

# Notice of meeting and agenda

## Governance, Risk and Best Value Committee

10:00am, Tuesday, 26 September 2017

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

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

### Contact –

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## **1. Order of Business**

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

## **2. Declarations of Interest**

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

## **3. Deputations**

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- 3.1 If any

## **4. Minutes**

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- 4.1 Minute of the Governance, Risk and Best Value Committee of 29 August 2017 – submitted for approval as a correct record (circulated)

## **5. Outstanding Actions**

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- 5.1 Outstanding Actions – 26 September 2017 (circulated)

## **6. Work Programme**

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- 6.1 Governance, Risk and Best Value Work Programme – 26 September 2017 (circulated)

## **7. Reports**

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- 7.1 Internal Audit Quarterly Update Report: 1 January 2017 – 30 June 2017 – report by the Chief Internal Auditor (circulated)
- 7.2 Internal Audit: Overdue Recommendations and Late Management Responses – report by the Chief Internal Auditor (circulated)
- 7.3 Internal Audit Opinion Benchmarking Exercise – report by the Chief Internal Auditor (circulated)
- 7.4 Principles to Govern the Working Relationships between the City of Edinburgh Council Governance, Risk and Best Value Committee and the Edinburgh Integrated Joint Board Audit and Risk Committee – report by the Chief Internal Auditor (circulated)
- 7.5 City of Edinburgh Council – 2016/17 Annual Audit Report to the Council and the Controller of Audit – joint report by the Chief Executive and Executive Director of Resources (circulated)

- 7.6 External Audit Review of Internal Financial Controls 2016/17 – report by the Executive Director of Resources (circulated)
- 7.7 Corporate Leadership Team Risk Update – report by the Executive Director of Resources (circulated)
- 7.8 Assurance of Council Human Resources Policies – 2017 – report by the Executive Director of Resources (circulated)
- 7.9 Revenue Monitoring 2016/17 - Outturn Report – referral from the Finance and Resources Committee (circulated)
- 7.10 Capital Monitoring 2016/17 - Outturn and Receipts – referral from the Finance and Resources Committee (circulated)
- 7.11 Treasury Management Annual Report 2016/17 – referral from the City of Edinburgh Council (circulated)
- 7.12 Revenue Monitoring 2017/18 - Month Three Position – referral from the Finance and Resources Committee (circulated)
- 7.13 Capital Monitoring 2017/18 – Three-Month Position – referral from the Finance and Resources Committee (circulated)

## **8. Motions**

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- 8.1 None.

### **Laurence Rockey**

Head of Strategy and Insight

### **Committee Members**

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Councillors Mowat (Convener), Main (Vice-Convener), Jim Campbell, Dickie, Gordon, Lang, Munro, Rae, Ritchie, Watt and Webber.

### **Information about the Governance, Risk and Best Value Committee**

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The Governance, Risk and Best Value Committee consists of 11 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**

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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](mailto: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](http://www.edinburgh.gov.uk/cpol).

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

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## Governance, Risk and Best Value Committee

10.00am, Tuesday, 29 August 2017

### Present

Councillors Mowat (Convener), Main (Vice-Convener), Jim Campbell, Dickie, Gordon, Lang, Munro, Rae, Ritchie, Watt and Webber

### 1. Status of the ICT Programme

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#### (a) Deputation – James Gillespie’s High School Parent Council

The deputation expressed concern at the ongoing lack of internet access for pupils within the James Gillespie’s High School building. The school had taken the decision to implement “BYOD” (Bring Your Own Device) which allows pupils to use their own IT devices, but problems had arisen when they tried to use them within the school building. The deputation believed that the delays in accessing the internet were holding back the pupils’ education.

The deputation asked the Council to work with the Parent Council to find a solution to the ongoing problems.

#### (b) Report by the Executive Director of Resources

Details were provided on the programme of works within ICT and the current service delivered by the Council’s ICT partner, CGI, together with options available to the Council regarding contractual remedies.

#### Decision

To ask the Executive Director for Children and Families for a report on:

- a) How the decision was taken to enable pupils attending James Gillespie’s High School to bring their own IT devices rather than Council devices.
- b) What advice James Gillespie’s High School were given by the directorate on the implications of their decision.
- c) Further information of other schools within the City who were in the same situation and their experiences.

- d) Possible solutions to the issue raised by the deputation on the lack of wi-fi at the High School and related timescales.

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

### **Declaration of Interests**

Councillor Main declared a non-financial interest in the above item as the parent of a child at James Gillespie's High School.

## **2. Minute**

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### **Decision**

To approve the minute of the Governance, Risk and Best Value Committee of 1 August 2017 as a correct record.

## **3. Outstanding Actions**

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

### **Decision**

- 1) To agree to close items 3, 8, 10, 13, 14, 15 and 16.
- 2) To ask the Chief Officer, Edinburgh Health and Social Care Partnership to provide an update on why the new ICT system for shift allocation was not implemented earlier in the year.
- 3) To note the remaining outstanding actions.

(Reference – Outstanding Actions – 29 August 2017, submitted.)

## **4. Work Programme**

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### **Decision**

To note the work programme.

(Reference – Governance, Risk and Best Value Work Programme – 29 August 2017, submitted.)

## **5. Review of the Policy Reporting Procedure**

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### **Decision**

To note that the item had been withdrawn in the absence of a report.

## **6. Road Services Improvement Plan**

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Details were provided on the Road Services Improvement Plan which had been approved by the Transport and Environment Committee on 10 August 2017. The plan identified the different issues that impacted on road asset management performance and the actions that the service would take to address them.

## **Decision**

- 1) To note the report by the Executive Director of Place.
- 2) To ask for a report back to Committee in 6 months time.

(References – Transport and Environment Committee of 10 August 2017 (item 6); report by the Executive Director of Place, submitted.)

## **7. Looked After Children: Transformation Programme Progress Report – referral from the Education, Children and Families Committee**

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The Education, Children and Families Committee had referred a report which provided an update on the progress of the Looked After Children transformation programme, to the Governance, Risk and Best Value Committee for consideration.

### **Decision**

- 1) To ask the Education, Children and Families Committee to call for a report to its December meeting quantifying the risk related to unaccompanied asylum seeking children.
- 2) To ask the Education, Children and Families Committee to consider writing to the Scottish and UK Governments for their support with the increasing pressures placed on the authority with regard to looked after children.

(References – Education, Children and Families Committee, 15 August 2017 (item 14); referral from the Education, Children and Families Committee, submitted)

## **8. Whistleblowing Update**

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A high level overview of the operation of the Council's whistleblowing hotline for the period 1 January to 30 June 2017 was provided.

### **Decision**

To note the report by the Chief Executive.

(References – report by the Chief Executive, submitted)

## **9. Whistleblowing Monitoring Report**

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The Council, in terms of Section 50(A)(4) of the Local Government (Scotland) Act 1973, excluded the public from the meeting during consideration of the following item of business for the reason that it involved the likely disclosure of exempt information as defined in Paragraphs 1, 12 and 15 of Part 1 of Schedule 7(A) of the Act.

An overview of the disclosures received and investigation outcome reports completed during the period 1 January to 30 June 2017 was provided.

### **Decision**

To note the report by the Chief Executive.

(Reference – report by the Chief Executive, submitted)

# Item 5.1 Outstanding Actions

## Governance, Risk and Best Value Committee

September 2017

No	Date	Report Title	Action	Action Owner	Expected completion date	Actual completion date	Comments
1	19/10/2015	<a href="#">Committee Report Process</a>	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	January 2018		The project has been delayed due to other connected ICT projects being re-planned. A meeting has been scheduled with ICT and CGI to agree an expected completion date and discuss the practicalities of e-voting with the current technology.



2	21/04/2016	<a href="#">Internal Audit – Audit and Risk Service: Delivery Model Update</a>	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.	Executive Director of Resources	April 2018		<p>A verbal update on appointments was provided in February 2017. An update on new service model will be provided after one year.</p> <p>Assurance of progress was provided within the Internal Audit Opinion Report considered on 1 August 2017.</p>
3	26/09/16	<a href="#">Corporate Leadership Team Risk Update</a>	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 be referred to the Governance, Risk and Best Value Committee for scrutiny.	Executive Director of Resources	May 2018		<p>An update will be included in the Progress Report on the Wide Structural Investigations. This will be referred to GRBV following consideration at the Finance and Resources</p>

							Committee in March 2018.  The expected completion date for phase one is 31 January 2018.
4	24/10/16  29/09/17	<a href="#">Home Care and Re-ablement Service Contact Time</a>	To request an update report 6 months after the implementation of the new ICT system for shift allocation.  To ask the Chief Officer, Edinburgh Health and Social Care Partnership to provide an update on why the new ICT system for shift allocation was not implemented earlier in the year	Chief Officer, Edinburgh Health and Social Care Partnership	Date TBC		Department to draft a briefing note – chased CH
5.	22/12/2016	<a href="#">Internal Audit Quarterly Update Report: 1 July 2016 – 30 September 2016</a>	To request an update report on the recommendation for Edinburgh Buildings Services by November 2017.	Executive Director of Place	November 2017		

6	09/03/2017	<a href="#">Outstanding Actions</a>	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.	Chief Executive	January 2018		<p>The Edinburgh Partnership Board will agree on the refreshed governance arrangements in March 2018. This is linked with locality committee developments which will also come early 2018.</p> <p>A report will be provided to members on potential proposals in January 2018</p>
7	20/04/2017	<a href="#">Governance of Major Projects: progress report</a>	1) To note the review underway for how change was reported and managed across the Council which will also include strengthening of governance arrangements around project and programme	Chief Executive			<i>Action 1</i> - The report on Portfolio of Change, key themes, schedule of delivery and the refreshed governance arrangements is due on 31 October 2017.

			<p>delivery. This would be reported to the Governance, Risk and Best Value Committee with developed proposals in the next reporting period.</p> <p>2) To request that members of Governance, Risk and Best Value Committee have input into the scope of the lessons learned report to be drafted on the New Boroughmuir High School and that this report was referred to the Governance, Risk and Best Value Committee following consideration at the Education, Children and Families Committee.</p> <p>3) To request communication with teachers, parents and parent councils on the</p>				<p><i>Action 2 - Awaiting comment</i></p> <p><i>Action 3 – The Chief Information Officer has met with the Parent Council of JGHS to update them on the progress of WiFi in the school</i></p>
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			progress with WiFi provision in schools				
8	01/08/2017	<a href="#">Governance, Risk and Best Value Work Programme – 1 August 2017</a>	To note an investigation report on retention of case records would be reported to the appropriate committee and a timescale for this would be provided as soon as possible.	Executive Director for Communities and Families	March 2018		The Executive Director for Communities and Families will provide an update in November 2017.  The final audit report would be referred from the Corporate Policy and Strategy Committee to GRBV in March 2018.
9	01/08/2017	<a href="#">Internal Audit Opinion and Annual Report for the Year Ended 31 March 2017</a>	To request a report on benchmarking, including historic trends, based on Internal Audit findings with other Local Authorities	Chief Internal Auditor	September 2017		<i>Recommended for closure, included on 26 September agenda.</i>
10	01/08/2017	<a href="#">Property Conservation Project Closure</a>	1) To request a report on forecasting for potential problems with major	Chief Executive	October 2017		The report on Portfolio of Change, key

		<a href="#">Review</a>	<p>projects and plans from the Resilience team to prevent these.</p> <p>2) To provide members with information on the progress of appointing a single point of contact for all major projects.</p>				<p>themes, schedule of delivery and the refreshed governance arrangements to ensure required management and scrutiny of project/programme delivery is due at GRBV on 31 October.</p>
11	01/08/2017	<a href="#">Employee Engagement Update 2017</a>	<p>To request the action plan drafted following the 2017 employee survey was reported to GRBV for scrutiny and approval prior to implementation</p>	Executive Director of Resources	January 2018		<p>The report will be provided, following the completion of the employee survey and the development of an action plan to address the results.</p>
12	01/08/2017	<a href="#">Monitoring Officer Investigation</a>	<p>1) To request a scoping report on the review of the complaints procedure to the GRBV Committee on 26 September 2017 which included engagement</p>	Chief Executive	October 2017		

			<p>with staff and councillors on how to improve services.</p> <p>2) To request a report to track the implementation of the Ombudsman recommendations and how these would be monitored in future.</p>				
13	01/08/2017	<a href="#">Monitoring Officer Investigation</a>	To request a review report on Project Management within the Council.	Chief Executive	October 2017		
14	29/08/2017	<a href="#">Status of the ICT Programme</a>	<p>To ask the Executive Director for Communities and Families for a report on:</p> <p>1) How the decision was taken to enable pupils attending James Gillespie's High School to bring their own IT devices rather than Council devices.</p>	Executive Director for Communities and Families	Date TBC		<i>Awaiting comment</i>

			<p>2) What advice James Gillespie's High School were given by the directorate on the implications of their decision.</p> <p>3) Further information of other schools within the City who are in the same situation and their experiences.</p> <p>4) Possible solutions to the issue raised by the deputation on the lack of wi-fi at the High School and related timescales.</p>				
15	29/09/2017	<a href="#">Roads Services Improvement Plan</a>	To ask for a report back in 6 months time	Executive Director of Place	February 2018		



# Item 6.1 - Work Programme

## Governance, Risk and Best Value Committee – September 2017

	Title / description	Sub section	Purpose/Reason	Category or type	Lead officer	Stakeholders	Progress updates	Expected date
<b>Section A – Regular Audit Items</b>								
1	Internal Audit: Overdue Recommendations and Late Management Responses		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	26 September 2017 16 January 2018 8 May 2018
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	26 September 2017 16 January 2018 8 May 2018

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	5 June 2018
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	20 March 2018
5	Accounts Commission	Annual report	Local Government in Scotland: Financial Overview	External Audit	Executive Director of Resources	Council Wide	Annually	16 January 2018
6	Accounts Commission	Annual report	Local Government in Scotland: Performance and Challenges	External Audit	Executive Director of Resources	Council Wide	Annually	Autumn/Winter 2017
7	Annual Audit Plan	Scott Moncrieff	Annual audit plan	External Audit	Executive Director of Resources	Council Wide	Annually	Spring 2018
8	Annual ISA 260 Audit Report	Scott Moncrieff	Annual Audit Report	External Audit	Executive Director of Resources	Council Wide	Annually	26 September 2017
9	Interim Audit Report	Scott Moncrieff	Interim audit report on Council wide internal financial control framework	External Audit	Executive Director of Resources	Council Wide	Annually	26 September 2017

10	IT Audit Report	Scott Moncrieff	Scope agreed during annual external audit planning cycle	External Audit	Executive Director of Resources	Council Wide	Annually	31 October 2017
<b>Section B – Scrutiny Items</b>								
11	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	31 October 2017
12	Welfare Reform	Review	Regular update reports	Scrutiny	Executive Director of Resources	Council Wide	Quarterly	16 January 2018
13	Review of CLT Risk Scrutiny	Risk	Quarterly review of CLT's scrutiny of risk	Risk Management	Chief Executive	Council Wide	Quarterly	26 September 2017 16 January 2018 8 May 2018
14	Whistleblowing Quarterly Report		Quarterly Report	Scrutiny	Chief Executive	Internal	Six-monthly	20 February 2018
15	Pride in our People	Staff	Annual report of progress	Scrutiny	Chief Executive	Council Wide	Annual	20 February 2018
16	Workforce Control	Staff	Annual report	Scrutiny	Executive Director of Resources	Council Wide	Annual	8 May 2018
17	Committee Decisions	Democracy	Annual report	Scrutiny	Chief Executive	Governance, Risk and Best Value Committee	Annual	Date TBC  Re-examine after improved information tracking.

18	Dissemination of Committee Decisions	Democracy	Bi-annual report	Scrutiny	Chief Executive	Council Wide	Six-monthly	October 2017
19	Property Conservation – Legacy Closure programme and Defect Costs	Review	Progress reports	Scrutiny	Executive Director of Resources	All		Date TBC
20	Revenue Monitoring	Review	Progress reports	Scrutiny	Executive Director of Resources	Council Wide	September 2017 December 2017 February 2018	26 September 2017
21	Capital Monitoring	Review	Progress reports	Scrutiny	Executive Director of Resources	Council Wide	September 2017 December 2017 February 2018	26 September 2017
22	Revenue Outturn	Review	Progress reports	Scrutiny	Executive Director of Resources	Council Wide	Annual	26 September 2017
23	Capital Outturn and	Review	Progress reports	Scrutiny	Executive Director of Resources	Council Wide	Annual	26 September 2017

	Receipts							
24	Treasury – Strategy report	Review	Progress reports	Scrutiny	Executive Director of Resources	Council Wide	Annual	8 May 2018
25	Treasury – Annual report	Review	Progress reports	Scrutiny	Executive Director of Resources	Council Wide	Annual	26 September 2017
26	Treasury – Mid-term report	Review	Progress reports	Scrutiny	Executive Director of Resources	Council Wide	Annual	16 January 2018

## GRBV Upcoming Reports

## Appendix 1

Report Title	Type	Flexible/Not Flexible
<b>26 September 2017</b>		
Revenue Monitoring	Scrutiny	Flexible
Capital Monitoring	Scrutiny	Flexible
Revenue Outturn	Scrutiny	Flexible
Capital Outturn and Receipts	Scrutiny	Flexible
Treasury – Annual Report	Scrutiny	Flexible
Internal Audit: Overdue Recommendations and Late Management Responses	Internal Audit	Flexible
Internal Audit Quarterly Activity Report	Internal Audit	Flexible
Internal Audit – Benchmarking, Historic Trends	Internal Audit	Flexible
Review of CLT Risk Scrutiny	Scrutiny	Flexible

Principles to govern the relationships between the Edinburgh Integrated Joint Board Audit & Risk Committee and the City of Edinburgh Council Governance, Risk & Best Value Committee.	Internal Audit	Flexible
City of Edinburgh Council – 2016/17 Annual Audit Report to the Council and the Controller of Audit	Internal Audit	Flexible
External Audit Review of Internal Financial Controls 2016/17	External Audit	Flexible
Assurance of Council Human Resources Policies – 2017	Scrutiny	Flexible
<b>31 October 2017</b>		
External Audit: IT Security	External Audit	Flexible
Change Portfolio Progress	Scrutiny	Flexible
Project Management Report	Scrutiny	Flexible
Dissemination of Committee Decisions	Scrutiny	Flexible
Review of Complaints and Tracking of Ombudsman Recommendations	Scrutiny	Flexible
Property Conservation Project Closure Review	Scrutiny	Flexible
Welfare Reform Update	Scrutiny	Flexible

# Governance, Risk and Best Value Committee

10.00am, Tuesday 26 September 2017

## Internal Audit Quarterly Update Report: 1 January 2017 – 30 June 2017

Item number	7.1
Report number	
Executive/routine	
Wards	
Council Commitments	

### Executive summary

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Internal Audit has made reasonable progress in the last quarter of the 2016/17 plan year and the first quarter of the 2017/18 plan year.

This report provides details of the activity from 1 January – 30 June 2017.



## Internal Audit Quarterly Update Report: 1 January 2017 – 30 June 2017

### Recommendations

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- 1.1 Committee is requested to note the progress of Internal Audit in issuing 11 Internal Audit reports during Quarter 4 of the 2016/17 plan year and 2 Internal Audit reports during Quarter 1 of the 2017/18 plan year.
- 1.2 Committee is requested to note the areas of higher priority findings for reviews issued during this six month period.
- 1.3 Committee is requested to refer the 6 reports noted in Appendix 1 as potentially being of interest to the Audit and Risk Committee of the Edinburgh Integration Joint Board (IJB) to that Committee.
- 1.4 Committee is requested to note the 6 audit in progress during Quarter 1 of the 2017/18 plan year as detailed in Appendix 1.

### Background

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- 2.1 Internal Audit is required to deliver an annual plan of work, which is scoped using a risk-based assessment of Council activities. Additional reviews are added to the plan where considered necessary to address any emerging risks and issues identified during the year, subject to approval from the relevant Committees.
- 2.2 Status of work and a summary of findings are presented to the Governance, Risk and Best Value Committee for consideration on a quarterly basis.

### Main report

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#### **Audit Findings for the period**

- 3.1 Internal Audit has made reasonable progress in the final quarter of the 2016/17 plan year with 13 reports being issued for the quarter. These reports contain a total of 11 High, 18 Medium and 4 Low rated findings.
- 3.2 Reasonable progress was also evident in the first quarter of the 2017/18 plan year with 2 audits completed and 6 in progress. The 6 audits in progress include a thematic review performed across the Council's 10 care homes which has involved circa 120 audit days. Detailed outcome reports and management action

plans have been issued to individual care homes and the overarching report that outlines the consolidated outcomes and findings will be issued in September 2017.

- 3.3 The current status of all outstanding recommendations from reports issued prior to this period is discussed in the report 'Internal Audit follow-up arrangements: status report' presented separately to the Committee.
- 3.4 No reports were referred by the Edinburgh Integration Joint Board (EIJB) Audit and Risk Committee at their meeting in June 2017. It is recommended that the Committee refers 4 of the reports issued in Quarter 4 2016/17 to the next EIJB Audit and Risk Committee meeting (refer Appendix 1). None of the reports completed in Quarter 1 2017/18 are recommended for referral.
- 3.5 Appendix 1 provides a summary of reports and the classification of findings in the period. A full copy of all final reports is available to members upon request.
- 3.6 Appendix 2 provides a summary of the High-Risk findings and associated management actions.

## Measures of success

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- 4.1 Once implemented, the recommendations contained within these reports will strengthen the Council's control framework.

## Financial impact

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- 5.1 None.

## Risk, policy, compliance and governance impact

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- 6.1 If Internal Audit recommendations are not implemented, the Council will be exposed to the risks set out in the relevant detailed Internal Audit reports. Internal Audit recommendations are raised as a result of control gaps or deficiencies identified during reviews therefore overdue items inherently impact upon compliance and governance.
- 6.2 To mitigate the associated risks, the Committee should review the progress of Internal Audit and the higher classified findings, and consider if further clarification or immediate follow-up is required with responsible officers for specific items.

## Equalities impact

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- 7.1 No full ERIA is required.

## Sustainability impact

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8.1 None.

## Consultation and engagement

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9.1 None.

## Background reading/external references

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10.1 None.

### **Lesley Newdall**

Chief Internal Auditor

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## 11. Appendices

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Appendix 1 – Summary of Internal Audit report findings issued for period of 1 January 2017 – 31 March 2017.

Appendix 2 – Summary of High Risk Findings and Management Actions for period of 1 January 2017 – 31 March 2017

## Summary of Internal Audit reports issued during Quarter 4 2016/17 (1 January 2017 – 31 March 2017)

<b>Internal Audit reports</b>				
Title of Review	High Risk Findings	Medium Risk Findings	Low risk Findings	Advisory Comment
# Leavers Process (RES1603)	4	1	-	-
# Property Maintenance – (RES1615)	2	2	1	-
Health and Safety – Contractor Management (RES1601)	1	2	-	-
Complaints (CF1619)	-	3	1	-
# Information Commission Officer Audit Follow Up (RES 1606)	-	3	1	-
Royal Edinburgh Military Tattoo – Stock Management and Anti-Fraud procedures (JB1604)	-	2	1	-
Lothian Valuation Joint Board (JV1601)	-	1	-	1
# Contentious Testing – Working Time Regulations (RES1618)	-	1	-	-
Prevent Strategy (CF1618)	-	1	-	-
Lothian Borders Community Justice Authority (JB1603)	-	-	-	-
SesTrand (JB1602)	-	-	-	-
* # IT Disaster Recovery (CW1602)	1	-	-	-
* # Review of External Security (CW1603)	3	2	-	-
<i>Total</i>	11	18	4	1
<b>Audit report referred by the Edinburgh Integration Joint Board Audit and Risk Committee</b>				
Management Information	1	3	-	-

# These reviews may be of interest to members of the Audit and Risk Committee of the Edinburgh Integrated Joint Board and it is proposed that these reviews are referred to that Committee.

\* These audits were included in the 2016/17 plan. Whilst work had commenced prior to year end, reports were not finalised until May 2017.

## Summary of Internal Audit reports issued during Quarter 1 2016/17 (1 April – 30 June 2017)

Internal Audit reports				
Title of Review	High Risk Findings	Medium Risk Findings	Low risk Findings	Advisory Comment
Short Term Homelessness Housing Provision (SSC1701)	2	3	1	-
Edinburgh Shared Repairs Service (RES1701)	-	-	2	1
<i>Total</i>	2	3	3	1
<b>No Audit reports were referred by the Edinburgh Integration Joint Board Audit and Risk Committee from their June meeting.</b>				

## Summary of Internal Audits in progress during Quarter 1 2016/17 (1 April – 30 June 2017)

Internal Audit reports		
Title of Review	Start Date	Estimated Completion Date
Property Conservation Lessons Learned (RES17)	February 2017	Final report issued August 2017
Care Homes (HSC1701)	March 2017	Final overarching report expected by end September 2017 – individual reports have been issued to each of the 10 care homes reviewed.
HR and Payroll – Starters Process (RES1704)	April 2017	Final report issued July 2017
Ross Bandstand (PR1701)	May 2017	Final report expected by end August 2017
Treasury (RES1703)	June 2017	Final report issued August 2017
Local Development Plan (PL1705)	August 2017	Final Report expected by end August 2017

# ***Appendix 2***

***City of Edinburgh Council***

**Internal Audit**

**Summary of Critical/High Risk Findings and  
Management Actions**

**(1 January 2017 – 30 June 2017)**

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# Section 1 – Leavers Process

Total

RES 1603

number of findings

	Critical	High	Medium	Low
<b>Total</b>	-	4	1	1

## Background

An extended audit of the leavers process which reported in December 2014 raised concerns over the tracking of Council assets and the management of non-payroll staff.

Following this report, Internal Audit was asked to perform a 'review recommend' of the end-to-end leavers process to assess key controls and recommend control design enhancements. Internal Audit mapped the full process and considered the controls in place to address 5 key risks associated with the leavers process:

- Overpayment to individuals for services rendered;
- Inappropriate access to Council data, systems and property;
- Council assets being retained by leavers;
- Council assets not being utilised in the most effective way; and
- Issues regarding staff morale and satisfaction not being identified and rectified.

Both payroll and non-payroll leavers processes were considered. Non-payroll leavers include fixed term contractors and agency workers from Adecco and ASA.

The review identified 5 potential weaknesses in the payroll leavers process, and 3 further weaknesses in the non-payroll leavers process. Internal Audit made 15 recommendations in total as a result of this review.



The Review Recommend report was considered by GRBV in June 2015. Management made a commitment to GRBV at that time that they would implement the recommendations made by Internal Audit, primarily through provisions made the new ICT contract and service redesign under the Council's Transformation Programme. In the interim, a group from the HR Service Centre, HR and ICT Solutions 'would collaborate to mitigate the identified risks'.

This review was undertaken to measure progress made in addressing the weaknesses identified by the Review Recommend.

### **Scope**

The scope of this review was to assess the design and operating effectiveness of the Council's controls relating to the leavers process, with a focus on action taken to respond to weaknesses identified in the 2014 internal audit and 2015 'review recommend'.

The sub-processes and related control objectives included in the review are:

- System Access;
- Payroll
- Return of mobile assets
- Completion of exit checklists
- Exit interviews; and
- Follow up of Review Recommend findings.

### **Summary of High Risk Findings**

#### Outstanding Actions from the Review Recommend

Internal Audit carried out a 'Review Recommend' of the end-to-end leavers process which was reported to GRBV in June 2015. There were 8 potential weaknesses identified in this review.

Despite a commitment to GRBV that management would implement the 15 recommendations made in this review, there has been limited progress made in the past 18 months and the weaknesses identified 2 years ago remain.

#### System Access

From a sample of 45 employees who left the Council in August 2016. 11 (25%) still had an open Active Directory account at the time of our audit in November 2016.

An Active Directory account permits access to core Council IT systems including computer terminals, email and the intranet. User accounts for other Council systems such as Oracle (finance), Swift (social work), iTrent (HR and payroll) and Seemis (schools) are linked to the user's Active Directory account.

Note that we did not review access to other Council systems, or systems hosted by third parties. However, we observed that there is no record of which systems any one employee has access to. Leavers' accounts are therefore only closed if the leaver or their line manager contacts the relevant systems administrator.

#### Email Redirection

Email redirect rules can be set up on any Outlook account. This allows emails sent to a Council email address from any source to be automatically forwarded to any internal or external email address.

In the case of leavers, this means that the leaver may still have access to Council emails and potentially sensitive data as long as their Active Directory account remains open (see finding 2).

However, this is also a risk for current employees. Employees are able to automatically forward to a business or personal email account. The Council has no guarantee that external email accounts are secure, and no control over or access to information held there.

We note that the Council decided to close web-based email accounts due to concerns over security some years ago. The current Outlook accounts are intended to be accessed only from encrypted Council-managed devices. Email redirect rules allow users to bypass these controls.

#### Mobile Assets Register

CGI have a list of all laptops and desktops allocated a BTED reference number. However, there is no record of the location or user of each device.

There are no central records of who holds Council-owned iPads and other mobile devices as these are managed locally by service areas and teams.

This means the central IT hub does not know if leavers have returned all Council-owned assets.

## Recommendations and Agreed Management Action for High Risk Findings

Recommendations	Agreed Management Actions	Target Date	Status of Actions Due
<p><b>Outstanding Actions from Review Recommend</b></p> <p>Management should honour the commitment made to GRBV in June 2015 and implement the recommendations made by Internal Audit in connection with leavers.</p>	<p>A process review workshop will be held on 29 March when issues and improvements in the leavers process (including HR, Customer Services and ICT) will be mapped and identified.</p> <p>HR guidance available to managers and staff on the Orb will be refreshed to reflect the new process and to give managers accurate information about their responsibilities when an employee leaves.</p> <p>We seek to gain insight re: staff morale and satisfaction from a number of different methods, some of which are short term timely interventions with others seeking insight into longer term cultural change we are seeking to achieve. This includes activities ranging from team and service area surveys, staff focus groups and events such as talk with Andrew Kerr. Exit interview template and guidance are available for line managers to use if required, but they are not mandatory. We do however encourage exit interviews for 'regretted' leavers and the Orb guidance will be updated to reflect this.</p> <p><b>Responsible Officers:</b> Head of Human Resources/Head of ICT/ Head of Customer</p>	<p>30 April 2017</p> <p>30 September 2017</p> <p>30 September 2017</p>	<p>Complete</p> <p>Not Due.</p> <p>Not Due.</p>

Recommendations	Agreed Management Actions	Target Date	Status of Actions Due
<b>System Access</b>	<p data-bbox="857 344 1570 533">Responsibility for the closing down of all account/access for leavers remains with the line manager, the reason amongst other things, to give consideration to any data retrieval/ retention of content that is legislative or required before accounts are deleted. However:</p> <ol data-bbox="882 603 1570 1342" style="list-style-type: none"> <li>1) ICT Solutions receive weekly leaver reports from HR to close specific system accounts, ITrent, IWorld, Swift etc.</li> <li>2) ICT will suspend leaver's Active Directory accounts (so the leaver no longer has access to Active Directory and linked systems) once the weekly report is received from HR. ICT will consult with the business on the appropriate period to keep leavers' accounts 'suspended' before deleting them.</li> <li>3) ICT has now checked the Active Directory accounts of all employees who left in 2016/17, and has deleted any accounts that were still open.</li> <li>4) ICT will investigate setting an expiry date on all temporary AD accounts covering agency, contractors &amp; partners.</li> <li>5) Processes have now been tightened to suspend any inactive account where there is an exception 'not known' for 90 days. Accounts will</li> </ol>	<p data-bbox="1592 584 1733 616">Immediate</p> <p data-bbox="1592 683 1733 715">Immediate</p> <p data-bbox="1592 957 1733 989">Immediate</p> <p data-bbox="1592 1091 1771 1123">30 April 2017</p> <p data-bbox="1592 1190 1733 1222">Immediate</p>	<p data-bbox="1856 584 1989 616">Complete</p> <p data-bbox="1856 683 1989 715">Complete</p> <p data-bbox="1856 957 1989 989">Complete</p> <p data-bbox="1856 1091 2018 1123">Outstanding</p> <p data-bbox="1856 1190 1989 1222">Complete</p>

Recommendations	Agreed Management Actions	Target Date	Status of Actions Due
	<p>subsequently be deleted after 180 days of inactivity.</p> <p>6) ICT will investigate the possibility of reporting on a subset of temporary accounts (i.e. those beginning with '990' which are assigned to agency staff, contractors and partners) with a view to further investigation with the business areas to validate them.</p> <p>As per the previous finding, a process review workshop will be held on 29 March when issues and improvements in the leavers process (including HR, Customer Services and ICT) will be mapped and identified. HR guidance will then be refreshed. This will include mechanisms to notify administrators of systems hosted by third parties.</p> <p><b>Responsible Officers:</b> Head of ICT/ Head of Customer/Head of Human Resources</p>	<p>30 September 2017</p> <p>30 June 2017</p>	<p>Not Due</p> <p>Not Due</p>
<p><b>Email redirection</b></p> <p>Email redirect rules which allow the forwarding of email to a non-Council account should be disabled.</p>	<p>This will be discussed at the Joint Council &amp; CGI Security working group (1<sup>st</sup> March 2017). CGI will be requested to progress and investigate all potential auto forwards currently active on our network. With the understanding gained from this process, ICT will propose a policy on the use of auto forwards. Current options include, do nothing, disable auto forwards completely, or restrict the functionality to certain individuals or addresses.</p> <p>Once the above action has been completed and a</p>	<p>30 September 2017</p> <p>31 October 2017</p>	<p>Not Due</p> <p>Not Due</p>

Recommendations	Agreed Management Actions	Target Date	Status of Actions Due
	<p>decision reached on the appropriate option, this may need to go to CLT to get agreement to the ICT proposed policy on auto forwards.</p> <p><b>Responsible Officers:</b> Head of ICT/ Data Services Manager</p>		
<p><b>Mobile Assets Register</b></p> <p>1) All Council-owned and managed devices should be allocated to a named user.</p> <p>2) Final salary payments should be withheld until the employee has returned all Council-owned and managed devices to the IT central hub.</p>	<p>This will be addressed fully once the Device refresh programme is completed. All assets issued will be tagged, allocated to a named user and recorded.</p> <p>In the interim:</p> <p>1) CEC partially holds information on unique asset reference, user name and details of user, last log on etc. for currently active devices. Unfortunately, we don't know the specific site detail where the machines are connecting from within the network. There is an action on CGI to address the level of detail down to site location, a follow up is expected.</p> <p>2) All managers have been asked to return unused assets to the ICT Hub.</p> <p>3) HR guidance on the Orb will be refreshed to instruct line managers that assets must be returned to the ICT Hub.</p> <p>Final salary payments withheld or payroll deduction for assets not returned – concept understood however we will reinforce change of process before revisiting for consideration as this would require a significantly</p>	<p>31 December 2017</p> <p>30 September 2017</p> <p>Immediate</p> <p>30 September 2017</p> <p>Review 31 December 2017</p>	<p>Not Due.</p> <p>Not Due.</p> <p>Complete</p> <p>Not Due</p> <p>Not Due</p>

Recommendations	Agreed Management Actions	Target Date	Status of Actions Due
	<p>robust process and extensive communication with all staff prior to taking such action. This recommendation will only be considered should the new processes not close out this issue.</p> <p><b>Responsible Officers:</b> Head of ICT/ Head of Customer/Head of Human Resources</p>		

Status of actions due will be validated by Internal Audit as part of the follow-up review process.

# Section 2 – Property Maintenance

RES 1615

## Total number of findings

	Critical	High	Medium	Low
<b>Total</b>	-	2	1	1

## Background

It is widely recognised that much of the Council estate is in a poor condition and that the Council does not have a complete understanding of the current state of its operational property portfolio. There is an extensive exercise underway to carry out condition surveys of all buildings owned and operated by the Council, and to use that data to inform the redesign of the Facilities Management service and the development of the Asset Management Strategy.

An in-house survey team was established in 2015 to undertake a 5 year rolling programme of visual condition surveys to identify latent defects in operational property. These surveys would supplement information from more regular surveys such as statutory inspections, insurance inspections and routine maintenance inspections. Following a recommendation to the Finance and Resources Committee as part of the Asset Management Strategy, a decision was made in 2016 to accelerate the initial 5 year condition survey programme by appointment of external consultants to work in tandem with the in-house survey team. The accelerated survey programme is expected to be completed by the Autumn of 2017. A programme of “rope access” surveys will also precede and supplement the results of the condition surveys.

The Findings surveys will inform the future 5 year Asset Management Works capital programme, any future Planned Maintenance programme and the prioritisation of works.

## Scope

The scope of this report is to review the design and operating effectiveness of the Council’s framework and controls for identifying repairs required and prioritizing both capital and revenue works.

The sub-processes and related control objectives included in the review are:

- Identification of repairs;
- Management Information; and
- Prioritisation of work.



## Summary of High Risk Findings

### Maintenance Budget Shortfalls

The Asset Condition & Maintenance Strategy issued in March 2016 and subsequent quarterly reports to the Finance and Resources Committee have highlighted the significant funding gap between the estimated cost of addressing backlog capital repairs and introducing a planned preventative maintenance programme, and the current Property Maintenance budget.

The Asset Condition & Maintenance Strategy sets out a high level, medium-term strategic budget forecast for the capital and revenue expenditure required over a 5-year period to 2020/21. This estimates a backlog of capital works of £110m over 5 years, as well as the costs of a planned preventative maintenance programme using a benchmark of £26.75 per square meter per year.

This results in a shortfall (clearly reported to the Finance & Resources Committee) of £8m per year on the capital budget (a cumulative shortfall of £40m over 5 years), and £15m per year by 2020/21 on the revenue budget (cumulative shortfall of £61m). There is a risk that, once capital works have been completed and operational buildings retained by the Council have been brought up to an acceptable condition, the buildings again deteriorate due to the lack of funding for ongoing maintenance.

In-house surveyors have begun a programme of condition surveys, covering 27.8% of the Council's operational estate to date. £29.6m of backlog capital works have been identified so far. Extrapolated across the remaining estate this gives a cost of £108.7m to carry out backlog capital works. This would indicate that the £110m backlog capital maintenance budget is reasonable if the surveys performed to date are reflective proportion of the population as a whole.

However, this £29.6m does not include revenue backlog costs identified as part of the surveys. Based on three surveys reviewed, revenue spend identified to date was identified as £32k per property. If extrapolated across the full operational estate, this suggests work to carry out backlog revenue works could amount to £32.8 million. This is not included in the £110m identified works, or ongoing planned preventative maintenance.

### High Risk Items Identified in Conditional Surveys

It is expected that any health and safety (priority 1), wind and watertight (priority 2) or service disruption (priority 3) issues identified during the condition surveys will be reported to the Facilities Management helpdesk for immediate action.

#### *Condition surveys*

We reviewed condition surveys for 3 properties. 3 'Priority 1' health and safety issues were identified at 2 of the properties.

One of these three issues was identified appropriately on the survey, communicated directly to the Facilities Management helpdesk by the

surveyor, and actioned accordingly.

On the second property, two health & safety issues were identified in the narrative of the report issued in June 2016:

- Cracks to a boundary wall
- No finger guards on hinged edges of nursery doors.

The boundary wall was highlighted as a 'Priority 1' issue in the condition survey report. It was reported to the area facilities manager (not the Facilities Management helpdesk) in an email and resolved in August 2016. The lack of finger guards was not highlighted as a 'Priority 1' issue in the condition survey report, but was reported to the area facilities manager by email. It was not actioned. Finger guards have now been procured through the Facilities Management helpdesk as a result of this audit.

#### *Health & Safety issues*

We selected a further seven additional high risk items identified across 10 condition surveys to confirm that appropriate action had been taken. We found three issues which were not reported to the Facilities Management helpdesk.

- One issue has not been actioned;
- One issue was actioned by janitorial staff on-site; and
- One action was ultimately deemed unnecessary by the facilities manager.

It was noted during our testing that issues arising from the condition surveys are not consistently reported to the Facilities Management helpdesk, and, if reported, it is not noted that they were identified through a condition survey. This means it is difficult to verify that issues identified in condition surveys have been addressed.

