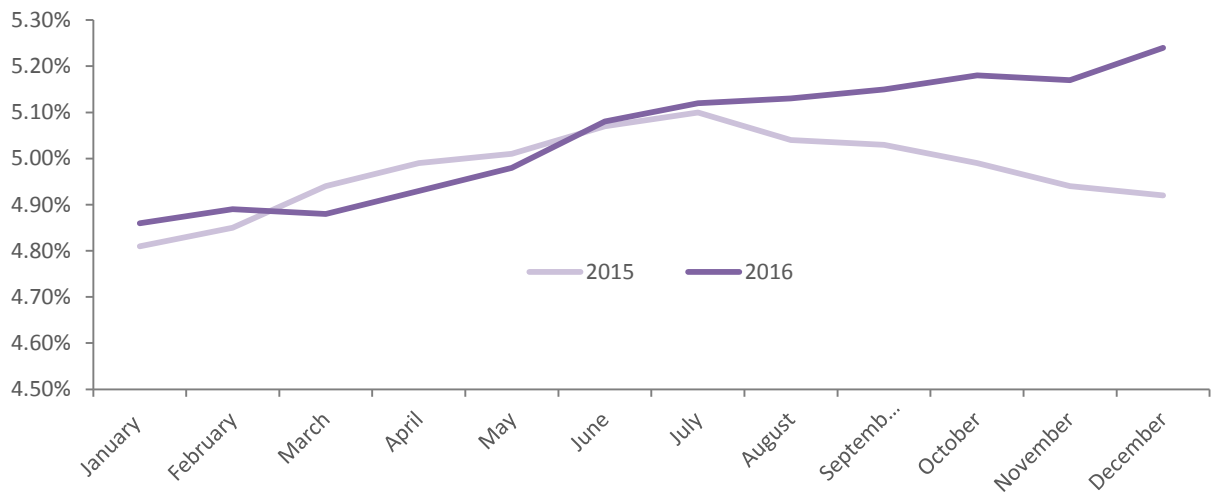
3.28 Looking forward, the scale and trends in agency expenditure area likely to continue to be driven by the high expenditure services highlighted above. As with overtime expenditure trends, it is expected that there may be further impacts on agency expenditure trends later this year arising from on-going organisational reviews, particularly those relating to Health and Social Care and Facilities Management.

Sickness Absence

3.29 Council sickness absence rate measures the number of working days lost due to staff sickness compared to the number of working days available. Over the 12 months to December 2016 a total of 170,867 days were lost to sickness across the Council, accounting for 5.24% of all working days available. This represented an increase of 0.32 percentage points on the same period during 2015.

3.30 The areas with the highest rates of absence in 2016 include Health and Social Care with 7.73% and 49,830 days lost and areas within the former Services for Communities directorate, which recorded an absence rates of 7.38% or 49,334 days lost.

Council wide sickness absence rate, 12 month rolling average, 2015 to 2016



3.31 Analysis of sickness absence rates show a significant increase in absence recorded over the second half of 2016, following a period of decline recorded in late 2015.

Throughout this period, short term absences (absences of fewer than 20 days) have remained stable at around 1.7% of all available working days. By contrast, the number of days lost to long term absences (sickness absence of more than 20 days) has shown an increase, rising to 3.5% of all working days in the 12 months to December 2016, compared to 3.2% for the same period in 2015.

3.32 Comparison across other Scottish Local Authorities show that this increase in absence rates for City of Edinburgh Council is not being repeated across other Council areas. The most recent comparison data released for the Local Government Benchmarking Framework shows that sickness absence amongst City of Edinburgh Council staff (non-teaching) rose to an average of 10.73 days lost per employee for the 12 months to March 2016. This was slightly above the Scottish average of 10.63, which had fallen by 2% over the previous three years. Over the period since 2012 Edinburgh's ranking against other Local Authorities has dropped from 3rd lowest sickness absence rate to 18th lowest. This data, it should be noted, relates to non-Teaching staff only. Sickness Absence among teaching staff in Edinburgh has remained relatively steady over the past three years, and remains well below the national average with the ranking improved from 10th in 2013/14 to 4th in 2015/16.

3.33 While these increases in absence are occurring during a period of significant change for the Council's workforce, it is difficult to make firm conclusions as to the impact of Transformation on rates of sickness absence across the organisation. As noted above, this is mainly due to the scale of changes to Council structures and the subsequent impact this has on the Trent HR system. The phased approach of Transformation results in old and new structures existing on the system at the same time. Changes are processed once services complete their reviews, meaning that it is currently difficult to identify whether staff areas which are undergoing, or which have undergone service reviews show significant differences in sickness absence rates. To address this gap, work is currently underway across a selection of Service Review groupings to understand the impact of Transformation on these specific groups of staff and absence rates recorded for these groups pre and post the conclusion of Service Reviews.

4. Measures of success

4.1 The Council's workforce arrangements are designed to ensure that services are provided in the most efficient way to the highest standards.

5. Financial impact

5.1 Organisational reviews and vacancy management have produced a saving of £23.3m in the salary bill between December 2015 and December 2016.

6. Risk, policy, compliance and governance impact

6.1 Effective workforce management arrangements are essential to ensure that the Council is able to manage and plan the people impact of achieving the planned business change and associated savings.

7. Equalities impact

7.1 There are no significant equalities impacts arising from this report.

8. Sustainability impact

8.1 There is no sustainability impact from this report.

9. Consultation and engagement

9.1 Consultation and engagement with key stakeholders, including leadership teams, Trade Unions and elected members is ongoing.