## Recommendations and Agreed Management Action for High Risk Findings

Recommendations	Agreed Management Actions	Target Date	Status of Actions Due
<p><b>Maintenance Budget Shortfalls</b></p> <p>We emphasise the need for the Corporate Leadership Team to consider remedial revenue works and future planned preventative maintenance as part of Asset Management Strategy.</p>	<p>The Corporate Leadership Team (CLT) recognises the maintenance shortfalls noted above. It also recognises that the current situation will likely lead to continued deterioration of the property portfolio with corresponding impacts on service provision and increased whole life costs of individual properties. The CLT recognises the long term benefits of addressing this backlog but given the current financial climate, the priorities of the Council's ruling coalition and the competing demands on the Councils' finite financial resources, does not consider that clearing the backlog is realistically achievable at this time.</p> <p>CLT are proposing to allocate additional resources to the extent feasible and a report to the Finance &amp; Resources Committee in January 2017 includes an option for an additional £1m of expenditure to help ensure that the Council can continue to ensure that its buildings remain in a stable condition, and that they met the Council's Health &amp; Safety and Wind &amp; Watertight criteria.</p>	N/A	N/A
<p><b>High Risk Items Identified in Conditional Surveys</b></p> <p>1) We recommend that condition survey reports are reviewed by a second surveyor to verify that Priority 1-3 issues have been correctly identified and reported.</p>	<p>1. Recommendation 1 is now in place.</p>	Immediate	Complete

Recommendations	Agreed Management Actions	Target Date	Status of Actions Due
<p>2) Formalise process for responding to issues identified in condition surveys. We recommend that Priority 1-3 issues are reported to the Facilities Management helpdesk.</p> <p>3) Issues identified during condition surveys and reported to the Facilities Management helpdesk should be given a unique identifier to allow monitoring of actions</p>	<p>2. This process has been agreed by Strategic Asset Management and will be implemented during the external condition survey.</p> <p>3. The items reported to the helpdesk are separately to be recorded and forwarded to the Technical Operations Manager</p> <p>Note that any urgent items (priority 1, 2 or 3) identified during condition surveys will be reported to the helpdesk but also recorded on the said condition survey and separately noted on an action tracker spreadsheet between SAM and FM. This process is an interim process until the CAFM condition module is fully operational and will allow tracking of items within the system.</p> <p><b>Responsible Officer:</b> Capital Asset Planning Manager</p>	<p>28 February 2017</p> <p>28 February 2017</p>	<p>Complete</p> <p>Complete</p>

Status of actions due will be validated by Internal Audit as part of the follow-up review process.

# Section 3 – Health & Safety – Contractor Management

RES 1601

Total number of findings

	Critical	High	Medium	Low
<b>Total</b>	-	1	2	-

## Background

The Council recognises that in order to deliver its targets and objectives, the health and safety of its staff, contractors and customers is key. Furthermore, in order to keep its employees, contractors and service users safe, it is important to have a robust health and safety management system and strategy in place. Non-compliance with Health & Safety requirements remains a significant risk to the Council.

In February 2015, during PwC's independent review of the proposed changes to the Health and Safety management system, a key finding around contractor management was identified. This finding noted that there were no safety expectations/requirements provided to contractors or included in contract negotiations. On occasions, contractors were found to have begun work without an agreed H&S plan.

This current review was commissioned to check progress against recommendations for improvement of contractor management as well as to carry out a more detailed review of the process of tendering, prequalification, on-boarding and ongoing monitoring of contractors.

## Scope

The scope of the review will be to consider the design and operating effectiveness of the arrangements within the Council to manage contractors from a Health & Safety perspective.

The sub-processes included in the review are:

- Procurement of Contractors; and
- Management of Contractors.

## **Summary of High Risk Finding**

### Supplier Management

While the Council has a number of standing orders in place to provide guidance on Contractor procurement, there is no overarching strategy and/or policy in place for the control and management of contractors/suppliers. The standing orders in existence have been developed to meet various needs that are being identified as the procurement process becomes more robust. There is a need for a Contractor Management Policy to give structure to the whole process. There are three particular areas of weakness, we have identified:

#### **1. Unclear roles and responsibilities**

The lack of a structured contractor/supplier management process has led to a lack of clarity around roles and responsibilities with the majority of attention/responsibility reverting back to procurement. Procurement accepts that the initial phase of procuring contractors, is its responsibility but it does not accept that the ongoing monitoring should lie with Procurement. Contract owners are named under each framework, but the individuals are not currently mandated to do anything in regards to H&S and, moreover, there is no guidance provided as to how they should discharge their duties. Contract owners are therefore unsure what is required of them which contributes to inconsistency across the Council with regards to how it manages contractors. For example, it is good practice to request health and safety documentation such as risk assessments, method statements and training certificates prior to commencing with safety critical works. However, all contract owners and contractors interviewed during the audit process reported that this is not currently taking place.

#### **2. Lack of contractor performance reporting/review process**

There is no quarterly or annual review of contractor performance, covering topics such as Safety but also financial and quality aspects of contract performance. The council is therefore missing potentially valuable management information which could provide benefits such as cost saving and performance feedback. In certain cases, KPIs are set for contractors but there is no evidence that this information is requested and followed through to check how contractors are performing against agreed targets. Some contractors are providing this on a monthly basis but this is often being driven by the contractor rather than being specifically requested by the Council.

#### **3. Over-reliance on initial prequalification**

There is an over-reliance on the initial prequalification of contractors as a safety risk control measure. The prequalification process can only provide a snapshot in time and should be supplemented by ongoing monitoring of contractors. For example, Procurement may request a sample of risk assessments and method statements to review during the tendering stage but that does not mean that this review should be relied upon for all on-going activities by contractors. Further review should be undertaken by Contract Owners within the Council.

## Recommendations and Agreed Management Action for High Risk Findings

Recommendations	Agreed Management Actions	Target Date	Status of Actions Due
<p><b>Supplier Management</b></p> <p>1. (a) Create a central team that has cross departmental oversight and is responsible for driving the different facets (Financial, Operational and Risk, plus Policy owners for H&amp;S, data protection, resilience, etc.) of the control and management of contractors/suppliers. In the interest of consistency, we recommend that the current procurement team is augmented to be able to perform this additional oversight role. In order to effectively carry out this function, there would need to be an increase in resource and possible changes to responsibilities within CPS.</p> <p>(b) The monitoring of contractors and subcontractors will remain within the service areas as per the Contract Standing Orders. Where contractors are subcontracting work, a monitoring mechanism must be agreed to ensure that subcontractors are held to the council's performance standards.</p> <p>2. Create a policy for the control and management of contractors and suppliers that aligns to recognised standards, leveraging sources of contractor management good practice. This policy should specify responsibilities for the</p>	<p>It is proposed that the findings will be addressed through the implementation of a Council-wide approach to Contract Management. The establishment of a dedicated team to facilitate the development of an overarching strategy and architecture to define common processes, best practice and to support management and reporting on a tiered basis was previously approved by CLT and will support the delivery of some of the recommendations within the report.</p> <p>1. a.) Establish a team within CPS to work in partnership with service areas to facilitate the development of overarching processes, information, advice and guidance for Service Areas and Contract Owners.</p> <p>b.) Monitoring of Contractors and subcontractors remains the responsibility of service areas as part of the Contract Standing Orders. A reminder will be sent to service areas in this regard. Contract owners need to ensure that Contractors and Suppliers operate to acceptable standards in all aspects of their performance including quality of work, financial cost and safety standards.</p> <p>2. CPS will work closely with Service Areas and the H&amp;S and other teams to create a policy for the control and management of contractors &amp;</p>	<p>1a.) 31 December 2017</p> <p>1b.) Ongoing</p> <p>2.) 31 December 2017</p>	<p>Not Due</p> <p>N/A</p> <p>Not Due</p>

Recommendations	Agreed Management Actions	Target Date	Status of Actions Due
<p>different stakeholders involved in the contractor management process.</p> <p>3. Schedule and maintain regular reviews of contractor performance that consider the financial, operational, quality and H&amp;S performance of the contractor. The frequency of these reviews should be determined by such factors as the significance of the safety risk, the amount of spend, etc.</p> <p>4. A communication plan for contractor management should also be determined by the Chief Procurement Officer, specifying the reporting arrangements to the central team in charge of contractor management.</p> <p>5. Develop a training programme for those with responsibilities within the contractor management process, especially for Contract Owners and users. A contractor management 'roles and responsibilities' training plan should be developed with specific focus on Contract Owners, Contract Users, Contractors, as well as Managers and any other specific staff as agreed by the Council.</p>	<p>suppliers that aligns to recognised standards and good practice. The policy will specify responsibilities for the different stakeholders involved in contract management process.</p> <p>3. CPS will work with Service Areas, CPS, Risk and Policy owners for key risks (incl H&amp;S, data protection, resilience) to identify key measures and KPIs required to ensure consistency around contractors performance and review including guidance on good practice for Contract Owners and Service Areas. Using this appropriate measurement, a process on reporting, and escalation will be developed for use by Service Areas adopting a risk based approach.</p> <p>4. Service Areas and CPS to develop a communication plan which will specify the escalation, reporting and feedback arrangements to the central Contract Management team and/or other relevant team on risks, poor performance or contract breaches.</p> <p>5. Chief Procurement Officer to determine generic principles of contract management with specific focus on Contract Owners, Contract Users, Contractors, as well as Managers and any other specific staff as agreed. Specific and relative skills training for contract owners will need to be assessed and implemented by Directors. Directors should ensure that suitably skilled staff are identified as Contract Owners. Head of HR will be</p>	<p>3.) 31 December 2017</p> <p>4.) 31 December 2017</p> <p>5.) 31 December 2017</p>	<p>Not Due</p> <p>Not Due</p> <p>Not Due</p>



Recommendations	Agreed Management Actions	Target Date	Status of Actions Due
	<p>responsible for the establishment of a Training Programme for those with responsibilities within the contractor management process.</p> <p><b><i>Responsible Officers: Directors of Resources, Place, Communities &amp; Families, Health &amp; Social Care, Chief Procurement Officer, Head of HR</i></b></p>		

Status of actions due will be validated by Internal Audit as part of the follow-up review process.

# Section 4 – IT Disaster Recovery

## Total number of findings

	Critical	High	Medium	Low
<b>Total</b>	-	1	-	-

## Background

Until 31 March 2016, BT were responsible for the provision of Edinburgh Council's DR capability. BT had access to a recovery site that held backups but there were no clear plans for how these would be used to re-establish service following a major disruptive incident. DR plans had never been reviewed or tested.

On 1 April, CGI replaced BT as the Council's IT service provider and responsibility of the provision of DR capability transferred to CGI. As part of the new contractual arrangements, CGI agreed to test the effectiveness of this capability on a timely basis, based on the criticality of ICT systems.

The CGI Head of Services is responsible for ensuring the following take place:

- Plan the test and share the plans with the Council;
- Obtain approval of test data to be used, test plan, specification and schedules prior to test execution and for the test to proceed;
- Ensuring that the DR tests are carried out according to the contracted schedules;
- Reporting back to the Council with the results of the tests including recommended actions and monitoring of these actions;
- Providing notice of testing and agree witnessing with the Council; and
- Perform retests where necessary.

The design of the DR programme proposed by CGI has only recently been agreed by the Council and testing on its effectiveness has yet to be performed. It is expecting that testing will commence at some point in 2017.

## Scope

The scope of this review was to:

- Assess the design and operating effectiveness of processes to identify critical systems; and
- Assess the current roadmap, action plans and governance activity to embed IT DR capability for council systems managed by CGI.

## Summary of High Risk Finding

The current DR capability is not sufficiently robust to allow confidence that ICT services across the Council can be fully recovered in a prioritised and timely manner following a significant ICT incident.

Following the transition of IT managed services to CGI, a DR programme has been established which, it is anticipated, would allow the Council to recover critical services and data in the event of major disruption or loss of IT infrastructure. However, enhancements are required to allow confidence that the DR programme will meet the recovery requirements of the Council and its stakeholders.

The weaknesses in the DR programme, set out below may adversely impact upon the ability of the Council to recover critical systems effectively:

- Robust testing in line with the CGI contractual requirement, of the Council's recovery processes has not been performed to determine whether the recovery solution is fit for purpose and to validate the effectiveness of the current design of recovery provisions and processes.
- The approach to classifying critical systems, as either P1, P2 or P3 (High, Medium, Low), is not consistent and does not consider other prioritisations within the Council. The application of these ratings are determined by business owners and is a subjective process, which may result in systems being misclassified from a Council wide perspective.
- The inventory of system dependencies between critical Council systems is not regularly reviewed or maintained. Management review this on an ad hoc basis or when CGI identify any weaknesses in infrastructure.
- There is no mandatory requirement for, or oversight of, DR provisions or testing for IT systems that are procured, managed or maintained either outside the CGI contract or without oversight from ICT.
- Business owners and stakeholders for IT systems and services have not been updated, which may result in delays in implementing improvements and establishing business requirements.

Recommendations	Agreed Management Actions	Target Date	Status of Actions Due
Management should ensure that ICT systems within the Council have been identified and classified appropriately. Disaster recovery processes should be vigorously tested to validate the ability of the Council to successfully recover systems and data within the defined timescales set by stakeholders.	Differing implementation dates are proposed for the distinct elements of the recommendation as follows: <ul style="list-style-type: none"> <li>• 'Management should ensure that ICT systems within the Council have been identified and classified appropriately' – This will be conducted for all centrally managed IT. See below for consideration of 'Shadow IT'.</li> </ul>	30 June 2017	IA Validation
For systems that are identified which are not managed by central ICT (Shadow IT), Management should consider how they could	<ul style="list-style-type: none"> <li>• 'Disaster recovery processes should be vigorously tested to validate the ability of the Council to successfully recover systems and date within the</li> </ul>	31 March 2018	Not Due

Recommendations	Agreed Management Actions	Target Date	Status of Actions Due
<p>work with the system owners in ensuring that that these systems are resilient and can recover following a major incident.</p>	<p>defined timescales set by stakeholders' – DR plan in place covering 8 keys systems to be executed by end 2017, thereafter DR plan/testing will be re-programmed in line with the status of the transformation. A prioritised DR plan incorporating the testing of systems as per their classification will be in place by 31 March 2018.</p> <ul style="list-style-type: none"> <li>• 'For systems that are identified which are not managed by central IC (Shadow IT), Management should consider how they could work with the system owners in ensuring that these systems are resilient and can recover following a major incident' - Please refer to recommendation No 3 of the 'Review of External Security Internal Audit Report (CW1603).</li> </ul> <p><b>Responsible Officers:</b> Enterprise Architect, ICT Solutions</p>	<p>30 November 2017</p>	<p>Not Due.</p>

Status of actions due will be validated by Internal Audit as part of the follow-up review process.

# Section 5 – Review of External Security

## Total number of findings

	Critical	High	Medium	Low
<b>Total</b>	-	3	2	-

## Background

The Council is operating in an increasingly connected world and is adopting digital technologies to provide more effective and responsive services to citizens. With the proliferation of the use and sharing of data through digital channels, significant risks arise in storing, processing and moving this data securely. To help facilitate a growing and complex operating environment, there is a reliance on third party suppliers, which in itself, creates additional challenges and risks to organisations who choose to source IT services externally.

In 2016 responsibility for the provision of managed IT services and infrastructure for the Council transitioned from BT to CGI. As part of this arrangement, CGI has taken responsibility for IT security services and maintaining an IT environment that protects the confidentiality, availability and integrity of the Council's information.

The Council relies on an ICT environment that includes a large number of legacy systems (i.e. those that are no longer supported by the third parties that develop core components). Improving and securing legacy systems can be challenging, particularly where the third party no longer exists or the software and infrastructure of systems are outdated.

Remediation activities to improve the security of Council infrastructure, network and systems include Public Sector Network (PSN) reaccreditation, which is required to demonstrate that the Council's security arrangements are sufficiently rigorous to access the UK Government's public sector network. In order to achieve this, 26 high and 32 medium risk items were remediated within the Council's IT estate that were identified by CGI during IT health checks in late 2016. While certification was successfully obtained in February 2017, there remain a large number of risk items that still need to be addressed including significant vulnerabilities inherited from the former IT services provider tenure.

We reviewed the coverage and oversight of controls that protect the Council's systems from external threat. In particular, this review focuses on the level of oversight provided by CGI to Council Management of the operational effectiveness of the controls that secure the Council systems.

## Scope

The review focuses on the following sub-processes and control objectives:

- Risk Management;
- Control Coverage;

- Oversight; and
- Education and Awareness

### **Summary of High Risk Findings**

#### The Council have not embedded a security programme to coordinate security improvement activities across the organisation

Following the transition of IT managed services from BT to CGI in early 2016, there have been remediation activities across the Council's estate to improve the security across infrastructure, networks and systems. Remediation plans to recertify for Public Sector Network (PSN) accreditation and ongoing progress with the Security Management Plan (which defines the baseline security measures CGI will implement) have helped to further secure the Council's defences since this time.

The Council have attempted to define an overarching security programme to coordinate these security improvement efforts. However Management have been constrained by a need to remediate current control issues. As a result, this overarching programme has not been progressed. Security improvement activities are not being carried out as part of a wider programme (joining together the SMP as well as other security activities such as user education and identification of shadow IT elements) to ensure that efforts are coordinated and prioritised in such a way that would allow the most significant risks to the organisation to be addressed.

Furthermore, the lack of security programme means that there is not a consolidated approach that would inform Senior Management of progress, provide oversight over the status of enterprise security and allow visibility over significant security gaps within the Council. It is therefore challenging for ICT Management to obtain the required engagement from stakeholders to make meaningful progress.

A security programme would also help to provide additional oversight over CGI's contractual obligations, in particular those stated within the Security Management Plan. We also note that security measures that would help to secure the Council's enterprise security have not yet been implemented by CGI, for example:

- An Information Security Management System (ISMS), that would detail CGI's policies and processes to manage information risk, has not been shared with the Council despite Management requesting assurance that this is in place and operational.
- Inventories that detail the Council's external facing systems (and network ingress/egress points) have not been completed.
- Registers have not been completed that detail which third parties services are employed, the connections that exist and the security measures that protect Council data when transacting with these suppliers. Council Management have requested this from CGI however this is still outstanding.

The Council does not have assurance over the design or operating effectiveness of controls in place over its infrastructure, data and systems

CGI, a third party IT service solutions provider, maintains the Council's systems, infrastructure, networks and controls that safeguard these technologies. While a contract is in place that determines what CGI will do, and a Security Management Plan that details the security activities to be delivered and managed, there are no processes in place that allow Management to obtain comfort that these controls are meeting the security requirements of the Council.

We note that Management have provided challenge to third party suppliers and have requested evidence of effective operation of control. Despite this effort, they have yet to obtain sufficient assurance and evidence of whether baseline security controls operated by CGI are:

- Appropriate for the data or systems they safeguard;
- In place, operating effectively and have not been compromised;
- Consistently updated to remove known exploits or vulnerabilities; or
- Configured in line with best practice

Furthermore, evidence has not consistently been provided by CGI to Management over the following IT security activities:

- Penetration testing over Council projects and new technologies;
- Continuous vulnerability scanning over the Council's IT estate;
- Intrusion Detection Systems (IDS) are in place and operating effectively;
- Restricting privileged roles and access over critical systems that contain sensitive or PII data; and
- Compliance activities that ensure that third party services have sufficient controls in place to handle and protect Council data and systems

Without suitable assurance and management information, the Council is unable to form a view of the security or integrity of its IT infrastructure, systems and services. Management, without such evidence, cannot gain comfort over whether the "crown jewels" of the organisation (i.e. data on vulnerable persons) have the appropriate controls in place to safeguard it, or assess whether additional controls are required.

There is limited control and oversight over areas of 'Shadow IT' within the Council

In discussion with Management, it was noted that there are areas of 'shadow' IT (where technology is implemented and maintained without knowledge or oversight from central IT Services) in operation at the Council. This poses an unquantifiable risk to the Council as it is unknown what types of data are stored, what security measures and processes are in place, who has access to this data and what if any Disaster Recovery provision is in place.

Management have recognised these vulnerabilities in IT and information security however and are actively trying to remediate these areas. A new process has been implemented that requires all Council IT purchases made out with of standard CGI adoption processes to be applied via a procurement waiver, which will enable ICT to assess the adoption of new technologies prior to their acquisition.

Areas of shadow IT that are currently in operation range from:

- Schools which implement their own hardware without being risk assessed or configured to a security baseline by Council IT Services. Desktops or laptops that are used to store and process sensitive or personable identifiable information (PII) may not have appropriate controls in place to safeguard this data.
- Departments within the Council that operate their own IT infrastructure or databases that are independent of central ICT services. As some departments operate autonomously and with little dependence on central ICT, there is limited oversight over the maintenance of information systems or the robustness of security controls in place. For example, traffic light management systems run on legacy operating systems that are no longer vendor supported and limited consideration has been given to the secure architecture or protection of these systems.
- Council websites (Management have noted over 200 instances) that are not administered through CGI or Council ICT services. Some instances are hosted with third party suppliers that have not considered security arrangements within the contract. Similarly many have not been subject to security testing (for example penetration testing to identify vulnerabilities or weaknesses). Management have identified the websites in operation and a programme is ongoing to consolidate these within the Council, however it is important that sufficient governance be applied to ensure that websites processing personal or sensitive data are managed securely.

Recommendations	Agreed Management Actions	Target Date	Status of Actions Due
<p><u>The Council have not embedded a security programme to coordinate security improvement activities across the organisation</u></p> <p>The Council, with the support of CGI, should implement a formal programme of security that would consolidate the security improvement and remediation activities across the organisation.</p>	<p>A security programme will be prepared by CGI, reviewed by the ICT Security Manager and subject to approval by the Head of ICT. CGI will be responsible for the implementation of the Security plan</p> <p><b>Responsible Officers:</b> ICT Security Manager</p>	30 June 2017	IA Validation
<p><u>The Council does not have assurance over the design or operating effectiveness of controls in place over its infrastructure, data and systems</u></p> <p>It is recommended that the Council define with CGI the security metrics, KPIs and reporting</p>	<p>The ICT security manager will derive suitable security metrics, KPI's and reporting mechanisms. Agreement will be sought from CGI prior to the implementation of these metrics</p> <p>An assurance review process will then be put in place.</p>	31 August 2017  30 September	IA Validation  Not due



Recommendations	Agreed Management Actions	Target Date	Status of Actions Due
<p>mechanisms that would provide Management assurance over the:</p> <ul style="list-style-type: none"> <li>• controls in place over their systems, infrastructure and staff</li> <li>• management of these controls</li> <li>• operating effectiveness of these controls</li> </ul> <p>Additionally, positive assurance reviews should be carried out by the Council to give comfort over the effectiveness of ICT controls embedded by CGI.</p>	<p><b>Responsible Officers:</b> ICT Security Manager</p>	<p>2017</p>	
<p><u>There is limited control and oversight over areas of ‘Shadow IT’ within the Council</u></p> <p>It is recommended that a risk assessment be performed to scope the technologies and systems in operation across the Council that are not managed by central ICT services.</p> <p>Following this, Senior Management should determine, on a case by case basis, whether to:</p> <ul style="list-style-type: none"> <li>• accept the risk that these systems pose to the Council’s security and allow them to operate autonomously; or</li> <li>• ‘on-board’ these systems to allow them to be administered by Central ICT services.</li> </ul> <p>An ‘on-boarding’ process should be developed, with sufficient oversight and governance, to facilitate the transition of systems and technologies to central management.</p>	<p>The four elements to this recommendation are agreed. These actions also address the 3rd action in Finding 1 of the ‘IT Disaster Recovery’ Internal Audit Report (CW1602)</p> <p>The proposed implementation dates are as follows:</p> <ul style="list-style-type: none"> <li>• Risk assessment</li> <li>• Senior management decisions on technologies and systems</li> <li>• ‘On-boarding’ process incorporated within decision making stage above</li> <li>• Procurement route(s) and appropriate risk assessment process embedded within the first two stages above.</li> </ul> <p><b>Responsible Officers:</b> CIO/Head of ICT Solutions</p>	<p>30 September 2017</p> <p>31 March 2018</p> <p>31 March 2018</p> <p>31 March 2018</p>	<p>Not Due</p> <p>Not Due</p> <p>Not Due</p> <p>Not Due</p>

Recommendations	Agreed Management Actions	Target Date	Status of Actions Due
<p>Management should also consider how they can work with the functions and departments that are able to procure IT autonomously, to ensure that shadow IT systems are appropriately identified and risk assessed prior to acquisition.</p>			

Status of actions due will be validated by Internal Audit as part of the follow-up review process.

# Section 6 – Short Term Homelessness Provision

## Total number of findings

	Critical	High	Medium	Low
<b>Total</b>	-	2	3	1

## Background

The Council has a statutory obligation to provide temporary accommodation to any person who presents as homeless. Temporary accommodation is provided either in furnished flats (via the private sector leasing scheme), supported accommodation, Council-staffed units, bed and breakfast facilities or hostels.

The number of people presenting as homeless has decreased substantially, from 3,649 in 2015/16 to 2,912 in the 11 months to end February 2017. This represents a decrease of 13% pro rata. Meanwhile, the average length of stay in temporary accommodation has increased from 120 days in 2015/16 to 139.7 days in 2016/17. This is in large part because Edinburgh has an acute shortage of housing in the social rented sector so there is a shortage of suitable accommodation for people living in temporary accommodation to move on to.

Around 400 Bed and Breakfast (“B&B”) places are provided by guesthouses under a framework contract. The framework covers the period from August 2015 to August 2017. In the 18 months since the contract framework began, demand for short-term accommodation has increased, and around 100 places are now procured as ‘off contract’ spot purchases.

The current providers of the private sector leasing scheme are Link Housing Association. They procure and manage private rented accommodation on behalf of the Council under a 3 year contract which runs until 31 March 2018. Link Housing Association is contracted to supply up to 1,750 flats and houses.

## Scope

This review focused on contract management of bed and breakfast accommodation and the private sector leasing scheme, considering the following areas:

- Service Provision;
- Finance; and
- Forward planning

## Summary of High Risk Findings

### Off-contract purchasing

A significant element of expenditure on B&Bs is on off-contract properties that are consistently used and in some cases fully occupied by the council for the whole year.

In 2016/17, 15,362 bed nights were purchased in off-contract B&Bs for a total of £953,006.51. The detailed table included in the Finding in the main report following table shows a total of 11 frequently used off-contract B&Bs in 2016/17.

There are no contracts in place with these providers and there was no competitive tendering. Rates are often more than equivalent on-contract provision, and in a number of cases the Council pays these providers more than their advertised rate.

These providers are not subject to the same contractual obligations and contract monitoring as contracted providers, which include annual inspections of the property and health & safety certification.

The level of off-contract spend suggests that the current contract framework was based on inaccurate estimates of future need. The Bed & Breakfast contracts expire in August 2017. The procurement exercise for new Bed & Breakfast contracts has begun, but at present future service demand has not been forecast, and there is no clearly articulated plan for the provision of this type of accommodation as part of a wider strategy to tackle homelessness.

### Invoices are not checked for accuracy of prices

B&B providers submit invoices (usually weekly) detailing the individual's name, the length of the stay, the price for the stay and any other costs such as flex rates.

The rate per room and flex rates on the invoice are not checked before approving the invoice for payment.

We inspected a sample of 25 invoices:

- 12 invoices were from contracted B&Bs. We were unable to agree any of these to contract rates.
- 9 invoices were from off-contract B&Bs. We were only able to agree 2 of these invoices to rates recorded on the HIS database.
- We were unable to obtain documentation in support of 4 invoices.

<b>Recommendations</b>	<b>Agreed Management Actions</b>	<b>Target Date</b>	<b>Status of Actions Due</b>
<u>Off-contract purchasing</u> The Service should work with the Corporate	For future contract delivery, a forecast analysis will be completed. Although the service is demand-led and at times subject to external influences, for example,	Completed	IA Validation

Recommendations	Agreed Management Actions	Target Date	Status of Actions Due
<p>Procurement Office to develop a service specification which will meet the needs of the Service and service users over the next 3-4 years. We recommend that this work includes:</p> <ul style="list-style-type: none"> <li>• A forecast of future service demand;</li> <li>• Evaluation of the potential impact of external factors such as Welfare Reform;</li> <li>• Consideration of supplier capacity/appetite and alternative service models;</li> <li>• Analysis of where numbers of units in a ward are breached; and</li> <li>• A ‘lessons learned’ review of the current contract framework.</li> </ul> <p>If under the new contract there is a need for spot purchasing or an increased demand for temporary accommodation, the Service should seek to comply with Contract Standing Orders.</p> <p>The Service should also seek to satisfy itself that ‘spot’ purchase and off-contract accommodation hold the necessary licenses and meet the appropriate Health &amp; Safety standards.</p>	<p>welfare benefits changes, the service holds enough information on historic and current provision for a realistic forecast of contract requirements to be completed.</p> <p>To ensure city-wide provision to meet the needs of our customers and minimise community impact, there has been a cap on the number of contracted properties in each ward (currently 8). Given the increase in demand, following future procurement, it is likely that some wards will have more bed and breakfast provision than others. Based on the demand projections, this cap may need to be reviewed and increased by agreement with elected members.</p> <p>Use of non-contracted properties will be kept to a minimum, only being used in short-term emergency situations, and service users will be transferred to contracted properties as soon as practicable.</p> <p>A process will be implemented to ensure that use of non-contracted properties is in line with the Council’s Contract Standing Orders. Cumulative cost per supplier will be monitored to ensure £3000 threshold is not breached and waivers are put in place if necessary. Regular review meetings will be conducted to ensure that records are kept and that everything possible is being done to minimise use of these properties.</p> <p><b>Responsible Officers:</b> Homelessness and Housing Support Senior Manager</p>	<p>31 July 2017</p> <p>30 June 2017</p>	<p>IA Validation</p> <p>IA Validation</p>
<p>Rates should be checked against contracted or agreed rates before invoices are approved for payment.</p>	<p>We will ensure there is a process in place to provide bed costs accurately at the point of initial contact and record this on the system. This will happen for each placement to ensure that every placement has the correct price. Invoices will be checked against these</p>	<p>30 June 2017</p>	<p>IA Validation</p>

Recommendations	Agreed Management Actions	Target Date	Status of Actions Due
A quality assurance process over the invoice check should be introduced.	<p>prices before being approved for payment.</p> <p>A pro-forma will be developed for audit purposes and a 2% audit check of all invoices will be undertaken monthly to ensure accuracy of price, occupancy and invoice checking.</p> <p><b>Responsible Officers:</b> Temporary Accommodation Team Leader and Business Support Manager aligned to Homelessness and Housing Support Service</p>	31 October 2017	Not Due

Status of actions due will be validated by Internal Audit as part of the follow-up review process.

# Section 7 – Management Information – Referral from the Edinburgh Integration Joint Board Audit & Risk Committee

## Total number of findings

	Critical	High	Medium	Low
<b>Total</b>	-	1	3	1

## Background

The Edinburgh Integration Joint Board ('EIJB') approved the Strategic Plan for Health and Social Care in Edinburgh in March 2016. This plan forms the basis for directions issued to NHS Lothian and City of Edinburgh Council setting out how services should be delivered.

The EIJB is required to establish a performance management framework to enable it to monitor progress against the priorities and actions set out in the Strategic Plan. As part of the performance management framework, the EIJB will need data from the organisations of the Edinburgh Health & Social Care Partnership which is accurate, timely, and curated to meet the particular needs of the EIJB, allowing them to monitor performance effectively and make informed decisions on the provision of health and social care in the City.

The Public Bodies (Joint Working) (Scotland) Act 2014 also requires all Integrated Joint Boards to publish an Annual Performance Report, with the first due in July 2017 for the 2016/17 financial year. Boards will report performance in each locality against the 9 National Outcomes.

## Scope

The scope of this review will be to assess the design and operating effectiveness of the EIJB's controls relating to management information. This included:

- The development of the Performance Management Framework; and
- Review performance reporting on delays across the Health & Social Care system

## Summary of High Risk Findings

### Performance Management Framework in Development

A key part of the strategic plan is the development of a performance management framework, which will allow the EIJB to monitor progress against national and local outcomes, and embed quality improvement.

The EIJB is also required by the Public Bodies (Joint Working) (Scotland) Act 2014 to publish a performance report each year, with the first report due in July 2017. The Scottish Ministers have indicated that this will be a report on performance against the 9 National Outcomes and 23 core indicators.

At the time of audit fieldwork, 6 months into the 2016/17 performance year, both the Performance Management Framework and the Annual Performance Report are in development. Management are building a performance management framework from scratch and, in consultation with stakeholder groups, are in the process of developing metrics for the 44 strategic objectives set by the EIJB, and the 23 core indicators set by the Scottish Ministers.

Rubrics (definitions of what 'excellent', 'acceptable' and 'poor' look like for that section) are being trialled for 5 of the 44 strategic objectives. Progress against the remaining 39 strategic objectives will be tracked by monitoring whether key milestones in the project plan are met. The project plans are currently being drafted.

Until the Performance Management Framework is developed, however, regular performance reporting to the EIJB and its subgroups is limited to financial updates and statutory delayed discharge reporting.

### Recommendations and Agreed Management Action for High Risk Finding

Recommendations	Agreed Management Actions	Target Date	Status of Actions Due
<p><b>Performance Management Framework in Development</b></p> <p>The Performance Management Framework, including preparation for the Annual Performance Report, should be finalised and embedded. This should include:</p>	<p>We now monitor and have data against the 23 core indicators. However, the 2016/17 data will not be available by July 2017. This is a national issue and Scottish Government is aware of it.</p>	<p>28 February 2017</p>	<p>Complete</p>



Recommendations	Agreed Management Actions	Target Date	Status of Actions Due
<ul style="list-style-type: none"> <li>- Performance measures (whether criteria for rubrics, or 'traditional' performance indicators);</li> <li>- Data required to assess performance against the National Outcomes and internal performance measures;</li> <li>- Establishing the source and timing of data;</li> <li>- Defining the roles of Committee and key management groups in relation to performance monitoring; and</li> <li>- Agreeing the frequency and format of performance reporting</li> </ul>	<p>A Performance Board is being established as part of the overall governance framework for the Health and Social Care Partnership which will work closely with the IJB Performance and Quality Group. The main role of the Performance Board will be to agree the core set of performance indicators and monitor delivery against these. The Board will have its first meeting in February 2017.</p> <p>An initial meeting has taken place to discuss the content of the Annual Performance Report. A core group has been identified to take this forward and a series of meetings is being arranged for early in the New Year. The intention is for a draft report to go to the IJB Development session in April 2017.</p> <p>A governance framework will be developed and documented setting out the roles remits and membership of the various committees and groups and the relationship between them.</p> <p><b>Responsible Officer:</b> Strategic Planning Manager</p>	31 July 2017	Not Due
		28 February 2017	Complete

Status of actions due will be validated by Internal Audit as part of the follow-up review process.

## Summary of High Risk Findings

### Off-contract purchasing

A significant element of expenditure on B&Bs is on off-contract properties that are consistently used and in some cases fully occupied by the council for the whole year.

In 2016/17, 15,362 bed nights were purchased in off-contract B&Bs for a total of £953,006.51. The following table shows frequently used off-contract B&Bs in 2016/17: Off Contract B&B	No of Bed nights	Cost of Bed nights	Average cost per night	
Abbot House Hotel*	3658	£191,982.50	£52.48	
Abbey Lodge	2372	£158,200.00	£66.69	
Aaron Lodge	2287	£119,058.57	£52.06	
Edinburgh Regency Guest House	1605	£108,270.00	£67.46	
Parkview Hotel	909	£80,648.80	£88.72	
Heriott Park B&B	586	£56,185.00	£95.88	
Premier Inn (South Queensferry)	208	£33,625.95	£161.66	
John's Place (No 9)*	614	£28,838.00	£46.97	
Ravensdown	677	£27,200.00	£40.18	
Premier Inn (Leith)	119	£12,656.94	£106.36	
Premier Inn (Haymarket)	112	£11,958.70	£106.77	

# Section 7 – Management Information – Referral from the Edinburgh Integration Joint Board Audit & Risk Committee

## Total number of findings

	Critical	High	Medium	Low
<b>Total</b>	-	1	3	1

## Background

The Edinburgh Integration Joint Board ('EIJB') approved the Strategic Plan for Health and Social Care in Edinburgh in March 2016. This plan forms the basis for directions issued to NHS Lothian and City of Edinburgh Council setting out how services should be delivered.

The EIJB is required to establish a performance management framework to enable it to monitor progress against the priorities and actions set out in the Strategic Plan. As part of the performance management framework, the EIJB will need data from the organisations of the Edinburgh Health & Social Care Partnership which is accurate, timely, and curated to meet the particular needs of the EIJB, allowing them to monitor performance effectively and make informed decisions on the provision of health and social care in the City.

The Public Bodies (Joint Working) (Scotland) Act 2014 also requires all Integrated Joint Boards to publish an Annual Performance Report, with the first due in July 2017 for the 2016/17 financial year. Boards will report performance in each locality against the 9 National Outcomes.

## Scope

The scope of this review will be to assess the design and operating effectiveness of the EIJB's controls relating to management information. This included:

- The development of the Performance Management Framework; and
- Review performance reporting on delays across the Health & Social Care system

## Summary of High Risk Findings

### Performance Management Framework in Development

A key part of the strategic plan is the development of a performance management framework, which will allow the EIJB to monitor progress against national and local outcomes, and embed quality improvement.

The EIJB is also required by the Public Bodies (Joint Working) (Scotland) Act 2014 to publish a performance report each year, with the first report due in July 2017. The Scottish Ministers have indicated that this will be a report on performance against the 9 National Outcomes and 23 core indicators.

At the time of audit fieldwork, 6 months into the 2016/17 performance year, both the Performance Management Framework and the Annual Performance Report are in development. Management are building a performance management framework from scratch and, in consultation with stakeholder groups, are in the process of developing metrics for the 44 strategic objectives set by the EIJB, and the 23 core indicators set by the Scottish Ministers.

Rubrics (definitions of what 'excellent', 'acceptable' and 'poor' look like for that section) are being trialled for 5 of the 44 strategic objectives. Progress against the remaining 39 strategic objectives will be tracked by monitoring whether key milestones in the project plan are met. The project plans are currently being drafted.

Until the Performance Management Framework is developed, however, regular performance reporting to the EIJB and its subgroups is limited to financial updates and statutory delayed discharge reporting.

### Recommendations and Agreed Management Action for High Risk Finding

Recommendations	Agreed Management Actions	Target Date	Status of Actions Due
<p><b>Performance Management Framework in Development</b></p> <p>The Performance Management Framework, including preparation for the Annual Performance Report, should be finalised and embedded. This should include:</p>	<p>We now monitor and have data against the 23 core indicators. However, the 2016/17 data will not be available by July 2017. This is a national issue and Scottish Government is aware of it.</p>	<p>28 February 2017</p>	<p>Complete</p>

Recommendations	Agreed Management Actions	Target Date	Status of Actions Due
<ul style="list-style-type: none"> <li>- Performance measures (whether criteria for rubrics, or 'traditional' performance indicators);</li> <li>- Data required to assess performance against the National Outcomes and internal performance measures;</li> <li>- Establishing the source and timing of data;</li> <li>- Defining the roles of Committee and key management groups in relation to performance monitoring; and</li> <li>- Agreeing the frequency and format of performance reporting</li> </ul>	<p>A Performance Board is being established as part of the overall governance framework for the Health and Social Care Partnership which will work closely with the IJB Performance and Quality Group. The main role of the Performance Board will be to agree the core set of performance indicators and monitor delivery against these. The Board will have its first meeting in February 2017.</p> <p>An initial meeting has taken place to discuss the content of the Annual Performance Report. A core group has been identified to take this forward and a series of meetings is being arranged for early in the New Year. The intention is for a draft report to go to the IJB Development session in April 2017.</p> <p>A governance framework will be developed and documented setting out the roles remits and membership of the various committees and groups and the relationship between them.</p> <p><b>Responsible Officer:</b> Strategic Planning Manager</p>	<p>31 July 2017</p> <p>28 February 2017</p>	<p>Not Due</p> <p>Complete</p>

Status of actions due will be validated by Internal Audit as part of the follow-up review process.

# Governance, Risk and Best Value Committee

10.00am, Tuesday, 26 September 2017

## Internal Audit: Overdue Recommendations and Late Management Responses

Item number 7.2

Report number  
Executive/routine  
Wards

### Executive summary

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This report sets out all overdue Internal Audit recommendations across the Council providing further status updates and likely implementation dates where they have been provided by service Areas (Appendix 1).

There are currently 83 open Internal Audit recommendations across Service Areas as at 25 August 2017, of which 36 (43%) are overdue. This reflects a decrease of 5 overdue recommendations from the latest position (41) reported to the Governance, Risk and Best Value (GRBV) Committee on 1 August 2017 (as at 27 June 2017).

This report also identifies audit reports that have been issued in draft where final management responses have not been received within our two week service standard. There are currently no draft reports where management responses have not been received within the two week requirement.



## Internal Audit: Overdue Recommendations and Late Management Recommendations

### 1. Recommendations

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- 1.1 The Governance Risk and Best Value (GRBV) Committee is requested to note:
  - 1.1.1 The current status of overdue Internal Audit recommendations as at 25 August 2017;
  - 1.1.2 The revised approach proposed in relation to the 3 recommendations noted at section 3.12 below that was approved by the Corporate Leadership Team (CLT) at their meeting on 30 August 2017;
  - 1.1.3 The revised Internal Audit (IA) monthly reporting timetable for updates on open and overdue recommendations detailed at section 3.13; and
  - 1.1.4 That there are currently no reports issued in draft where management responses have not been received within our two week service standard.

### 2. Background

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- 2.1 The GRBV Committee and CLT have both expressed concerns about the number of overdue Internal Audit recommendations. Currently, the status of overdue recommendations is reported monthly to CLT and quarterly to GRBV.
- 2.2 It is anticipated that the greater visibility that this monthly reporting provides will result in more Internal Audit recommendations being closed off in a timely manner.
- 2.3 At the CLT meeting on 10 July 2017, revised proposals for monitoring and reporting on overdue Internal Audit recommendations were approved. This paper provides an update on overdue recommendations in line with the revised approach.
- 2.4 The Internal Audit definition of an overdue recommendation is any recommendation where all agreed actions have not been implemented by the final date agreed and recorded in Internal Audit reports.

### 3. Main report

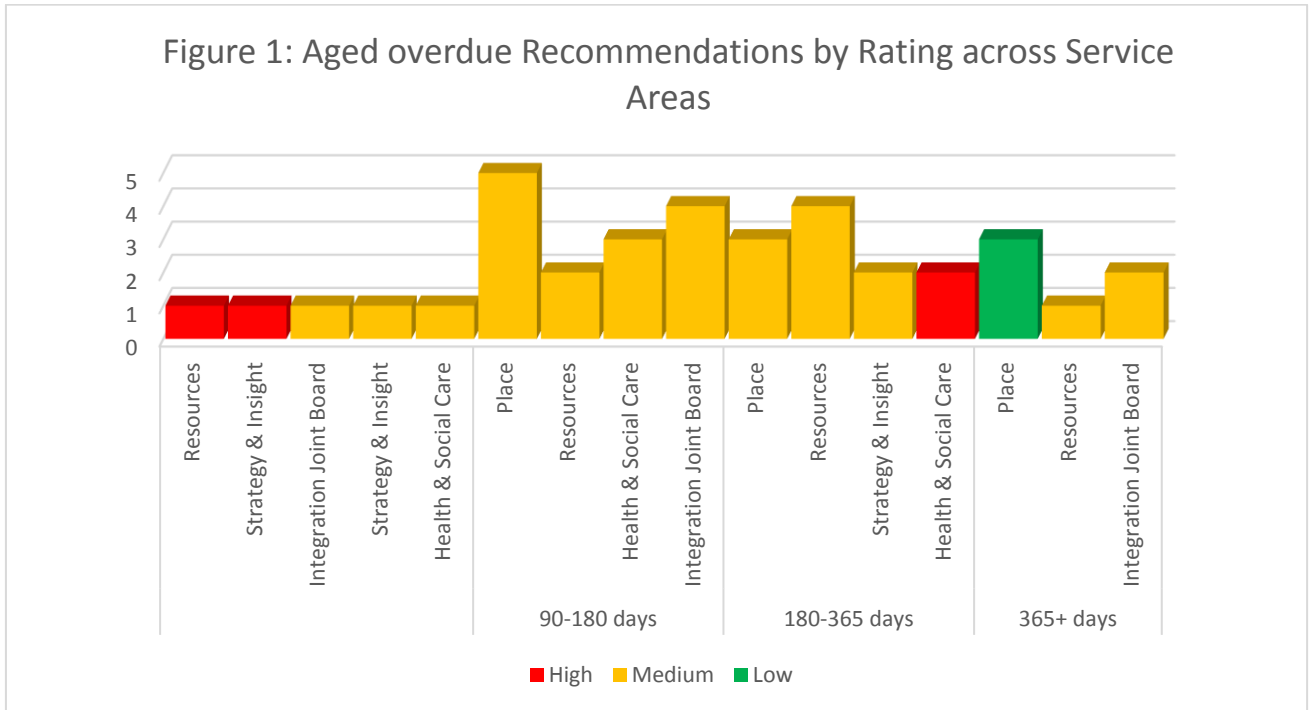
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- 3.1 There are currently 83 open Internal Audit recommendations across Service Areas within the Council as at 25 August 2017. Of these 36 (43%) are overdue (3 High; 30 Medium; and 3 Low). This reflects an overall decrease of 5 overdue recommendations from the latest position (41) reported at the GRBV Committee meeting on 1 August 2017 (as at 27 June). This movement is represented by an increase in overdue recommendations at the end of July (5), and the closure of 10 overdue recommendations across July and August.
- 3.2 The 5 recommendations that became overdue at the end of July were:
- Resources – 1 High (RES1603ISS.1 – Leavers Process)
  - Resources (ICT) – 1 Medium (CW1603ISS.1 – External Vulnerability Assessment). This recommendation was subsequently closed in August.
  - Strategy and Insight – 1 High (CSE1601ISS.2 – Review of Grant Management / Councillor Conflicts of Interest). Rating was downgraded from ‘High’ to ‘Medium’ in July based on evidence provided.
  - Health and Social Care – 1 Medium (RES1604ISS.3 – IJB Data Integration and Sharing).
  - Stronger and Safer Communities – 1 Medium (SSC1701ISS.3 – Short Term Homelessness Provision). This recommendation was subsequently closed in August
- 3.3 The 10 overdue recommendations that were closed between 27 June and 25<sup>th</sup> August comprised 2 High; 6 Medium; and 2 Advisory across the following Service Areas:
- Health and Social Care (1 High; 1 Medium; 1 Advisory)
  - ICT (1 High; 1 Medium; 1 Advisory)
  - Resources (2 Medium)
  - Place (1 Medium); and
  - Safer and Stronger Communities (1 Medium).
- 3.4 Whilst no new recommendations were overdue as at 25<sup>th</sup> August, 6 open recommendations are due for completion by 31 August 2017. These are:
- Communities and Families – 2 Medium (CF1619ISS.3 and CF1621ISS.1)
  - Resources – 1 High (RES1704ISS.4) and 2 Medium (CW1603ISS.5 and MIS1601aISS.2).
  - Strategy and Insight - 1 Medium (CF1619ISS.1)
- 3.5 Ratings were downgraded for 2 overdue recommendations in July based on implementation progress where the residual risk has been demonstrably reduced by control improvements:
- Strategy and Insight (CSE1601ISS.2 grant management / conflict of interest) - reduced from High to Medium.

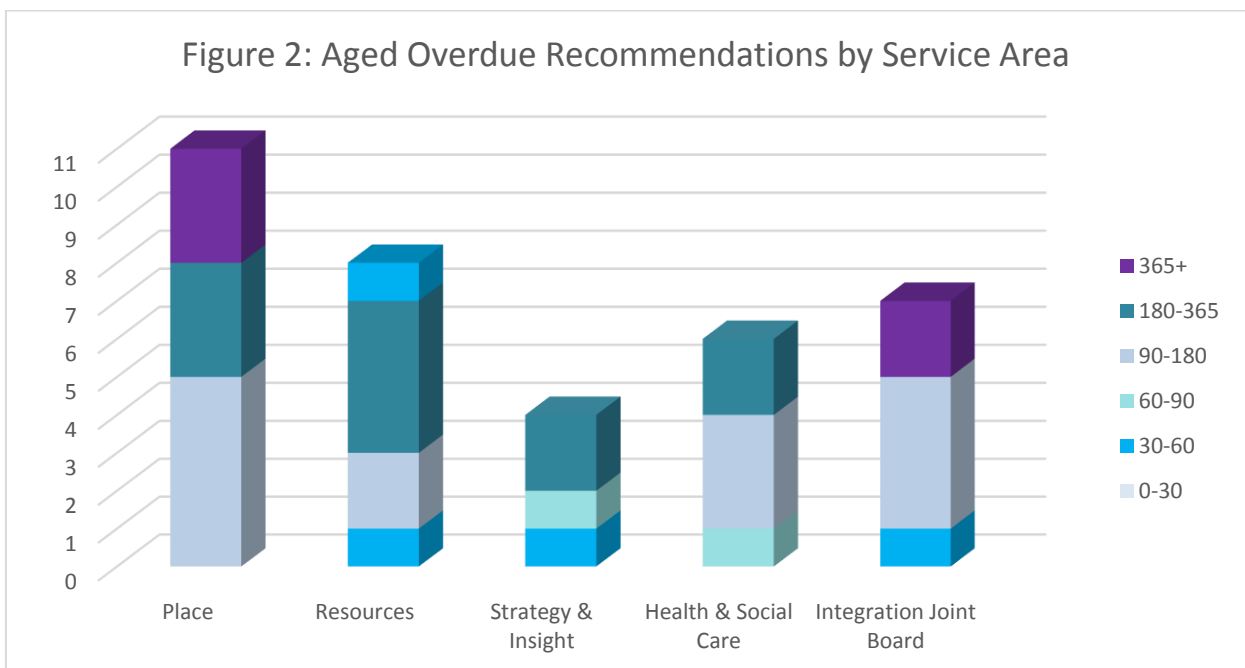


- Health and Social Care (HSC1503ISS.6 – Self Directed Support) - reduced from Medium to Low.

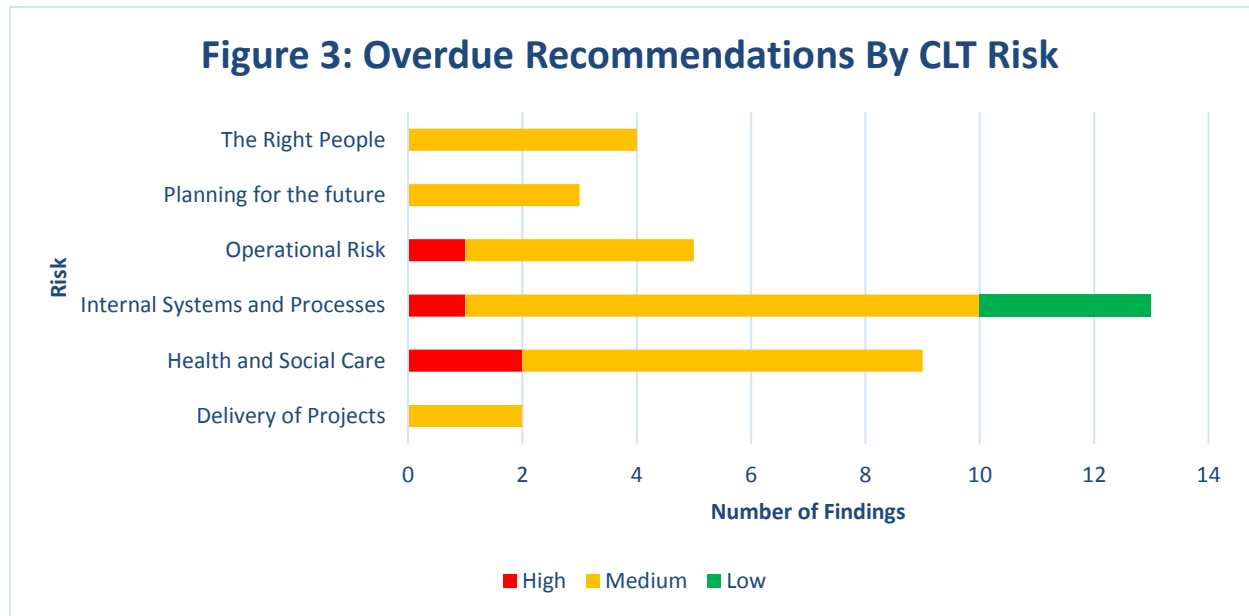
3.6 Figure 1 illustrates the ageing profile of all 36 overdue recommendations by rating across Service Areas. Of these, 17 are more than 180 days' overdue (2 High; 12 Medium; and 3 Low), with 6 of the 17 (3 Medium and 3 Low) more than 365 days overdue.



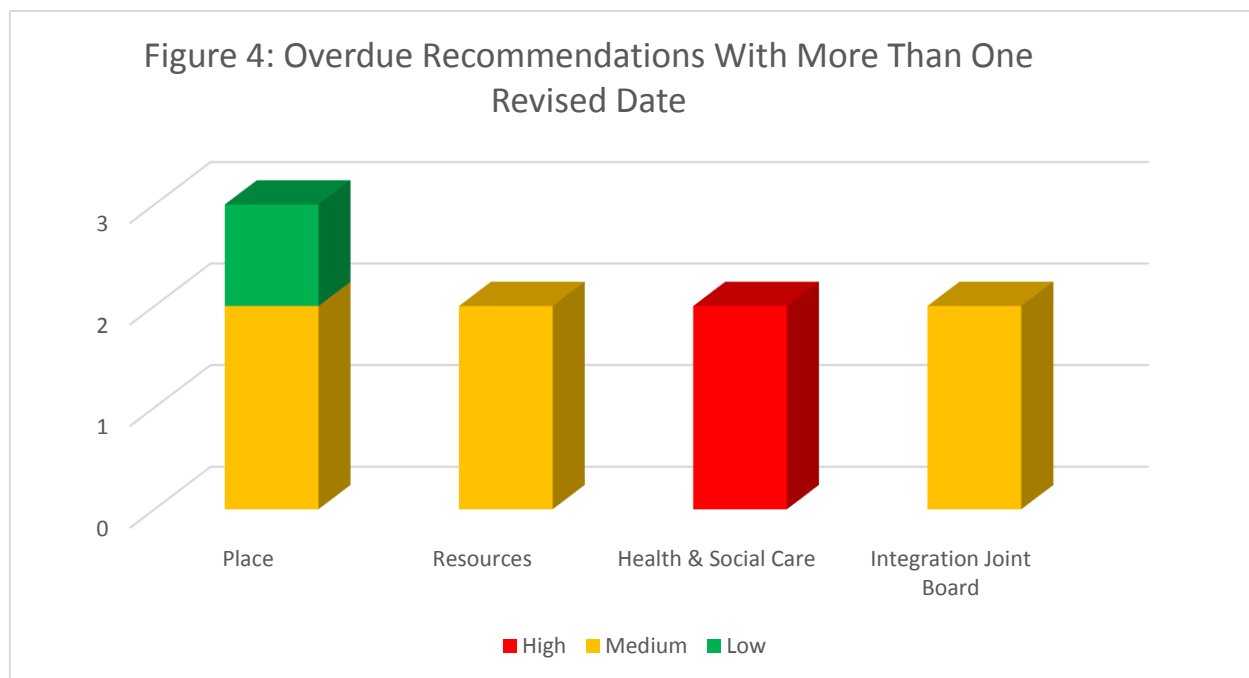
3.7 Figure 2 highlights the ageing profile of overdue Internal Audit Actions for each Service Area.



3.8 Figure 3 correlates the current top Corporate Leadership Team risks to the relevant overdue Internal Audit recommendations. Our primary risk exposures as a result of overdue recommendations are Health and Social Care and Internal Systems and Processes. Please note that these risks will be updated in October to reflect the revised CLT risk descriptions presented to the Governance, Risk and Best Value Committee in September.



3.9 Figure 4 illustrates Service Areas who have revised completion dates for overdue recommendations more than once since the implementation dates agreed when finalising audit reports.



- 3.10 There are currently three remaining medium rated overdue recommendations in Resources where closure is dependent on implementation of the new Business World System. Internal Audit is working with the respective Management teams in Customer to enhance existing (manual) operational controls to ensure that these recommendations can be closed. We have also shared details of these recommendations with the Business World Programme and requested confirmation regarding their inclusion in the Business World system design.
- 3.11 There are two open (not overdue) recommendations where agreed dates for specific actions have been missed. These are:
- Strategy and Insight - ICO Follow Up (RES1606ISS.2 – Medium). Initial action date was 30 May. This action date has now been revised to 31 August, with the full recommendation due for closure by 31 March 2018.
  - Safer and Stronger Communities – Short Term Homelessness Provision (SSC1701ISS.2 - High) – action date 30 June. The overdue action is currently being validated by IA, with closure of the full recommendation due by 31 October 2017.
- 3.12 There are currently 3 recommendations (2 open and 1 overdue) owned by the Head of ICT and the Head of Legal and Risk respectively, where support is required from all Service Areas to progress closure. To ensure that this is achieved, the following changes were approved by CLT at their meeting on 30<sup>th</sup> August 2017:
1. The Disaster Recovery and External Vulnerability Assessment Internal Audit reports concluded in May 2017 each include High findings that are open, but not overdue. A component part of each of these High findings relates to the need to identify ‘shadow’ IT systems and address the disaster recovery and security risks associated with them. ‘Shadow IT’ is defined as systems or applications historically procured and implemented by Service areas that are not managed centrally by ICT in conjunction with CGI. Responsibility for identification of the full population of shadow IT currently sits with the Head of ICT.  
  
As Heads of Service are best placed to review and identify any shadow IT systems or applications that they use, it is proposed that separate Medium rated findings are raised on each Head of Service to identify any shadow IT and provide their details to the Head of ICT by 30<sup>th</sup> March 2018.  
  
The original High findings will be amended to reflect that the Head of ICT will then be responsible for completion of a disaster recovery and security risk assessment for the shadow IT applications identified and implementation of appropriate controls to address these risks where the systems or applications are to be centrally managed going forward.
  2. Our review of Service Level Agreements with Outside Entities (completed August 2016) included a Medium recommendation that reflects the need to

establish service level agreements (SLAs) with third party organisations that the Council provides services to. This was due for closure on 30th June 2017.

The Head of Legal and Risk has developed a pro forma SLA and shared with all Service Areas, however Service Areas have not yet provided information to confirm that SLAs have been implemented across the full population of third party organisations that they support.

It is proposed that the existing Medium recommendation is closed, with Low recommendations raised on each Service Area to ensure that these SLAs are implemented as required.

- 3.13 Since June 2017, Internal Audit has not consistently applied a cut off in the overdue recommendations reporting process in an effort to work with Service Areas and drive focus on validation and closure. With effect from September 2017, the following process will be applied:
- 10<sup>th</sup> of each month (or nearest Friday) – e mail sent to all recommendation owners with a list of all open and overdue recommendations that they own.
  - The e mail will specify the requirement for receipt of progress updates, or provision of evidence to support IA validation by the 15<sup>th</sup> of each month (or nearest Friday).
  - Any updates received after the 15<sup>th</sup> will not be included in the monthly CLT or quarterly GRBV reports due to be submitted in that month.
- 3.14 Internal Audit has categorised all overdue Internal Audit actions by Directorate showing the latest status updates where received. The detailed results of this categorisation are set out in Appendix 1.
- 3.15 There are currently no Internal Audit reports issued in draft where management responses have not been received within our two week service standard.

## **4. Measures of success**

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- 4.1 An increase in the implementation and closure of Internal Audit recommendations within their initial estimated closure date.

## **5. Financial impact**

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- 5.1 Not Applicable.

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

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- 6.1 If Internal Audit recommendations are not implemented, the Council will be exposed to the risks set out in the relevant detailed Internal Audit reports. Internal Audit recommendations are raised as a result of control gaps or deficiencies

identified during reviews therefore overdue items inherently impact upon effective risk management, compliance, and governance.

## **7. Equalities impact**

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7.1 Not Applicable.

## **8. Sustainability impact**

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8.1 Not Applicable.

## **9. Consultation and engagement**

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9.1 Not applicable.

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

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10.1 Not Applicable.

### **Lesley Newdall**

Chief Internal Auditor

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## **11. Appendices**

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Appendix 1 – Status report: Outstanding Recommendations Detailed Analysis

## Appendix 1 - Overdue Internal Audit Recommendations as at 25 August 2017

Unique Ref	Project Name	Issue Type	Finding	Business Implication	Recommendation	Agreed Management Action	Estimated Implementation Date	Revised	Status Update	Owner
<b>Health &amp; Social Care</b>										
HSC1503ISS.1	Personalisation SDS - Option 3	High	<p>The Social Care (Self-directed Support) (Scotland) Act 2013 states that the authority must "inform the supported person of the amount that is the relevant amount for each of the options for self-directed support from which the authority is giving the person the opportunity to choose, and the period to which the amount relates." The "relevant amount" is defined as "the amount that the local authority considers is a reasonable estimate of the cost of securing the provision of support for the supported person". At present, the supported person is not informed of their assessed budget when they are asked to choose their option. They are only told of the resources available to them when they receive their personal support plan after they have selected their option.</p>	<p>There is a risk of non-compliance with The Social Care (Self-directed Support) (Scotland) Act 2013. The supported person may not have sufficient financial information to make an informed decision on the feasibility and affordability of arranging their own care under Option 1.</p>	<p>Management should seek clarification from Scottish Government on how the legislation should be applied where the supported person is allocated the same budget whichever option is chosen. Management must then ensure that the SDS assessment process is compliant with Scottish Government's instructions. This may mean informing the supported person of their personal budget at an earlier stage of the assessment process.</p>	<p>Scottish Government have been approached on this issue through the Social Work Scotland SDS Sub-group and have indicated that they are prepared to consider issuing further guidance and in particular revisit the issue of whether local authorities need to notify individuals of the indicative budget for each of the four options or just provide a single indicative budget which is what most authorities seem to be doing in practice. These discussions will take place through the Social Work Scotland SDS Sub-group and Senior management will ensure that Edinburgh is involved in these discussions. The current processes and practice in relation to providing individuals with an indicative budget will be reviewed and updated and clear guidance issued to staff taking account of any change in guidance from the Scottish Government. In either case, an indicative budget will be given to individuals before they are asked to select their preferred option.</p>	31/10/16	30/06/2017 31/12/2017	<p><b>August Update:</b> Chief Officer and Strategic Commissioning Manager provided an update at GRBV meeting of 01.08.17 that noted that a revised implementation date of December was required.</p> <p><b>June Update:</b> New assessment, personal care plan and budget process introduced in May 2017. Indicative budgets no longer calculated as part of assessment: calculated once personal care plan set. This means service users are not given an indicative budget to enable them to make an informed choice about their support: non-compliance with legislation remains. Finding remains open.</p> <p>Changes to be requested to SWIFT to allow recording and monitoring of compliance. Once these changes have been made an instruction will be issued to all staff reminding them of the need to inform service users of their "indicative budget". Planned completion date: to be confirmed by 24/2/17 following response from ICT Services.</p>	Wendy Dale, Strategic Commissioning Manager
HSC1503ISS.2	Personalisation SDS - Option 3	High	<p>The Social Care (Self-directed Support) (Scotland) Act 2013 states that the authority must give the person "in any case where the authority considers it appropriate to do so, information about persons who provide independent advocacy services (within the meaning of section 259(1) of the Mental Health (Care and Treatment) (Scotland) Act 2003 (asp 13))."</p> <p>When researching advocacy services for people affected by SDS the only place we were able to find information was on the Council's Edinburgh Choices website which is an online directory of local care and support services, which includes details of independent advocacy services.</p> <p>However, we were unable to find links to the Edinburgh Choices website in key communications to service users and the general public about SDS. The Council has produced detailed pamphlets and leaflets which explain SDS to service users and carers but advocacy services are not covered, and readers are not directed to the Edinburgh Choices website. Practitioners we spoke to could not direct us to advocacy services.</p>	<p>There is a risk of non-compliance with the Social Care (Self-directed Support) (Scotland) Act 2013</p>	<p>The service should ensure that information about advocacy services is available to service users. Possible options may include: Providing practitioners with information about available advocacy service and what they do; Directions to Edinburgh Choices in guidance materials for service users; or Names of advocacy services in pamphlets and leaflets for service users.</p>	<p>Existing leaflets and information materials to be reviewed to make reference to Edinburgh Choices. Information to be produced for dissemination to practitioners regarding the duty to identify people who may benefit from advocacy and support them to access these services and the agencies that the Council has commissions to provide advocacy services.</p>	31/08/16	31/08/2017 30/09/2017	<p>August Update: Award of new contracts was agreed at Full Council at the end of June. Contracts formally signed at the end of July. Have agreed to work with the new providers to produce guidance for staff and leaflet for service users. Request revised completion date to end Sept 2017</p> <p>New advocacy services contract will be agreed in June 2017. Changes to be requested to SWIFT to allow recording and monitoring of compliance. Once these changes have been made an instruction will be issued to all staff to identify those service users who may benefit from Advocacy Services and to support them to access these. Staff will be reminded that information about providers of independent advocacy services is available on Edinburgh Choices. Procedures and leaflets to be updated as part of the work to implement the new structure. Planned completion date: 31/08/2017</p>	Wendy Dale, Strategic Commissioning Manager
SW1601ISS.4	Social Work: Pre-Employment Verification	Medium	<p>There was insufficient evidence to support the PVG checks of three nominated candidates who were 'existing Council employees'. The original PVG certificate is destroyed at the initial point of employment. Therefore recruiting managers of nominated candidates, who are existing employees, may not be aware of the 'vetting information' included in the original PVG Check. This restricts managers' ability to make an informed decision to proceed with the employment.</p> <p>It should be noted that Scheme Record Updates (which carry out a check between the original PVG Certificated issued; to the date of the requested update) do not include details of any 'vetting information' held within the original certificate.</p> <p>The current "Recruitment and Selection Guidance for Managers Pre-Employment Checks for Nominated Candidates" states that "no further check is required if the individual is a PVG Scheme member in the Council for the same type of 'regulated work'.</p> <p>There is potential for staff to be recruited to a role which is not appropriate given their previous convictions. For example; a person with fraud convictions may properly be recruited to a care home if they are not handling cash but a future appointment to the homecare service; with access to vulnerable people's funds may be approved without due consideration of the risk. In October 2016 a carer in East Lothian was convicted of Fraud amounting to £46,000 from two clients.</p>	<p>Recruiting managers may have insufficient evidence of PVG 'vetting information' to allow them to make an informed decision over whether to proceed with employment.</p> <p>This may lead to recruitment of staff not appropriate to the role.</p>	<p>All nominated candidates should be requested to bring their copy of the PVG certificate to the pre-employment checks meeting; in order to allow managers to make an informed decision as to whether to proceed with the recruitment process or to rescind the offer.</p>	<p>Locality Managers to obtain confirmation from their recruiting managers that nominated candidates are being requested to bring their PVG certificate to the pre-employment checks meeting.</p> <p>This requirement has been effectively communicated to all relevant managers / staff and a mechanism will be introduced to ensure that the requirement is being adhered too.</p> <p>This procedure will be embedded within the HSC and Safer &amp; Stronger Communities protocol.</p>	31/03/17	IA Validation in progress	<p><b>August Update:</b> Information has been provided and is being validated by Internal Audit.</p> <p><b>July Update</b> - Meeting held with Health and Social Care early July to agree actions and evidence required. Finding owner currently on annual leave and will process on return.</p> <p>IA has been advised that H&amp;SC awaiting evidence from Localities.</p>	Cathy Wilson, Executive Business Support Manager

SW1601ISS.5	Social Work: Pre-Employment Verification	Medium	<p>Testing identified that working practices between recruiting managers, HSC Recruitment, and HR Recruitment are not fully documented and this has led to inconsistencies including:</p> <ul style="list-style-type: none"> <li>- bypassing the HSC Recruitment Co-ordination Team;</li> <li>- inadequate recording of Criminal Convictions form (CCF) and PVG information;</li> <li>- inappropriate record management; and</li> <li>- no clear formal procedure has been issued to Recruiting Managers to advise them of the requirement to formally document the decision to proceed with or recind the offer of employment; following receipt of 'vetting information' in respected of the nominated candidate.</li> </ul>	<p>Key information may not be retained. HSC Recruitment Staff and Recruiting Managers may not be aware of what is expected of them.</p> <p>Risk of non-compliance with Disclosure Scotland's 'Code of Practice'.</p>	<p>Procedures should be produced by the HSC Recruitment Co-ordination Team in conjunction with HR Recruitment Team and senior HSC Management to ensure the recruitment process is safe, consistent and compliant with appropriate legislation and CEC policies.</p> <p>This should include the requirement to complete the 'PVG/Disclosure Risk Assessment Form' and 'Record Of Meeting on PVG/Disclosure Form'.</p>	<p>HSC Recruitment Co-ordination Team will work with HR Recruitment Team to develop safe and consistent procedure including the requirement to update both of the PVG / Disclosure Forms noted.</p> <p>Procedures to be strengthened to ensure that we are up to date to reflect safe storage and retention procedures.</p> <p>HSC to formally communicate this to all relevant staff and recruiting managers, including the safe storage and retention periods of both forms. Confirmation of this to be sent to Locality Managers.</p>	<p>31/03/17 IA Validation in progress</p> <p>31/05/2017</p>	<p><b>August Update</b> - Audit validation in progress</p> <p><b>July Update</b> - meeting held with Health and Social Care early July to agree actions and evidence required. Finding owner currently on annual leave and will progress on return.</p>	Cathy Wilson, Executive Business Support Manager
SW1601ISS.7	Social Work: Pre-Employment Verification	Medium	<p>The HSC Recruitment Co-ordination Team carry out 'Bulk Interviews' on a monthly basis for Care Home and Homecare posts where there are a number of different posts required at different locations around the city. This is due to a high volume of staff movement within these posts, which due to the nature of the posts are required to be filled timeously. However; it was established that the 'Location Manager' who the nominated candidate reports to on their first day of work is not necessarily the same manager who has interviewed the candidate or taken the candidate through the pre-employment checks to check their identification.</p> <p>It is acknowledged that this carries the risk that the person who turns up for work may not be the person that was interviewed.</p>	<p>Risk of identification fraud resulting in the Council employing a candidate who does not have the skills or experience required to fulfil the duties of the post.</p> <p>Risk of financial sanctions re Right to Work in UK Legislation</p>	<p>All nominated candidates be requested to bring photographic identification with them which should be checked and verified by the 'Location Manager' on the candidates first day of work.</p> <p>Failure to bring the appropriate identification should result in the candidate being refused to start work within the Council.</p> <p>This should be embedded within H&amp;SC and Safer and Stronger Communities procedures and communicated to all relevant staff.</p>	<p>Locality Managers to seek confirmation from either recruiting managers and/or location managers to ensure that candidates are being requested to bring photographic ID on their first day of work.</p> <p>This process will also be embedded within the H&amp;SC and Safer &amp; Stronger Communities procedures and communicated to all relevant staff.</p>	<p>31/03/17 IA Validation in progress</p> <p>31/05/2017</p>	<p><b>August Update</b> - Audit validation in progress</p> <p><b>July Update</b> - meeting held with Health and Social Care early July to agree actions and evidence required. Finding owner currently on annual leave and will progress on return.</p> <p>IA has been advised that HSC awaiting evidence from Localities</p>	Cathy Wilson, Executive Business Support Manager
SW1601ISS.8	Social Work: Pre-Employment Verification	Medium	<p>The Council's Recruitment and Selection Policy states that "all individuals in the recruitment and selection of potential candidates on behalf of the Council" must receive Council training in equality issues, Safer Selection, and the application of the policy".</p> <p>The CECIL Competency Based Recruitment and Selection module under "Safer Selection and Pre-employment Checks; notes the Council's approach to safer selection includes 'Mandatory training for all recruiters' and that if a manager recruits on a regular basis they should repeat the modules every 2 years.</p> <p>Checks were carried out on twenty individual managers who were involved in the recruitment of the nine nominated candidates whose PVG check had returned 'vetting information'.</p> <p>Testing highlighted that seven of the twenty managers have either not received the mandatory training or the fact that they have completed the training, has not been recorded on the iTrent system.</p> <p>Details of the seven managers noted above were subsequently provided to the HSC Business Manager.</p>	<p>Managers are not complying with Council Policy.</p> <p>Managers may be undertaking the recruitment process without having the required skills to make an informed decision as to whether the candidate is suitable for the post.</p>	<p>All managers identified through audit testing as not complying should be contacted to establish whether they have completed the mandatory training.</p> <p>The iTrent system should be updated with the date completed.</p>	<p>The HSC Business Manager will resolve this issue with the individual Locality Managers and ensure iTrent is updated on satisfactory completion.</p>	<p>31/05/17 IA Validation in progress</p>	<p>Managers have been reminded that mandatory training must be completed before undertaking any recruitment activity and to ensure that the iTrent system needs to be updated with the date training was completed. Awaiting evidence from the Locality Managers.</p> <p><b>July Update</b> Meeting held with Health and Social Care early July to agree actions and evidence required. Finding owner currently on annual leave and will progress on return.</p> <p>Managers have been reminded that mandatory training must be completed before undertaking any recruitment activity and to ensure that the iTrent system needs to be updated with the date training was completed. Awaiting evidence from the Locality Managers."</p>	Cathy Wilson, Executive Business Support Manager
			<p>The Council's Recruitment and Selection Policy states that "all individuals in the recruitment and selection of potential candidates on behalf of the Council" must receive Council training in equality issues, Safer Selection, and the application of the policy".</p> <p>The CECIL Competency Based Recruitment and Selection module under "Safer Selection and Pre-employment Checks; notes the Council's approach to safer selection includes 'Mandatory training for all recruiters' and that if a manager recruits on a regular basis they should repeat the modules every 2 years.</p> <p>Checks were carried out on twenty individual managers who were involved in the recruitment of the nine nominated candidates whose PVG check had returned 'vetting information'.</p> <p>Testing highlighted that seven of the twenty managers have either not received the mandatory training or the fact that they have completed the training, has not been recorded on the iTrent system.</p> <p>Details of the seven managers noted above were subsequently provided to the HSC Business Manager.</p>	<p>Managers are not complying with Council Policy.</p> <p>Managers may be undertaking the recruitment process without having the required skills to make an informed decision as to whether the candidate is suitable for the post.</p>	<p>A review of the iTrent information held for each recruiting manager within Health and Social Care should be undertaken to establish any manager who has not completed the Recruitment and Selection training within the last 2 years.</p> <p>Any manager who is identified as not having complied with this training requirement should be requested to complete the training as soon as possible and not recruit staff until they have undertaken the training.</p> <p>A mechanism for monitoring the mandatory requirement should be introduced.</p> <p>In the interim, Locality Managers and Safer and Stronger Communities Senior Managers should remind all recruiting managers that they are required to have completed the training before undertaking any further recruitment.</p>	<p>Locality Managers have been requested to remind all recruiting managers that they are required to have completed the training before undertaking any further recruitment and confirm that this has been completed.</p> <p>The H&amp;SC Partnership has been going through an organisational re-design, with staff being appointed to posts within the new structure under Phase 1, 2 and 3. The organisational re-design of the team has inevitably meant changes to recruiting managers. It is envisaged that Phase 2 of the organisational re-design will be completed by January 2017. Under phase 2, new recruiting managers will be appointed. Once these appointments have been made, a review of their recruitment and selection training will be reviewed by the respective Locality Managers and the appropriate measures taken, to ensure full compliance.</p>	<p>31/05/17 IA Validation in progress</p>	<p>Awaiting evidence from the Locality Managers.</p> <p><b>July Update</b> Meeting held with Health and Social Care early July to agree actions and evidence required. Finding owner currently on annual leave and will progress on return.</p> <p>IA has been advised that HSC awaiting evidence from Localities"</p>	Cathy Wilson, Executive Business Support Manager

CF1402ISS.1	School Meals	Low	<p>For the school meals service delivered by SFC, the roles and responsibilities of key officers within SFC and C&amp;F were not clearly defined in a formal document such as a service level agreement (SLA) or working protocol.</p> <p>Although processes have not been formalised, good cross departmental working was evidenced between the C&amp;F Development Officer and SFC Catering Performance Officer. This collaboration was specifically noted within the menu planning process. Similarly Facilities Managers (FMs) and Kitchen Supervisors work closely with School Business Managers to resolve issues on site.</p> <p>It is understood that Corporate Facilities Management are producing SLAs for cleaning and janitorial services, however catering is not in scope at present. It is viewed differently as the end user of the service delivered is external, i.e., the pupils rather than Council staff.</p>	<p>In the absence of any documentation the service is reliant on the knowledge of key members of staff and staff changes may impact on the effectiveness of the service.</p>	<p>Consideration should be given to preparing an SLA to outline the respective responsibilities within key cross departmental processes in delivery of the school meals service.</p>	<p>As part of a wider Facilities Management Review for the clarity on roles and responsibilities of key offices within SFC who have responsibility for delivering the schools meals service it is proposed that an SLA between C&amp;F and SFC be put in place to ensure a first class school meals service is delivered.</p>	30/04/15	30/09/17	<p>SLA completion is dependant on organisational reviews and expected completion date is Sept 2017 July Update SLA completion is dependent on organisational reviews. Initial expected completion date was Sept 2017 and this has now been revised to December 2017.</p>	Victor Cruz, Interim Corporate Facilities Manager
SFC1403ISS.2	Community Recycling Centres	Low	<p>The current CRC site policy appears very basic and inappropriate to adequately safeguard Council resources. Having such a basic policy exposes the CRCs to increased risk of commercial waste being passed off as household waste. The current policy may not be appropriate for modern CRC facilities and as a consequence, user guidance on the Council website is not sufficiently prescriptive or accurate to inform the CRC site user.</p>	<p>Loss of income to the Council</p> <p>Increased cost of disposal of commercial waste passed off as domestic waste</p> <p>Failure to meet residents expectation and reputational damage</p>	<p>CEC should consider a detailed and modern policy document to reflect the increased costs and environmental demands of providing this service.</p> <p>This should be considered at the same time as the chargeability of certain types of household items (i.e. reclassification of waste created from improvements, repairs and alterations to a household).</p> <p>Once the policy has been modernised and approved, an accompanying user guidance document and customer charter should be created and published. This should cover the following:</p> <p>Items accepted Permitted vehicles (including hired vehicles, trailers, vans) Household and commercial waste requirements When customers need to register with the Council to use the sites Charging policy and methods of payment Hazardous waste Charity waste Health and safety requirements General information (contact, opening times, etc.)</p>	<p>A policy and procedures document is to be drafted and consulted upon before being released.</p>	31/03/15	31/07/2017 30/04/2018	<p><b>August Update:</b> CRC Improvement Plan being developed. Focus will be on improving signage and user information as well as developing more robust internal procedures. August update Details of the CRC Improvement plan have been provided to IA a revised date of April 2018 has been set for the CRC policy to be presented to the Transport and Environment Committee.</p>	Bob Brown, Waste & Cleansing Operations (Waste) Manager
SFC1403ISS.3	Community Recycling Centres	Low	<p>It was noted that physical security and enforcement measures for the CRC sites was not sufficiently robust.</p> <p>There is no number plate recognition technology in place, CCTV coverage is incomplete and it is possible for individuals to enter and remove items of value both during opening and closing hours. There are no CCTV cameras covering the weighbridge that would protect the integrity and safety of weighbridge staff and ensure that no cash transactions are taking place.</p>	<p>Safety of site officials compromised</p> <p>Risk that valuable items can be removed</p> <p>Abuse of Council service results in loss of income and/or increased costs</p>	<p>Security at each of the three CRC sites should be reviewed and strengthened.</p> <p>The use of CCTV and monitoring at each site should be carefully considered to ensure that coverage is adequate and covers the high risk areas (metal disposals, weighbridge and re-use cabin).</p> <p>Consideration should be given to using automatic number plate recognition (ANPR) technology in conjunction with CCTV to make sure that CRCs are used appropriately, safely &amp; securely, to monitor vehicle usage (including detecting any patterns) and to assist with disputes &amp; complaint procedures.</p> <p>As both a preventative and detective measure, use of a dedicated enforcement officer for a short period of time at each of the sites might highlight whether there is a wider issue of abuse of the system.</p> <p>A robust enforcement and site security infrastructure would be a vital requisite for any strengthening of site usage policy and charging structure.</p>	<p>Constant monitoring of site security is to be implemented.</p> <p>CCTV images re-directed to the main office at Powderhall with images also mirrored at the security office.</p> <p>The weighbridge software is being changed to accommodate ANPR piloting at Powderhall. This is to be rolled out to Sighthill and Seafield CRC sites and be operational by March 2015.</p> <p>Discussions with Community Safety regarding the implementation of an enforcement approach and associated support will be held.</p>	31/03/15	31/12/17	<p>Proposals for ANPR being built into site designs for the Seafield and Sighthill depot improvements. Liaison with security services has improved with new arrangements in place at Craigmillar CRC.</p> <p><b>August Update</b> "Security arrangements have been reviewed at all CRC sites along with additional monitoring of each site by managers, supervisors and operatives. Environmental checks are carried out at the start and end of each shift. Seafield CRC site has recently (March 2017) had their CCTV equipment upgraded along with the rest of the newly developed depot. CCTV upgrades are being requested for Craigmillar and Sighthill sites. Each site now has overnight security personal in place. Conflict Management training has also been developed and is being rolled out to all CRC operatives, including supervisors, during Sep, Oct and November 2017." This finding can be closed when these actions have been evidenced.</p>	Bob Brown, Waste & Cleansing Operations (Waste) Manager