10. Background reading/external references

10.1 Annual Workforce Controls Report – report to Finance & Resources Committee 14 January 2016

Hugh Dunn

Acting Executive Director of Resources

Contact: Katy Miller, Head of Human Resources

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11. Links

Coalition Pledges	
Council Priorities	
Single Outcome Agreement	
Appendices	Appendix 1 Annual Workforce Report Edinburgh Council

Annual Workforce Report Edinburgh Council

Introduction

The Annual Workforce Report provides an overview of Council workforce metrics in one document across all current Service Areas and Divisions in Edinburgh council. The Report provides the most up to date view on these metrics at the time of publication. Unless otherwise stated the information relates to data collected for the period up to the end of December 2016.

For further detail on the data and sources used for this report, please refer to the Data Notes section. If you have any queries about this data or wish to access further information that is presented in this report please contact Strategy and Insight at: strategyandinsight@edinburgh.gov.uk

Links to:

Contents

Data Notes

Summary Findings

Staff Numbers

Annual ↓

14,143 FTE staff were employed as at end of December 2016. Compared to the same month in 2015 staff numbers are down by 1,009 FTE posts. At the Service Area level there have been a number of internal movements as a result of staff transfers between functions.

Organisational New Starts and Leavers

Annual ↓

New starts in total for 2016 amounted to 1,190 FTE posts, with total leavers for 2016 being 2,054, producing a net decrease of 864 FTE posts. The number of leavers of 2015 was 1,550 with a net change in new starts and leavers producing a decrease of 283 FTE posts. Organisational new starts and leavers does not account for internal movements or changes to contact hours within existing staff.

Annual Basic Salary Costs

Annual ↓

The annual basic pro-rata salary cost for staff employed as at end December 2016 was £382.0 million, which was a decrease of £23.3 million from December 2015. This decrease includes the 2016 pay award which was awarded in April 2016, which added around £4 million to the existing pay bill.

Agency Costs

Annual ↓

The total Adecco agency expenditure for 2016 was £11.53M, which was similar to 2015 (0.05%) decrease at £11.54M. The phasing of the spend throughout the year was different in 2016. Agency cost by quarter were more stable in 2016 with totals of around £2.8M-£2.9M, this compares to a more variable quarter period spend between £2.7M and £3.1M in 2015.

Overtime Costs

Annual ↑

The cost of overtime in 2016 was £7.6M, which were broadly similar to 2015 (0.9%) increase. Overtime costs are typically higher in the first quarter of the calendar year (January to March). In 2016 overtime costs were £2.3M in the first quarter compared to around £1.7M to £1.8M in the three other quarter periods.

Absence Rate

Annual ↑

The Council wide sickness absence rate was 5.24% over the 12 months to December 2016. This was up 0.07 percentage points on last month and up 0.32 percentage points on Dec 2015. In 2016 total absence rates continued to increase in 2016 after July, increasing from 5.12% to 5.24%. Whereas over the same period in 2015, absence rates fell from 5.10% to 4.92%.

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FULL COUNCIL

Please use the links above to navigate through this document by directorate or by indicator type

Note: This report presents the current staff organisational structure at the end of December 2016. The new organisational structure includes: Communities and Families, Chief Executive (Communications and Strategy), Edinburgh Health and Social, Place, Resources, and Redeployees. A number of adjustment were made to the service areas to show the nearest possible approximation to the new organisational structure. This changes have been applied throughout this report where a Service Area breakdown is provided. A note of the changes made are as follows:

- The previous Economic Development, Culture and Sport, and City Strategy and Economy are included within Place.
- The previous Corporate Governance minus Culture and Sport was included into Chief Executive.
- The previous Health and Social care was added to Edinburgh Health and Social Care Partnership.
- The previous Services for Communities and previous Children & Families was not moved. This was due to the remaining number of internal staff movements that are expected to take place within these service areas as part of the transformation programme.

Full Council – Staff Numbers

- **FTE (Dec 2016) FTE** – the number of staff employed each month is estimated in terms of full time equivalents (FTE) posts.

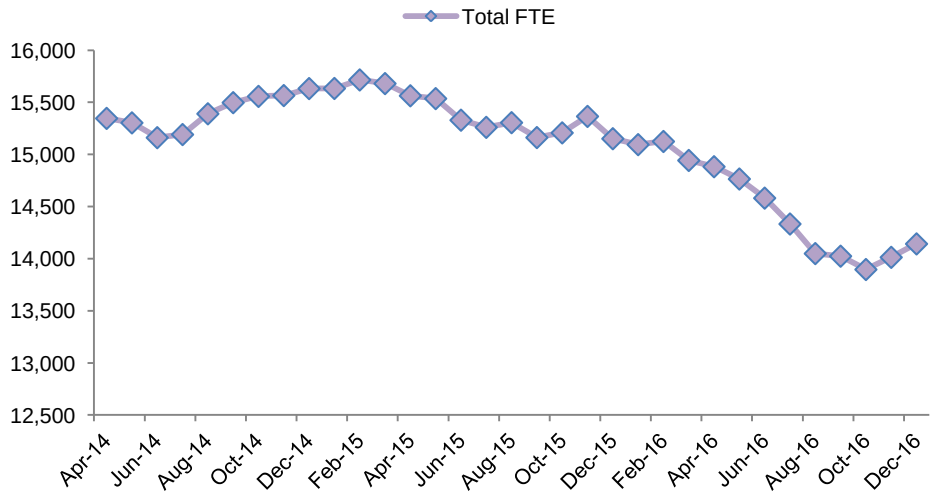
Contents

Total FTE 14,143

Service Area	FTE
Previous Children & Families	6,037
Previous Services for Communities	1,471
Chief Executive	187
Communities and Families	299
Edinburgh Health and Social Care Partnership	2,655
Place	1,797
Safer and Stronger Communities	266
Resources	1,367
Redeployees	65
TOTAL	**14,143**