CW1502ISS.1	Governance Arrangements - Arms Length Companies	Medium	<p>The Director responsible for each Arms Length Company within the Council appoints an Observer for each company from within the Directorate. The role is to scrutinise the activities and performance of the company and raise any concerns arising with the Directorate. The Observer attends company meetings on behalf of the Directorate but is not a company officer.</p>	<p>Observers may not carry out scrutiny to the required level when carrying out their governance roles of Council Companies on behalf of the Council. Financial and reputational risks may remain unidentified with the potential to adversely affect the Council.</p>	<p>Process documentation covering as a minimum the following points, should be prepared and maintained for each of the Arms Length Companies within Place.</p> <ul style="list-style-type: none"> <li>• Key management contacts;</li> <li>• Basic structure of the entity;</li> <li>• Key risks to the Council arising from the entity;</li> <li>• Nature/timing of meetings attended;</li> <li>• Key management information/reports received, their frequency and source;</li> <li>• Use made of/procedures undertaken on management information received including any early warning thresholds/KPI's; and</li> <li>• Reporting requirements for the relevant scrutinising Council Committee.</li> </ul>	<p>To produce process documentation covering the above points for Transport for Edinburgh, Edinburgh Trams, and Lothian Buses.</p>	<p>31/12/16 31/05/2017</p>	<p><b>August Update</b> - revised date requested for implementation - ow 15/09/17</p>	<p>Paul Lawrence, Executive Director of Place and SRO</p>
<p>15/09/17</p>									
<p><b>July Update:</b> Action agreed to close in July were : Ensure all Board Observers are aware of their duties and responsibilities in relation to this role.</p>									
<p>We understand that all Arms Length Companies are different and that they will require different levels of intervention and interaction with their Observer.</p>									
<p>We would however, as a minimum expect the following from Observers:</p>									
<ul style="list-style-type: none"> <li>• Attendance as an observer at all Board and Audit Committee meetings;</li> <li>• Regular receipt and scrutiny of risk registers;</li> <li>• Regular receipt and scrutiny of management accounts and accompanying management information; and</li> <li>• Regular access to management.</li> </ul>									
<p>We identified the following instances where these minimum requirements were not met:</p>									
<ul style="list-style-type: none"> <li>• EICC: - the Observer attended 5 out of the 6 Board meetings tested but does not attend the Audit Committee meetings; and</li> <li>• EDI: - the Observer attended 2 out of the 4 Board meetings tested.</li> </ul>									
<p>We did not identify any process documentation for the observer roles within any of the Directorates. This results in the Council being subject to an element key man risk in the control of each of these entities, as the loss of the Observer would leave the Council with a limited understanding of the scrutiny processes in place for that particular company.</p>									
PL1601ISS.2	Recycling Targets	Medium	<p>Contractors submit weighbridge tonnage data each month, which is used to calculate the recycling and landfill tonnage reported to the Transport and Environment Committee, and to prepare the annual SEPA submission. The current system for logging weighbridge tonnage submissions is manual as contractors provide their submissions in varying formats, some of which require further calculations to be made by Waste Services to establish the required figures. The data is entered manually into three separate databases, twice by the admin assistant and once by the Waste Collection Route Manager. The same data is entered into each database, with no significant differences in functionality between them.</p>	<p>Manual input could lead to errors in raw data used to calculate key performance measures; and Inefficient use of resources due to duplication of manual data input.</p>	<p>Automated data submission Contractors should be required to submit monthly weighbridge tonnage data in a prescribed format to support batch uploads of data to the tonnage database and reduce the need for manual data entry. Many contractors now have weighbridges which can produce tonnage data electronically and in real time. Management should investigate whether it is feasible to obtain this data directly. In the short term, a single database should be used for analysis and reporting. This will mean data only needs to be entered once.</p>	<p>There will be a review of the current process with the aim of implementing the recommendation of reducing the number of times data is inputted. This action will be taken forward on completion of the transformation process and once team structures are in place.</p>	<p>31/10/16</p>	<p>30/09/17 <b>August Update</b> : No further updates received by IA as LS has been on sickness leave.</p>	<p>Lesley Sugden, Waste Strategy Manager</p>
<p>Further discussion required with ICT/CGI to identify software solutions to enable efficiencies. "July Update Meeting held 10/7/17 for update. 1) Date of end September is unrealistic for resolving multiple data input challenges. 2) Also need to ensure that data has been entered correctly. 3)IA to remain close to finding and monitor progress with September implementation date. 4) Weighbridge data flow return is to be looked at as a detective control to identify variability on a month by month basis. This information is to be provided to internal audit to ascertain its use as a detective control. 5) The service is to identify if it is feasible to sample high value invoices to identify possible mismatches with weighbridge information. "</p>									
<p>Contractors submit weighbridge tonnage data each month, which is used to calculate the recycling and landfill tonnage reported to the Transport and Environment Committee, and to prepare the annual SEPA submission. The current system for logging weighbridge tonnage submissions is manual as contractors provide their submissions in varying formats, some of which require further calculations to be made by Waste Services to establish the required figures. The data is entered manually into three separate databases, twice by the admin assistant and once by the Waste Collection Route Manager. The same data is entered into each database, with no significant differences in functionality between them.</p>									
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<p>Within all new procurement exercises going forward part of the technical specification will address the potential for direct access to contractors weighbridge systems. Where this is not possible the Council will provide an appropriate format for the return of weekly tonnage information to reduce any requirements for double handling data. In addition the Council will investigate the use of the E-doc system with contractors which requires upload of weighbridge tickets to a secure cloud based portal.</p>									
<p>31/03/17 Revised date required</p>									
<p><b>August Update</b> : No further updates received by IA as LS has been on sickness leave</p>									
<p>Specification document has been updated and employed on the new dry mixed recycling contract. Weekly tonnage reports are also being provided by our Principal Contractors. [Closable on receipt of Evidence] "July Update Meeting held 10/7/17 for update. Specification document has been updated and employed on the new dry mixed; food waste and residual waste contracts, which cover circa 70 - 75% of the tonnage weighed by the weighbridge. Calibration clauses are included in all recycling contracts. Weekly tonnage reports are also being provided by our Principal Contractors. [Closable on receipt of Evidence]"</p>									
PL1601ISS.4	Recycling Targets	Medium	<p>There are a number of Council service areas and divisions effected by the waste management strategy but are unaware of key issues, regulation changes and decisions. This appears to have been as a result of key stakeholders not having been appropriately identified and engaged in all areas of the process. The key stakeholders for the Council's overall waste management strategy are wide ranging, affecting related strategies and span both across the Council and externally.</p>	<ul style="list-style-type: none"> <li>☒ Key stakeholders not appropriately engaged leading to inefficiencies</li> <li>☒ Lack of joined up working within the Council</li> <li>☒ Regulation changes not appropriately communicated resulting in breaches</li> <li>☒ Related strategies suffer from a lack of coordination.</li> </ul>	<p>A key stakeholder identification exercise should be performed to ensure all required individuals are included in the process. Key groups identified could include: Waste Services, Sustainability Team, Property Services and other external groups.</p> <p>In alignment with the creation of an internal waste management policy, stakeholders could be engaged through an overarching steering group with representation from each key group. This group would help ensure that relevant information is appropriately disseminated and that all stakeholders needs are considered. It would also enable stakeholders to monitor and challenge performance against the overall waste management strategy.</p>	<p>As outlined within the response to Action 2, it is our intention to refresh the existing strategy and to consult with both internal and external stakeholders to help shape the final strategy. A series of commitments/actions will be a key output from the strategy and progress against individual actions/commitments will form a key part of reporting progress to stakeholders.</p>	<p>31/03/17</p>	<p>30/09/17 <b>August Update:</b> Information has been provided to Internal Audit regarding the process of strategy review, this is unlikely to be ready for Committee before the revised September implementation date and a new date is to be provided.</p>	<p>Angus Murdoch, Strategy Officer</p>
<p>Draft new Waste and Recycling strategy is not yet finalised. Communication of this strategy will form part of a delivery plan for implementation. "July Update Work is continuing on the new Waste and Recycling strategy, this is not due to be presented to the Transport and Environment Committee until October at the earliest. A commitment to the date that the Waste and Recycling strategy is to be presented to committee, the committee papers and the outcome of the committee are to be provided to audit. The action can be reduced to low on the satisfactory receipt of this information. The strategy will then need to be communicated to stakeholders before the action can be closed "</p>									



<p>PL1603ISS.5 Mortuary Services</p>	<p>Medium</p>	<p>The City Mortuary is a key stakeholder in the following plans: City of Edinburgh Council (CEC) Emergency Plan; interim update Jul 2014; CEC Corporate Business Continuity Plan; Oct 2013; CEC Corporate Pandemic Influenza Business Continuity Plan; Jul 2009 (re-issue due Apr 2017); Emergency Mortuary Management Arrangements Module of CEC Emergency Plan; draft Apr 2015; Services for Communities Contingency Plan (Bereavement Services); draft Jul 2015; and Services for Communities Business Continuity Plans for Bereavement Services; Dec 2013. There are inconsistencies and gaps between the plans including: The Bereavement Services contingency plan includes no detailed action plan covering body storage arrangements in the event of an extensive emergency, such as a pandemic, where National / reciprocal body storage resources will not be available. This area is currently under review nationally via the Scottish Government Silver Swan exercise ; and The Emergency Mortuary Management Arrangements module, covering arrangements in response to intensive emergencies outlines the locations and number of body storage units within the Council and externally . This does not reflect: The basic storage available at the Mortuary; The current location of the Council emergency units; Average spare capacity for NHS Lothian, as determined at Easter 2016; and Average spare capacity of the Queen Elizabeth Hospital in Glasgow ( the 300 quoted includes day to day usage and gives no indication of any potential capacity issues here). Significant staff and organisational changes within Place and Bereavement Services over the past year have impacted on the preparation of, and key roles and responsibilities outlined within Place contingency documents. The Scientific , Bereavement and Registration Services Senior Manager recognises that all local plans need revised, with separate plans set up for Mortuary and Crematorium services .</p>	<p>If contingency plans in place are not comprehensive, with accurate and up to date capacity information, the required actions to be undertaken by Council staff may be unclear, increasing the risk of inappropriate treatment of fatalities.</p>	<p>All Mortuary Service contingency plans require to be reviewed and redrafted to ensure that they are up to date, comprehensive and reflect current government guidance. Capacity and location information within contingency documents should be corrected to reflect current arrangements. Following review and update of plans in place: Training should be rolled out to staff; and The Corporate Resilience Unit should be provided with updated extracts.</p>	<p>Work with Corporate Resilience Unit to update contingency plans drafted before transformation review . Work with NHS Lothian to support them taking on the role of host mortuary for mass fatalities, thus easing pressure on Council mortuary.</p>	<p>31/03/17 IA Validation in progress</p>	<p><b>August Update</b> - Information was provided on the 22/8/17 and is currently being reviewed by Internal Audit.  July Update - as per finding above, actions to resolve both are linked.</p>	<p>Robbie Beattie, Scientific, Bereavement &amp; Registration Services SeniorManager</p>
<p><b>Resources</b></p>								
<p>RES1603ISS.1 Leavers Process</p>	<p>High</p>	<p>We selected a sample of 45 employees who left the Council in August 2016. 11 (25%) still had an open Active Directory account at the time of our audit in November 2016. An Active Directory account permits access to core Council IT systems including computer terminals, email and the intranet. User accounts for other Council systems such as Oracle (finance), Swift (social work), iTrent (HR and payroll) and Seemis (schools) are linked to the user's Active Directory account. Note that we did not review access to other Council systems, or systems hosted by third parties. However, we note that there is no record of which systems any one employee has access to. Leavers' accounts are therefore only closed if the leaver or their line manager contacts the relevant systems administrator.</p>	<p>Risk of a breach of data protection laws if sensitive data is accessed by staff who no longer work at the Council. Risk of inappropriate or fraudulent use of ICT systems access remaining active post employment , both by leavers accessing systems remotely, and by current employees with access to former colleagues' accounts. Once web-based Outlook and One Drive accounts are introduced in 2017, leavers with open Active Directory accounts will be able to access Council emails and shared sites with no need for access to a Council-managed device.</p>	<p>Active Directory accounts must be closed when a member of staff (whether payroll or non-payroll) leaves the Council. Access to other Council IT systems, including those hosted by third parties such as eIRD (which holds child protection records and is hosted by NHS Lothian), must be terminated when the member of staff leaves the Council, or moves to a role where access to that system is no longer required.</p>	<p>As Finding 1, a process review workshop will be held on 29 March when issues and improvements in the leavers process (including HR, Customer Services and ICT) will be mapped an identified. HR guidance will then be refreshed. This will include mechanisms to notify administrators of systems hosted by third parties.</p>	<p>30/06/17</p>	<p>30/09/17 <b>August Update:</b> Meeting held with HR and ICT for update. HR continuing to work through some actions. Position with ICG has been escalated and IA are now engaged with them to validate new controls they will implement to support closure. Revised date has been agreed with Executive Director, Resources  July Update Workshop sessions have been held on leavers process. We still have some work to do and a lot hinges on the work ICT &amp; CGI are currently doing around asset management. CGI are reviewing best practice across all of the clients they work with to design the best process possible for CEC and we have set a date of 30 September 2017 for this to hopefully be completed.</p>	<p>Katy Miller, Head of Human Resources</p>
<p>CG1503ISS.1 Continuous Controls - One Time Payments</p>	<p>Medium</p>	<p>Finding The One Time Payment Form (OTP) is defined as being for 'one time' payments which do not relate to a contract for supplies and services. However, the audit review highlighted that the OTP system is being heavily used for multiple payments in the following categories: • System workarounds: ☒ Oracle payment system cannot make payments to non UK bank accounts; and • Historically suppliers such as the DVLA and Sheriff Clerk required individual cheques provided with each application for Vehicle Tax or Council Tax Summary Warrant. This practice remains when other more efficient debit or electronic payment options should be available. • Inefficient Channel: Due to either a lack of knowledge of options available; or lack of access to CEC systems; a large number of cheques are raised by CEC to CEC or to suppliers already on the database. Key examples of this are: ☒ Replenishment of Libraries Petty Cash Imprest; and ☒ Client account transfers in H&amp;SC.</p>	<p>By their frequency and nature one time payments are subject to less rigorous verification controls on set up. The system also holds less data, for example supplier number and authoriser are not held. This increases the risk of: • fraud and error being undetected; • payments being made to inappropriate individuals or companies; • key vendor system controls being bypassed leading to increased costs; • incorrect financial figures being given in respect of FOI or other monitoring requests; and • inefficient use of resources.</p>	<p>Channel shift should be embraced to move regular multi-payments to a more efficient platform.</p>	<p>A total review of this area will be completed when the new UNIT 4 Business World system is implemented. Procurement note that any methods of making payments to DVLA and Post Office are a statutory requirement and will have to continue at present.  OTP'S relating to vendors will only be accepted if payment is for a rebate only. [wef 18/1/16]  Payment Services will request that these types of payments are set up in the new BW system as a sundry account and paid via BACS/Cheque. It should be noted that the new BW e-solution will not have the facility to convert currencies that are not British pounds.</p>	<p>31/10/16</p>	<p>01/10/17 These actions are intrinsically linked to the implementation of the new Business World system. As a result of delays to the programme, the original due date could not be met. Internal Audit have been kept informed of changes to the anticipated implementation date of the Business World system. These updates have been agreed with Internal Audit as the ICT implementation dates have become known. Ongoing focus in the short term to minimise one time payments, with OTPs now limited to rebates since Jan 2016. However as noted DVLA and Post Office payments are statutory.  <b>July Update</b> Whilst these actions are intrinsically linked to the implementation of the new Business World system (now expected to deliver April 2018), management has confirmed that revised interim controls have been implemented to mitigate this risk. A walkthrough of the enhanced controls has been scheduled for week commencing 17 July 2017. If the revised controls are assessed as adequate and evidence of their operation provided, this finding will be closed. Ongoing focus in the short term has resulted in volumes of OTPs being minimised, with OTPs now limited to rebates since Jan 2016. However as noted DVLA and Post Office payments are statutory.  <b>August Update</b> Whilst these actions are intrinsically linked to the implementation of the new Business World system (now expected to deliver April 2018), management has confirmed that revised interim controls have been implemented to mitigate this risk. A walkthrough of the enhanced controls was completed on the 17th of July 2017. The new procedures were found to be adequate to prevent incorrectly completed cheques being sent out by the payments team. However, issues remain regarding the authorisation of payments. A new email based authorisation process is being implemented and a walkthrough of the procedure is to be conducted in September. If the revised controls are assessed as adequate and evidence of their operation provided, this finding will be closed.</p>	<p>Neil Jamieson, Customer Senior Manager</p>

CG1511ISS.2	Continuous Testing-Standby, On Call & Disturbance Payments	Medium	<p>Guidance is published on the Orb for standby, on call and disturbance payments, setting out the rules and rates applicable. This guidance is supported by frequently asked questions. It is however a complex area with a range of common and less common situations, and in practice various combinations of allowances are claimed. The complexity of the process does not help scrutiny of claims and provides opportunity for inaccurate or inappropriate claims to be approved. Issues contributing to weakening the control framework, whether intended or otherwise are outlined below:</p> <ol style="list-style-type: none"> <li>1. Lack of relevant detail in narrative fields preventing proper scrutiny of claim. Claims often just have "Call" and not enough information to identify separate or repeat incidents;</li> <li>2. There are different claim forms for "Standby and Call-out", Overtime, "Non-Standby Call-out". The fact that these are separate and often input at different times makes robust scrutiny more difficult;</li> <li>3. Core and standby periods used by areas often differ from the published times provided by the Service Area; and</li> <li>4. Frequent failure to reset claim forms leading to conflicting dates appearing on forms.</li> </ol>	<p>Claims being made and authorised in excess of what is appropriate as claims are accepted at face value with insufficient data to validate them.</p>	<p>The claim process should be simplified where possible on the migration to the new payroll system.</p>	<p>Management are aware of the weaknesses of the current HR/Payroll solution and have retested the functionality to confirm the findings contained in the report. Configuration of the Business World solution will where possible include reduced complexity to prevent the recurrence of these issues going forward. Ongoing we will document specific system controls that have been configured within the new system to preclude recurrence of these issues. This will be shared with Internal Audit for the purposes of completeness and ensure we have in fact closed out the weaknesses identified.</p>	31/10/16	<p>01/04/18 These actions are intrinsically linked to the implementation of the new Business World system. As a result of delays to the programme, the original due date could not be met. Internal Audit have been kept informed of changes to the anticipated implementation date of the Business World system (2018). In the short term we are assessing the use of Robotics Process Automation (RPA) as an interim solution. This will cover both the form, process and transaction. Complete assessment by 31/8/17. July Update Whilst these actions are intrinsically linked to the implementation of the new Business World system (expected delivery date April 18), management has confirmed that they are implementing new controls into the existing process to mitigate the risk. It is expected that these will be in place by end of August 2017. Audit will arrange time to perform walkthroughs and obtain supporting evidence in early September. If the revised controls are assessed as adequate and evidence of their operation provided, this finding will be closed.</p>	Grant Craig, People Support Manager
CG1511ISS.3	Continuous Testing-Standby, On Call & Disturbance Payments	Medium	<p>The iTrent payroll system in its current configuration lacks basic automated input controls to validate the quality of information submitted. This leads to a high number of erroneous claims being accepted. A key example of this found during the review was a claim from 22:30 to 12:00 which led to a 1.5 hour claim being paid at 13.5hrs. This led to an overpayment of £316.80 which had not been identified. The money was recovered when we notified payroll. Lack of basic automated controls has led to the following types of errors being accepted, all identified during the course of this review:</p> <ul style="list-style-type: none"> <li>Conflicting standby header and week commencing dates,</li> <li>Incorrect mixture of 12 and 24 hour clock affecting claimed times,</li> <li>Invalid times accepted e.g. 2430,</li> <li>Future dates accepted,</li> <li>Historic dates from previous financial years accepted,</li> <li>Standby disturbance claims accepted when not on standby, and</li> <li>Mutually exclusive elements accepted at same time.</li> </ul>	<p>The lack of basic automated application controls increases the risk of invalid claims being made, approved and paid.</p>	<p>As part of the development of and migration to the new payroll system logical validation checks over input should be incorporated wherever possible.</p>	<p>Management are aware of the weaknesses of the current HR/Payroll solution and have retested the functionality to confirm the findings contained in the report. Configuration of the Business World solution will where possible include increased validation to prevent the recurrence of these issues going forward. Ongoing we will document specific system controls that have been configured within the new system to preclude recurrence of these issues. This will be shared with Internal Audit for the purposes of completeness and ensure we have in fact closed out the weaknesses identified.</p>	31/10/16	<p>01/04/18 These actions are intrinsically linked to the implementation of the new Business World system. As a result of delays to the programme, the original due date could not be met. Internal Audit have been kept informed of changes to the anticipated implementation date of the Business World system (2018). In the short term we are assessing the use of Robotics Process Automation (RPA) as an interim solution. This will cover both the form, process and transaction. Complete assessment by 31/8/17. July Update Whilst these actions are intrinsically linked to the implementation of the new Business World system (expected delivery date April 18), management is currently investigating the costs associated with upgrading the iTrent system input controls to mitigate this risk. If these costs are significant, then this Finding will remain open until the Business World implementation is complete.</p>	Grant Craig, People Support Manager
CW1501ISS.1	Procurement Arrangements	Medium	<p><b>Contract Register Updates</b> It is the responsibility of Service Areas to provide complete, accurate and up to date contract information. Data is entered online via a contract register form in the Orb, downloaded to C&amp;PS and used to update the register manually. This ensures that fields are updated in the same format as much as possible. The online form is being simplified to improve consistency of data provided. A sample of 12 contracts awarded by the Finance &amp; Resource Committee in 2014/15 were selected to establish if details were reflected in the register. Most contracts had been updated, however in four cases contract end dates &amp; values, and cross referencing between the live contract and live framework tabs required further validation.</p> <p>The Senior Commercial Operations Officer recognised the need for better validation of data provided online by Service Areas prior to updating the register. It is also recognised that a formal system to track activity within and improve the links between the contract and pipeline registers is required.</p> <p>Access to the Registers The registers are currently held in excel with shared open access within C&amp;PS. There are plans to set up the pipeline register as a web application, with a link to an access database which will hold the contract register.</p> <p><b>Contract Register Overviews &amp; Feedback</b> Bi-monthly contract register overviews sent to each Directorate include lists of all contracts due to expire within 18 months, for example, details of 105 contracts were issued to Services for Communities (SfC) in March 2015. Service Areas are required to provide a note of actions being taken against each expiring contract. Feedback received by the Commercial Partners is forwarded to the Senior Commercial Operations Officer to update the contract and pipeline registers, and to the relevant Category Manager to note any new tendering requirements. It is recognised that data issued to Service Areas need to be more refined prior to issue; checks need to be made to the pipeline and contract registers to ensure that only contracts that C&amp;PS require updates on are followed up.</p>	<p>Information inaccuracies on the contract register risk best value not being achieved and potential savings lost. Open access leaves the registers vulnerable to deliberate or accidental manipulation. The quantity of data provided creates additional work for both sides and may distract from the key information required.</p>	<p>Robust data validation checks are required to ensure the accuracy and completeness of contract register entries, including framework contract details. The Procurement Reform (Scotland) Act 2014 proposes a requirement for all Local Authorities to publish a register of contracts over £50,000, likely to come into effect within the next year. This pending wider scrutiny re-inforces the need to ensure that information is robust. Action should be taken to secure the pipeline and contract registers. This should include implementing password protection, restricting edit rights and creating an audit trail so that modifications can be tracked and monitored. Improvements need to be made to the process to ensure more targeted information in respect of expiring contracts is sent out focusing attention on areas where management feedback is required.</p>	<p>Validation checks are now in place. Each Category manager has reviewed the Register to validate entries aligned to their Category. The transfer of the pipeline to a Sharepoint database provides an audit trail reducing vulnerability to deliberate or accidental manipulation. In the short term we will introduce password protection for the contracts register or move the live version into a folder with restricted access, but in the medium term intend also to move the register to a database that provides an audit trail and provide wider access to staff to input their updates. Reporting of contracts approaching expiry is a recent development. The early reports have identified gaps in our procedures for capturing the current status of actions being taken against each expiring contract. We will address this by developing and documenting a clear process for recording status updates. In addition we will ensure that both Delivery Teams and Commercial Partners review reports before they are circulated to services.</p>	31/03/16	<p><b>30/04/17 IA Updates requested July and August - no responses received potentially due to timing of annual leave.</b></p> <p>(ii) Short-term - the pipeline register is now held on the Sharepoint database. The contract register is now password protected; only 4 members of the Commercial Operations Team now have access to update the master. Completed. The contract register and pipeline will be held within Business World 4 when this is implemented. As a consequence of delays to ERP programme the expected dates have not been met as CPS are reliant on Business World implementation. July Update Short-term - the pipeline register is now held on the Sharepoint database. The contract register is now password protected; only 4 members of the Commercial Operations Team now have access to update the master. Completed. The contract register and pipeline will be held within Business World 4 when this is implemented. As a consequence of delays to ERP programme the expected dates have not been met as CPS are reliant on Business World implementation. Whilst final implementation is dependent on Business World implementation (expected April18), Audit are working with Procurement team to walkthrough the key controls (July) to establish whether the risk has been mitigated and the rating can be reduced.</p>	Tammy Gillies, Acting Head of Procurement

MIS1601aISS.3	Non Housing Invoices	Medium	<p>The system used to manage repairs and maintenance to operational buildings, AS400, is due to be replaced in the Autumn/Winter 2016. The system is over 40 years old and is limited in its capabilities and links to other Council systems. This means it is difficult to obtain information about repairs carried out. Only one officer is able to use AS400 reporting functions, and none we spoke to in Corporate Property knew how to access information about EBS non-housing recharges through the Frontier financial reporting system. This limits the management information available to Corporate Property about the volume and value of repairs. It also delayed our audit fieldwork and restricted the scope of our audit. For example, the AS400 (works ordering), Total (billing) and Oracle (finance) systems do not use the same reference numbers. A manual log is kept to record the invoice number for each works order raised on AS400. This was not consistently updated, so, despite the help of the non-housing administration team and Accounts Payable, we were able to trace invoices for only 4 of the 60 charges reviewed. We also identified occasions where details of work orders charged to Corporate Property had not been transferred into the Oracle data warehouse. This means we (and Corporate Property) were unable to validate the accuracy of the charge for those periods. The total charge only was recorded.</p>	<p>Lack of management information about the volume and value of non-housing repairs.</p>	<p>Management will not have ready access to accurate and reliable information about the volume and cost of repairs and maintenance until AS400 is replaced by CAFM in Autumn/Winter 2016. We note that the introduction of CAFM has been delayed, and every effort should be made to meet the new target implementation date.</p>	<p>It is anticipated that CAFM will be in operational use (services being implemented on a rolling programme thereafter) in early 2017 with a non-Housing R&amp;M implementation process in place for FY 2017/18</p>	<p>01/04/17 Revised Date required</p>	<p><b>Latest Update:</b>This has progressed. However, following the PPP structural wall issue plus reports to CLT, the condition module has now been prioritised and, with assistance from external surveyors, this will be complete for the non-housing estate in autumn 2017. This will identify the backlog maintenance, both capital and revenue, and allow prioritisation and budget planning in detail going forward. The remaining property maintenance modules will be rolled out in 2017/18 and this is progressing. July Update This has progressed. However, following the PPP structural wall issue plus reports to CLT, the condition module has now been prioritised and, with assistance from external surveyors, this will be complete for the non-housing estate in autumn 2017. This will identify the backlog maintenance, both capital and revenue, and allow prioritisation and budget planning in detail going forward. The remaining property maintenance modules will be rolled out in 2017/18 and this is progressing.</p>	<p>Peter Watton, Acting Head of Corporate Property</p>
RES1605ISS.1	Service Level Agreements with Outside Entities	Medium	<p>We reviewed the arrangements in place with 5 organisations to which the Council provides professional services. Organisation Services provided 2015/16 Fees Lothian Valuation Joint Board Payroll services Accountancy services Internal Audit £ 20,100 SEStran Accountancy services Payments and procurement Insurance Treasury management Internal Audit Payroll services £ 23,350 Lothian &amp; Borders Community Justice Authority Accountancy services Payments Internal Audit £ 22,000 CEC Holdings Accountancy services £ 20,000 Royal Edinburgh Military Tattoo Payroll services Treasury management Internal Audit £ 1,500 There was a current Service Level Agreement (SLA) in place with only one of those 5 entities (SEStran). The agreement had been set up in June 2013 for a period of 12 months, and has been extended a further 3 times since then. There was a further SLA with the Lothian &amp; Borders Community Justice Authority. This SLA expired in March 2010. The Council has continued to provide accounting support including accounts preparation to LBCJA at the rates agreed in 2009. Additional services including accounts payable and internal audit were not included in this SLA. There were no SLAs in place with the remaining 3 entities. Services provided and fees charged were understood to be historic arrangements.</p>	<p>If service levels are not formally agreed with the other organisation, there is a risk that: There is reputational damage and increased resource pressure if the Council does not deliver services as expected by the counter party; The Council may not receive appropriate remuneration for services provided; and Arrangements in place may not be appropriate or may conflict with other Council duties.</p>	<p>Service Level Agreements with the organisations to which the Council provides professional services should be reviewed and/or established. These should set out services provided, key activities and deliverables, and the respective roles and responsibilities of the Council and the counterparty. Service Level Agreements should be for a defined period and refreshed regularly to ensure that agreed services and charges remain appropriate.</p>	<p>A service level agreement with the Edinburgh Integration Joint Board is currently being developed. This template will be rolled out to other third party organisations to which the Council provides services as a generic service level agreement, with the exact terms (fees, services, dates) appended as a delivery schedule. July Update The IJB SLA is signed and a generic SLA to be used as the basis for agreements with ALEOs as required has now been shared with all Service Areas. Directors / Heads of Service have been requested to confirm (for their areas) that service level agreements have been established to support all third party relationships where the Council provides services. If individual responses are not provided by end August 2017, individual actions will be raised allocated across all Service Areas to ensure that SLAs are implemented.</p>	<p>31/01/17</p>	<p>30/06/17 <b>August update:</b> Request in main paper for CLT to close this action and raise separate actions on all Heads of Service to identify all third party organisations and implement the SLAs.</p>	<p>Nick Smith, Head of Legal and Risk</p>
RES1606ISS.2	ICO Follow Up	Medium	<p>CEC agreed to the ICO that all employees would complete the e-learning module on Information Governance that was mandatory at the time (A16). Since the ICO review, frequent and consistent messages have been issued on information governance. Despite this, a number of council staff have still to complete the module. In addition, CEC agreed to undertake role-specific training for a number of higher-risk data security roles. In some cases (A6, C20, C27) these training sessions have been planned, with materials provided for review. However, these sessions have not yet taken place, as many of the staff are relatively newly appointed and due to organisational restructuring and change across the Council. All role-specific training sessions agreed with the ICO are currently scheduled to be held by the end of Q2 2017.</p>	<p>Risk that staff do not properly understand the implications of data security within their role and the steps they can take to minimise risk to the Council.</p>	<p>All staff should complete the e-learning module and role-specific training courses should be conducted, as planned, by Q2 2017.</p>	<p>Existing Council employees who have not yet completed the IG eLearning module will be instructed/strongly encouraged to do so. Once the elearning module is complete, staff will be expected to update their knowledge of the Information Governance related policies on an annual basis as part of the annual policy refresher process. However, completion of the elearning module may be considered excessive for front line manual workers who have minimal or no information governance responsibilities and a briefing note, prepared by the Information Governance Manager, will be used as an alternative for these particular employee groups.</p>	<p>30/05/17</p>	<p>31/10/17 Several role specific training programmes have been established in relation to data protection compliance. The e-learning module for managers is being revised to include the latest guidance issued by the external regulator concerning the new General Data Protection Regulation which comes into force in May 2018.</p>	<p>Margaret-Ann Love, Learning &amp; Development Manager</p>

CSE1601ISS.2	Review of Grant Management	High	Conflicts of interest are difficult to define due to their inherent subjectivity and are often the subject of public scrutiny. The Culture and Sport Committee consists of 15 elected members. They approve grant funding to cultural organisations on an annual basis. A review of Companies House records and the Register of Interests found that ten of the elected members are current or recent directors of one or more of the funded organisations. This could result in the perception of conflicts of interest as in effect, elected members are awarding grants to organisations that they are connected to and have an interest in. The Councillors' Code of Conduct set by the Standards Commission for Scotland defines holding office in a company or voluntary organisation as a declarable non-financial interest (section 4.22). The Code states that an elected member must withdraw from the meeting room until any discussion or vote on an item where they have a declarable interest is concluded (section 5.7). The Code further advises that councillors should not accept a role or appointment if it would mean they frequently declare an interest at a particular committee on which they sit (section 5.22). There is an exemption within the code (section 5.18-d) where the appointment has been approved by the councillor's local authority and the company or voluntary organisation was: Established wholly or mainly for the purpose of providing services to the councillor's local authority; and Entered into as a contractual arrangement with that local authority for the supply of goods and/or services to that local authority In such a case, the councillor is not required to withdraw from discussion or voting, but must declare their interest. The Culture and Sport Committee approved grants to 36 cultural organisations on 8 March 2016. The 13 councillors present between them held 18 directorships on the boards of charities receiving grants. Only 9 interests in Directorships were declared at the meeting. No councillors withdrew from the meeting. It is not clear to Internal Audit that the 9 interests declared were in organisations that would qualify for the section 5.18-d exemption.	Risk that public confidence is damaged by perception that the Committee's decisions are influenced by factors other than the public interest; and Risk of Contravention of the Councillors' Code of Conduct	In accordance with the Councillors' Code of Conduct, Councillors must declare an interest where they are a member or director of a public body, company, or other organisation. Unless the exemption discussed above applies, councillors must withdraw from the meeting room until discussion or voting on an item where they have a declarable interest. This includes scrutiny or funding of charities of which they are a director. To meet best practice governance standards, we recommend that councillors do not sit on Committees which award grants to and scrutinise the activity of charities of which they are a director.	Mandatory induction training for new elected members in May 2017 on these areas will be in place. July Update Mandatory code of conduct training was scheduled as part of the new Councillor training programme with three scheduled sessions (9, 10 and 15 May) and two additional sessions delivered. Strategy and Insight has provided evidence of the training packs, however 19 of the Councillors (16 returning and 3 new Councillors) have not yet completed this mandatory training. A training needs analysis will be carried out in August after recess, which will inform the Autumn training programme to be delivered in October/November. This will include training on the Code of Conduct. Based on the above, the rating has been reduced from High to Medium.	30/06/17 Revised date required		Kirsty-Louise Campbell, Strategy & Governance Manager
HSC1604ISS.2	IJB Data Integration & Sharing	High	During interviews conducted with NHS and CEC, it was noted that two processes (specifically access management and communication protocols for data sharing) do not fully support the objectives of the IJB. Responsibilities for ensuring that access rights to NHS and CEC systems remains appropriate have not been established. Currently, managers within NHS should notify CEC and vice versa of staff joiners, leavers or movers. This allows access rights to be updated in line with revised operational requirements. However, there is no formal documented process or guidance that sets out the requirement to notify the two bodies of staff changes, and interviewees reported that access control is inconsistently applied (for example not all managers notify their 'non-home' organisation of staff changes). Currently, communication protocols for data sharing are in place. However, we observed that these protocols were not fully established and not sufficiently mature enough on data protection to properly support the objectives of IJB.	There is a risk of managers not being aware of their responsibilities to notify their 'non-home' organisation of staff changes. This could lead to access rights not being updated for leavers or movers and result in confidentiality of sensitive citizen data being put at risk, leading to regulatory fines or censure. Immature data sharing protocols increase the risk of data being inappropriately handled or misused, putting the confidentiality of sensitive citizen data at risk, leading to regulatory fines or censure.	IJB should ensure the communication protocols for data sharing are fully established and mature on data protection.	A pan Lothian General Data Sharing Protocol that facilitates trust among all parties (NHS Lothian, Edinburgh, East, West and Mid Lothian Councils and IJBs) is now in place and the Memorandum of Understanding (MOU) defining the joint data controller responsibilities between the City of Edinburgh Council, NHS Lothian and the EJB is in the final draft. It is envisaged that the MOU will be signed off by all parties by the end of June 2017. Once sign off has been achieved details will be shared with staff through the regular staff newsletter.	31/07/17	31/10/17 <b>August Update:</b> A final draft of the MOU has been circulated and we anticipate this to be agreed, in principle, by all parties and forwarded for signature shortly. Subsidiary documentation is currently being assessed by NHS, Lothian Councils, and CEC as part of this process.	Kevin Wilbraham, Information Governance Manager, Corporate Governance.
RES1605ISS.2	Service Level Agreements with Outside Entities	Medium	There is no complete record of professional services provided by the Council to outside entities.	Lack of a contract register makes it difficult to monitor services provided to other organisations and ensure that current contracts are in place. There is a risk that the resources required to provide professional services to other organisations are not fully understood and accommodated.	A contracts register should be created which includes: Counterparty Date of agreement Period of contract and expiry date Services provided Contract manager Key contact at organisation Contracted fees The contracts register should be reviewed periodically to ensure that all professional services provided to external organisations are captured, and that there is a current service level agreement in place for each one.	The findings of this audit review will be presented to the Corporate Leadership Team. Executive Directors will be asked to detail professional services provided to other organisations and to ensure that these are underpinned by Service Level Agreements. The Governance Unit within Strategy & Insight will maintain the Council's Register of Service Level Agreements and shall liaise with service areas to ensure that these are regularly reviewed.	31/10/16 Revised date required	All Service Area responses have now been received. Further clarity had been requested from 2 service areas. This has now been received and these submissions will be reviewed with a view to closing this action by the Outturn date of 30 April 2017.	Andy Nichol, Governance and Democratic Services Manager
RES1607ISS.1	Online Customer Services	Medium	Communication with the Head of Service and Service Manager for Licensing about the development and delivery of the HMO Licensing work stream has been irregular and limited to date. There was a 2-week consultation period in winter 2015 at the beginning of the project, but there has been limited communication since. There is no representative from the service area on the Project Board, and key programme documents have not been shared with the service area including: The Project Initiation Document (PID); The design document (which maps both the existing and the proposed processes); ICT and Transformation Service Level Agreements; Risk registers (with no process of escalation of the risks from the Service Area to the programme); Agendas and minutes from Project Board and other key group meetings; and Support available to the service area during and post-implementation. There is no stakeholder engagement stage incorporated in the project plan. We note that the design document for the HMO licensing online platform states that ' [the] Licensing Team [is] to own policy and guidance documents development to accommodate an online platform. ' It is unclear how they can do this effectively without involvement in its design and implementation.	Stakeholder expectations are not adequately managed as critical stages of the project are not communicated; The Project Board may not have a full understanding of the service requirements for each work stream, meaning that it may not deliver the expected benefits; The needs of users are not considered in the development of the system, meaning that it may not deliver expected benefits; Barriers to implementation that the service area is able to identify from experience, but which may not be obvious to the programme team (for example, legislative requirements) are not captured; Service Area leads may not buy-in to the project which risks slowing project progress.	Stakeholder Engagement The Project Board should include representatives from the live Service Area projects to ensure all critical documentation is shared and service and legislative requirements are considered, managing stakeholder expectations at each stage of the project. The Project Board may decide that this is most effectively managed through the creation of working groups for key work streams.	As part of the Programme rest (detailed in the 'Current Status Update' above), the programme governance and model used for business engagement is being reviewed, clarified and improved. This will include standardised documentation. When the detailed plan is received from CGI/Agilisys in April 2017 Working Groups for each "Drop" will be convened to include Subject Matter Experts from each of the relevant service areas. Re-engagement across senior and frontline stakeholders is currently being planned to refresh the message and planned outcomes of the Programme to support buy-in across the organisation.	31/05/17	31/08/17 Governance structure was put in place before project was placed on hold. This will be adapted based on whatever the new development partner structure may be. 05/07/2017: Business Engagement Approach and Internal/External comms plans provided by Clare Mills (Project Manager). These set out the general principles of stakeholder engagement, with heads of service identified as key stakeholders to attend working group. However, no detail as yet on who those stakeholders are, frequency of meetings, nature of engagement etc. No workstream has progressed far enough at this stage for active engagement with stakeholders: expect progress by end of August. Rating reduced to 'Medium' given Business Engagement Approach now developed.	Clare Mills, Project Manager