Month	Total FTE	Month change	Annual change
April 14	15,347		
May 14	15,304	-54	
June 14	15,162	-142	
July 14	15,192	30	
August 14	15,391	199	
September 14	15,498	106	
October 14	15,558	61	
November 14	15,566	8	
December 14	15,633	66	
January 15	15,634	2	
February 15	15,716	81	
March 15	15,681	-35	
April 15	15,564	-117	217
May 15	15,537	-25	233
June 15	15,330	-208	168
July 15	15,261	-69	69
August 15	15,306	71	-85
September 15	15,163	-143	-335
October 15	15,208	45	-350
November 15	15,366	158	-200
December 15	15,152	-214	-481
January 16	15,095	-57	-539
February 16	15,125	30	-591
March 16	14,944	-182	-737
April 16	14,883	-60	-681
May 16	14,765	-118	-772
June 16	14,582	-183	-748
July 16	14,334	-248	-927
August 16	14,050	-284	-1,256
September 16	14,025	-25	-1,138
October 16	13,897	-128	-1,311
November 16	14,014	117	-1,352
December 16	14,143	129	-1,009

Staff Numbers FTE trends

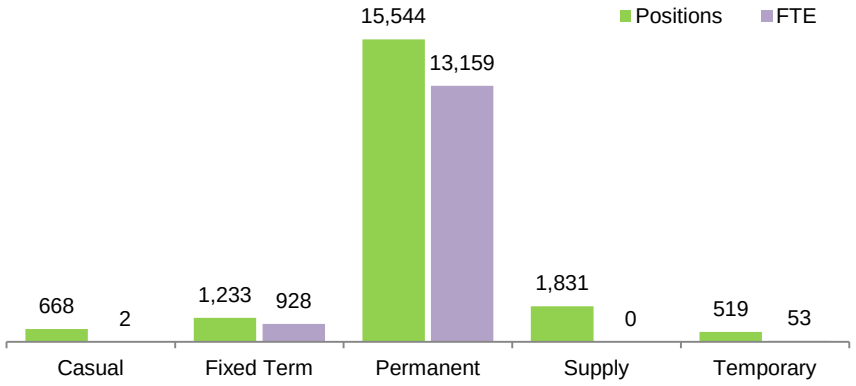


Full Council – Positions

Contents

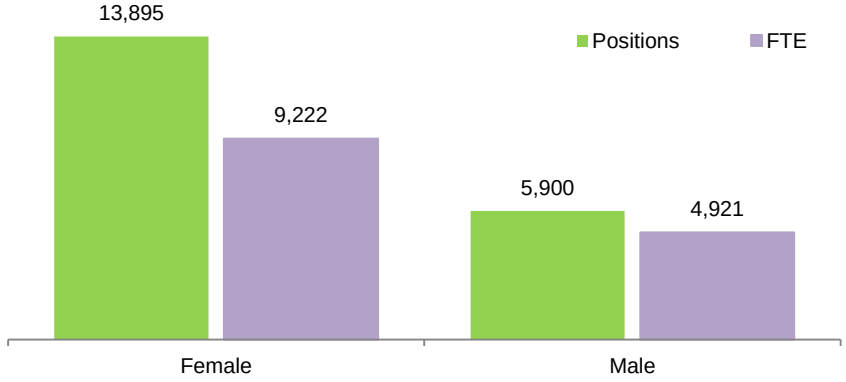
This is the total number of positions within the council which is different to headcount.

Breakdown by contract type – Positions and FTE (Dec 2016)

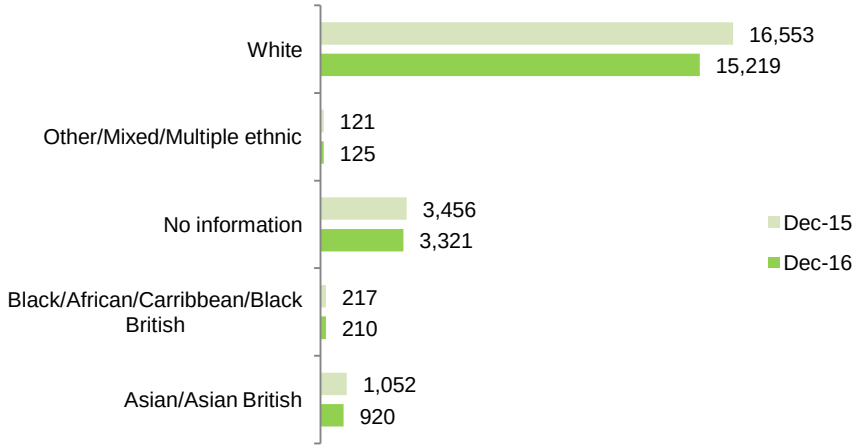


Note: the total number of positions within the council is different to headcount, for example one individual can be employed in two positions, i.e. two part-time jobs within the council. Positions act as a measure for the number of jobs within the council.

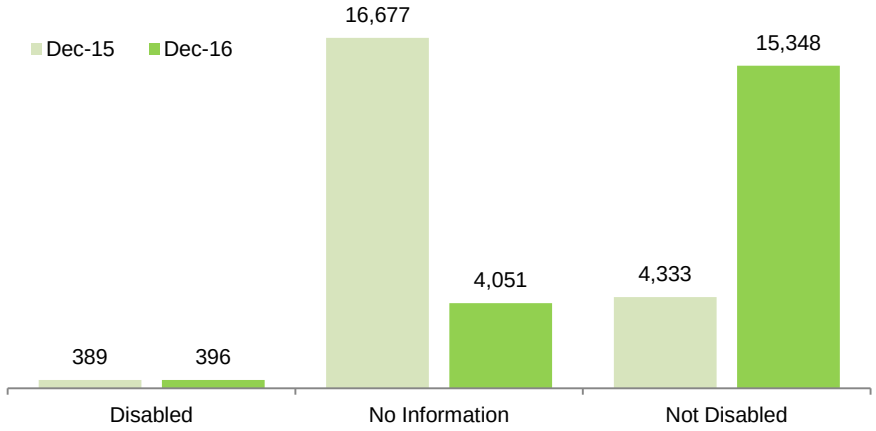
Gender Split – Positions and FTE (Dec 2016)