RES1616ISS.1	Facilities Management	Medium	<p>The plans to transform the Facilities Management service are ambitious and rely on staff adopting significant changes to working practices, and building users understanding and accepting agreed service levels. During our review of the project plans and documentation, it was noted an implementation plan to embed the new service and minimise disruption during and immediately following the launch of the new operating structure has not yet been developed.</p>	<p>There is a risk of loss of stakeholder support if disruption occurs during the implementation phase which would result in the programme failing to deliver the expected benefits.</p>	<p>Formalise the project implementation plan to include mitigating controls which minimise disruption to service delivery.</p>	<p>The following action plan will be put in place: Hold a team workshop to discuss detailed Work Breakdown Structure for project preparation and implementation Develop programme including identifying critical path and key dependencies Finalise resource schedule for implementation and seek formal approval from CLT to implement any change within pre-agreed budget parameters Review governance for FM roll out and ensure it is sufficiently robust and in line with the wider AMS governance arrangements Continue to monitor progress and report in line with existing arrangements</p>	<p>30/01/17 Internal Audit currently validating</p>	<p>A team workshop was held and a detailed work break down structure and programme plan produced with key dependencies identified. All resource is now in place for programme delivery and it will be held within agreed budget parameters within AMS. The implementation team are currently re-programming the key milestones due to a decision taken by CLT to push the launch of consultation until after the Election and split the consultation into phases, launching with janitorial in mid May and cleaning and others after the summer holiday period. The FM implementation will continue to be monitored as part of the AMS governance arrangements and through the wider Change Board. 10/07/2017 - requested copy of programme plan, dependencies log, and latest project dashboard. July Update Awaiting full evidence from Service Area. Once received and reviewed, IA will close this action as appropriate. A team workshop was held and a detailed work break down structure and programme plan produced with key dependencies identified. All resource is now in place for programme delivery and it will be held within agreed budget parameters within AMS. The implementation team are currently re-programming the key milestones due to a decision taken by CLT to push the launch of consultation until after the Election and split the consultation into phases, launching with janitorial in mid May and cleaning and others after the summer holiday period. The FM implementation will continue to be monitored as part of the AMS governance arrangements and through the wider Change Board.</p>	<p>Emma Baker, Project Manager</p>	
<u>EJJB</u>										
HSC1503ISS.3	Personalisation SDS - Option 3	Medium	<p>Scottish Government collects data on SDS users through annual and quarterly statistical surveys of local authorities. The answers to survey questions are based on data held in Swift. The accuracy and completeness of data input is therefore essential.</p> <p>There have been several changes in the assessment process and data captured in the past year such as:</p> <ul style="list-style-type: none"> <li>- Eligibility for services (on which data is required by Scottish Government) has been recorded since January 2015;</li> <li>- 'Initial steps to support' assessments were in use for new contacts between August 2014 and May 2015 but are now used only for crisis care;</li> <li>-A new personal support plan was introduced in October 2015. Where a new personal support plan is used, 'Option 4' is now recorded as a combination of Options 1, 2 and 3.</li> </ul> <p>There was no cut-off date after which all assessments would be carried out using new templates. The full process of assessment and arranging care can be lengthy. This means that there are several different ways of recording assessments running concurrently, with different data captured in each one. It is therefore difficult to extract complete and accurate data for management information and for reporting to Scottish Government.</p>	<p>Data on Swift is used to provide internal and external reporting which is likely to be incorrect. Data quality is affected where several processes to capture the same information are in use. There are over 500 practitioners completing assessments on Swift: multiple process changes over a short period of time increase the likelihood of errors in data input.</p>	<p>Further changes to the assessment process are expected over the next year as a result of the Transformation Programme and integration with the NHS. A change management process should be in place to minimise the number of process and recording changes through the year, implement clear cut-off dates, and to ensure changes are communicated to staff clearly. In the meantime, Research and Information should be aware of the likely inconsistencies in data recorded and ensure that reports are thoroughly reviewed before issue.</p>	<p>A change management process will be established and overseen by the SDS Infrastructure Steering Group. The inconsistencies in data recording are as a result of numerous changes to processes and trying to reduce the recording burden of implementing these on frontline practitioners. The Research and Information Team are aware of all changes to recording practice and take these into account. A summary of all changes and the impact on data extraction has also been produced.</p>	<p>30/06/16 30/06/2017 31/12/2017</p>	<p><b>August Update</b> Chief Officer and Strategic Commissioning Manager provided an update at GRBV meeting of 01.08.17 that noted that a revised implementation date of December was required.</p> <p>Existing change management processes will be formalised as part of the revised governance being put in place for the Health and Social Care Transformation Programme. Planned completion date: 31 March 2017</p>	<p>Wendy Dale, Strategic Commissioning Manager</p>	
HSC1503ISS.6	Personalisation SDS - Option 3	Medium	<p>Since October 2015, all personal care plans must be signed off by a senior. This is a measure introduced to improve the quality of personal support plans. We obtained a report of all personal support plans completed between October 2015 and January 2016. We identified 44 cases out of 811 (5.4%) where the system recorded that the assessor who prepared the personal support plan also signed it off. This was reflected in the variable quality of the 25 personal care plans we reviewed as part of our audit work.</p>	<p>The quality of personal support plans is a vital aspect of delivering SDS and ensuring that people receive the care that they choose and need. A lack of review may affect the quality of care received.</p>	<p>All personal care plans should be signed off by a senior, as required by HSC policy. 'Workarounds' on Swift should be deactivated to prevent this breach of segregation of duties recurring.</p>	<p>Ensure that there is a mechanism in place on SWIFT for the senior to record that they have signed off the support plan. At present any edits made by the senior at the time of the review will show that the senior has both prepared and reviewed the plan. Data quality reports will be set up to identify any support plan signed off by the assessor who produced the plan. Sector Managers and seniors to ensure appropriate oversight and sign off by senior for the personal care plans</p>	<p>30/06/16 30/06/2017 31/12/2017</p>	<p>An instruction will be issued to all staff that Support Plans must be signed off by a senior social worker, who cannot be the same person who created the plan. Reports will be set up to ensure compliance as part of regular quality monitoring. Planned completion date: to be confirmed by 24/2/17 following response from Strategy and Insight .</p> <p>20/06 Assessments are no longer signed off, but costed Personal Support Plans up to the value of £650 p.w. are signed off by a senior. To close these findings, we need to confirm that sign off is being monitored through exception reporting to identify Plans which haven't been signed off, or that have been prepared and signed off by the same person.</p> <p><b>August Update:</b> Report has now been set up so it will automatically identify cases where the support plan was created and signed off by the same person. Evidence of this has been supplied to Internal Audit. Business Support Teams will be asked to run these reports on a monthly basis initially. The outstanding issue here relates to support plans that have not been signed off. We had asked if an additional category of "closed before completion" could be created in SWIFT but have been advised that this is not possible. Strategic Commissioning Manager will arrange to have a discussion as to how we resolve this with Senior Strategy and Planning Officer and Internal Audit. Suggest revised date to end December to allow time for Audit to check this is working. <b>July Update</b> Preparer and approver of live Personal Care Plans compared manually on 19/07/2017: no cases identified where a Personal Care Plan had been signed off by the assessor who produced it. This manual comparison will be repeated monthly for all new care plans. Risk rating reduced from 'medium' to 'low'. Changes to system requested to allow electronic exception reporting, and to record status ('in progress'/terminated') and 'go live' date to identify any care packages which have not been authorised. This is already checked manually by the Service Matching Unit each time a new care package is allocated to a care provider. Revised date 31/08/2017</p>	<p>Wendy Dale, Strategic Commissioning Manager</p>	

HSC1504ISS.1 Care Sector Capacity	Medium	<p>A Joint Strategic Needs Assessment (JSNA) has been drafted by the Research and Information team in preparation for health and social care integration. This analyses demographics across the city and the attendant pressures on social care provision such as life expectancy, morbidity, deprivation, prevalence of unpaid carers and employment levels (affecting both need for social care and the availability of carers). While the JSNA gives a sophisticated analysis of the current demographic and economic profile of the city, it is a snapshot based on historic statistics. Forecasting is limited to percentage growth according to the National Records of Scotland population projections by age group. The demographic trends and pressures on social care provision identified in the JSNA have not been translated into the likely effect they will have on demand for services in the medium- to long- term. This means that the Council does not have a robust forecasting model of demand for social care in the City to inform its strategic planning.</p>	<p>Lack of robust forecasting models impedes informed strategic planning of future service provision; New service structures and initiatives may be created in an attempt to address current problems which are not suitable for changing demands caused by foreseeable movements and trends in the population.</p>	<p>Forecasting The JSNA should be developed into a robust forecasting model for demand for social care in the City. This should involve an appropriate level of scrutiny of the reliability of the data used and the assumptions used in the model. We recommend that an officer from Health and Social Care is involved in the development of the JSNA in order to assess the assumptions used. The forecasting model should include a sensitivity analysis to assess the likely impact of variation in forecast trends. This is particularly important given the recognised breadth and complexity of social and economic factors affecting demand for care. Gap Analysis Once demand for homecare services has been forecasted, the Service should identify the gap between current and required capacity. If the forecast is sufficiently nuanced, the Service will be able to identify the gap between available resources and need for different groups, types of care, and localities. Implementation To date, population projections have generally been used to illustrate the need for service reform. The forecasting model and gap analysis should be used to inform strategic planning of Health and Social Care services.</p>	<p>Forecasting The Edinburgh Health and Social Care Partnership's Strategic Plan includes as a priority the improvement of our understanding of the strengths and needs of the local population through the ongoing development of the JSNA. A working group has been established to carry out this work. Members include colleagues from Public Health in NHS Lothian as well as from the Health and Social Care Partnership. One of the work streams which have been identified for the group is to further investigate methods of forecasting needs among specific groups, and our Public Health colleagues are supporting this work. Sensitivity analyses will be built into forecasting models. Gap Analysis Existing methods enable the gap to be identified between demand and supply in broad terms. Further work will be done in conjunction with Strategic Planning and Contracting colleagues to provide analyses in relation to specific service models. Implementation Improved understanding of the strengths and needs of local populations, and the gap between demand and supply, will be used to develop service models and will inform strategic planning.</p>	30/04/17 Revised date required.	This action is being taken forward through the ongoing development of the JSNA and the development of the Capacity and Demand Plan for Older People	Wendy Dale, Strategic Commissioning Manager
HSC1601ISS.6 Care Home Debt Management	Medium	<p>Section 22(2) of the National Assistance Act 1948 states that "the payment (which a person is liable to make) for any such accommodation shall be in accordance with a standard rate fixed for that accommodation by the council managing the premises in which it is provided (and that standard rate shall be represent the full cost to the authority of providing the accommodation)."</p> <p>Historically the Council have not charged the full cost of accommodation provision and provided the accommodation at a discount to the full unit cost. The Chief Officer of the Edinburgh Health and Social Care Partnership is responsible for reviewing charges on an annual basis. Unit costs are updated regularly by Finance and are available to Health and Social Care senior management to inform decisions on charges. Rates charged to residents for Care Homes are currently based on a historic costs exercise thought to have been completed in approximately 2005, then updated by "inflationary" increases in subsequent years. These uplifts were not linked to the actual cost increases in delivering accommodation and in 2015/16 a cohort of 9 residents receiving specialist dementia care at the North Merchiston Care Home appear to have been charged £9.80 per week in excess of the Home's unit cost of care provision for all or part of the year (total over-charge: £3,059), an apparent breach of the National Assistance Act 1948. This situation did not recur in 2016/17 due to the contract changes with the company running the care home on behalf of the Council. The unit cost of care increased by 3.9% in 2016/17 while the rate charged to residents remained constant, resulting in the unit cost of care being greater than the unit cost for patients in this category at the North Merchiston Care Home.</p>	<p>The Council appears to have charged this cohort of residents a sum in excess of what is permitted under the National Assistance Act 1948. The rates charged to residents in all Council provided accommodation needs to be reviewed for 2017/18 to ensure that they better reflect the actual cost of the care provided and prevent a similar recurrence.</p>	<p>The rates charged to residents in all Council provided accommodation needs to be reviewed for 2017/18 to ensure that they better reflect the actual cost of the care provided and prevent a similar recurrence.</p>	<p>The rates charged to residents in all Council provided accommodation will be reviewed for 2017/18 to ensure that they better reflect the actual cost. Finance will update unit costs to inform this review.</p>	31/03/17 30/06/2017 Revised date required	<p>A meeting is being arranged between the Strategic Planning and Quality Manager for Older People and colleagues in Finance to progress this action. NB: no changes have been made to care home charges for 2017/18, work to review their appropriateness in light of actual costs incurred will start once the revised staffing structures following the conclusion of the organisational review are in place. Suggest dependency be pushed implementation back to the end of June.</p> <p>Update requested July - finding owner on annual leave returning 17/7 - no further updates have been provided.</p>	Katie McWilliam, Strategic Planning and Quality Manager for Older People
HSC1603ISS.3 Management Information [EUB]	Medium	<p>Monthly 'waiting for assessment' reports are generated by the Council Performance and Information team for locality managers, which identify the length of time service users have been waiting for an assessment by locality and by sector team. At 1 September 2016 there were 1,638 assessments on the waiting list, with 1,320 overdue (on the waiting list for more than 2 weeks). Delays in assessments in the community have an impact across the health and social care system and are likely to contribute to higher admissions to hospital. This information is not reported to the EUB or its Executive Board. The number of patients remaining in hospital because their assessment is overdue is reported to the EUB bi-monthly as part of the 'delayed discharges' report. At 1 September 2016 this number stood at 33, just 2% of the total number on the waiting list for assessments. Only 9 of those were overdue (0.7% of total overdue). In comparison, 78 delayed discharges recorded in July were caused by delays in arranging domiciliary care.</p>	<p>Risk that attention is focussed on effect rather than cause: a relatively small (though high impact) number of delayed discharge, with poor visibility of delays across the health &amp; social care system.</p>	<p>Reporting on delays Management should consider including reporting delays in waiting times for assessments as part of bi-monthly delayed discharge reporting to the EUB, to help members consider and address delays across the health and social care system (which may be contributing to higher admissions to hospital and delayed discharge rates). Lessons learned In developing the Performance Management Framework, management should consider the measures they report to ensure they give EUB and Executive Board Members a full and balanced view of performance across the health and social care system, covering areas which are under the remit of both the legacy NHS and legacy Council teams.</p>	<p>Reports on delays across the whole system from point of referral to receipt of service are being developed and will be reported to the Performance Board on a monthly basis. The whole system approach to reporting that is being developed under the auspices of the Flow Programme Board chaired by an IJB member will provide greater transparency in terms of delays across the whole system. This report will also inform future reporting to the IJB.</p>	08/03/17 31/07/2017 IA validation	<p>22/08/17: The Annual Performance report is a sub set of indicators including 23 core indicators and 6 Integration Indicators together with some key local indicators including waiting times for assessment and packages of care which will be reported to and scrutinised by the IJB Performance and Quality Sub group. A performance report based on the Annual Performance report will be submitted to the IJB every 6 months. If the Performance and Quality Group have any concerns these will be escalated to the IJB.</p> <p>The Annual Performance Report was issued to the EUB on 14/07/2017 where it was agreed that "the report would be circulated to members for comments and additions prior to sign-off by the Chair and Vice Chair, and publication"</p>	Wendy Dale, Strategic Commissioning Manager
		<p>IA has requested further evidence of IJB Performance and Quality Sub Group minutes from the Strategic Commissioning Manager for the last 3 months to evidence scrutiny undertaken by the sub-group. Implementation date extended to 31/07/2017. Whole system reporting has been developed through the Flow Programme. We will be in a better position to confirm the regular reporting arrangements to the IJB Performance and Quality Group and through them to the IJB once the Annual Performance Report has been completed.</p>						



HSC1603ISS.4	Management Information [EIJB]	Medium	<p>There is one member of the NHS Data Set Team responsible for pulling together and circulating delayed discharge reports to locality managers each week. We selected a sample of 5 weeks and confirmed that the report had been generated and circulated. We identified:</p> <ul style="list-style-type: none"> <li>- One week where no delayed discharge report was circulated as the officer responsible was on annual leave;</li> <li>- One week where additional information was missing as the officer responsible did not have time to complete it.</li> </ul>	<p>Locality managers do not have sight of delays if the staff member responsible for preparing management information is absent. There is a risk that this means resources cannot be targeted effectively, and the number of delays increases. There is a reliance on existing NHS and Council professional support arrangements which may not meet the needs of the EIJB.</p>	<p>Delayed Discharge At least one other member of the NHS or Council Data Set Teams should be trained in preparing delayed discharge reports to provide cover in the event of staff absence. Lessons Learned In developing the Performance Management Framework, the Edinburgh Health and Social Care Partnership should identify resources required to collect and analyse performance data and maintain a consistent quality of reporting to locality managers, the Executive Board, and the EIJB.</p>	<p>The resource requirements to meet the performance management requirements of the IJB will be identified as part of the development and implementation of the new operating structure in Health and Social Care.</p>	<p>31/03/17 31/07/2017</p>	<p>Implementation date extended: the support services part of the new structure has not progressed as quickly as anticipated.</p>	<p>Rob McCulloch-Graham, Chief Officer: Edinburgh Health &amp; Social Care Partnership</p>
HSC1604ISS.3	IJB Data Integration & Sharing	Medium	<p>During our audit procedures, we observed there are compatibility and connectivity issues when using CEC hardware at NHS locations or to access NHS owned systems and vice versa. CEC staff have experienced difficulties in connecting through Wi-Fi at NHS sites (and vice versa) in order to access their emails, and some systems cannot be accessed using specific hardware such as mobile devices (i.e. tablets, mobile phones).</p>	<p>There is a risk of the operational efficiency and effectiveness being impacted by an inability to access system in a timely manner.</p>	<p>The IJB should ask for a review of connectivity and hardware compatibility to be conducted in NHS and CEC sites, to ensure all staff can be fully operational wherever they are located.</p>	<p>The ICT and Information Governance Steering Group will request a review of connectivity and hardware compatibility to be conducted across all sites housing integrated teams and consider any recommendations arising from that review.</p>	<p>30/06/17 Revised date required.</p>	<p>Update requested 14/07/17</p>	<p>Wendy Dale, Strategic Commissioning Manager</p>

10.00am, Tuesday 26 September 2017

## Internal Audit Opinion Benchmarking Exercise

Item number	7.3
Report number	
Executive/routine	
Wards	
Council Commitments	

### Executive summary

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This report details the outcomes of a benchmarking exercise performed to assess the consistency of Internal Audit annual opinions provided across local authorities in Scotland.

Our review demonstrates that a significant range of opinion types and supporting definitions are applied across local authorities, which impacts the ability to make meaningful comparisons between the annual opinion types provided.

Additionally, Internal Audit annual opinions will vary depending on:

- The quality of risk assessments supporting the annual plan;
- The complexity and volume of audits included in the annual plan and their outcomes;
- Existence of an effective and consistently applied Internal Audit methodology;
- Any limitations impacting Internal Audit performance or affecting their independence; and
- The quality, skills and experience of the Internal Audit teams.

# Governance, Risk and Best Value Committee

## Internal Audit Annual Opinion Benchmarking Exercise

### 1. Recommendations

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- 1.1 It is recommended that the Committee notes the outcomes of the Internal Audit annual opinion benchmarking exercise.

### 2. Background

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- 2.1 At its meeting on Tuesday 1 August 2017, the Governance Risk and Best Value (GRBV) Committee noted the annual Internal Audit opinion for the year ended 31 March 2017. The opinion for the year was a '2' - Generally adequate but with enhancements required', reflecting the outcomes of the Internal Audit work performed during the year and the outstanding recommendations that had not been addressed by Service Areas at 31 March. Details of the range of available Internal Audit opinion types applied within the Council are included at Appendix 1.
- 2.2 GRBV then requested completion of a benchmarking exercise to provide a comparison of the Council's annual Internal Audit opinion with those delivered by other local authority council Internal Audit teams.
- 2.3 The Local Authority Accounts (Scotland) Regulations 2014 specify (at section 7) that 'A local authority must operate a professional and objective internal auditing service in accordance with recognised standards and practices in relation to internal auditing.'
- 2.4 The recognised standards applied by local authority Internal Audit teams are the Chartered Institute of Public Finance and Accountancy's (CIPFA) Public Sector Internal Audit Standards (PSIAS).
- 2.5 Whilst the PSIAS require the provision of an annual Internal Audit opinion, they not do provide any methodology or guidance to derive opinion titles or definitions. The City of Edinburgh Council has adopted the approach detailed at Appendix 1. This is consistent with the methodology applied by the main consulting firms (for example PwC) who provide outsourced Internal Audit services, and is generally considered as industry best practice.
- 2.6 There are currently 32 local authority councils across Scotland with established Internal Audit teams as required by the Local Authority Accounts (Scotland) Regulations.

### 3. Main report

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- 3.1 A total of 15 annual Internal Audit opinions were publicly available and could be sourced from relevant local authority websites for comparison.
- 3.2 The opinion titles and supporting definitions of opinions varied significantly with 8 different opinion titles noted across the 15 opinions reviewed. This suggests that the majority of Council Internal Audit teams have derived their own opinion titles and definitions due to the lack of formal guidance provided by CIPFA in the PSIAS as noted above.
- 3.3 We noted the following published opinion types:
- Balanced opinion – 1
  - Adequate and effective controls operating – 1
  - Generally adequate with enhancements required – 1 (CEC)
  - Generally operating as expected – 1
  - Generally sound – 1
  - Reasonable and objective assurance – 1
  - Reasonable assurance – 8
  - Substantial assurance – 1
- 3.4 The most common opinion type reported is 'reasonable assurance' which was used by 8 Internal Audit teams. Appendix 2 illustrates that whilst a consistent 'reasonable assurance' opinion title has been applied, the supporting narrative varies considerably across the 8 Councils.
- 3.5 'Reasonable assurance' is an opinion type predominantly used in the external audit of financial statements, and is typically defined as 'the level of confidence that an auditor, exercising professional skill and care, is expected to attain from an audit that the financial statements are not materially misstated'.
- 3.6 Given the significant variations noted above, it has not been possible to make meaningful comparisons between the annual opinion types provided across the 15 local authority Internal Audit opinions reviewed.
- 3.7 Our review also highlighted a significant variation in the size of audit teams (ranging from 1.6 to 27 FTE) and the provision of co-source support. The CEC team is currently 7 FTE with a co-source arrangement established with PwC.
- 3.8 It was also noted that there was a wide variety of scrutiny committee names across the local authorities, with the most common being 'Audit' for 8 of the 32 local authorities. We did not perform any comparison of the terms of reference for these committees.
- 3.9 A broader corporate services benchmarking exercise is currently being explored by the Executive Director of Resource which will include Internal Audit.

### 4. Measures of success

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- 4.1 N/A.

## **5. Financial impact**

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5.1 No direct financial impact.

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

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6.1 The Local Authority Accounts (Scotland) Regulations 2014.

6.2 Chartered Institute of Public Finance and Accountancy's (CIPFA) Public Sector Internal Audit Standards (PSIAS).

6.3 Research performed by Michael Page on the definition of 'reasonable assurance':  
[Reasonable Assurance](#)

## **7. Equalities impact**

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7.1 No direct impact.

## **8. Sustainability impact**

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8.1 No direct impact.

## **9. Consultation and engagement**

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9.1 N/A.

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

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10.1 Information included in Appendix 2 was obtained from the relevant local authority council websites.

### **Lesley Newdall**

Chief Internal Auditor

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## **11. Appendices**

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Appendix 1 – City of Edinburgh Council Opinion Types

Appendix 2 – Benchmarking Result

## City of Edinburgh Council Opinion types

We consider that there are 4 possible opinion types that could apply to the Council. These are set out in the table below:

<b>1 Adequate</b> <i>An adequate and appropriate framework of Governance, Risk management &amp; Control is in place enabling the risks to achieving organisation objectives to be managed</i>	<b>2 'Generally adequate but with enhancements required'</b> <i>Areas of weakness and non-compliance in the framework of Governance, Risk management &amp; Control that that may put the achievement of organisational objectives at risk</i>
<b>3 'Significant enhancements required'</b> <i>Significant areas of weakness and non-compliance in the framework of Governance, Risk management &amp; Control that puts the achievement of organisational objectives at risk</i>	<b>3 Inadequate</b> <i>The framework of Governance, Risk management &amp; Control is inadequate with a substantial risk of system failure resulting in the likely failure to achieve organisational objectives.</i>

Judgement is required to be exercised in determining the appropriate opinion to be given and it should be noted that in giving any opinion, assurance can never be absolute.

## Appendix 2 - Internal Audit Annual Opinion Benchmarking Exercise results

	Council	Name of Report	Audit Opinion/Conclusion	Opinion/Conclusion Definition	Limitations impacting Opinion	Number of Audits Delivered in the year	Size of Audit Team	Governance / Scrutiny Committee
1	Aberdeen City	Internal Audit Progress Report	reasonable assurance	Major recommendations made in 5 reports There were limitations to the scope of planned Internal Audit work. These limitations relate to not being permitted access to records held and requested information not being provided during audits, thereby limiting the level of assurance that could be provided.	4 projects	20	not available	Audit, Risk & Scrutiny
2	Aberdeenshire	Internal Audit Annual report & Internal Financial Control Statement 2016/17	reasonable assurance	Major recommendations made in 10 reports in 2016/17 (10 in 2015/16) The outcome of these audits, along with others, and concerns regarding the implementation of previously agreed recommendations have been reported to the relevant Policy Committees and the Scrutiny and Audit Committee (more latterly the Audit Committee In addition to the above, areas of good practice, improvement, and procedural compliance have been identified and these have been detailed in individual assignment reports. The number of recommendations made by Internal Audit throughout the year have reduced when compared to previous years.	None	47 includes 15 carried forward from 2015/16	not available	Audit
3	Angus	Internal Audit Annual Report 2016/17	reasonable assurance	although some control weaknesses were noted generally controls evaluated are adequate, appropriate, and effective to provide reasonable assurance that risks are being managed and objectives should be met. The internal audit work of the year has identified a number of areas of good practice and good 10.internal control. Significant improvement has been made in addressing implementation of internal audit recommendations	None	19 includes 6 Financial, + 13 Non-Financial	1.6 FTE + Co-source Audit Manager	Scrutiny & Audit
4	Argyll & Bute	Internal Audit Annual Report 2016/17	substantial assurance	With specific regard to internal control, I am satisfied that recommendations made have been or are currently being addressed by management, and my opinion on the Council's systems is based on those recommendations being satisfactorily implemented.	None	30	not available	Audit & Scrutiny
5	Edinburgh City	Internal Audit Opinion and Annual Report for the Year Ended 31 March 2017	generally adequate but with enhancements required	However, based on our work performed in the year, (set out below) and the management recommendations that remain outstanding at the date of this report, Internal Audit considers that there are weaknesses in the framework of governance, risk management and controls. There were also instances during the year of non-compliance with existing controls. If not addressed, these weaknesses and instances of non-compliance may put the achievement of organisational objectives at risk. We consider that improvements are therefore required to address the matters identified, which will enhance the adequacy and effectiveness of governance, risk management and control	None	46 including 6 carried forward from 2015/16	7	Governance, Risk and Best Value
6	Clackmannanshire	Internal Audit & Fraud Annual Report	Last reported 15/09/16.	N/A	N/A	N/A	N/A	Internal Audit & Finance
7	Dumfries & Galloway	Outturn Against the 2016-17 Internal Audit Plan and Controls Assurance Statement	reasonable assurance	The level of staffing resources available to undertake internal audit work remained as expected and no significant adjustments to the internal audit plan were required. There were no restrictions on internal audit's ability to access the systems, people and records required to complete its work. There were therefore no impairments on internal audit during the year.	None	19 includes 5 Grant Certifications	not available	Audit, Risk & Scrutiny
8	Dundee City	Internal Audit Annual Report	Last reported 29/06/16.	N/A	N/A	N/A	N/A	Scrutiny
9	East Ayrshire	Internal Audit Annual Report 2016/17 (Audit)	Reported 20 April 17. Report papers not available on web page	N/A	N/A	N/A	N/A	Governance & Scrutiny
10	East Dunbartonshire	N/A	No papers available from web site	N/A	N/a	N/A	N/A	Audit & Risk Management

11	East Lothian	Annual Internal Audit Report	CIA opinion or conclusion not noted in the report	N/A	N/a	18	5 = 1 Manager + 3 Senior Auditors + 1 Senior Audit Assistant	Audit & Governance
12	East Renfrewshire	East Renfrewshire Council Annual Accounts & Draft Annual Audit Report for 2015/16	Last reported 28/09/16.	N/A	N/A	N/A	N/a	Performance & Audit
13	Falkirk	Internal Audit: Annual Assurance Statement 2015/16	Last reported 20/06/16.	N/A	N/A	N/A	N/A	Audit
14	Fife	Strategic Audit Plan 2017/22 and Operational Audit Plan 2017/18	Last reported 02/03/17 covers part year 01/01/16 to 30/06/16	N/A	N/A	N/A	N/A	Standards & Audit
15	Glasgow	Internal Audit Performance Report	Last report 01/10/2016 no mention of an assurance statement	N/A	N/A	N/A	circa 27 13.8 FTE Qualified 7 FTE Qualified in security 4 FTE trainees 2 FTE technical/administrative	Finance & Audit Scrutiny
16	Highland (Comhairle na Gaidhealtachd)	Internal Annual Report 2016-17	reasonable assurance	On the basis of the work undertaken during the year, it is considered that the key systems operate in a sound manner and that there has been no fundamental breakdown in control resulting in material discrepancy. However as no system of control can provide absolute assurance against material loss, nor can Internal Audit give that assurance	None	21	7.4 FTE audit staff + 1 FTE Corporate Audit Manager/Chief Audit Executive	Audit & Scrutiny
17	Inverclyde	Internal Audit Annual Report & Assurance Statement	last reported 23/08/16	N/A	N/A	N/A	N/A	Audit
18	Midlothian	Internal Audit Annual Assurance Report 2016-17	a balanced opinion	It is my view that overall the Council's framework of governance, risk management and internal control over the period 2016/17 are of a satisfactory standard and have been implemented and are monitored by management in line with Financial Directives, Council Policy and the other key essentials of a robust Internal Control Environment	None	8		Audit
19	Moray	Internal Audit Annual report	last reported 28/09/16	N/A	N/A	N/A	N/A	Audit & Scrutiny
20	Comhairle nan Ellen Siar (Western Isles)	Internal Audit Annual Report & Assurance Statement 2016/17	generally operating as expected	Appropriate responses to the recommendations made in our reports have been obtained and <b>if actioned</b> should provide management with additional comfort that the systems of control operated as intended.	None	28 + 30 follow up reports		Audit & Scrutiny
21	North Ayrshire	Internal Audit Annual Report 2016/17	reasonable assurance	This statement on the adequacy and effectiveness of the framework of governance, risk management and internal control is based on the audit work performed during 2016-17 as reported above. It also draws on the experience of audit work carried out in earlier years as well as assurances received from management and external audit findings.	None	13	Circa 3.5 - 1 Team Manage, p/t Computer Auditor + 1 f/t and 1 p/t Auditors	Audit & Scrutiny



22	North Lanarkshire	Internal Audit Annual report	reasonable assurance	<p>Internal Audit recently reviewed the Council's project management arrangements. The findings of the audit require me to qualify my opinion on the adequacy and effectiveness of key aspects of the Council's project management arrangements. Management has responded positively to the report and has highlighted current and future planned actions which are expected to improve the control environment.</p> <p>In April 2016, the Council received allegations of potential irregularities and corruption associated with certain aspects of the Council's corporate property and procurement arrangements. The findings of the audit investigation which were reported to the Chief Executive in September 2016, require me to qualify my opinion on the adequacy and effectiveness of key aspects of the Council's contract management arrangements in relation to corporate property. Management reported to Committee in March 2017 on steps already taken to address some of the issues identified and on further future planned actions.</p> <p>Internal Audit recently reviewed the Council's approach to progressing 'transformational change' which continues to evolve. While generally positive of the direction of travel, the findings of the audit require me to qualify my opinion given the weaknesses identified including the need to rationalise and prioritise projects, to ensure that there is sufficient organisational capacity and resources to deliver planned work and to ensure adequate processes are in place to monitor projects and report on progress to key stakeholders.</p>	4 qualified opinions noted	12	not included	Audit & Scrutiny
23	Orkney Islands	Internal Audit Annual report & Assurance Statement	adequate and effective controls operating	<p>The audit work has confirmed that, for the areas subject to audit review during 2016/17 there are adequate and effective controls operating, subject to the following exclusions: Pickaquoy Centre Trust</p> <p>The audit found that generally the principles of the Code of Practice of Following the Public Pound were being followed to varying extents within the Service Agreement and that areas of good practice were evident. Areas where improvements could be made were also identified, both with regard to the content of the Service Agreement and the actual operating arrangements between the Council and the Trust.</p> <p>High priority recommendations were made, these concerned the following: -</p> <ul style="list-style-type: none"> <li>☒ The Service Agreement should be aligned with the achievement of current Council objectives and priorities relevant to the service area, and should be subject to annual review.</li> <li>☒ Performance measures should be included within the Business Plan and these should be approved by Council. Performance targets should also be reported on within the End of Year Performance Monitoring report.</li> <li>☒ The Business Plan should be submitted within a timescale to allow it to be considered during the Council's budget setting processes.</li> <li>☒ The required testing of Environmental Conditions and Ground Maintenance should be completed each quarter.</li> </ul>	5	18	2.8 FTE (0.8 FTE Chief Internal Auditor + 2FTE Internal Auditors)	Monitoring & Audit

			Orkney Childcare and Young People's Partnership (OCYPP) The audit confirmed that good management practices were being followed for budgetary control and management of the Partnership budget.  It was also found however that formal communication and agreement to its Terms of Reference was required between the OCYPP and the Integration Joint Board to support joint working and a unified and efficient approach to child and young person support in Orkney.  Some improvements to procedures were also agreed in order to increase compliance with the Council's policy on Funding External Bodies and Following the Public Pound.					
			Capital Project Review: Photovoltaic Panels on Council Housing  The audit findings confirmed that installation of the panels had not delivered all of the expected benefits as detailed within the Capital Project Appraisal reports. The income received from the panels was considerably lower than estimated due primarily to the Government reducing the Feed-in-Tariff rates available over the period of the installation and registration of the panels.  The project lacked expediency at key points during its duration, particularly relating to the registration of the panels. The delayed registration of installations contributed to the reduced level of income received.					
			The Council's performance and risk management system, Aspireview, is used to monitor implementation of agreed internal audit recommendations. When internal audit reports have been finalised they are uploaded to Aspireview and the identified responsible officers for implementing the audit recommendations are then required to provide an update on the progress being made twice per year, as at the end of September and the end of March.  The updates provided as at 31 March 2017 have been reviewed in order to assess progress. Whilst there are a number of recommendations which are still to be implemented, including recommendations which are overdue in being progressed, there are no recommendations which remain outstanding which impact on the annual internal audit opinion.					
24	Perth & Kinross	Draft Annual Audit Report to Members	<b>Draft report on 28/09/16.</b>	N/A	N/A	N/A	N/A	Audit
25	Renfrewshire	Annual Accounts 2016/17 Annual Governance Statement	reasonable and objective assurance	It is not feasible for the system of internal control in the Council to be without any weaknesses. It is important to balance the risks involved in accepting systems limitations with the consequences if a problem emerges. Internal audit recognises this and address this in its reporting mechanism	3	not included	6.9FTE	Audit, Risk & Scrutiny
26	Scottish Borders	Annual Audit Report	<b>Last reported Sept 16.</b>	N/A	N/A	N/A	N/A	Audit & Scrutiny
27	Shetland Islands	Annual Audit Report	<b>Last reported Sept 16.</b>	N/A	N/A	N/A	N/A	Audit
28	South Ayrshire	Internal Audit Service - Statement on Internal Controls	<b>Last reported June 16.</b>	N/A	N/a	N/A	N/A	Audit & Governance
29	South Lanarkshire	Interim Audit Report 2016/17	<b>Due to be reported Sept 17</b>	N/A	N/a	N/a	N/A	Risk & Audit Scrutiny
30	Stirling	Audit Committee Draft Annual Report	<b>Last reported Sept 16.</b>	N/A	N/A	N/A	N/A	Audit

31	West Dunbartonshire	Internal Audit Annual Report to 31 March 2017	reasonable assurance	<p>My evaluation of the control environment is informed by a number of sources:</p> <p>The audit work undertaken by Internal Audit during the year to 31 March 2017, including risk based systems audits, ICT audits, investigations, follow-up reviews and one-off exercises;</p> <p>The assessment of risk completed during reviews of the annual audit plan;</p> <p>The assurance statements signed by the Strategic Directors and Strategic Leads on the operation of the internal financial controls for the services for which they were responsible during the year to 31 March 2017;</p> <p>The assurance statement signed by the Chief Executive for the overall Council for the year ended 31 March 2017;</p> <p>Reports issued by the Council's External Auditors, Audit Scotland, and other review agencies;</p> <p>My knowledge of the Council's governance, risk management and performance monitoring arrangements; and</p> <p>An ongoing audit investigation on tendering and contracting within Roads and Greenspace, for which the audit work completed to date has highlighted a number of high risk issues. Management has been advised of these issues and has implemented appropriate interim actions to rectify them.</p> <p>inappropriate scope or resource limitations. Opinion It is my opinion, based on the above, that reasonable assurance can be placed upon the adequacy and effectiveness of West Dunbartonshire Council's systems of governance, risk management and internal control in the year to 31 March 2017.</p>	None	14	not included	Audit & Performance
32	West Lothian	Internal Audit Annual Report	generally sound	<p>My opinion is based on:</p> <p>the internal audit work undertaken during 2016/17, including follow up work;</p> <p>the work of the council's external auditor, which is placed before the Audit Committee as a matter of course;</p> <p>the work undertaken by Gallagher Bassett, the council's risk consultant;</p> <p>the work of the council's Governance and Risk Board;</p> <p>the governance compliance statements prepared by heads of service</p>	None	not included	not included	Audit

# Governance, Risk and Best Value Committee

10.00am, Tuesday 26 September 2017

## Principles to govern the working relationship between the City of Edinburgh Council Governance, Risk and Best Value Committee and the Edinburgh Integrated Joint Board Audit and Risk Committee

Item number	7.4
Report number	
Executive/routine	
Wards	
Council Commitments	

### Executive summary

This report sets out five proposed principles to govern the relationship between the City of Edinburgh Council Governance Risk and Best Value (GRBV) Committee and the Edinburgh Integration Joint Board (EIJB) Audit and Risk Committee.

These principles were approved by the EIJB Audit and Risk Committee at their last meeting on Friday 2 June 2017.

# Report

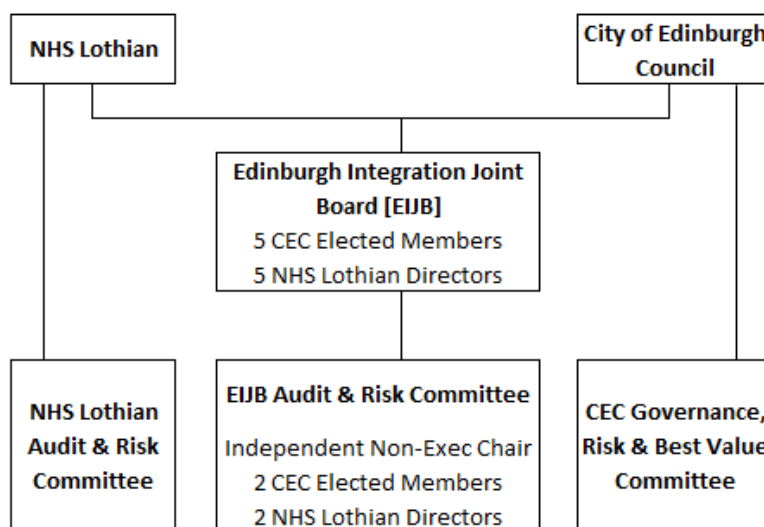
## Principles to govern the working relationship between the City of Edinburgh Council Governance, Risk and Best Value Committee and the Edinburgh Integrated Joint Board Audit and Risk Committee

### Recommendations

- 1.1 To ensure alignment with best practice governance arrangements, it is recommended that the Committee approve the five proposed principles to govern the working relationship between the Council's GRBV Committee and the EIJB Audit and Risk Committee detailed in this paper. These principles mirror those established to govern the relationship between the EIJB Audit and Risk Committee and the NHS Lothian Audit and Risk Committee.

### Background

- 2.1 The EIJB is responsible for the strategic planning of the provision of Adult Health and Social Care services in the City. The EIJB's board consists of representatives from the Council and NHS Lothian. The services are delivered by the Edinburgh Health and Social Care Partnership, which consists of two partners, the Council and NHS Lothian.
- 2.2 The EIJB has its own scrutiny committee, the Audit and Risk Committee, and it is likely that there will be areas of overlap (particularly in relation to social care) in the scrutiny provided by the EIJB Audit and Risk Committee and the Council's GRBV Committee. The structural relationship between the two committees is set out in the diagram below:



- 2.3 It was recognised early in the inception process for the EIJB Audit and Risk Committee that it would be beneficial to share information (particularly in relation to Internal Audit) between the scrutiny committees of the EIJB, NHS Lothian and the Council.
- 2.4 This prompted NHS Lothian to draft a set of principles to govern the relationships between the NHS Lothian Audit and Risk Committee and the four Integrated Joint Boards Audit and Risk Committees (of which the EIJB Audit and Risk Committee is one), which represent the four Integrated Joint Boards to which NHS Lothian is party.
- 2.5 Input to the draft principles was provided by representatives of the EIJB and Officers of the Council who provide administrative support to the EIJB. The 'Provision of internal support services to the EIJB' was agreed at the Finance and Resources Committee on 23 March and then approved by the NHS Lothian Audit and Risk Committee in April 2017.
- 2.6 Five principles were then drafted to govern the relationship between the EIJB Audit and Risk Committee and GRBV. These 'mirror' the principles established between NHS Lothian and the EIJB Audit and Risk Committees, and were approved by the EIJB Audit and Risk Committee in June 2017.
- 2.7 Cooperation between the GRBV and EIJB Audit and Risk Committees is already occurring in relation to Internal Audit activity, with Council reports of interest to the EIJB being referred to the EIJB Audit and Risk Committee, and EIJB reports that may be of interest to the Council being referred to GRBV.
- 2.8 These Principles, which will be effective immediately, are intended to formally codify existing practices in how the two committees interact.