Ethnicity Groups - Positions (Dec 2015 and 2016)



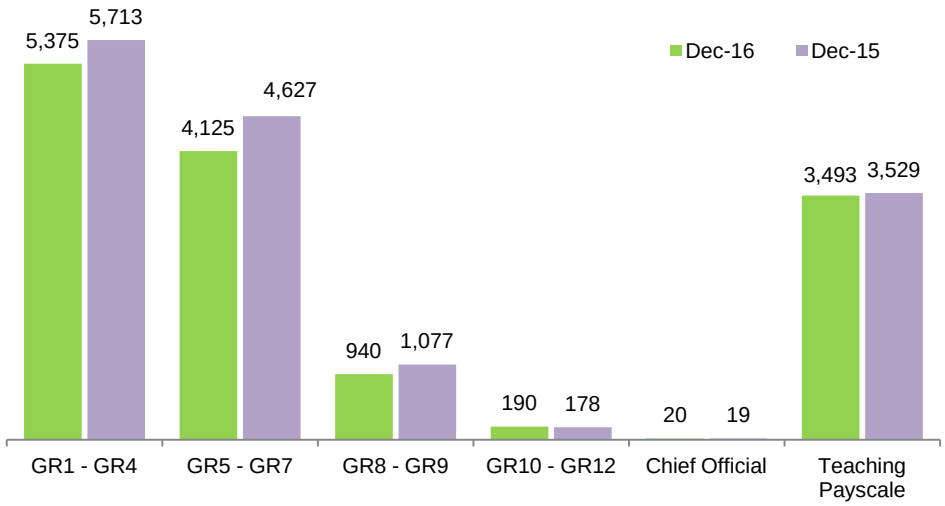
Disability Groups – Positions (Dec 2015 and 2016)



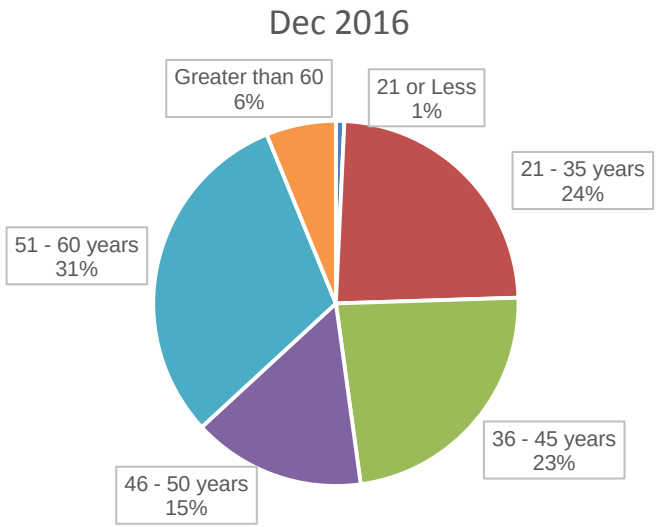
Full Council – Staff Numbers

Contents

FTE Staff Grade Bands (Dec 2016 and Dec 2015)



FTE Staff Age-groups (Dec 2016)



FTE Staff Grade Bands (Dec 2016)

Grade Bands	Total FTE	Annual change
GR1-GR4	5,375	-2.7%
GR5-GR7	4,125	-9.8%
GR8-GR9	941	-12.6%
GR10-GR12	190	4.9%
Teaching staff	3,493	0.0%
Chief Official	20	5.3%
TOTAL	14,143	-4.7%

FTE Staff Age-groups (Dec 2016)

Age Group	Total FTE	Annual change
21 or Less	106	-16%
21 - 35 years	3,392	-3.2%
36 - 45 years	3,299	-3.0%
46 - 50 years	2,154	-6.5%
51 - 60 years	4,319	-5.8%
Greater than 60	874	-4.8%
TOTAL	14,143	-4.7%

Full Council – Annual Basic Salary Costs

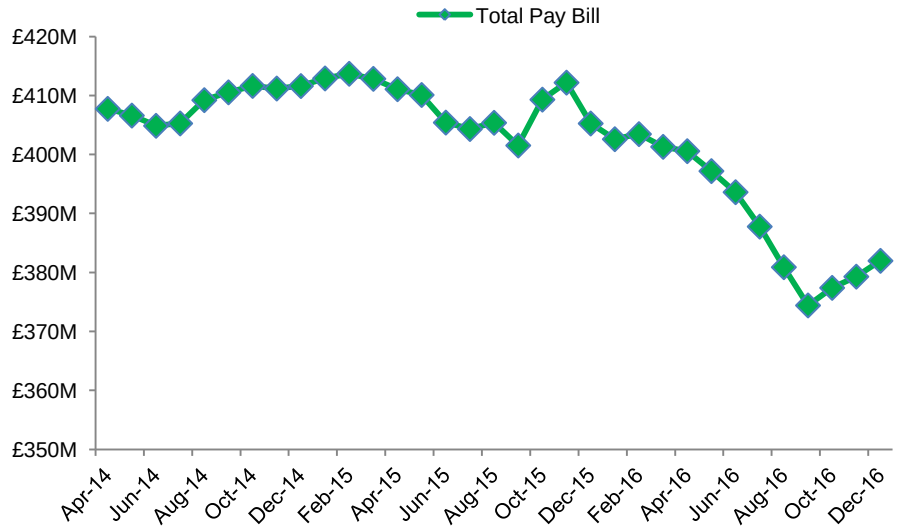
Contents

Annual Basic Salary Costs (Dec 2016)