## Main report

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- 3.1 The five governance Principles proposed are:
  - 3.1.1 The Edinburgh Integration Joint Board (EIJB) Audit and Risk Committees and the City of Edinburgh Council Governance, Risk and Best Value (GRBV) Committee have an effective working relationship to take forward matters of common interest.
  - 3.1.2 To support the efficient conduct of business, there is a clear communication process from the EIJB Audit and Risk Committee to the City of Edinburgh Council GRBV Committee, and vice versa.
  - 3.1.3 The reports from the City of Edinburgh Council Internal Audit function shall be readily available to the EIJB Audit and Risk Committee. The reports from the EIJB Internal Audit function shall be readily available to the City of Edinburgh Council Governance, Risk and Best Value Committee.
  - 3.1.4 The minutes of the EIJB Audit and Risk Committee and the City of Edinburgh Council Governance, GRBV Committee shall be accessible.
  - 3.1.5 The City of Edinburgh Council internal audit plan shall take into account the requirements of the Edinburgh Integration Joint Board internal audit plan.

- 3.2 These principles, which will be effective immediately, together with 'guidance notes' detailing how they should be applied in practice are set out in further detail at Appendix 1.

### **Measures of success**

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- 4.1 Effective co-operation between this Committee and the Edinburgh Integrated Joint Board Audit and Risk Committee.
- 4.2 Effective co-operation between the City of Edinburgh Council and EIJB Internal Audit functions.

### **Financial impact**

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- 5.1 No direct financial impact.

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

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- 6.1 These principles have been created to ensure that appropriate governance arrangements are established and applied to support the relationship between the City of Edinburgh Council's Governance Risk and Best Valued Committee and the Edinburgh Integration Joint Board Audit and Risk Committee.

### **Equalities impact**

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- 7.1 No direct impact.

### **Sustainability impact**

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- 8.1 No direct impact.

### **Consultation and engagement**

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- 9.1 Edinburgh Integration Joint Boards Audit and Risk Committee.

## **Background reading/external references**

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- 10.1 [Provision of internal support services to the Edinburgh Integration Joint Board, report to Finance and Resources Committee, 23 March 2017](#)

### **Lesley Newdall**

Chief Internal Auditor

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## **11. Appendices**

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Appendix 1 – Principles to govern the working relationship between the Edinburgh Integration Joint Board Audit and Risk Committee and the City of Edinburgh Council Governance, Risk and Best Value Committee.



**Appendix 1 - Principles to Underpin Working relationships between EIJB A&R and CEC GRBV Committees.docx**

**PRINCIPLE 1: The Edinburgh Integrated Joint Board Audit and Risk Committees and the City of Edinburgh Council Governance, Risk and Best Value Committee have an effective working relationship to take forward matters of common interest.**

How will this work in practice?

- ✓ The committees, chief internal auditors and management from the Edinburgh Integration Joint Board (EIJB) and the City of Edinburgh (CEC) Council shall work collaboratively to resolve issues and risks, recognising that for some issues and risks there are interdependencies between the organisations.
- ✓ In the event that the CEC Council Governance, Risk & Best Value Committee (GRBV) should wish to call the attention of the EIJB Audit & Risk Committee (A&R) to a specific matter, the Convenor will refer the matter through the established communication channel (see below), flagging the need for the matter to be drawn to the attention of the Chair of the EIJB A&R and the EIJB Chief Officer. The matter could arise from any aspect of the Committee's business, e.g. audit reports or risks identified from risk management reports.
- ✓ In the event that the EIJB A&R identifies a matter of direct and material relevance to the GRBV, the Chair will refer the matter through the established communication channel (see below), flagging the need for the matter to be drawn to the attention of the GRBV and CEC Chief Executive.
- ✓ The EIJB A&R has the right to require CEC management to attend their meetings, should they wish to discuss an internal audit report with them. However it is agreed that this right would be exercised after due consideration and would probably be exceptional. In the normal course of events the EIJB A&R will in the first instance rely on the scrutiny and oversight work of the GRBV.

## Appendix 1 - Principles to Underpin Working relationships between EIJB A&R and CEC GRBV Committees.docx

**PRINCIPLE 2: To support the efficient conduct of business, there is a clear communication process from the Edinburgh Integrated Joint Board Audit & Risk Committee to the City of Edinburgh Council Governance, Risk & Best Value Committee, and vice versa.**

### How will this work in practice?

- ✓ In the event that the EIJB A&R wishes to raise a matter directly with the GRBV, the EIJB Chief Finance Officer will be tasked with communicating the request.
- ✓ The EIJB Chief Finance Officer shall send the request to the Clerk of the GRBV (currently Gavin King, [gavin.king@edinburgh.gov.uk](mailto:gavin.king@edinburgh.gov.uk)). The Clerk shall process the request accordingly.
- ✓ With regard to communication from GRBV to the EIJB A&R, the Clerk of the GRBV shall send the information to the EIJB Chief Finance Officer (currently Moira Pringle, [moira.pringle@nhslothian.scot.nhs.uk](mailto:moira.pringle@nhslothian.scot.nhs.uk)).

**PRINCIPLE 3: The reports from the City of Edinburgh Council internal audit function shall be readily available to the Edinburgh Integrated Joint Board Audit & Risk Committee. The reports from the Edinburgh Integrated Joint Board internal audit function shall be readily available to the City of Edinburgh Council Governance, Risk & Best Value Committee.**

### How will this work in practice?

- ✓ The EIJB A&R shall refer any relevant EIJB internal audit reports to the GRBV, and reflect that referral in their minutes. The EIJB Chief Internal Auditor shall send the reports to the CEC Chief Internal Auditor (currently Lesley Newdall, [lesley.newdall@edinburgh.gov.uk](mailto:lesley.newdall@edinburgh.gov.uk)) and the Clerk of the GRBV.
- ✓ The GRBV shall refer any relevant CEC internal audit reports to the EIJB A&R, and reflect that referral in their minutes. The CEC Chief Internal Auditor shall send the reports to the EIJB Chief Internal Auditor (currently Lesley Newdall, [lesley.newdall@edinburgh.gov.uk](mailto:lesley.newdall@edinburgh.gov.uk)) and the EIJB Chief Financial Officer.

Appendix 1 - Principles to Underpin Working relationships between EIJB A&R and CEC GRBV Committees.docx

**PRINCIPLE 4: The minutes of the Edinburgh Integrated Joint Board Audit & Risk Committee and the City of Edinburgh Council Governance, Risk & Best Value Committee shall be accessible.**

How will this work in practice?

- ✓ The GRBV minutes will be available within the Board papers on its website, and the Clerk of the GRBV will advise the EIJB Chief Finance Officer when they are available.
- ✓ The EIJB A&R minutes will be available on the website of the City of Edinburgh Council, and the EIJB Chief Finance Officer will advise the Clerk of the GRBV when they are available.

**PRINCIPLE 5: The City of Edinburgh Council internal audit plan shall take into account the requirements of the Edinburgh Integration Joint Board internal audit plan.**

How will this work in practice?

- ✓ The EIJB Chief Internal Auditor shall liaise with the CEC Chief Internal Auditor when developing the EIJB internal audit plan. The CEC Chief Internal Auditor shall set aside time to accommodate EIJB audit work.
- ✓ The CEC internal audit plan shall be developed in the spirit of collaboration and co-ordination, to ensure that the CEC internal audit resource deployed to support EIJB internal audit plan is being used effectively and with due regard to residual risk.

# Governance, Risk and Best Value Committee

10am, Tuesday, 26 September 2017

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

Item number	7.5
Report number	
Executive/routine	
Wards	
Council Commitments	

### Executive Summary

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The report summarises the principal findings arising from the Council's 2016/17 external audit. While primarily focused on the review of the financial statements, the wider scope aspects of the audit include consideration of the Council's financial management, financial stability, governance and transparency and arrangements to secure and demonstrate value for money.

The proposed audit certificate provides an unqualified audit opinion on the financial statements and other prescribed matters but the accompanying report notes the failure of one of the Council's Significant Trading Operations (STOs) to break even over a rolling three-year period.

The report concludes that the Council has a strong track record of maintaining expenditure within budgeted levels, effective financial management and a well-developed financial strategy. It additionally notes that the Council is open and transparent in the way it conducts its business and demonstrates strong self-awareness of areas of poor performance. A number of opportunities for further improvement have, however, been identified and progress against these will be tracked and reported to the Committee over the coming months.

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

### 1. Recommendations

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- 1.1 Members are asked to:
- 1.1.1 note that, following the audit process, it is anticipated that an unqualified audit opinion will be issued on the Council's Annual Accounts for 2016/17;
  - 1.1.2 refer the audited Annual Accounts for 2016/17 to the Finance and Resources Committee for approval and thereafter to Council for noting;
  - 1.1.3 note that, following approval by the Finance and Resources Committee, the audited Annual Accounts will be signed and submitted to the external auditor; and
  - 1.1.4 note the areas of strength identified within the wider scope audit work and that progress in the delivery of the remaining improvement actions set out in the action plan in Appendix 2 of the auditor's report will be reported to the Committee during the year.

### 2. Background

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- 2.1 The Council submitted its unaudited Annual Accounts to the external auditor by the required date of 30 June.
- 2.2 The review of all matters relating to external audit forms part of the remit of the Governance, Risk and Best Value Committee and is an important aspect of the overall governance arrangements of the Council. The external auditor will attend the Governance, Risk and Best Value Committee meeting to provide an overview of the accompanying report and respond to specific queries members may have on its content. Given the Committee's scrutiny function, however, approval of the annual accounts will be secured by onward referral to the Finance and Resources Committee meeting taking place on 28 September. The external auditor will also attend the Finance and Resources Committee meeting.

- 2.3 In discharging its work, the external auditor is required to comply with Audit Scotland's revised Code of Audit Practice and ISA260: Communications with those charged with governance. As part of the standard, the auditor is required to highlight:
- Relationships that may bear on the independence, integrity and objectivity of the appointed auditor and audit staff;
  - The overall scope and approach to the audit, including any expected limitations, or additional requirements;
  - Expected modifications to the audit report;
  - Management representations requested by him/her;
  - Unadjusted misstatements other than those that are clearly trivial;
  - Material weaknesses in internal control identified during the audit;
  - Qualitative aspects of accounting practice and financial reporting, including accounting policies; and
  - Matters specifically required by auditing standards to be communicated to those charged with governance and any other matters that are relevant to the audit.

### **3. Main report**

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- 3.1 There are no qualifications to the proposed audit certificate. As in previous years, however, the audit opinion includes an explanatory paragraph in respect of the Council's significant trading organisations (STOs). The Edinburgh Catering Services – Other Catering STO failed, over the three-year rolling period to 2016/17, to meet the statutory requirement to break even.
- 3.2 A number of potential adjustments which are not considered material, either individually or in aggregate, have been discussed and agreed with Council officers and been incorporated in the audited accounts. These adjustments have no impact on the Council's reported outturn for the year. Given that, as of the time of writing, the accounts remain to be finalised, members will be advised of any further material changes at the Committee's meeting.
- 3.3 One such matter relates to the Council's depreciation policy, which it is recommended be revised to provide for depreciation in the year of an asset's purchase or creation. Council officers have agreed to review the current policy with a view to implementing the changes in preparing the financial statements for 2017/18.

3.4 As was noted in the External Audit Plan considered by the Governance, Risk and Best Value Committee on 9 March 2017, the 2016/17 audit reflects a revised approach to best value agreed by the Accounts Commission in June 2016. This “wider scope” audit comprises four elements:

- Financial management;
- Financial sustainability;
- Governance and transparency; and
- Value for money.

3.5 The key messages from the audit are presented on page 1 of the Scott-Moncrieff report, with a number of action points for the Council to address in the coming months also noted. These, together with the responses provided by the Council, are shown on pages 44 to 48.

#### **Financial statements (pages 6 to 14)**

3.6 Scott-Moncrieff has provided an unqualified opinion on the financial statements and other prescribed matters, albeit it has noted that one Significant Trading Operation, Edinburgh Catering Services – Other Catering, failed to meet the statutory requirement to break even over a rolling three-year period. The in-year deficit for 2016/17 was £191,000, forming part of a cumulative three-year deficit of £498,000, reflecting the impact of a continuing downturn across both in-house catering and external hospitality.

3.7 The Council has on-going plans for investment in this area, with a dedicated Catering Manager now in post with a view to re-designing the service to deliver improvements in performance.

3.8 The auditor’s report intimates that there were no material adjustments to the unaudited accounts, confirming the in-year underspend of £1.058m previously transferred to the Council Priorities Fund.

#### **Financial management (pages 16 to 20)**

3.9 The report notes that the Council has a strong record of delivering against budget, with overall revenue expenditure maintained within approved levels for ten successive years and levels of capital expenditure slippage comparing favourably in both absolute terms and with other councils. Financial management arrangements are also assessed to be effective, with the majority of approved savings then delivered and no significant weaknesses identified within the internal control framework. The report does, however, identify opportunities for improvement in the transparency of in-year financial reporting and potential changes in this area will be examined with a view to implementing these during the year.

### **Financial sustainability (pages 22 to 27)**

- 3.10 The report notes that the Council has a well-developed financial strategy, informed by a clear understanding of future pressures and their impact on its medium-term financial position, forming part of a wider set of interlinked and complementary strategies. The Council's reserves management arrangements are also assessed to be effective.

### **Governance and transparency (pages 29 to 34)**

- 3.11 The report notes that, once the new political administration was formed, the Council quickly developed a medium-term business plan, informed by a clear understanding of the issues affecting it and its wider operating environment. Council business is assessed to be undertaken in an effective, open and transparent way and governance arrangements for arm's length organisations have been strengthened through the creation of the Governance Hub.
- 3.12 Recognising the extent of change in the make-up of Council following the May 2017 elections, the report notes the comprehensive training programme put in place for new and returning members and the good attendance levels achieved.
- 3.13 The report comments favourably on the effectiveness of the Council's response to the PPP1 school emergency and, following publication of the subsequent Cole Inquiry report, prompt actioning of the recommendations.
- 3.14 The Council's risk management arrangements and framework to prevent, or identify, fraud and irregularity are also assessed to be effective.

### **Value for money (pages 36 to 39)**

- 3.15 The report notes that the Council can demonstrate improvement in performance against its priorities, with 60% of comparable performance indicators within the top two quartiles of Scotland's local authorities. In some areas where performance is less strong, including Health and Social Care, although action plans have been developed, these have not yet resulted in demonstrable improvements in performance.

## **4. Measures of success**

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- 4.1 The Council receives an unqualified audit certificate from the external auditor by 30 September 2017.
- 4.2 Agreed measures are implemented to address any actions identified within the Annual Audit Report in accordance with the timescales indicated.

## **5. Financial impact**

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



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

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- 6.1 The Committee's remit includes the review of all matters relating to external audit, including reports and action plans to monitor implementation of external audit recommendations.
- 6.2 The Council's arrangements for risk management, fraud prevention and internal control, as well as its wider governance framework, have been assessed to operate effectively.

## 7. Equalities impact

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

## 8. Sustainability impact

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

## 9. Consultation and engagement

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- 9.1 The financial statements were made available for public inspection in July for a period of 15 working days in accordance with the provisions of Part VII of the Local Government (Scotland) Act 1973 and the Local Authority Accounts (Scotland) Regulations 2014. The Council received one request for further information under these Regulations during this period. Additionally, an individual lodged an objection with Audit Scotland, with a hearing convened.

## 10. Background reading/external references

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[Unaudited Annual Accounts, 2016/17](#), City of Edinburgh Council, 29 June 2017

[City of Edinburgh Council External Audit Plan, 2016/17](#), Governance, Risk and Best Value Committee, 9 March 2017

**Andrew Kerr**

Chief Executive

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**Stephen S. Moir**

Executive Director of Resources

## 11. Appendices

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Appendix 1 – 2016/17 Annual Audit Report to the Council and the Controller of Audit

Appendix 2 – 2016/17 Audited Annual Accounts



**Scott-Moncrieff**  
business advisers and accountants

# **City of Edinburgh Council**

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

**September 2017**

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# Key messages

## Annual accounts

The annual accounts for the year ended 31 March 2017 are due to be approved by the Finance and Resources Committee on 28 September 2017. We plan to report within our independent auditor's report an unqualified opinion on the annual accounts and on other prescribed matters.

We have, however, drawn attention in our independent auditor's report to the fact that the council's Edinburgh Catering Services – Other Catering trading operation has failed to break even, on a cumulative basis, over the three- year period to 2016/17. While this is a failure to comply with the Local Government in Scotland Act 2003, it does not affect our overall opinion on the financial statements. There are no other matters that we have to report to you by exception.

The annual accounts and supporting schedules were of a good standard. Our thanks go to staff at the council for their assistance with our work.

## Wider scope

### Financial sustainability

The council has a well-developed Financial Strategy that accounts for the impact of key service pressures such as demographic change, and areas of investment and development, including the City Regional Deal. The council's reserves increased during 2016-17 and are managed in line with key financial risks. In the most recent update, the council identified the need to address a further savings gap estimated at £91.6 million by 2020-21.

### Financial management

The council has a strong track record of delivering against budget. The annual accounts records an overall underspend of £1.06 million in 2016-17.

Financial management is effective but we identified opportunities to enhance the effectiveness of financial scrutiny by improving consistency in the reporting of outturn projections.

### Governance and transparency

The council's new administration has quickly set out an updated Business Plan which sets out clear council priorities and an understanding of challenges for the medium term. The council is open and transparent in the way that it conducts its business, and we identified the Governance Hub as a key improvement in the way that council companies are managed.

### Value for money

The council can demonstrate strong self-awareness and performance reports draw on trend analysis, as well as

benchmarking with other councils. The council acts to tackle area of poor performance, including developing improvement plans. In some service areas, including waste, roads and delayed discharges performance remains poor.

## Key facts

- The Council spent £1.564billion on the provision of public services in 2016/17.
- Cash backed reserves held by the Council were £253.911million as at 31 March 2017; of which £141.826million relates to general fund balances.
- £128.801million of the general fund balance was earmarked for future purposes with the remainder representing an unallocated general fund of £13.025million.
- The Council delivered 98% of its 2016/17 approved capital programme of £204.026million.

## Conclusion

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

**Scott-Moncrieff**  
**September 2017**

# 1

## Introduction

**This report is presented to those charged with governance and the Controller of Audit and concludes our audit of the City of Edinburgh Council for 2016-17.**

**We carry out our audit in accordance with Audit Scotland's revised Code of Audit Practice (May 2016). This report also fulfils the requirements of International Standards on Auditing (ISA) 260: Communication with those charged with governance.**

**At the City of Edinburgh Council, we have designated the Governance, Risk and Best Value Committee as "those charged with governance".**

# Introduction

1. Audit Scotland appointed Scott-Moncrieff as auditor to the City of Edinburgh Council (the “Council”) for the five year period from 2016-17 to 2020-21. The appointment is made under the Local Government (Scotland) Act.
2. The scope of the audit was set out in our External Audit Annual Plan, which was presented to the Governance, Risk and Best Value Committee at the outset of our audit. The audit was planned in accordance with the revised Code of Audit Practice issued by Audit Scotland in May 2016.
3. We use this report to summarise our :
  - opinion on significant issues arising from our external audit for the year ended 31 March 2017; and
  - consideration of the wider dimensions of public audit work, as set out in Exhibit 1, below.

## Exhibit 1: Audit Dimensions within the new Code of Audit Practice



Source: Code of Audit Practice, May 2016

4. The main elements of our work in 2016/17 have been:
  - Participating in, and providing evidence and intelligence for, the shared risk assessment (SRA) process;
  - An audit of the annual accounts;
  - A review of governance arrangements, internal controls and financial systems;
  - A review of arrangements for governance and transparency, financial management, financial sustainability and value for money;
  - An appraisal of the arrangements for the collection and publication of statutory performance information in accordance with the Accounts Commission direction;
  - Any other work requested by Audit Scotland, for example, local performance audit work; and
  - Provision of an opinion on a number of grant claims and returns.
5. As part of our audit, we have also made use of the work of other inspection bodies, the council’s internal audit service and Audit Scotland.
6. The council is responsible for preparing annual accounts that show a true and fair view and for implementing appropriate internal control systems. The weaknesses or risks identified are only those that have come to our attention during our normal audit work, and may not be all that exist. Communication in this report of matters arising from the audit of the annual accounts or of risks or weaknesses does not



absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

7. This report contains an action plan with specific recommendations, responsible officers and dates for implementation. Senior management should assess these recommendations and consider their wider implications before deciding appropriate actions. Each recommendation has been given a grading to help the council assess its significance and prioritise the actions required.
8. We would like to thank all members of the council's management and staff who have been involved in our work for their co-operation and assistance during our audit work.

## Adding value through the audit

9. All of our clients demand of us a positive contribution to meeting their ever-changing business needs. Our aim is to add value to the council through our external audit work by being constructive and forward looking, by identifying areas of improvement and by recommending and encouraging good practice. In this way, we aim to help the council promote improved standards of governance, better management and decision making and more effective use of resources.
10. This report is addressed to the council and the Controller of Audit and will be published on Audit Scotland's website. [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).
11. We welcome any comments you may have on the quality of our work and this report via: [www.surveymonkey.co.uk/r/S2SPZBX](https://www.surveymonkey.co.uk/r/S2SPZBX).

# 2

## Annual accounts

The Council's annual accounts are the principal means of accounting for the stewardship of its resources and its performance in the use of those resources.

In this section we summarise the findings from our audit of the 2016/17 annual accounts.

# Annual accounts

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## An unqualified audit opinion on the annual accounts

The annual accounts for the year ended 31 March 2017 are due to be approved for signature by the Finance and Resources Committee on 28 September 2017. We plan to report within our independent auditor's report:

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

We have, however, drawn attention to the fact that the council's Edinburgh Catering Services – Other Catering trading operation has failed to break even, on a cumulative basis, over the three year period to 2016/17.

## Good administrative processes were in place

We received draft annual accounts and supporting papers of a good standard, in line with our agreed audit timetable. Our thanks go to staff at City of Edinburgh Council for their assistance with our work.

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1. The council's annual accounts are the principal means of accounting for the stewardship of its resources and its performance in the use of those resources. The respective responsibilities of the council and the auditor in relation to the annual accounts are outlined in Appendix 1.
2. In this section we summarise the findings from our audit of the 2016/17 annual accounts.

## Overall conclusion

### An unqualified audit opinion on the annual accounts

3. The annual accounts for the year ended 31 March 2017 will be considered by the Governance, Risk and Best Value Committee on 26 September 2017 and approved for signature by the Finance and Resources Committee on 28 September 2017. We plan to report within our independent auditor's report:
  - An unqualified opinion on the annual accounts; and
  - An unqualified opinion on other prescribed matters.
4. We have however, drawn attention in our audit report to the fact that the Council's Edinburgh Catering Services – Other Catering trading operation has failed to break even, on a

cumulative basis, over a three year period (paragraph 17). While this is a failure to comply with the Local Government in Scotland Act 2003, it does not affect the overall opinion on the financial statements.

### Good administrative processes were in place

5. We received unaudited annual accounts and supporting papers of a good standard, in line with our agreed audit timetable. Our thanks go to staff at City of Edinburgh Council for their assistance with our work.

## Our assessment of risks of material misstatement


6. The assessed risks of material misstatement described in Exhibit 2 are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the audit team. Our audit procedures relating to these matters were designed in the context of our audit of the annual accounts as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the annual accounts is not modified with respect to any of the risks described in Exhibit 2.

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

### 1. Revenue recognition

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


*Noted in 2016/17 External Audit Plan*

- 
- 7. While we did not suspect incidences of material fraud and error, we evaluated each type of revenue transaction and documented our conclusions. We have reviewed the controls in place over revenue accounting and found them to be sufficient. We have evaluated key revenue transactions and streams, and carried out testing to confirm that the council's revenue recognition policy is appropriate and has been applied reasonably.

### 2. Management override

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

*Noted in 2016/17 External Audit Plan*

- 
- 8. We have not identified any indications of management override in the year. We have reviewed the council's accounting records, obtained evidence to ensure that any significant transactions outside the normal course of business were valid and accounted for correctly. We have also reviewed the journal entries processed in the period and around the year-end.
  - 9. During our review of the financial controls processes however, we did note a lack of segregation of duties in respect of the posting of journals. Journals are prepared and posted without any evidence of secondary review or authorisation. Compensating controls are in place which mitigate against the opportunity for individuals to achieve monetary gain. These include, for example, control account reconciliations and preparation and presentation of financial monitoring reports to the council. There does however remain a risk that individuals post journals to manipulate the reported financial position; with no monetary gain involved. While our audit work did not identify any indications of management override, we recommend that arrangements are put in place to review or authorise year-end journals.

*Action plan point 1*

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

### 3. Associated spend with new financial systems

In August 2015 the council awarded CGI the contract for the provision of ICT services. Following a transition of services in late 2015 and early 2016, the CGI contract went live on 1 April 2016. The council has reported a number of benefits from the first phase of implementation of the contract, including significantly increased network bandwidth in council schools and council offices.

A further 12 projects will be delivered through 2016 and 2017 as part of the CGI contract, with joint governance arrangements in place involving the council, CGI and supply chain partners. Most of these projects have commenced, although officers have acknowledged that timescales for implementation of some projects, such as Enterprise Integration and Enterprise Resource Planning have slipped due to technical and resource challenges.

The council is however currently reviewing the expenditure incurred to date and the associated accounting treatment. There is a risk that this is not correctly accounted for in the 2016/17 annual accounts.

*Noted in 2016/17 External Audit Plan*



10. At the outset, the contract with CGI was expected to save the council at least £45million over the first seven years. Since the contract commenced in 2016, the council has reported that CGI has underperformed on the contractual commitments. Most major programmes are at least 12 months late and there are several still in a state of re-plan which is impacting on the council's ability to transform services. In some cases the revised delivery date has meant that the council has been unable to realise the benefits and/or savings envisaged. Improvements have been made during the year; however this has not been at the pace required by the council or in line with the contract.
11. A paper was presented to the Governance, Risk and Best Value Committee in August 2017, giving members an overview of the services delivered by CGI including options available to the council regarding contractual remedies.
12. As a consequence of the delay in the delivery of the planned improvements as part of the ICT contract, capital expenditure within 2016/17 annual accounts was limited to £1.341million. No further payments had been made at 31 March 2017 as milestone triggers had not been met. From audit work performed we are satisfied that this expenditure has been appropriately accounted for in the annual accounts.

### Other risk factors

13. Further to the identification of significant audit risks (Exhibit 2), we also identified in our External Audit Plan a number of risk factors which could potentially result in a material misstatement to the annual accounts. An update on these risk factors is set out below:

#### School closures

14. Following the collapse of a wall at Oxfangs Primary in January 2016, property surveys were undertaken at other schools built as part of the same schools PPP1 contract. In April 2016, 17

schools were closed temporarily as a consequence of the survey findings, and alternative accommodation arrangements put in place for school pupils. A range of remedial work was undertaken by the PPP operator, Edinburgh Schools Partnership (ESP), with a phased return of schools to the Council in operable condition between May and August 2016, prior to commencement of the new school term.

15. Under the unavailability clause of the PPP1 contract and following the school closures, the

council, in 2016/17, withheld unitary charge payments of £5.36million.

16. Through review of the accounting entries in relation to the retention of the unitary charge we noted that only the financing and service elements of the charge have been withheld, the capital element has been paid throughout 2016/17. This reduces the PPP1 liability in accordance with the original contract terms and conditions and is in accordance with relevant accounting standards. We are satisfied that appropriate accounting treatment has been applied. Further information relating to the schools closure is included in paragraphs 165 – 175.

### Significant trading operations

17. The council's Edinburgh Catering Services – Other Catering trading operation has previously failed to breakeven over a three year period. The council has put in place a number of measures addressing the profitability of the service going forward, including a new pricing policy and reductions in vending equipment. The catering service is also included within the scope of the property and asset management strategy which is being pursued by the council.
18. Despite these actions the trading operation has failed to breakeven in 2016/17, reporting a deficit of £0.191million and a cumulative three year deficit of £0.489million.
19. Local authorities have a duty under section 10 of the Local Government in Scotland Act 2003 to operate their significant trading operations so that income is not less than expenditure over each three year period. The council has failed to comply with this statutory requirement for the three year period ending 31 March 2017 in respect of the trading operation. We have reported this matter in our independent auditor's report.
20. The council has on-going plans for investment in the trading operation. Over the past three years the Corporate Facilities Management service has been under review. Due to this, the service has been operating under the leadership of property managers rather than a dedicated catering manager. This post was filled in July 2017. The new catering manager is responsible for the staff canteen and coffee shops and is looking to redesign the service to deliver improvements in performance. Short-

term actions are already in progress including the introduction of Electronic Point of Sale (EPOS) technology to facilitate card payments on site at Waverley Court and City Chambers staff restaurants and coffee shops.

21. In addition to this, the posts of Performance Manager and Commercial Manager within the Facilities Management service have been filled in June and August 2017 respectively. These posts will be responsible for improving scrutiny and oversight of the Other Catering operation.

### Revised financial statement formats

22. From 2016/17 the Code requires authorities to present service segments on the face of the Comprehensive Income and Expenditure Statement (CIES) based on the way in which they operate and manage services.
23. The council has fully complied with the new requirements of the Code. The CIES has been presented in line with council directorates. Prior year figures have been restated. The notes to the financial statements include an Expenditure and Funding Analysis which demonstrates how the funding available to the council has been used in providing services in comparison to the amounts recorded in the CIES.

### Loans Fund Accounting

24. The Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016 came into force on 1 April 2016. The Regulations set out the powers of local authorities to borrow and maintain a loans fund and result in a change in accounting treatment from 2016/17. There is a risk that the council does not have arrangements in place to comply with the new accounting practices.
25. From audit work performed we concluded that the council has appropriate arrangements in place to comply with the Regulations.

### Group accounting

26. The council has a complex group which requires consolidation of a range of subsidiaries, associates and joint ventures. For 2016/17 this also includes consolidating the Edinburgh Integrated Joint Board. The complexity of the group arrangements leads to a risk over the accuracy and completeness of the group accounts.

- 27. During the planning stages of our audit we reviewed the structure of the group and during the audit sought to gain an understanding of significant audit risks, materiality and extent of the audit work performed for the significant components.
- 28. In respect of consolidation of the Edinburgh Integrated Joint Board and other group companies we have concluded that the council's share of results has been appropriately consolidated into the group accounts.
- 29. In early 2017, the council confirmed that operational activities undertaken by EDI, Parc Craigmillar and Waterfront Edinburgh would in future be delivered through an in-house Council Model. A transition period would ensure business as usual for existing projects operated by the companies and a commitment was made to honour all contractual arrangements in place for key projects.
- 30. No time frame for enacting this decision was given and in the absence of a known date by which activities, assets and liabilities, including properties are to be transferred all companies have continued to prepare accounts on a going concern basis. This is set out in note 1 to the EDI Group Limited accounts. The external auditors have also drawn attention to this basis for accounting within their audit certificate.

**Our application of materiality**

- 31. The assessment of what is material is a matter of professional judgement and involves considering both the amount and the nature of the misstatement. This means that different materiality levels will be applied to different elements of the annual accounts.
- 32. Our initial assessment of materiality for the group annual accounts was £14.1million and for the council single entity annual accounts £12.6million. We revised our assessment, following receipt of the unaudited annual accounts, to £15.4million for the group and £12.6million for the council and it remained at these levels throughout our audit.
- 33. Our assessment of materiality is set with reference to three key benchmarks: gross expenditure (2%), surplus/deficit on provision of services (10%) and useable reserves (2%). We consider these to be the principal

considerations for the users of the accounts when assessing the performance of the council and its group.

- 34. We set a performance (testing) materiality for each area of work which was based on a risk assessment for the area. We perform audit procedures on all transactions and balances that exceed our performance materiality. This means that we are performing a greater level of testing on the areas deemed to be of significant risk of material misstatement. Performance testing thresholds used are set out in the table below:

	Area risk assessment £million		
	High (45%)	Medium (55%)	Low (70%)
Group	6.9	8.4	10.8
Council	5.6	6.9	8.8

- 35. We agreed with the Governance, Risk and Best Value Committee that we would report on all material corrected misstatements, uncorrected misstatements with a value in excess of £250,000, as well as other misstatements below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Governance, Risk and Best Value Committee on disclosure matters that we identified when assessing the overall presentation of the annual accounts.

**Audit differences**

- 36. We are pleased to report that there were no material adjustments to the unaudited annual accounts. We identified some disclosure and presentational adjustments during our audit, which have been reflected in the final set of annual accounts.
- 37. We also identified a number of potential adjustments which are not considered material to the annual accounts, either individually or in aggregate. These have been reported to the Head of Finance and are included as an appendix to the letter of representation. The letter covers a number of issues and we have

requested that it be presented to us at the date of signing the annual accounts.

## An overview of the scope of our audit

38. The scope of our audit was detailed in our External Audit Plan, which was presented to the Governance, Risk and Best Value Committee in March 2017. The plan explained that we follow a risk-based approach to audit planning that reflects our overall assessment of the relevant risks that apply to the council. This ensures that our audit focuses on the areas of highest risk. Planning is a continuous process and our audit plan is subject to review during the course of the audit to take account of developments that arise.
39. At the planning stage we identified the significant risks that had the greatest effect on our audit. Audit procedures were then designed to mitigate these risks.
40. Our standard audit approach is based on performing a review of the key financial systems in place, substantive tests and detailed analytical review. Tailored audit procedures, including those designed to address significant risks, were completed by the audit fieldwork team and the results were reviewed by the audit manager and audit partner. In performing our work we have applied the concept of materiality, which is explained earlier in this report.

## Legality

41. We have planned and performed our audit recognising that non-compliance with statute or regulations may materially impact on the annual accounts. Our audit procedures included the following:
  - Reviewing minutes of relevant meetings;
  - Enquiring of senior management and the council's solicitors the position in relation to litigation, claims and assessments; and
  - Performing detailed testing of transactions and balances.
42. We are pleased to report that we did not identify any instances of concern with regard to the legality of transactions or events.

## Other matters identified during our audit

43. During the course of our audit we noted the

following:

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

44. As part of our audit we reviewed the council's compliance with the Local Authority Accounts (Scotland) Regulations 2014, in particular with respect to regulations 8 to 10<sup>1</sup> as they relate to the annual accounts. Overall we concluded that appropriate arrangements are in place to comply with these Regulations.
45. In 2016/17, two letters were received citing objections to the annual accounts. For one it was determined that points raised did not constitute an objection to the accounts. In relation to the other, a hearing has been scheduled with regard to the points raised.

### Management commentary

46. The Local Authority Accounts (Scotland) Regulations 2014 require local authorities to include a management commentary within the annual accounts. The management commentary is intended to assist readers in understanding the annual accounts and the organisation that has prepared them.
47. As auditors we are required to read the management commentary and express an opinion as to whether it is consistent with the annual accounts. We have concluded that the management commentary is consistent with the annual accounts and has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003.
48. As part of our audit we also reviewed the council's management commentary against the non-statutory guidance issued by the Scottish Government (Local Government Finance Circular 5/2015). We considered the extent to which the council's management commentary included relevant information in respect of:
  - The context of the annual accounts;
  - Insight into the priorities of the council and strategies adopted to achieve these priorities and objectives;
  - Information on future plans;

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<sup>1</sup> Regulations 8 to 10 relate to the preparation and publication of unaudited accounts, notice of public right to inspect and object to the accounts and consideration and signing of the audited accounts.



- KPIs which measure progress against objectives/priorities; and
- Information on the principal risks and uncertainties facing the council.

49. From our review of the 2016/17 management commentary, we noted, in our view, areas which could be further developed. In particular:

- More information in respect of the overall group;
- More performance information (both financial and non-financial).

The council updated the draft accounts to reflect our comments.

#### Annual governance statement

50. The Chief Executive and the Council Leader have confirmed that in their opinion, reasonable assurance can be placed upon the adequacy and effectiveness of City of Edinburgh Council and its group systems of governance. The Annual Governance Statement identifies a range of actions that have been, or will be, taken by the council to continue to progress improvements in the council's governance arrangements.

51. We have reviewed the Council's Annual Governance Statement and have found that it is consistent with the accounts and has been prepared in accordance with *Delivery of Good Governance in Local Government: Framework (2016)*.

#### Remuneration report

52. Our independent auditor's report confirms that the part of the Remuneration Report to be audited has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014.

#### Depreciation and amortisation policy

53. The council's current accounting policy is not to provide for depreciation or amortisation in the year of an asset's purchase. In accordance with the Code of Practice on Local Authority Accounting in the United Kingdom (the Code), depreciation/amortisation should be charged over an asset's useful life, starting from when the asset is available for use. The depreciation and amortisation charge in the council's 2016/17 annual accounts is understated by up to £5.36million (calculated as the maximum

possible impact). This has been categorised as an unadjusted difference and detailed in the letter of representation.

#### Charitable trust funds

54. The council administers seven charitable trust funds. Over the last few years the council has rationalised the number of charitable trusts down from over 100 to seven, with further plans in place to wind up the Usher Hall Conservation Trust in 2017/18.

55. The total charitable trust fund balance as at 31 March 2017 amounts to £14.671million, an increase of £0.173million in comparison with the prior year.

56. The Charities Accounts (Scotland) Regulations 2006 outline the accounting and auditing requirements for charitable bodies. The Regulations require an auditor to prepare a report to the charity trustees where an audit is required by any other enactment. The council's charitable trust funds are covered by the requirements of section 106 of the Local Government (Scotland) Act 1973 and consequently require a full audit.

57. We have audited the council's 2016/17 charitable trust funds. Our findings from our audit have been separately reported to the Trustees. In summary we reported the following:

- We have provided an unqualified audit opinion on the charitable trust funds annual accounts;
- The council has complied with the Local Authority Accounts (Scotland) Regulations 2014 as they relate to its charitable trust funds;
- We did not identify any significant weaknesses over the accounting systems and internal controls associated with the charitable trust funds.

#### Common good fund

58. Local Authorities are required to administer common good funds under section 15 of the Local Government (Scotland) Act 1994. The purpose of common good funds is to provide benefit to the population of the area either through the disbursement of funds, securing

assets for on-going use for the population or contributing to specific local projects/initiatives.

59. The Common Good Fund stands separate from the council's accounts and has been described as "the ancient patrimony of the community".
60. During 2016/17, a surplus of £104,000 was generated from the common good fund. Two capital receipts were generated following the sale of 6-8 Market Street and land at St James Quarter.
61. In 2016, the council's Finance and Resources Committee approved the use of the common good fund for planned maintenance of the common good assets. £2million was earmarked in 2015/16 (following a receipt from the sale of East Market Street Garage), to fund a maintenance programme for common good assets. As at 31 March 2017; £1.890million remained in this fund. Overall common good funds stood at £2.402million as at 31 March 2017.
62. The Community Empowerment (Scotland) Act 2015 obliges local authorities to establish and maintain a register of property which is held by the authority as part of the common good. The Act received Royal Assent on 25 July 2015; some provisions came into force in 2015 and the remaining provisions are likely to come into force during the latter part of 2017.
63. The Scottish Government issued draft guidance for consultation on 30 June 2017, with responses invited by 29 September 2017. The consultation concerns the statutory guidance related to Part 8 of the Community Empowerment (Scotland) Act 2015 – common good registers - and asks for views on issues such as timescales, information about assets, local consultation, publicising proposals and disposal and use of common good property.
64. Each local authority will be required to publish a list of property which it proposes to include on its Common Good register and to consult on this list. There will be no requirement on local authorities to make checks or confirm title beforehand. Individuals and community bodies can make a case for property to be included in or excluded from the register. Each local authority will have time to investigate and respond to representations before making a

final decision as to inclusion on the list. The common good register is required to be published within six months of the end of this consultation period.

65. The council has begun to collate information regarding those properties historically considered to be common good, specifically those included on the "common good register of assets for accounting purposes", relevant parks and other assets with a public function. Work has also progressed on developing a methodology for assessing all properties' common good status, taking into account the relevant legal tests.
66. Progress is being accelerated by seconding a solicitor from an external legal firm to Legal Services to release a council solicitor to work on the project and additional administrative support has also been appointed.

#### Related party transactions

67. The council discloses within its annual accounts material transactions with related parties. These can be defined as bodies or individuals that have the potential to control or influence the council or to be controlled or influenced by the council.
68. The councillors' register of interests is one way that the council can identify its related parties. On review of the councillors' register of interests we identified four additional interests which had not been declared. There is a risk, should the registers not be updated, that the council does not identify and report all related party transactions in its annual accounts.