Total: £382.0M

Service Area	Total
Previous Children & Families	£184.2M
Previous Services for Communities	£28.6M
Chief Executive	£6.7M
Communities and Families	£11.4M
Edinburgh Health and Social Care Partnership	£60.5M
Place	£45.6M
Safer and Stronger Communities	£6.5M
Resources	£36.3M
Redeployees	£2.2M
TOTAL	£382.0M

Trend Analysis – Annual Basic Salary Costs



Month	Total	Month change	Annual change
April 14	£407.7M		
May 14	£406.6M	- £1.1M	
June 14	£404.9M	- £1.7M	
July 14	£405.3M	+£398.3K	
August 14	£409.2M	+£3.9M	
September 14	£410.5M	+£1.3M	
October 14	£411.6M	+£1.1M	
November 14	£411.2M	- £445.1K	
December 14	£411.6M	£422.4K	
January 15	£412.9M	+£1.3M	
February 15	£413.7M	£788.2K	
March 15	£412.8M	- £859.0K	
April 15	£411.1M	- £1.8M	+£3.3M
May 15	£410.1M	- £979.5K	+£3.5M
June 15	£405.4M	- £4.7M	+£540.9K
July 15	£404.3M	- £1.1M	- £944.3K
August 15	£405.4M	£1.1M	- £3.8M
September 15	£401.5M	- £3.8M	- £9.0M
October 15	£409.4M	£7.8M	- £2.3M
November 15	£412.9M	£3.6M	+£1.7M
December 15	£405.3M	-£6.9M	- £6.4M
January 16	£402.6M	-£2.7M	- £10.3M
February 16	£403.5M	£0.9M	- £10.2M
March 16	£401.3M	-£2.2M	- £11.5M
April 16	£400.6M	-£737.7K	- £10.5M
May 16	£397.2M	-£3.4M	- £12.9M
June 16	£393.6M	-£3.6M	- £11.8M
July 16	£387.8M	-£5.8M	- £16.6M
August 16	£380.9M	- £6.9M	- £24.5M
September 16	£374.4M	- £6.5M	- £27.1M
October 16	£377.4M	£3.0M	- £31.9M
November 16	£379.3M	£1.9M	- £32.9M
December 16	£382.0M	£2.7M	- £23.3M

Note: Figures above relate to an end of Dec 2016 estimate they are a snapshot taken on 9 January with all new starts after 01 January 2017 removed.

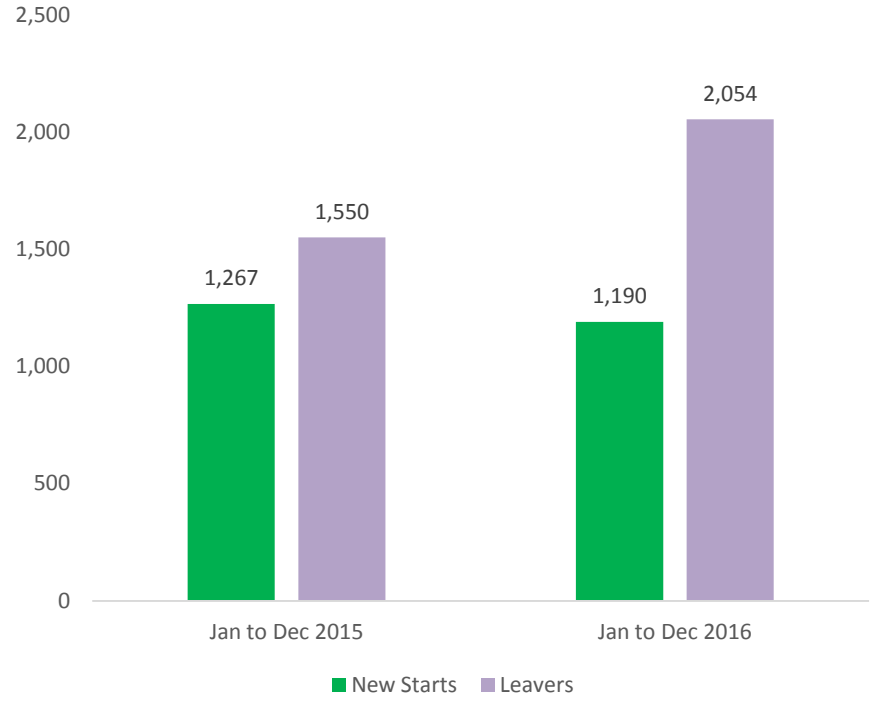
Note: The annual 1.5% pay award was added to the October 2015 total. A second 1% cost of living was added to the March 2016 total.

Annual Basic Salary Costs represents the total annual basic salary of the workforce at this time. Further information is given in the Data Note section at the end.

Full Council - Organisational New Starts and Leavers

Contents

Annual Comparison New Starts and Leavers (Jan to Dec)



Period	New starts (FTE)	Leavers (FTE)	New starts vs Leavers (FTE)
Jan-16	100	197	-97
Feb-16	85.1	102.3	-17
Mar-16	55.1	253.6	-199
Apr-16	73.2	131.9	-59
May-16	67.9	198.7	-131
Jun-16	56.1	300.9	-245
Jul-16	31.6	87.1	-56
Aug-16	354.7	278.2	76
Sep-16	64.1	189.1	-125
Oct-16	141.0	141.1	0
Nov-16	101.8	92.1	10
Dec-16	59.2	81.4	-22
Total for last 12 months	**1,190**	**2,054**	**-864**

Full Council – Overtime costs

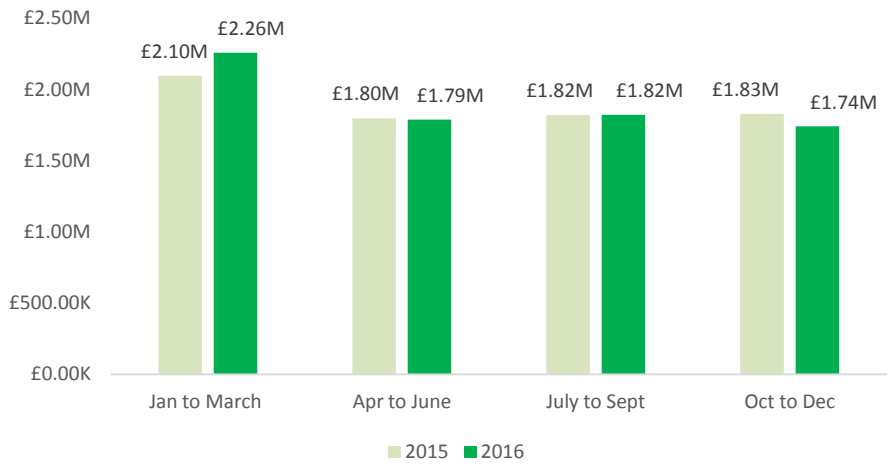
Contents

Overtime Expenditure (Annual cost)
Total: £7.6M (2016)

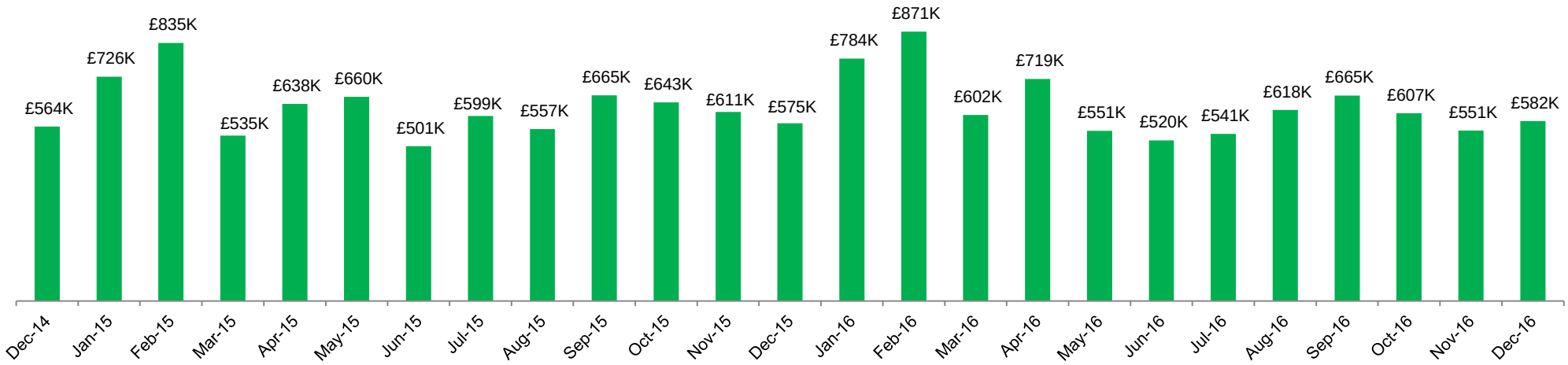
The total annual overtime cost in 2016 was £7.6 million. The largest contributor to this total was **Place** and the **previous Service for Communities** which accounted for **£4.47 million**. Within this group the largest spend was with **Environment** at £1.62 million, **Planning and Transport** £1.06 million and **Housing** at just under £1 million.

Health and Social Care accounted for around £1.18 million in 2016, the majority of this was from older people and disability services.

Overtime Expenditure, by quarter 2015 and 2016



Trend analysis: Council overtime cost by month (December 2014 to December 2016)



Full Council – Agency costs

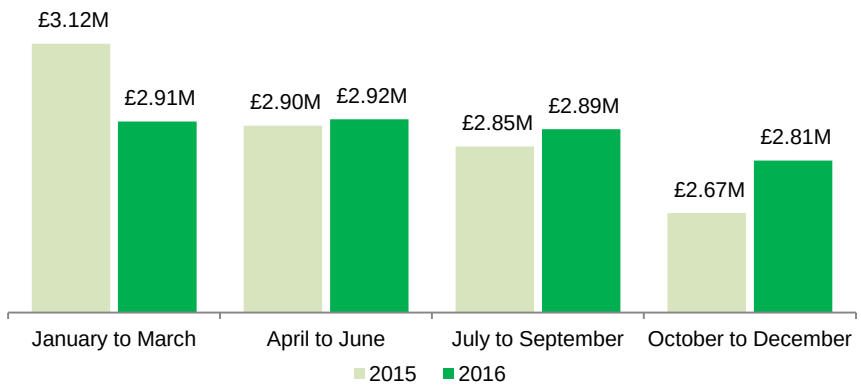
Contents

Agency Staffing (Annual costs)
Total: £11.5M (2016)

The total annual agency staff costs from Adecco in 2016 was £11.5 million. The largest contributors at the divisional level throughout the year was **Environment** (£1.41 million), **Corporate Property** (£1.19 million), **Customer Services** (£1.19 million), and **Transport** (£0.92 million).