#### Action plan point 2

### Qualitative aspects of accounting practices and financial reporting

69. During the course of our audit, we consider the qualitative aspects of the financial reporting process, including items that have a significant impact on the relevance, reliability, comparability, understandability and materiality of the information provided by the annual accounts. The following observations have been made:

Qualitative aspect considered	Audit conclusion
The appropriateness of the accounting policies used.	We have reviewed the significant accounting policies, which are disclosed in the annual accounts, and we consider these to be appropriate to the council.
The timing of the transactions and the period in which they are recorded.	We did not identify any significant transactions where we had concerns over the timing or the period in which they were recognised.
The appropriateness of the accounting estimates and judgements used.	We are satisfied with the appropriateness of the accounting estimates and judgements used in the preparation of the annual accounts. Significant estimates have been made in relation to property plant and equipment, provisions, pension liabilities and arrears. We consider the estimates made, and the related disclosures, to be appropriate to the council.
The potential effect on the annual accounts of any uncertainties, including significant risks and disclosures such as pending litigation that are required to be disclosed in the annual accounts.	We did not identify any uncertainties, including any significant risk or required disclosures that should be included in the annual accounts (beyond the existing disclosures made).
The extent to which the annual accounts have been affected by unusual transactions during the period and the extent that these transactions are separately disclosed in the annual accounts.	From our testing performed, we identified no unusual transactions in the period.
Apparent misstatements in the Management Commentary or material inconsistencies with the annual accounts.	There are no misstatement or material inconsistencies with the annual accounts in the Management Commentary.
Any significant financial statement disclosures to bring to your attention.	There are no significant financial statement disclosures that we consider should be brought to your attention. All disclosures made are required by relevant legislation and applicable accounting standards.
Disagreement over any accounting treatment or financial statement disclosure.	There was no disagreement during the course of the audit over any accounting treatment or disclosure.
Difficulties encountered in the audit.	There were no difficulties encountered in the audit.

3

# Financial management

Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

# Financial management



The council has a strong track record of delivering against budget. Financial management arrangements appear effective and have been strengthened by the introduction of monthly budget review and challenge meetings.

The transparency and scrutiny of financial reporting could be further improved by providing consistency in outturn projections.

Our testing of internal controls identified no significant internal control weaknesses.

## Financial performance

- 70.** The council's annual accounts for 2016/17 record an overall underspend of £1.058million, equating to 0.11% of the council's total net expenditure. The council has been able to deliver services within budget for the tenth successive year.

### Exhibit 3: Extract from the 2016-17 Outturn Statement

Service	Budget £million	Actual £million	Variance £million
Communities and Families	342.7	341.8	(0.8)
Place	66.7	68.4	1.7
Resources	132.0	130.9	(1.2)
Health and Social Care	186.7	187.8	1.1
Chief Executive	41.4	41.3	(0.1)
Safer and Stronger Communities	25.6	25.5	(0.1)
Lothian Valuation JB	3.7	3.7	-
<b>GF Services</b>	<b>798.9</b>	<b>799.4</b>	<b>0.5</b>

## General Fund Services

- 71.** The 2016-17 Outturn Statement (Exhibit 3) shows that the council spent a total of £799.4 million on the provision of services against a budget of £798.9 million.
- 72.** Two services exceeded budgets during the year, the Place Directorate, and the Health and Social Care services delegated by Edinburgh Integrated Joint Board.
- 73.** The Place Directorate faced significant financial pressures (£5.7million), including the closure of Mortonhall Crematorium for a significant part of the financial year. Despite management actions and offsetting underspends in other service areas, the Directorate recorded an overspend of £1.7million.
- 74.** The council agreed an additional £1.1million contribution to Health and Social Care in January 2017, which meant that General Fund services delivered an overall underspend of £0.6million.

## Health and Social Care

- 75.** Throughout the financial year, the Edinburgh Integrated Joint Board (IJB) reported significant overspend against the approved budget, primarily as a result of failing to achieve the savings targets for Council-delivered services and ongoing pressures in prescribing and nursing for services delivered by NHS Lothian. In 2016-17, there was an overspend of £8.0m on Council-delivered services, although this was offset by an agreed non-recurring contribution of £6.9m from the Social Care Fund. As a result, the additional contribution approved by the council of £1.1million allowed the IJB to meet its financial targets.

76. Performance reports, including financial reports were made to the Health, Social Care and Housing Committee in 2016-17. In addition, the level of overspend was included in revenue budget monitoring reports to the Finance and Resources Committee. However, there is scope to improve the transparency of reporting and level of financial scrutiny applied to Health and Social Care spending, including any approval for additional resources.

### Corporate budgets

77. There were a number of key movements in other income and expenditure. As a result of higher council tax income (£0.7million), and lower payments made under the council tax reduction scheme (£2.95 million), the council was able to make a contribution to earmarked reserves of £3m during 2016-17. Other underspends, including lower than anticipated loan charges, meant that the council was able to meet additional early release costs of £1.6 million in 2016-17.

### Budget monitoring and control

78. The council's Finance and Resources Committee receives quarterly revenue and capital monitoring reports throughout the financial year. The reports include a risk rated assessment of the achievement of savings, information on key variances and areas of financial risk. The reports are referred to the Governance, Risk and Best Value Committee for scrutiny.

79. We did, however, note that financial scrutiny could be enhanced by ensuring that revenue monitoring reports include consistent outturn projections throughout the year.

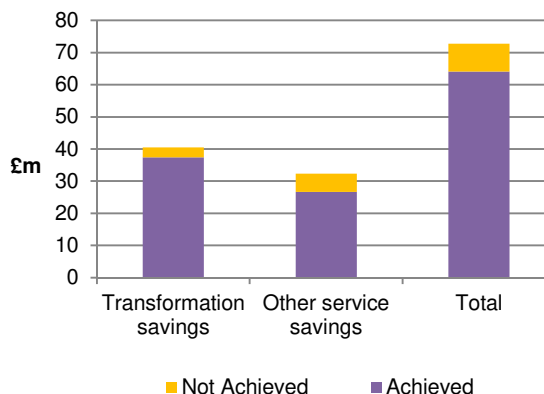
#### Audit Plan Point 3

### Savings Programme

80. When the 2016-17 budget was agreed, the council had identified the need to achieve a challenging target of £72.8 million of savings in year.

81. The council's transformation programme identified £70 million of savings, with £40.5 million to be delivered in 2016-17. In addition, a further £32.3 million of savings proposals were identified in the budget process. As Exhibit 4 highlights, the council achieved £64.1 million of savings in 2016-17.

**Exhibit 4: The Council achieved 88% of its approved savings in 2016-17**

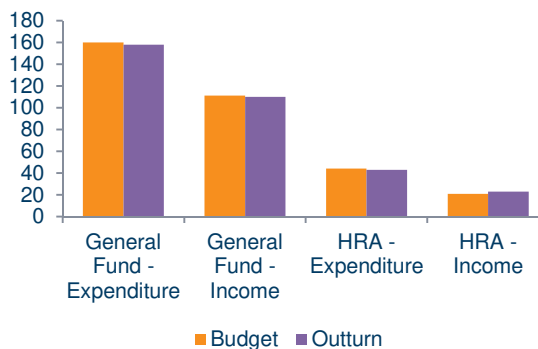


Source: 2016-17 Outturn Report

### Capital Expenditure

82. During 2016/17 the council made total capital additions of over £140 million. Of this, £98.7 million were general fund additions and £41.97 million were HRA additions. Outturn against the Capital Investment Programme has been summarised in Exhibit 5.

**Exhibit 5: Capital Outturn was broadly in line with budget in 2016-17**



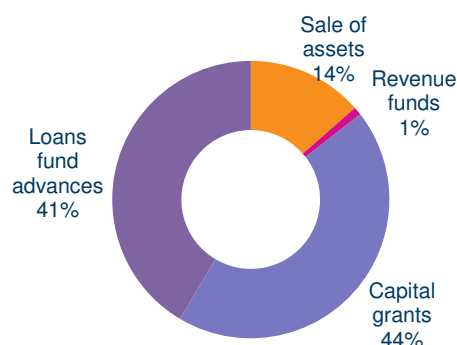
Source: Capital Outturn Report 2016/17

83. A net underspend of £1.745million against budgeted General Fund expenditure is a result of slippage on a number of projects, offset by an acceleration of £6.4million on Asset Management Works. Key areas of slippage include altering the procurement approach on early learning and childcare estates improvements (£3.3million); delays in securing traffic management for Road Asset

Management projects (£2.7million); and delays in delivering Boroughmuir High School (£1.7million).

- 84. Capital receipts generated from the sale of assets were £12.36million, compared to a budget of £24.58million. This deficit reflects a number of sales that are now due to be settled later than originally expected. The deficit is offset by an increase in income from developers' and other contributions, resulting in capital income being £1.28million below budget.
- 85. An underspend of £0.68million against the HRA was largely due to a low number of tenants participating in the kitchen and bathrooms programme; the heating programme was accelerated to reduce the overall underspend in line with the agreed strategy. Capital receipts were £1.99million above budget due to a spike in council house sales prior to the abolition of Right to Buy in August 2016.
- 86. The net underspend on gross General Fund expenditure represents a variance of 1.09% against the revised budget (variance of 6.59% was reported for the 2015/16 outturn position). This demonstrates the success of the capital monitoring team in effectively managing the capital programme and accelerating projects where appropriate to offset slippages elsewhere. Progress on major projects is reported to the Governance, Risk and Best Value Committee on a quarterly basis, summarising activity and any issues relating to timescales or budgets. Each project is allocated a RAG rating to reflect the current level of risk and enable the council to manage the overall programme effectively.
- 87. Capital expenditure was funded as shown in Exhibit 6.

### Exhibit 6: Sources of Capital Funding



Source: Capital outturn report 2016-17

### Systems of internal control

- 88. We have evaluated the council's key financial systems and internal financial controls to determine whether they are adequate to prevent material misstatements in the annual accounts. Our approach has included audit testing on the key internal financial controls to confirm that they are operating as intended.
- 89. As reported more fully in our Review of Internal Financial Controls report to management, we consider that the council has well-designed systems in place to record, process, summarise and report financial and other relevant data. We did not identify any material weaknesses in the council's accounting and internal control systems during our final audit. Our conclusions have been reached following consideration of the following key financial systems, as set out in our external audit plan.

### Exhibit 7: Key financial systems evaluated in 2016-17

Council tax	Non domestic rates	Cash receipts and banking
Housing rents	Sundry income	Payroll
Treasury management	Members remuneration / expenses	Expenditure

## ICT controls

90. Our IT audit work for 2016/17 has focused on the effectiveness of security management controls within CGI over the council's ICT network. The review has considered a wide range of control areas including security management plans, management and monitoring of privileged user accounts, patch management processes, security monitoring, incident management and internal and external security testing. Prior to conducting our review, we were aware that council ICT management had raised concerns with CGI regarding the lack of assurance on security management arrangements. This resulted in a specific team being commissioned within CGI (the 'Red Team') to develop and implement a Security Improvement Plan (SIP). The SIP was agreed in May 2017.
91. Our audit report is in the process of being agreed with CGI and council ICT management. We have raised a number of recommendations from our audit work, a significant number of which are graded as high risk. Whilst our audit work has recognised that there has been improvement in security management processes within CGI, they lack the level of maturity that we would expect at this stage of the contract. A number of key processes which underpin effective security are under-developed or developing, for example, processes in relation to patching, configuration management, security hardening and vulnerability management. There are also weaknesses in relation to the management and monitoring of privileged user access.
92. There is a need to assign implementation dates for all actions contained within various security management action plans, in particular, the Security Improvement Plan and PSN compliance actions. It was not clear whether these dates were the deadline for formal approval by the council or agreement by the joint Security Working Group.
93. There is also a need to implement patching and security hardening policies and a programme of internal vulnerability testing of the council network. Our final report on this area will be presented to the Governance, Risk and Best Value Committee in October 2017.



## Internal audit

94. We are committed to avoiding duplication of audit effort and ensuring an efficient use of the council's total audit resource. Each year we consider whether it is the most effective use of the council's total audit resource to place reliance on the work of internal audit. When reliance is to be placed over the work of internal audit we carry out an assessment of the internal audit function to ensure this is sufficient in terms of quality and volume, and is performed in accordance with the Public Sector Internal Audit Standards (PSIAS).
95. We have reviewed the council's internal audit arrangements in accordance with International

Standard on Auditing 610 (Using the Work of Internal Auditors), to determine if we could rely on the work of internal audit and if so, to what extent. Overall we concluded that we will place reliance on the work of internal audit where appropriate.

96. A formal external quality assessment of internal audit's compliance with the Public Sector Internal Audit Standards (PSIAS) is required at least once every five years. The Head of Audit and Inspection of North Lanarkshire Council completed an External Quality Assessment Review (EQAR) in 2016/17. The review concluded that the council's internal audit service fully conforms with the PSIAS.

# 4

## Financial sustainability

Financial sustainability looks forward to the medium and longer term to consider whether the council is planning effectively to continue to deliver its services or the way in which they should be delivered.

# Financial sustainability



The council has a well-developed Financial Strategy and has a clear understanding of future pressures and the impact on the medium term financial position.

The council has recently identified the need to secure additional savings of £91.6million in the period to 2020-21 and is developing the proposals and programme management necessary to deliver on this challenging target.

There is an effective approach to the management of reserves, highlighting significant risks identified in the budget process, quantifying these wherever possible, and establishing provisions to mitigate the risk. The council's current level of reserves is in line with other councils in Scotland.

## Financial planning

97. The council developed its Financial Strategy in 2015-16 and has updated the assumptions and forecasts underpinning the framework every 6 months since then. The Long Term Financial Plan covers five financial years and includes a range of assumptions on inflationary pressures, demographic change, new legislative requirements and estimates of government funding.
98. The Plan is reviewed by the Finance and Resources Committee on a regular basis and is used to inform the development of budget proposals.
99. We reviewed the analysis used to produce the current Revenue and Capital Budget Framework 2018-23 and we were satisfied that it was based on a good level of understanding about services, emerging service pressures and up to date expectations of future government funding.

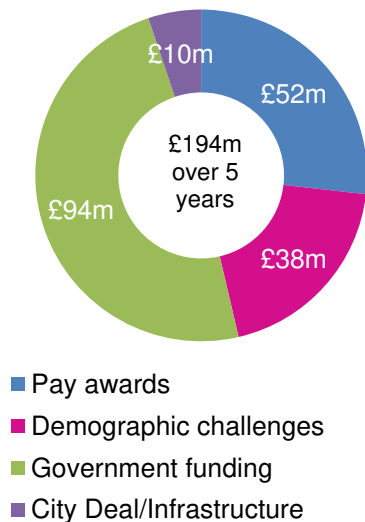
### Delivering a sustainable financial position

100. The Scottish Government sets out the financial settlement for councils in December each year. The council uses the settlement figures to update assumptions, and to refine budget proposals before the budget is finalised. The budget for 2017-18 was approved by the council at its meeting in February 2017. The budget framework also set out an indicative balanced budget for 2018-19. At the time, additional savings requirements of £15.4m and £10.9m were highlighted in 2019-20 and 2020-

21 respectively, which would require to be met from the identification of additional savings and/or income.

101. The Finance and Resources Committee recently received an update on the budget framework. This report sets out a greater financial challenge in the 5 years covered by the plan. As Exhibit 8, overleaf, indicates, movements in the key assumptions include:
- Increases in the provisions made for pay awards. The pay award assumption has been revised to 2% for 2018-19 to 2022-23 inclusive, resulting in an annual incremental increase in provision of £2.6m for each financial year.
  - Decreased government grant funding, following independent research on likely public spending in Scotland. The assumed changes in grant funding have been revised to annual reductions of 2.9%, 3.7% and 3.2% respectively over the period from 2018-19 to 2020-21. This accounts for a further reduction in estimated grant income of £59m over the life of the plan
  - Additional investment in infrastructure, partly as a result of the City Deal and commitments within the Local Development Plan.

**Exhibit 8: A number of key assumptions have been updated since the 2017-18 budget was approved, with a significant impact on the projected financial position in the period to 2022-23**

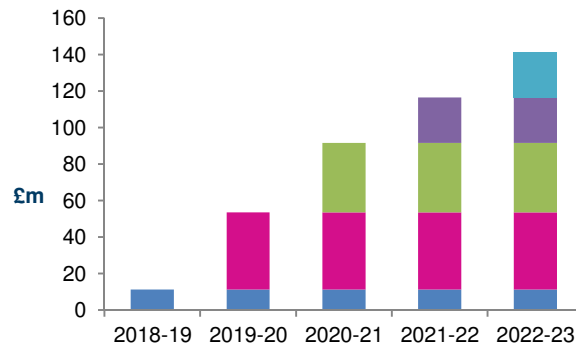


**Note:** The total financial gap has been offset by revised changes to assumptions relating to Council Tax income (£38million) and others (£14 million). The total gap by 2022-23 is estimated to be £141.60m.

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

**102.** The creation of the Scottish Government’s Social Care Fund has made additional funding available for the Integrated Joint Board to reflect the significant demographic and cost pressures. As a result, the council has reduced its anticipated allocations to the Edinburgh Integrated Joint Board to assume a flat-cash allocation. This level of anticipated delegated budget compares favourably to the overall position across the Council where the assumed revenue reduction is 9.6% over the period to 2022-23. The council estimates that, overall, savings of £91.6 million are required in the period to 2020-21. As Exhibit 9 highlights, the paper to the Finance and Resources Committee outlines a cumulative savings gap of £142million by 2022-23.

**Exhibit 9: The council’s most recent financial estimates highlight an increased and significant cumulative savings gap in the period to 2022-23**



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

**103.** The council will use the latest long term financial plan to inform the budget process during the period from October until the 2018-19 budget is approved in February 2018. Until there is a clear savings plan in place to address the funding gap, there is a risk to the council’s reserves position and future service delivery.

### Managing reserves

**104.** The level of usable reserves available is one of the measures used to assess the financial strength and sustainability of councils. Councils hold reserves to manage risks and make provisions for future spending. The General Fund is the largest of the council’s reserves, accounting for 56% of the total usable reserves.

**105.** As part of the budget preparation process, the council considers an annual Risks and Reserves report. This report outlines the key financial risks associated with the budget process, including:

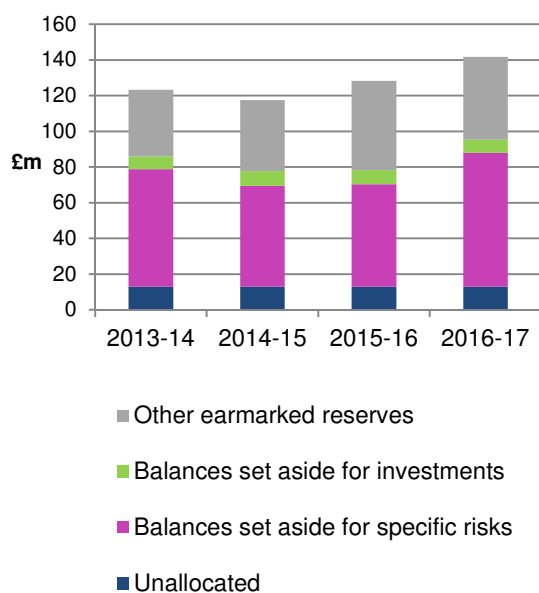
- The achievement of transformation and other savings
- Volatile demand and therefore funding to deliver the planned outcomes of the Edinburgh Integration Joint Board
- Demographic changes leading to rising service demands.

**106.** The report for members quantifies the risk wherever possible, and outlines the mitigating actions taken, including factoring in best

estimates to the long term financial plan, and holding specific reserves to manage the risks.

- 107.** The council has agreed to hold a sum of £13.025 million as an unallocated element of the General Fund. This is lower than normal practice for Scottish local authorities, but is mitigated by the earmarked balances for specific risks, and for areas of investment, including the Council Priorities Fund.
- 108.** Exhibit 10 below confirms that the council's General Fund balance increased by £13.4 million during 2016-17, primarily as a result of contributions for projects that were received during 2016-17 but set aside to match expenditure, a £1.058 million underspend against budget, and expenditure incurred under the Council Tax Reduction Scheme falling significantly lower than budgeted (£2.95 million).

**Exhibit 10: The council's General Fund balance increased in 2016-17**



Source: Annual Accounts 2014-15 to 2016-17

- 109.** The balances set aside for specific risks increased from £57.4million in 2015-16 to £74.9million in 2016-17. The earmarked balances held include:
- Additional contributions of £13million, in line with the Financial Strategy, for specific projects relating to welfare reform and potential additional works relating to the

programme of inspection of council buildings following the PPP1 school closures

- An additional contribution to the Council Priorities Fund of £3million.
- 110.** The council also holds balances for specific investments to meet the costs of transformation, and to shift towards preventative expenditure. The balances held fell from £7.8million in 2015-16 to £7.4million in 2016-17.

**Usable reserves**

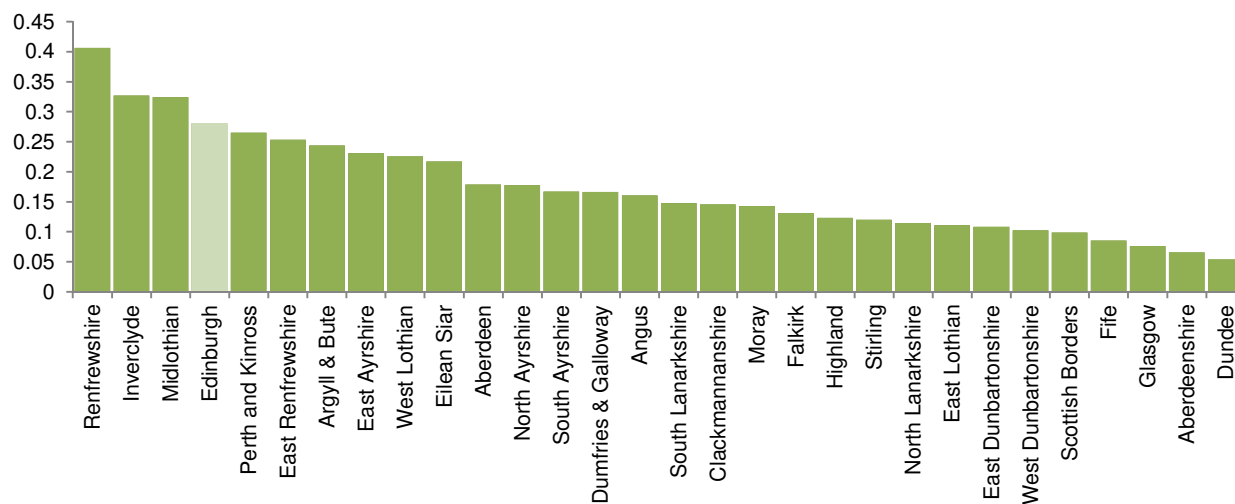
- 111.** Exhibit 11 summarises the movements on the council's usable reserves in 2016-17. We note that the City of Edinburgh council's level of usable reserves is above the mean of other local authorities in Scotland and supports our view that the council has adequate financial management arrangements in place (Exhibit 12).
- 112.** Other usable reserves include the Renewal and Repairs Fund and Housing Revenue Account (HRA). The HRA is the statutory fund used to record all income and expenditure for the management of, and investment in, council homes. Under statute, all expenditure on homes let by the council is funded through the rent and related service charges paid by its tenants.
- 113.** The council's surplus on the HRA is transferred to the Renewal and Repairs Fund to leave a nil balance as part of the preparation of the annual accounts. In 2016-17, the HRA made a contribution of £11.9million to the Renewal and Repairs Fund. This balance is earmarked for future capital investment in new affordable homes through the 21st Century Homes programme and as a contingency to manage the impact of welfare reform.
- 114.** Other usable reserves include the Capital Fund and Capital Grants Unapplied Fund.

## Exhibit 11: The council's usable reserves increased by £15.9million in 2016-17

Movement in the council's usable reserves	2014/15 £million	2015/16 £million	2016/17 £million	Movement In year
General Fund	117.5	128.4	141.8	£13.4m
Renewal and Repairs Fund	35.8	38.1	50.1	£12m
Capital Grants unapplied	4.4	2.7	0.8	£(1.9m)
Capital Fund	31.7	68.8	61.2	£(7.6m)
<b>Total usable reserves</b>	<b>189.4</b>	<b>238.0</b>	<b>253.9</b>	<b>£15.9m</b>

Source: Annual Accounts 2014-15 to 2016-17

## Exhibit 12: Councils' usable reserves as a proportion of net cost of services



Source: Audit Scotland database compiled from draft Annual Accounts 2016-17. Note that Shetland and Orkney Islands councils have been omitted from the comparison as their level of reserves may distort the assessment.

## Links to other strategies

- 115.** The council's Strategic Framework identifies a suite of interlinked strategies necessary to deliver the coalition's commitments, the Business Plan and the strategic outcomes agreed with Community Planning partners on the Edinburgh Partnership. Key priorities and service developments have to be balanced with financial pressures and delivering longer term financial sustainability.
- 116.** Audit Scotland's Best Value Follow Up report in February 2016 noted the significant progress that the council had made in strategic planning. The council's long term financial plan is a key part of the strategic framework, and the 2016-20 business plan was also supported by a Workforce Strategy and Corporate Asset Strategy.
- 117.** As we note within the financial management section of this report, the council reports that it has delivered significant change and savings through its transformation programme.

### Workforce planning

- 118.** The Workforce Strategy 2015-20 approved in March 2015 set out the council's plans to reduce its workforce by an estimated 2,000 by 2017 through a Voluntary Early Release Arrangement (VERA).
- 119.** As at July 2017, the council reported that 923.4 full time equivalent (FTE) staff had left the organisation under the VERA scheme, with an estimated recurring saving of £38 million per year. The council's basic payroll costs have fallen from £405.4 million at June 2015 to £386.6 million in June 2017.
- 120.** The most recent People Strategy 2017-20 update (February 2017) outlines the actions taken to date, including an extensive leadership development programme, and reaffirms the strategic themes for developing the council's workforce. The Strategy sets a high level vision for the workforce. The Strategy will be underpinned by a more detailed People Plan but at the time of our review this was not yet in place.

### Audit Plan Point 4

## Embedding change

- 121.** The council's transformation programme was established in February 2015. Each of the organisational reviews set out within the original transformation programme has now either been

completed or is approaching completion.

- 122.** The council is continuing to develop its overall Change Strategy, but we understand that all future major change initiatives will be overseen by a Change Board led by the Corporate Leadership Team. The council has established plans for the Project Management methodology, and for reporting progress to the Change Board using dashboard progress reports.
- 123.** The council's embedding change programme has sought to ensure that key themes from transformation, such as people and workforce change, customer focus, technology and asset management have been embedded in service implementation plans. Transformation and savings proposals will therefore form part of service delivery and management arrangements, rather than being separate activities.
- 124.** Our early conclusion on these plans is that a single Board to consider all major change initiatives will provide a clear view of progress on savings and change necessary to deliver. We will, however, continue to consider the effectiveness of reporting progress to committee.

## Asset management

- 125.** The council's Property and Asset Management Strategy was approved in September 2015 and set out a business case that aimed to deliver £9million of recurring annual savings as part of the council's wider Transformation Programme.
- 126.** The Asset Management Strategy forms part of the overall Transformation Programme and outlines a sustainable future operating model for property and facilities management based on:
- Service redesign;
  - Estate rationalisation; and
  - Investment in the portfolio.
- 127.** The most recent asset management transformation progress update to the Finance and Resources Committee highlights a number of financial and non-financial benefits, including forecast recurring annual savings of £5.3million by 2018-19. Good progress has been made in preparing Waverley Court to allow subletting and the estates rationalisation programme is

ongoing.

- 128.** The council has historically reported low performance in relation to the national indicator measuring the suitability of accommodation for current use under the Local Government Benchmarking Framework. In 2015-16, Edinburgh's results were the lowest in Scotland, at 59.3%, against a Scottish average of 79.6%. As part of the transformation programme, condition surveys have been carried out across 70% of the estate to date to quantify and prioritise spend or management of the property to secure improvements.
- 129.** As part of the strategic planning framework, the asset management strategy is being revised to ensure that it reflects the needs of locality planning.

## Looking forward

### Edinburgh Trams

- 130.** In September 2017, the Transport and Environment Committee considered an updated Outline Business Case (OBC) for the Edinburgh Tram York Place to Newhaven project.
- 131.** The capital cost of the project is estimated to be £165.2 million through to project completion and the construction programme is estimated to be approximately three years plus four months for testing and commissioning. Subject to approval by Council, the line is projected to be open to passengers in the second quarter of 2022.
- 132.** A public interest inquiry has been convened to establish why the original Edinburgh Trams project incurred delays, cost more than originally budgeted and through reductions in scope delivered significantly less than projected. The Chair, Lord Hardie, will issue a report on the findings once all evidence has been assessed. The oral hearing started on Tuesday 5 September 2017, and we will consider how the council uses the outcomes to learn lessons for the next stage of the project.

### City Deal

- 133.** In July 2017, Heads of Terms were agreed for the Edinburgh and South East Scotland City Region Deal. The heads of terms are an agreement between the Scottish Government, the six local authorities in the region and the UK Government. Both governments are committed to jointly investing £600m over the next 15

years and regional partners have committed to adding up to £500m, overall representing a deal worth £1.1 billion.

- 134.** The city region deal aims to drive investment and address inclusion across the regional area. The Council will work with the Scottish Government and local authority partners East Lothian, Fife, Midlothian, Scottish Borders and West Lothian Councils to deliver a range of key commitments, including:
- £300m for world leading data innovation centres
  - £140m for crucially needed A720 city bypass at the Sheriffhall Roundabout and transport improvements across west Edinburgh
  - £20m capital funding for new world class concert hall
  - £25m regional skills programme to support improved career opportunities for disadvantaged groups
  - £65m of new funding for housing to unlock strategic development sites

- 135.** The deal is expected to conclude before the end of the financial year. We will monitor the implications for the council's medium term financial plan, and arrangements to monitor the impact on outcomes throughout the term of our engagement.

### Local Development Plan

- 136.** In September 2017, the council initiated a consultation exercise to help shape the next Local Development Plan (LDP). The council's LDP provides the vision for how communities will grow and develop in the future. The consultation and key appraisals such as the impact on education, the environment and transport may therefore have significant implications for the council's financial planning.

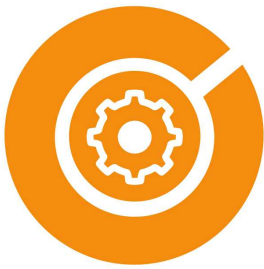


# 5

## Governance and transparency

Governance and transparency is concerned with the adequacy of governance arrangements, leadership and decision making, and transparent reporting of financial and performance information. Through the chief executive, monitoring officer and section 95 officer, the council is responsible for ensuring the proper conduct of its affairs including compliance with relevant guidance, the legality of activities and transactions and for monitoring the adequacy and effectiveness of these arrangements. Organisations usually involve those charged with governance in monitoring these arrangements.

# Governance and transparency



The council's new administration has quickly set out an updated Business Plan for the medium term, based on a clear understanding of future pressures. The council continues to engage with local communities on the longer term Edinburgh 2050 vision.

The council is open and transparent in the way that it conducts its business, with the public able to attend meetings or view webcasts online.

Following the Public Pound arrangements continue to improve and have been enhanced by the establishment of a Governance Hub for council companies.

The serious incident at Oxbgangs Primary School revealed failings by the council in the scrutiny and quality assurance arrangements for the original PPP1 development. The council responded in a fast, transparent and comprehensive way to the challenges it faced.

## Leadership and vision

137. Scottish local government elections were held in May 2017. In Edinburgh, there was a significant turnover in elected members as only 28 of the 63 councillors returned, with the remaining 35 being new to the council. The political balance of the council has also changed. In the period to May 2017, the council was run by a Labour/SNP administration. At the election, the SNP became the largest party and the Minority Administration is formed from members from the SNP and Labour parties, with an SNP member serving as the council Leader.

138. Once the coalition was finally agreed, the Administration quickly published revised coalition commitments. Plans to develop a revised Business Plan by December 2017 were brought forward, and the council agreed the plan in August 2017. The revised Plan signals a continuity of vision and strategy for Edinburgh, which is informed by *Edinburgh 2050*, the consultation on the long term vision for the city.

139. The renewed Business Plan (2017-21) is supported by the Financial Strategy, People Strategy, Digital Strategy, Asset Strategy and a developing Economic Strategy. Work is also underway to develop the Performance Framework necessary to monitor progress

against the Plan.

140. We are satisfied that the council has clarity on its priorities and that the long term plans necessary to achieve these are in place or planned for delivery in 2017-18.

## Community Empowerment

141. The Community Empowerment Act (2015) aims to give community bodies new rights and to boost community empowerment and engagement. The Act introduces new requirements for Scottish local authorities, including the introduction of asset transfers to community group, and participatory budgeting.

142. One of the key priorities within the Business Plan is to deliver a council that works for all, including more empowered, transparent and improved public services. The coalition has committed to devolved decision making, and ensuring that 1% of the council's discretionary budget will be allocated through participatory decision making.

143. There are plans in place to devolve decision making to four multi-agency Locality Committees. Cross-party working groups have been established to lead the planning and engagement across each of the four localities. Locality Improvement Plans will feed into the council's business planning process.

144. We are satisfied that the council has shown a commitment to community empowerment, and the approach to locality planning provides a strong basis to involve citizens in decisions about services.

## Governance arrangements

145. The council reviewed its political management arrangements in June 2017. As part of the review, consideration was given to the relative workload of the 8 existing committees and the evolution of national priorities and structural change, such as the establishment of Integrated Joint Boards.
146. The council has agreed to a more streamlined committee structure, moving from 8 executive committees to 6, over an 8 week cycle. The structure will continue to be supported by the Governance, Risk and Best Value Committee, which performs the role of an Audit Committee but with an extended remit for scrutiny.
147. Under the revised arrangements, the Corporate Policy and Strategy Committee will provide scrutiny of the services delegated to the Integration Joint Board. We note that the Edinburgh IJB Annual Performance Report (July 2017) has not yet been considered by a council committee.

### Audit Plan Point 5

#### Local Code of Governance

148. In April 2016, CIPFA published a revised *Delivering Good Governance in Local Government: Framework (2016 Edition)*. The council has a Local Code of Corporate Governance in place, but the annual self-assessment against the Code had not been concluded at the time of our report.
149. We also noted that the Annual Governance Statement was not subject to separate scrutiny by a committee as part of the preparation for the annual accounts process.

### Audit Plan Point 6

#### Transparency

150. Each of the council's committee meetings is held in public and the papers for committees are available at least 6 days in advance of the meeting. The committee meetings are also filmed and available to view from the council's website. We therefore concluded that the council is open and transparent in the way that it conducts committee business.

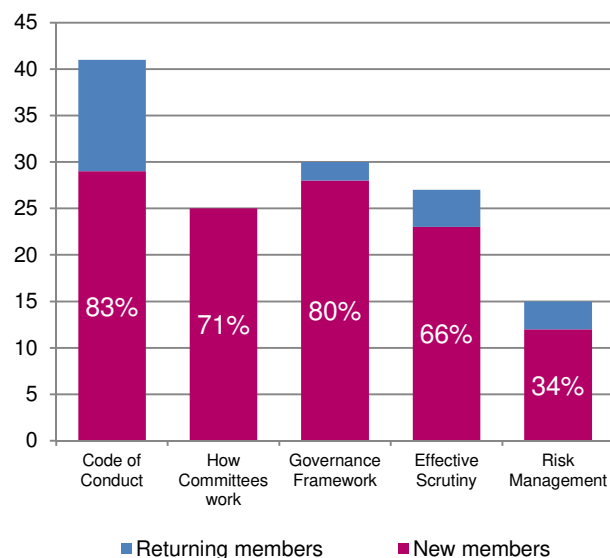
## Committee effectiveness

151. It is too early to conclude on the effectiveness of the revised committee arrangements. We have, however, attended and observed a number of council and committee meetings over the period August 2016 to August 2017.
152. During our observations, we noted that papers were well-prepared, allowing questions to focus on the issues presented. Committee members appeared to be well-prepared and asked appropriate questions.
153. We take a particular interest in the work of the Governance, Risk and Best Value Committee. Our early observations are that the committee operates well, with a clear understanding of its role, and benefits from an experienced Chair. We will continue to review the effectiveness of the Committee throughout our appointment, to ensure that the key functions we expect to be performed by an audit committee are delivered by the council's committee structure. Good practice is available in CIPFA's *Audit Committees: Practical Guidance for Local Authorities and Police*.

## Training for elected members

154. During May to August 2017, the council provided a comprehensive programme of induction and training sessions for the new and returning elected members. The programme included 31 sessions that were repeated to help attendance.
155. We reviewed attendance rates for some of the key training sessions (Exhibit 13). We noted that attendance rates were generally good for new elected members, although only 15 members attended training for risk management.

**Exhibit 13: Attendance at the member induction and training programme was generally good for new elected members**



Source: Elected member training attendance records.

Note: Percentage rates in white relate to the proportion of new members who attended training

**Risk Management**

- 156. Public sector bodies face increasing demand for quality services at a time of significant financial pressure. Well-developed risk management arrangements help councils to make effective decisions and secure better use of resources.
- 157. The council’s internal auditors reviewed the risk management arrangements in November 2016. They found that as a result of reorganisation, dedicated risk roles within Directorates had been disbanded and there was a need to review and update the council’s risk management strategy.
- 158. In February 2017, the council appointed an in-house Chief Risk Officer. The Chief Risk Officer reports to the Head of Legal and Risk and chairs the quarterly Corporate Leadership Team’s Risk and Assurance Committee, the quarterly directorate SMT Risk and Assurance Committees and the Risk Management Steering Group. Each directorate has established its own risk lead who chairs the individual directorate Risk Management Group.

- 159. The Corporate Leadership Team’s risk register is reported to the Governance, Risk and Best Value Committee on a quarterly basis. The reporting includes the top ten prioritised risks, current mitigating controls and further actions to be delivered.
- 160. Overall, we were satisfied that risk management arrangements appear to be embedded across the organisation.

**Following the Public Pound**

- 161. The council uses a number of arms-length external organisations (ALEOs) to provide services on its behalf, including the EDI Group, Edinburgh Trams and Lothian Buses. While the ALEO is responsible for the delivery of the services, the council remains responsible for the public money it provides to the ALEO and the quality of services the ALEO provides. The council needs to hold ALEOs to account for their use of public funds and should have sufficient governance arrangements in place to do so.
- 162. In June 2016, the council received a report outlining the proposed response to the findings of an internal audit review of council companies. Internal audit identified four areas of concern:
  - the independence of elected members as directors of companies;
  - governance reporting to council committees;
  - the council observer role; and
  - the annual assurance process for council companies.
- 163. The Governance, Risk and Best Value Committee continue to scrutinise the performance, risks and financial standing of the ALEOs.
- 164. We are satisfied that the council’s following the public pound arrangements appear to be well-developed and improving. The council is one of the case study sites for Audit Scotland’s national performance audit on ALEOs, which is due to report in Spring 2018.

### Good Practice: Governance Hub

In June 2016, the council agreed to establish a Governance Hub, chaired by the Chief Executive. The Hub first met in October 2016 and brings together representatives from each of the council companies.

The remit of the Hub is to:

- provide oversight of the council's companies;
- scrutinise the business plan, past performance and accounts;
- scrutinise compliance of the shareholder's agreement;
- identify risks to the council;
- provide an opportunity to raise issues directly with the council's Chief Executive; and
- provide an opportunity for dialogue with the council.

The Hub has been used to clarify the role of council observers at company board meetings. As a result, guidance has been developed and circulated to council observers to help maintain consistency in the role. We also noted that arrangements have been made to improve the annual assurance process.

## Edinburgh Schools

- 165.** In 2001, the council entered into a Public Private Partnership (known as PPP1) for the provision of school buildings, maintenance and other facilities with Edinburgh Schools Partnership Limited (ESP). This arrangement was subsequently supplemented by a further agreement in April 2004, requiring ESP either to replace or substantially renovate ten primary, five secondary and two special schools, together with one close support unit and a community wing, and to maintain these schools to a set standard.
- 166.** On the morning of Friday 29 January 2016 a section of brickwork wall at Oxgangs Primary School (one of the PPP1 schools), weighing approximately 9 tons, collapsed onto the pathway below. Due to the early hour, no one was in the vicinity of the wall that collapsed and no injuries resulted. However in slightly different circumstances this event could have resulted in considerable injury or even fatalities. Subsequent structural surveys undertaken across the remainder of the PPP1 estate

resulted in the temporary closure of a total of 17 schools and two other facilities in early April, with the last schools not re-opening until August.