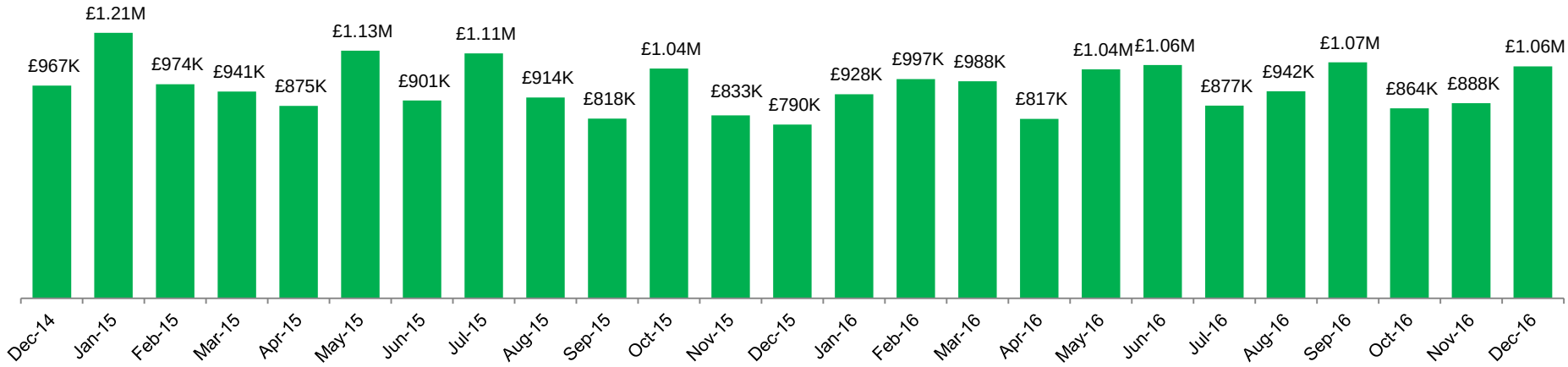
In terms of the major service areas the largest contribution by far was the **previous Services of Communities and Place** (£6.37 million), followed by **Health and Social Care** (£1.91 million).

Agency Staffing – Costs by quarter period 2015 and 2016



Note: Agency data in this section only refers to Adecco agency staff cost information comes from Adecco management information report. This refers to the billing period

Trend Analysis: Agency Total costs by month



Full Council – Sickness Absence

Contents

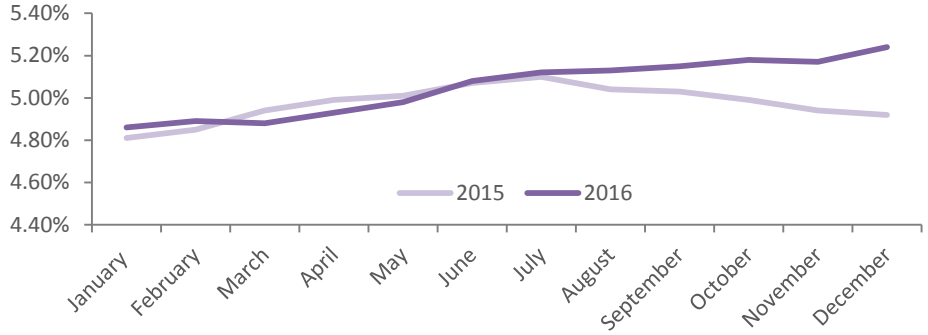
Sickness Absence Rate 12 month average
Total: 5.24% (Dec 16)

NEW STRUCTURE	Days lost	Days available	Absence rate %
Previous Children & Families	53,629	1,355,656	3.96%
Previous Services for Communities	49,334	668,661	7.38%
Communities & Families	787	34,683	2.27%
Chief Executive	3,614	125,379	2.88%
Edinburgh Health & Social Care Partnership	49,830	644,943	7.73%
Place	7,604	230,041	3.31%
Resources	3,930	157,020	2.50%
Safer & Stronger Communities	1,366	30,457	4.48%
Redeployees	773	11,731	6.59%
Total	**170,867**	**3,258,571**	**5.24%**

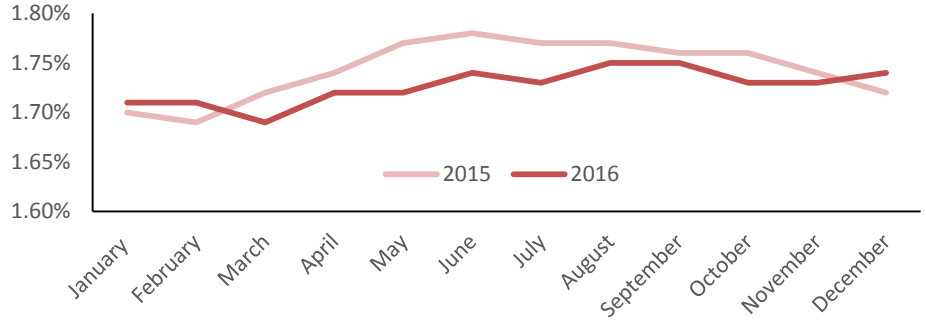
Sickness short and long term absence rate 12 month average (Dec 2016)

NEW STRUCTURE	Short term Absence rate %	Long term Absence rate %
Previous Children & Families	1.59%	2.37%
Previous Services for Communities	2.08%	5.30%
Communities & Families	0.63%	1.64%
Chief Executive	1.58%	1.30%
Edinburgh Health & Social Care Partnership	2.26%	5.47%
Place	0.95%	2.36%
Resources	1.19%	1.31%
Safer & Stronger Communities	1.30%	3.18%
Redeployees	0.74%	5.85%
Total	**1.74%**	**3.50%**

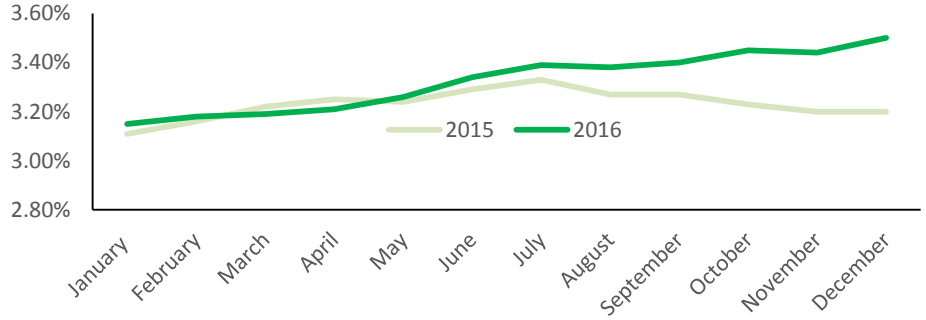
Trend Analysis – Total sickness absence full council 2015 and 2016 by month



Trend Analysis – Short term sickness absence full council 2015 and 2016 by month



Trend Analysis – Long term sickness absence full council 2015 and 2016 by month



Contents

Explanatory Notes

- **FTE** – the number of staff employed each month is estimated in terms of full time equivalents (FTE) posts, these are based as a ratio against standard contractual hours which is usually 36 hours a week, and teaching staff are contracted for 35 hours a week. The FTE total for each month is based on an extract from a review template based on information held in Trent.

- **Positions –** This is the total number of positions within the council which is different to headcount, for example one individual can be employed in two positions, i.e. two part-time jobs within the council.

- **Organisational New Starts and Leavers** – These organisational new starts and leavers do not reflect internal movement due to recruitment or FTE variation due to existing staff increase or decrease in contractual hours.

- **Annual Basic Salary Costs** – shows trends in the total annual basic salary associated with staff employed by the Council. The data provides a good measure to track change in the total salary cost for all Council employees, but includes only basic contracted salary costs at a given point in time. As such, the dataset does not consider retrospective payments made, claims based payments (such as overtime payments, working time payments, payments to supply or casual staff), or National Insurance and Pension contributions made. Information is only available for positions that have non-zero FTE record. In this report there are over 2,000 positions with either blank or zero FTE records. This means that payments to mostly casual and supply contract positions are not included in the totals. These are typically locum social care workers, supply teachers, learning assistants and front of house staff at Edinburgh venues.

- **Comparing Annual Basic Salary Cost totals over time –** All values expressed in the Annual Basic Salary Cost trends are in cash terms only taken at the actual point of time. That means they have not been adjusted to account for the last two pay awards which have occurred over the last 12 months. In March 2016 a 1% pay increase was added and from October 2015 onwards a 1.5% pay increase was added to the total annual basic salary cost. For example: a 1% pay increase to a council annual basic salary cost total of £400 million is £4 million. It is important to bear this is mind when comparing totals over these periods.

- **Comparing net new starts and leavers against staff FTE numbers:** At times there can be small differences between the results presented for organisational new starts and leavers per month and monthly FTE staff number trends due in part to the timing of when reports are run from the system. For example, the last extract for staff data was taken on **9 January 2017** and all new staff joining after the **31 December 2016** was removed. This minimises the differences between monthly FTE staff number trends and net organisational new start and leavers. Differences can also arise from the existing complement of staff such as internal movements or recruitment or changes to contract hours.

Governance Risk and Best Value Committee

10.00 am, Thursday, 20 April 2017

Edinburgh Shared Repairs Service and Property Conservation Legacy Programme Reporting Arrangements

Item number	7.7
Report number	
Executive/routine	
Wards	

Executive summary

This report provides the Governance, Risk and Best Value Committee with proposed reporting arrangements for the Edinburgh Shared Repairs Service and Property Conservation Legacy Programme.

Links

Coalition pledges	P40 , P41
Council outcomes	CO7, CO19
Single Outcome Agreement	SO4

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Report

Edinburgh Shared Repairs Service and Property Conservation Legacy Programme Reporting Arrangements

1. Recommendations

1.1 The Committee is requested to:

1.1.1 Note the proposed reporting arrangements for the Edinburgh Shared Repairs Service (ESRS) and Property Conservation Legacy Programme.

2. Background

2.1 Both the Property Conservation Legacy Programme and the ESRS have formal political reporting arrangements through the Property Sub-Committee.

2.2 This report notes proposed future reporting arrangements.

3. Main report

3.1 A Property Sub-Committee was established in October 2012 to consider issues pertaining to the then Property Conservation Service. This sub-committee met seven times between October 2012 and May 2014.

3.2 Through financial years 2013/2014, 2014/15 and 2015/16, matters relating to both Property Conservation legacy issues and the development of the new ESRS were regularly reported to the Finance and Resources Committee.

3.3 At its meeting of September 2016, the Finance and Resources Committee took the decision that future reports would be considered by the Property Sub-Committee and that this Sub-Committee should meet on a quarterly basis.

3.4 Consideration of future reports on the ESRS and the legacy Property Conservation programme by the Governance, Risk and Best Value Committee should be based on the reporting timelines established by the Property Sub-Committee. This will ensure that the Governance, Risk and Best Value Committee are considering reports which have been formally considered by the appropriate reporting sub-committee.

4. Measures of success

4.1 The establishment of appropriate political reporting arrangements for the ESRS and legacy Property Conservation programme.

5. Financial impact

5.1 None.

6. Risk, policy, compliance and governance impact

6.1 This area of work represents a significant financial and reputational risk for the Council.

7. Equalities impact

7.1 There is no equalities impact arising from this report.

8. Sustainability impact

8.1 There is no adverse environmental impact arising from this report.

9. Consultation and engagement

9.1 Not applicable.

10. Background reading/external references

10.1 N/A

Hugh Dunn

Acting Executive Director of Resources

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Links

Coalition pledges	P40 – Work with Edinburgh World Heritage Trust and other stakeholders to conserve the city's built heritage P41 – Take firm action to resolve issues surrounding the Council's Property Services
Council outcomes	CO19 – Attractive Places and Well Maintained – Edinburgh remains an attractive city through the development of high quality buildings and places and the delivery of high standards and maintenance of infrastructure and public realm
Single Outcome Agreement	SO4 – Edinburgh's communities are safer and have improved physical and social fabric
Appendices	None