### Managing the Emergency School Closures

- 167.** The need for the temporary closure of schools was identified three days before the schools were due to return from Easter Holidays. The council's incident management team quickly put in place a communications strategy and parents, stakeholders and the media were informed about the closures. The Communities and Families department, working with parents, pupils, head teachers and schools staff, the PPP1 contractors and other public sector agencies arranged temporary arrangements to be put in place for over 8,300 primary, secondary and nursery pupils. This was a huge undertaking which involved a relocation strategy across alternative accommodation and the transportation of pupils across 61 alternative schools.
- 168.** Responsibility for rectifying the issues at Oxgangs Primary School and the issues subsequently identified across the PPP1 estate lay with ESP. The council agreed that an independent inquiry should be held into matters relating to the closure of Edinburgh schools. The council appointed Professor John Cole CBE, to lead the independent inquiry. The report of the inquiry was published in February 2017 and concluded that:
- the council had a sound rationale for their decision to adopt the PPP methodology for the funding and procurement of the PPP1 schools.
  - the primary cause of the collapse of the wall at Oxgangs school was poor quality construction in the building of the wall and the failure to achieve the required building requirements in relation to the wall ties particularly in the outer leaf of the cavity wall. The issues were ultimately the responsibility of the design and build contractor in charge of the site.
  - there were fundamental and widespread failures of the quality assurance processes of the various contractors and sub-contractors, who built or oversaw the building of the PPP1 schools.

- an appropriate level of independent scrutiny over the PPP1 contract by the council was missing.
- the council failed to appreciate the demands of the PPP process and as a result under-resourced the team that represented or advised the client side in the PPP1 contract relationship.
- there was a misunderstanding within the council of the role of Building Standards in the monitoring of construction quality.

- 169.** The decision to close all 17 PPP1 schools required the council to relocate over 8300 pupils within the shortest possible time. Within 12 days of this decision alternative teaching accommodation, transport and catering arrangements had been put in place for all pupils. The Inquiry concluded that this was a remarkable feat to have achieved within an extremely short time.
- 170.** The inquiry report also identified a number of specific or wider lessons which could be learnt by the council, the construction industry and public bodies generally.
- 171.** The council has agreed and is implementing a detailed action plan which addresses the 40 separate recommendations included in the report. The council's response to the action plan includes: the resourcing of full time clerks of works on all projects with a value in excess of £2m, greater emphasis being applied to ensure procured design and construction services are quality checked and a recognition of the limitations of true risk transfer on PPP/Design Build Facilities Management type project, notably in relation to reputational risk and disruption to services.
- 172.** Since the PPP1 problems the council has carried out a risk based assessment on properties on the council estate. The risk assessment has led to a programme of inspections to cover whether similar issues existed on any other council properties. The inspections are currently in progress but to date five properties have been identified which have similar problems and work has been undertaken to remedy these.

#### **Additional costs incurred by the council as a result of PPP1 incident**

- 173.** Under the PPP1 contract, the council pays ESP a monthly "unitary charge" which covers both

the provision of facilities management services and reimbursement of capital expenditure and interest associated with upfront construction. The temporary closure of all schools under the PPP1 contract led to the unavailability clauses coming into effect. This resulted in unitary charge amounting to £5.36 million being withheld by the council. A final negotiated settlement has been agreed in principle with ESP. As a result there will not be any overall direct cost to the council from this incident.

#### **Overall conclusion**

- 174.** Having been faced with a very serious incident impacting on a large number of pupils across a significant number of schools the council responded in a fast, transparent and comprehensive way to the challenges it faced.
- 175.** The wall collapse at Oxfangs Primary School revealed very serious defects in the construction of the school and other schools under the PPP1 contract. Other similar defects have been found in a small number of other council buildings. The Cole inquiry identified that the primary failure to achieve the required building requirements lay with the contractor in charge of the site. However there were significant failings by the council in the scrutiny and quality assurance arrangements put in place during the construction of these schools. Wider lessons were also highlighted for the construction industry and public sector.

#### **Fraud and irregularity**

- 176.** In accordance with the Code of Audit Practice, we have reviewed the council's arrangements for the prevention and detection of fraud and irregularities. Overall we found the council's arrangements for fraud and irregularity to be operating effectively.
- 177.** The council's Corporate Fraud Investigation Team reported on their work in an Annual Report to the Finance and Resources Committee in September 2017. The team identified customer fraud in excess of £0.45million in 2016-17 and recovery action is ongoing where possible.

#### **National Fraud Initiative**

- 178.** The National Fraud Initiative (NFI) is a counter-fraud exercise co-ordinated by Audit Scotland working together with a range of Scottish public bodies, external auditors and overseen by the

Cabinet Office for the UK as a whole to identify fraud and error.

- 179.** The NFI exercise produces data matches by comparing a range of information held on various public bodies' systems to identify potential fraud or error. Bodies investigate these matches and record appropriate outcomes based on their investigations.
- 180.** The most recent NFI exercise commenced in October 2016 and as part of our 2016/17 audit we monitored the council's participation in NFI. We submitted an assessment of the council's participation in the exercise to Audit Scotland in June 2017. Overall we concluded that the

council has actively participated in the NFI exercise.

### **Standards of conduct and arrangements for the prevention and detection of bribery and corruption**

- 181.** The council's arrangements in relation to standards of conduct and the prevention and detection of bribery and corruption are in line with our expectations. Our conclusion has been informed by a review of the arrangements for adopting and reviewing standing orders, financial instructions and schemes of delegation and complying with national and local Codes of Conduct.

# 6

## Value for money

Value for money is concerned with using resources effectively and continually improving services. In this section we report on our audit work as it relates to the council's own reporting of its performance.



# Value for money



The council can demonstrate improvements in performance against key partnership and coalition priorities.

Performance indicators that can be compared against other Scottish local authorities highlight improvement against a range of services, and 60% of indicators are in the top two quartiles.

The council can demonstrate strong self awareness, and acts to tackle areas of poor performance, but in a number of key areas, including delayed discharges, interventions have not yet improved outcomes.

## Performance Framework

- 182. The strategic planning framework includes the coalition's commitments, the council's Business Plan and the Community Plan, which is due to be refreshed and agreed with public sector partners in March 2018.
- 183. The council is refreshing the Performance Framework to support the implementation of the Business Plans, and ensure that elected members have the assurance they need, including performance and progress reporting.
- 184. The revised Performance Framework is expected to be in place by December 2017.

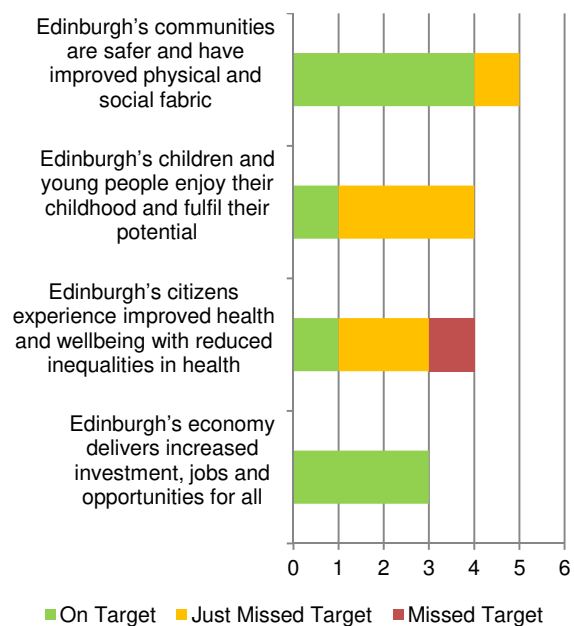
## Public Performance reporting

- 185. Currently, the public performance arrangements are based on council-wide performance reports that are presented to the council on a six-monthly basis. Public performance reports include:
  - A six monthly update on coalition pledges
  - An annual report against the strategic outcomes in the Edinburgh Partnership Community Plan
  - Annual comparator reports on a range of performance indicators included in the Local Government Benchmarking Framework
  - An Annual Performance Overview report.

- 186. The final report on the previous Administration's coalition pledges was considered in December 2016. The report summarised the progress and achievements towards meeting the priorities set out in the Capital Coalition Agreement in April 2012 and shows that all 53 pledges are

reported as being achieved or on track.

## Exhibit 14: The Edinburgh Partnership reported good progress against outcomes



Source: Edinburgh Partnership Annual Performance Overview

- 187. In August 2017, the council received the annual report on performance against the Edinburgh Partnership Community Plan (summarised in Exhibit 14) as part of the Annual Performance Overview. The report demonstrated improvements against a range of outcome indicators including:

- Educational attainment measures
- Positive destinations for school leavers

- The creation and safeguarding of jobs.

## Statutory performance indicators

**188.** The Accounts Commission has a statutory power to define the performance information that local authorities have to publish. The 2015 Direction, which applied to 2016-17, reinforced the Accounts Commission’s focus on public performance reporting (PPR) and local authorities’ requirement to take responsibility for the performance information they report.

**189.** Two Statutory Performance Indicators (SPIs) were prescribed in 2016-17:

SPI 1: Each council will report a range of information setting out:

- Its performance in improving local public services (including with partners)
- Its performance in improving local outcomes (including with partners)
- Its performance in engaging with communities and service users, and responding to their views and concerns
- Its performance in achieving Best Value, including its use of performance benchmarking; options appraisal and use of resources.

SPI 2: Each council will report its performance in accordance with the requirements of the Local Government Benchmarking Framework.

**190.** At the time of our reporting, the council were preparing the Annual Performance Overview 2017, which would complete the suite of public performance reports for 2016-17. We were therefore unable to conclude in full on the achievement of SP1 1.

### Action Plan Point 7

**191.** The council fulfilled its obligations to report performance in line with the Local Government Benchmarking Framework. A summary of the performance, including key areas for improvement and trends was presented to the council in August 2017.

**192.** Exhibit 15 highlights that over 60% of Edinburgh’s performance indicators are within the top 2 quartiles of Scottish councils.

**193.** There are a number areas highlighted as continuing poor performance, including:

- The cost of environmental health services (32nd out of 32 authorities)

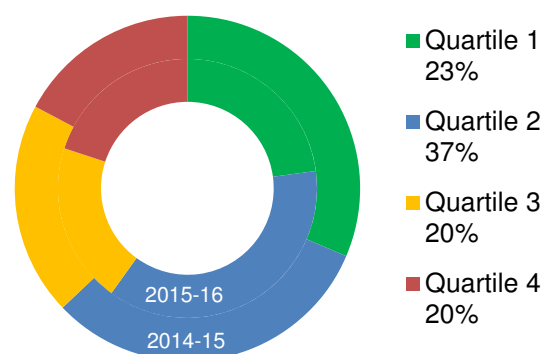
- The Percentage of adults satisfied with the refuse collection services (32nd)
- Cost of maintenance per kilometre of roads (27th)
- Accommodation that is suitable for current use (32nd).

**194.** We are satisfied that the council has a good level of self awareness about performance. The Council has performed poorly on a range of important indicators within the roads and waste departments. Improvement plans have been established to secure change, which are monitored by the Transport and Environment Committee and scrutinised by the Governance, Risk and Best Value Committee.

**195.** Within 2016-17 performance outcomes, we note that some improvement has been observed in recycling rates. In 2016-17, the citywide recycling rate for 2016/17 was 43%, this represents a 1% improvement on the 42% achieved in 2015/16. Increases continue in the tonnage of food waste collected for recycling, with an increase of 7% collected in 2016/17 compared to the previous year.

**196.** Other improvements in 2016-17 include Council Tax collection, where the council achieve its best ever collection rate at the same time as a 19% reduction in the unit costs of collection.

## Exhibit 15: Performance against Local Government Benchmarking Framework



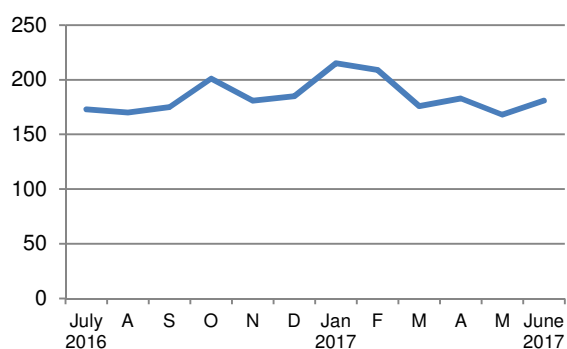
Source: Local Benchmarking Framework Annual Report

## Delayed discharges

197. We note in paragraph 147 that the council has not yet received the Annual Report from the Edinburgh Integrated Joint Board. During 2016-17, the IJB noted that the level of delayed discharges in the city presents a risk to the partnership in providing the right care at the right time. To reflect the importance and urgency of the number and length of delayed discharges the IJB received regular updates on performance and whole system delays throughout the year.
198. A 'star chamber' meets weekly where locality and hub managers are held to account for performance and any issues having a negative impact can be escalated immediately.
199. We do, however, note that performance has continued to worsen in the period to June 2017 (Exhibit 16), despite the focus given to the issue. We also note that Edinburgh has regularly had the highest number of delayed discharges of any Integration Authority in Scotland.

### Action plan point 8

#### Exhibit 16: Delayed discharges continue to present a significant risk to the council and the IJB



Source: Whole System Delays – Recent Trends, Report to Edinburgh IJB, July 2017

## Other Scrutiny

200. The council's Local Scrutiny Plan was prepared by the Local Area Network (LAN) of scrutiny partners in May 2017. The Plan was presented to the Governance, Risk and Best Value Committee in August 2017.
201. The LAN noted the significant reductions in staff arising from transformation activities to date, as well as the potential for the remaining reviews to result in further reductions. The LAN is therefore keen to understand how staff reductions have been distributed across council departments and services and the potential impact of the loss of both numbers and skills and will explore these issues in more detail with the council during 2017/18.

### Good Practice: Commercial Excellence

The Council's Commercial Excellence programme was created in 2013. The programme provides a strategic approach to procurement and purchasing activity, with the aim to make savings and improve contract management and partnership working.

Since then, the Council received "superior performance" in the last Procurement Capability Assessment, and was awarded 85.4% in the latest Procurement and Commercial Improvement Programme assessment, carried out by Scotland Excel. This places the Council as the best performing local authority in Scotland.

Recent examples of success include:

- Award of the contract for Receipt and Processing of Recyclable Materials from Kerbside and Communal Collections. The Contract represents a saving of £1.7 million over the cost of continuing the current recyclables processing arrangements across the period.
- The Contractor Works Framework will consolidate the current strands into one framework providing suitably experienced and qualified contractors, maximising economies of scale, improving contract management efficiencies and rationalising the portfolio of contractors. It is anticipated that the framework will deliver financial efficiencies of £2m over the contract duration through rationalising the number of suppliers, consolidating spend and promoting contract compliance.

- The Council has adopted a contract for Business Travel Services, which it is estimated will generate savings of £106,181 over four years. Other non-financial benefits include the ability to choose travel packages in real time, greater flexibility in travel options and having access to a larger choice of accommodation.

### Care Inspectorate

202. The joint inspection of services for older people in Edinburgh was carried out by the Care Inspectorate and Health Improvement Scotland between August and December 2016.

203. The inspection was focused around the nine quality indicators and identified a number of areas of weakness, as shown in Exhibit 17 below. Seventeen specific recommendations for improvement were raised, which were accepted by Edinburgh IJB.

204. The IJB has published a detailed improvement plan in response to the recommendations. Progress against the plan is monitored by an Improvement Board and the IJB's Performance and Quality Sub-Group oversees delivery of the improvement plan on behalf of the IJB.

### Exhibit 17: Findings from the joint inspection of services for older people in Edinburgh

Quality indicator	Evaluation	Evaluation criteria
Key Performance Outcomes	Weak	<p><b>Excellent</b> – outstanding, sector leading</p> <p><b>Very good</b> – major strengths</p> <p><b>Good</b> – important strengths with some areas for improvement</p> <p><b>Adequate</b> – strengths just outweigh weaknesses</p> <p><b>Weak</b> – important weaknesses</p> <p><b>Unsatisfactory</b> – major weaknesses</p>
Getting Help at the Right Time	Weak	
Impact on Staff	Adequate	
Impact on the community	Adequate	
Delivery of key processes	Unsatisfactory	
Strategic planning and plans to improve services	Weak	
Management and support of staff	Adequate	
Partnership working	Adequate	
Leadership and direction	Weak	

### Best Value

205. The Best Value work carried out this year focussed on the council's arrangements for demonstrating Best Value in financial and service planning, financial governance and resource management.

206. We have reported the results of our work within the relevant sections of this report and we are satisfied that there are sound arrangements for financial and service planning through the adoption of the Financial Strategy, Business Plan and interlinked People Strategy and Asset Strategy.

# 6

## Appendices

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

## Responsibility for the preparation of the annual accounts

The council is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has responsibility for the administration of those affairs. The Head of Finance has been designated as that officer within City of Edinburgh Council.

The Head of Finance is responsible for the preparation of the council's annual accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

### In preparing the annual accounts, the Head of Finance is responsible for:

- selecting suitable accounting policies and applying them consistently;
- making judgements and estimates that are reasonable and prudent; and
- complying with the Code.

### The Head of Finance is also responsible for:

- keeping proper accounting records which are up to date; and
- taking reasonable steps for the prevention and detection of fraud and other irregularities.

## Auditor responsibilities

### We audit the annual accounts and give an opinion on whether:

- they give a true and fair view in accordance with applicable law and the 2016/17 Code of the state of the affairs of the body as at 31 March 2017 and of its surplus for the year then ended;
- they have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2016/17 Code;
- they have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, the Local Authority Accounts (Scotland) Regulations 2014 and the Local Government in Scotland Act 2003;
- the part of the Remuneration Report to be audited has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014;
- the information given in the Management Commentary is consistent with the financial statements and has been prepared in accordance with statutory guidance issued under the Local Government Scotland Act 2003; and
- the information given in the Annual Governance Statement and Statement of Financial Control is consistent with the financial statements and has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016).

### We are also required to report, if in our opinion:

- adequate accounting records have not been kept; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with accounting records; or
- we have not received all the information and explanations we require for our audit; or
- there has been a failure to achieve a prescribed financial objective.

## Wider scope of audit

The special accountabilities that attach to the conduct of public business, and the use of public money, mean that public sector audits must be planned and undertaken from a wider perspective than in the private sector. This means providing assurance, not only on the financial statements, but providing audit judgements and conclusions on the appropriateness, effectiveness and impact of corporate governance and performance management arrangements and financial sustainability.

The Code of Audit Practice frames a significant part of our wider scope responsibilities in terms of four audit dimensions: financial sustainability; financial management; governance and transparency; and value for money.

## Independence

We are required by International Standards on Auditing to communicate on a timely basis all facts and matters that may have a bearing on our independence. We can confirm that we have complied with the Auditing Practices Board's (APB) Ethical Standard 1: Integrity, Objectivity and Independence. In our professional judgement the audit process has been independent and our objectivity has not been compromised.

# Appendix 2: Action plan

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

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

## Action plan grading structure

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

The rating structure is summarised as follows:

Finding rating	Assessment rationale
<b>Critical</b>	A finding that could have a: <ul style="list-style-type: none"> <li>• <b>Critical</b> impact on operational performance; or</li> <li>• <b>Critical</b> monetary or financial statement impact; or</li> <li>• <b>Critical</b> breach in laws and regulations that could result in material fines or consequences; or</li> <li>• <b>Critical</b> impact on the reputation or brand of the organisation which could threaten its future viability.</li> </ul>
<b>High</b>	A finding that could have a: <ul style="list-style-type: none"> <li>• <b>Significant</b> impact on operational performance; or</li> <li>• <b>Significant</b> monetary or financial statement impact; or</li> <li>• <b>Significant</b> breach in laws and regulations resulting in significant fines and consequences; or</li> <li>• <b>Significant</b> impact on the reputation or brand of the organisation.</li> </ul>
<b>Medium</b>	A finding that could have a: <ul style="list-style-type: none"> <li>• <b>Moderate</b> impact on operational performance; or</li> <li>• <b>Moderate</b> monetary or financial statement impact; or</li> <li>• <b>Moderate</b> breach in laws and regulations resulting in fines and consequences; or</li> <li>• <b>Moderate</b> impact on the reputation or brand of the organisation.</li> </ul>



Action plan point	Issue & Recommendation	Management Comments
1	<p>During our review of the financial controls processes we noted a lack of segregation of duties in respect of the posting of journals. Journals are prepared and posted without any evidence of secondary review or authorisation. While our audit work did not identify any indications of management override, we recommend that arrangements are put in place to review or authorise year-end journals.</p>	<p>While, as noted in the main report, a range of compensating controls mitigating any risk of monetary gain is already in place, arrangements to introduce proportionate additional independent review will be examined with a view to implementation as part of the 2017/18 accounts closure process.</p> <p><b>Responsible Officer:</b> Corporate Finance Senior Manager</p> <p><b>Completion Date:</b> March 2018</p>
<b>Rating</b>		
<b>Medium</b>		
<b>Paragraph ref</b>		
9		

Action plan point	Issue & Recommendation	Management Comments
2	<p>The Council discloses within its annual accounts material transactions with related parties. These can be defined as bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council.</p> <p>The councillors' register of interests is one way that the Council can identify its related parties. On review of the councillors' register of interests we identified four additional interests which had not been declared. There is a risk, should the registers not be updated, that the Council does not identify and report all related party transactions in its annual accounts.</p> <p>It is the responsibility of a councillor to make sure that he/she is familiar with, and their actions comply with, the provisions of the Code of Conduct. The Ethical Standards in Public Life, etc. (Scotland) Act 2000 does impose on Councils a duty to help their members to comply with the relevant code. Councillors should be reminded of the importance of ensuring the register of interests is updated regularly and completely</p>	<p>The Council has robust arrangements to remind councillors of their duties under the Act.</p> <ul style="list-style-type: none"> <li>• We regularly review Elected Member Register of Interests;</li> <li>• Remind Elected Members of their responsibilities in registering any changes/updates within a month of the change occurring;</li> <li>• Check individual registers for anomalies that we can identify and highlight these to relevant elected members to prompt updates;</li> <li>• Regularly review our process;</li> <li>• Provide appropriate guidance and prompts to Elected Members to support compliance.</li> </ul> <p>For the new Council in May 2017:</p> <ul style="list-style-type: none"> <li>• We explained the requirement for Elected Members to make their first Register of Interest within one month of election in their introduction letter/pack issued at the count, with a copy of the Code of Conduct and the relevant form;</li> <li>• We emphasised the importance of this requirement in the Code of Conduct training sessions that formed part of the Induction and Training Programme for Elected Members (May/June 2017).</li> </ul>
<b>Rating</b>		
<b>Medium</b>		
<b>Paragraph ref</b>		
68		

Action plan point	Issue & Recommendation	Management Comments
		<ul style="list-style-type: none"> <li>• We reminded Elected Members ahead of the deadline (31 May 2017)</li> <li>• We engaged with political Group Business Managers to secure their support in reminding their members ahead of the deadline;</li> <li>• We issued additional guidance on declaring property income under remuneration following a couple of queries on this topic and after seeking clarification from the Standards Commission;</li> <li>• We reminded all Elected Members that they would need to update their Register of Interests to reflect appointments made at Council in June 2017;</li> <li>• We reminded Elected Members of their responsibilities for updating their Register of Interests following further appointments at Council in August and to remind about registering gifts and hospitality.</li> </ul> <p>We will continue to remind regularly councillors of their duties under the Act.</p> <p><b>Responsible Officers:</b> Governance and Democratic Services Manager Councillors</p> <p><b>Completion Date:</b> Ongoing</p>

Action plan point	Issue & Recommendation	Management Comments
3	<p>The council's Finance and Resources Committee receive quarterly revenue and capital monitoring reports throughout the financial year. The reports include a risk rated assessment of the achievement of savings, information on key variances and areas of financial risk. The reports are referred to the Governance, Risk and Best Value Committee for scrutiny.</p> <p>In our view there is scope to improve the transparency within financial monitoring reports by ensuring that revenue monitoring reports include consistent outturn projections throughout the year.</p>	<p>Based on a best-practice review or reporting elsewhere, opportunities to improve further the clarity and transparency of existing financial reporting will be actively considered with a view to a phased implementation of any resulting changes.</p> <p>Opportunities to improve reporting and scrutiny of some areas of transformational activity, particularly within Health and Social Care, will also be examined.</p> <p><b>Responsible Officers:</b> Head of Finance</p> <p><b>Completion Date:</b> February 2018</p>
<b>Rating</b>		
<b>Medium</b>		
<b>Paragraph ref</b>		
79		

Action plan point	Issue & Recommendation	Management Comments
4	<p>The most recent People Strategy 2017-20 update (February 2017) sets a high level vision for the workforce.</p> <p>The more detailed People Plan requires to be finalised to support the Strategy. The Plan should set out how the council will manage the impact of any skills gaps.</p>	<p>People plans are an internal tool for senior business partners. These plans are currently being shared with Senior Management Teams for each of the main service areas. The plans will be finalised by end of September.</p> <p><b>Responsible Officer:</b> Head of Human Resources</p> <p><b>Completion Date:</b> September 2017</p>
<b>Rating</b>		
<b>Medium</b>		
<b>Paragraph ref</b>		
120		

Action plan point	Issue & Recommendation	Management Comments
5	<p>We note that the Edinburgh IJB Annual Performance Report (July 2017) has not yet been considered by a council committee. The Corporate Policy and Strategy Committee provides scrutiny of the services delegated to the Integration Joint Board.</p> <p>The council should continue to monitor the effectiveness of scrutiny arrangements for services delegated by the IJB to ensure that they remain fit for purpose.</p>	<p>The Edinburgh IJB Annual Performance Report will be presented to the Corporate Policy and Strategy Committee on 3 October 2017.</p> <p><b>Responsible Officer:</b> Interim Chief Officer, Edinburgh Health and Social Care Partnership</p> <p><b>Completion Date:</b> October 2017</p>
<b>Rating</b>		
<b>Medium</b>		
<b>Paragraph ref</b>		
147		

Action plan point	Issue & Recommendation	Management Comments
6	<p>In April 2016, CIPFA published a revised Delivering Good Governance in Local Government: Framework (2016 Edition). The council has a Local Code of Corporate Governance in place, but the annual self-assessment against the Code had not been undertaken at the time of our report.</p> <p>We also noted that the Annual Governance Statement was not subject to separate scrutiny by a committee as part of the preparations for the annual accounts process.</p>	<p>The Council revised its Corporate Governance Framework self-assessment template to reflect the revised CIPFA/SOLACE framework. The 2016/17 self-assessment exercise commenced on 4 September 2017 and is scheduled for scrutiny by the Governance, Risk and Best Value Committee on 28 November 2017.</p> <p>As in previous years, the Annual Governance Statement was considered by Council on 29 June 2017. Given the local government election in May 2017 and the introduction of revised political management arrangements it would have been difficult to provide for separate scrutiny ahead of Council consideration.</p> <p><b>Responsible Officer:</b> Governance and Democratic Services Manager</p> <p><b>Completion Date:</b> November 2017</p>
<b>Rating</b>		
<b>Medium</b>		
<b>Paragraph ref</b>		
149		

Action plan point	Issue & Recommendation	Management Comments
7	Each council will report a range of information setting out:	A new performance management framework for the Council is being developed. Monitoring of performance will follow this new framework and will include all relevant benchmarking as well as service performance. The Council's overview of performance is also published in an enhanced format with trend information as well as service improvements and benchmarking.
<b>Rating</b>	<ul style="list-style-type: none"> <li>Its performance in improving local public services (including with partners)</li> <li>Its performance in improving local outcomes (including with partners)</li> <li>Its performance in engaging with communities and service users, and responding to their views and concerns</li> <li>Its performance in achieving Best Value, including its use of performance benchmarking; options appraisal and use of resources.</li> </ul>	<p><b>Responsible Officers:</b> Interim Strategy and Insight Senior Manager</p> <p><b>Completion Date:</b> March 2018</p>
<b>Medium</b>		
<b>Paragraph ref</b>		
190	The Annual Performance Overview 2017, which would complete the suite of public performance reports for 2016-17 has yet to be submitted to the Council.	

Action plan point	Issue & Recommendation	Management Comments
8	The Council's performance in relation to delayed discharges has continued to worsen in the period to June 2017 despite a focus being given to the issue. Edinburgh has regularly had the highest number of delayed discharges of any Integration Authority in Scotland. We recommend that improving performance in this area remains a priority.	Performance is closely monitored at:
<b>Rating</b>		<ul style="list-style-type: none"> <li>A weekly Star Chamber meeting of key managers from the four localities and hospital sites – progress, challenges being faced (e.g. reductions in provider capacity) and improvement actions are identified and discussed.</li> <li>The IJB, which receives a "Whole System Delays" report at each of its meetings. The report includes progress with key improvement workstreams, including reviewing the contract with care at home providers.</li> </ul>
<b>High</b>		<p><b>Responsible Officers:</b> Interim Chief Officer, Edinburgh Health and Social Care Partnership</p> <p>NHS Director</p> <p><b>Completion Date:</b> December 2017</p>
<b>Paragraph ref</b>		
198		



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**2016/2017**

**AUDITED ANNUAL ACCOUNTS**

# The City of Edinburgh Council

## Annual Accounts

Year to 31 March 2017

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# MANAGEMENT COMMENTARY

## Basis of Accounts

The Audited Annual Accounts present the financial position and performance of the Council, together with the financial position of the wider Council Group for the year to 31 March 2017.

The Annual Accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17. In 2016/17, the Annual Accounts have been prepared using the management structure as a reporting basis, rather than the previously used SeRCOP. This is due to a change in the Code of Practice. Year on year comparisons are indicative of what the management structure would have represented although this is further complicated by the Council-wide transformation reviews.

## Statutory Background

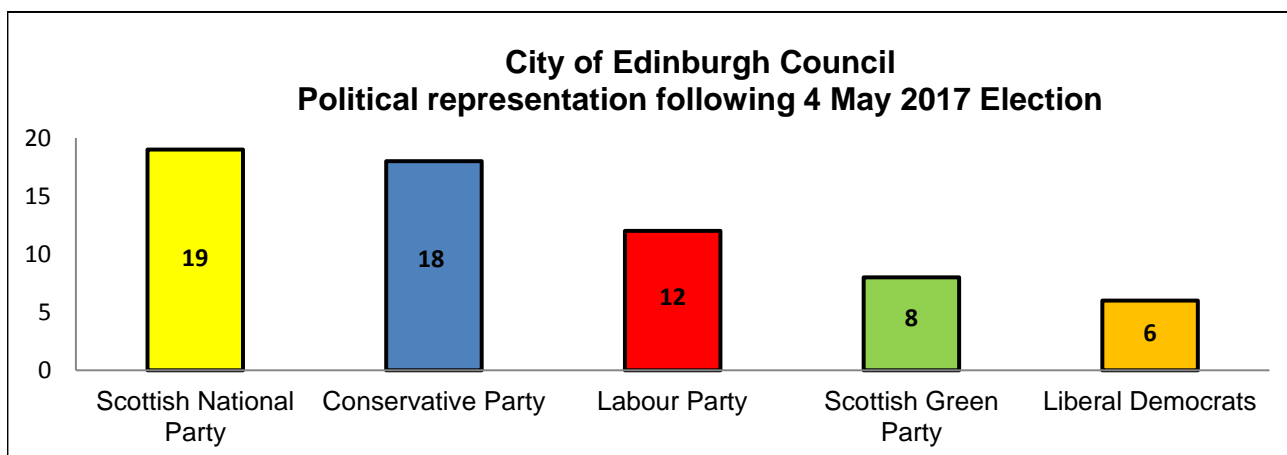
The City of Edinburgh Council was constituted under the Local Government, etc. (Scotland) Act 1994 and became the unitary local authority to Scotland's capital city in April 1996. The Council brought together most of the services delivered by the previous regional and district councils, with its primary current frontline functions being the provision of education to school-age children within the city, social care services, economic development, a range of community-based services such as roads maintenance, street lighting and refuse collection and quality of life functions such as libraries, culture, recreation and parks. Services are delivered to just over half a million citizens across the 102 square mile Council area.

The Council has been undergoing a significant Transformation Programme which has revised the key services and their structure. The current structure is still fluid but the tables below indicate the latest position.

Communities and Families	Place	Health and Social Care
Schools and Lifelong Learning	Environment (inc. parks, cemeteries)	Edinburgh Integrated Joint Board
Children's social work	Transport (inc. parking)	Older people's services
Community education	Roads, bridges and flood prevention	Learning and Physical disabilities
Libraries and Sports	Housing and Regulatory Services	Mental Health
Early Years	Planning and building standards	Substance Misuse
Chief Executive	Resources	Safer and Stronger Communities
Strategy and Insight	Customer and Business Support	Community safety
Communications	Finance	Homelessness services
ICT	Legal and Risk	
	Human Resources	
	Property and Facilities Management	

Further comprehensive detail of the services provided by the Council is included on its [website](#) and within the annual **Key Facts and Figures** publication.

The Council currently has 63 **Councillors** representing 17 wards within the city, split as follows:



The Full Council meets once a month and also delegates decisions to **committees** which meet regularly throughout the year.

Details of the senior councillors' remuneration and committee roles, for those in office during the financial year, are disclosed in the Remuneration Report from page 141 of these financial statements.

# MANAGEMENT COMMENTARY

## Corporate Strategy

The current **Council Strategic Plan** was first developed in 2012 and outlines priorities for the period 2012/17. The plan forms the central part of the Council's planning and performance management framework and is reviewed and updated each year to take consideration of new developments, emerging priorities and actions.

A new Council strategic planning and performance framework was agreed in June 2015. This framework was developed to provide both a simple and clear articulation of the Council's vision and purposes and a concise set of shared strategic themes and principles around which all Council services can be built. Following these principles, the framework adopted a single vision for the city, shared with all Council partners, to ensure that Edinburgh is a thriving, sustainable capital city in which all forms of deprivation and inequality are reduced.

The **Council Business Plan for 2017/22** describes our Commitments to the city, our strategic aims and outcomes, our challenges, how we'll measure success and the future of our organisation. The plan sets out overlapping strategic themes common to the work of all service areas. The strategic aims are underpinned by our 52 commitments to the city. These are to:

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

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



Achieving all these commitments in a period of reducing budgets and increasing demand is a challenge, but one the Council is determined to meet.

## MANAGEMENT COMMENTARY

### Risks and Uncertainty

In 2012, an external review of the Council's risk management arrangements concluded that they were inadequate for an organisation of its size, nature and complexity. The co-sourcing arrangements for the internal audit and risk management service subsequently put in place by the then Director of Corporate Governance therefore sought to enhance the Council's capacity and capability in this area and the extent of improvement has been noted in successive external assessments.

The Corporate Leadership Team's (CLT) **prioritised risks** as at January 2017 are outlined below. The report reflects the current highest priority risks of the Council along with the key controls in place to mitigate them. The directional symbols indicate the current assessment of risk profile between escalation, static or reducing.

#### 1. Capital asset management

With reduced resources and a heightened need for structural inspection and maintenance the current asset management plan may be insufficient to cover the immediate need for capital improvements (e.g. improvement of highways, post PPP1 structural reviews and other capital infrastructure) which could result in continued under-investment and assets that are not fit for purpose or meet health and safety consequences now and in the future.

#### 2. ICT transformation and change programme

Key deliverables, benefits and timescales for achieving IT transformation may not be achieved in line with business expectations, requirements and contractual agreements. This will result in adverse impacts on service delivery and the Council's ability to operate, its finances or its reputation.

#### 3. Business continuity

A sudden high impact event causes buildings, people, systems to be non-operational for an unacceptable period of time.

#### 4. Increased service with less resource

Funding reductions, legislative changes and increased demographic pressure, the requirements of the Local Development Plan and the anticipated need for further cost efficiencies will create an unexpected material pressure on our infrastructure, capital and revenue funding, the execution of our strategy and business plan with associated adverse reputational impact.

#### 5. Budget management

Material overspends on service budgets may impact upon the funding of other services.

#### 6. Cyber security and data privacy

A significant cyber breach occurs resulting in sizeable loss of data integrity, confidentiality or availability with adverse reputational impact.

#### 7. Customer expectations

Customer dissatisfaction around delivery of customer facing services (eg waste, roads, delayed discharge) may lead to increased complaints with consequential increased financial strain and reputational damage.

#### 8. Health and Social Care procurement

Through either lack of CEC resource and/or provider capacity, the Council may be unable to secure appropriate contracts with its providers or deliver appropriate services as directed by the IJB. As a result we may be unable to deliver our own commitments and those of the H&SC partnership's strategic plan.

#### 9. Health and Safety

Non-compliance with Council Health and Safety policies and procedures and legal and regulatory requirements could lead to avoidable employee or 3rd party injury or ill health and/or regulatory fines and liability claims, and associated reputational damage.

#### 10. ICT service delivery

The current stresses in the new IT provider's service delivery / management are such that it may not be able to recover service standards in the immediate future and there may be a sustained period of outage, degraded performance, or errors in processing for one or more services. This will result in adverse impacts on service delivery, the Council's ability to operate, its finances or its reputation and loss of confidence in the strategic alliance.

### Other Risks, Challenges and Uncertainties

Per the March 2017 Accounts Commission Report, 'Local Government in Scotland Performance and challenges 2017', all Councils in Scotland face further challenges and uncertainties. These have been noted as;

- The United Kingdom's decision to leave the European Union will have an impact on councils' work. The Council has set up a working group to plan for a number of scenarios to mitigate this risk.
- The Scottish Government is currently considering a local democracy bill. This is still at an early stage so the details and impact on the Council are not known.

# MANAGEMENT COMMENTARY

## Performance Overview

While the Council is required by statute to report publicly on its performance across a range of areas set out by the Accounts Commission, a suite of additional measures continues to be reported each month to the Corporate Leadership Team and half-yearly to Council and relevant Executive Committees. This thematic reporting is intended to complement financial data in giving a more rounded and informed picture of overall performance. Progress is tracked against some sixty key indicators covering the full range of Council services, with both absolute levels and trends in performance analysed to identify areas for remedial action and / or dissemination of best practice.

Edinburgh-specific performance data for 2016/17 has also been provided through a range of other channels, including the **Edinburgh People Survey**, audits and inspections. Performance against a suite of local-level, outcome-focused "quality of life" indicators is in addition monitored on a regular basis, with corresponding areas for improvement identified.

## Council Performance

An **overview of the Council's performance during 2016/17** was reported to Council on 24 August 2017. Across the suite of Council performance reporting, there are areas where good progress has been made, along with a range of challenges and opportunities to continue to make improvements in 2017/18. Educational attainment (particularly for those in the 20% most deprived areas of Edinburgh), supporting unemployed people into work and learning and emergency street lighting repairs all showed improvement over the previous year. Household planning applications and emergency road defect repairs are, however, areas which continue to be challenging.

The joint inspection of services for older people in Edinburgh was carried out by the Care Inspectorate and Health Improvement Scotland in late 2016. The inspection was focused around nine quality indicators and identified a number of areas of weakness. Seventeen specific recommendations for improvement were raised, which were accepted by the Edinburgh Integration Joint Board (IJB). The IJB has published a detailed improvement plan in response to the recommendations. Progress against the plan is monitored by an Improvement Board and the IJB's Performance and Quality Sub-Group oversees its delivery on behalf of the IJB.

The Edinburgh People Survey, carried out in Autumn/Winter 2016, found satisfaction with waste collection was low and this perception was strongly associated with the collection method used. In response to these findings, a comprehensive action plan was agreed in November 2016 focusing on several key areas including missed and delayed bin collections. To date, good progress has been made as the action plan is implemented and this area continues to be a focus for service improvement.

## Best Value

The effectiveness of the Council's arrangements to secure best value is subject to regular assessment, both as an integral part of the annual financial statements audit and in greater depth through a Scotland-wide medium-term cycle of review. **The key findings of the most recent assessment** were reported to the Governance, Risk and Best Value Committee on 24 October 2016. In noting the continuing progress made against the recommendations contained within the December 2014 Best Value follow-up report, the assessment concluded that:

- there is a strong focus on addressing the Council's financial plans, with clear evidence of increasing levels of savings delivery, informed by robust and proactive scrutiny and challenge;
- the Council's performance arrangements continue to provide a robust and comprehensive assessment of the delivery of its priority outcomes, assisted by the adoption of an organisation-wide workforce plan informed by good practice.

# MANAGEMENT COMMENTARY

## Financial Performance

### Comparative Performance

Under Section (1) (1) (a) of the Local Government Act 1992, the Accounts Commission has a statutory power to define the performance information that councils must publish locally in the following financial year with a view to facilitating comparison over time within, and across, authorities. The approach adopted in recent years has been largely non-prescriptive, with councils encouraged to develop their own comprehensive performance data sets, building on the Scotland-wide Local Government Benchmarking Framework to promote performance improvement and the targeting of resources to areas of greatest impact.

Due to the time required for calculation, verification and publication of Scotland-wide figures, provisional 2016/17 data will not be available in sufficient time for inclusion in the unaudited or audited annual accounts. An overview of the Council's 2015/16 performance against the sixty efficiency- and outcome-related indicators comprising the framework and other relevant indicators as they related to the Council's then five strategic themes has, however, been produced, as well as more detailed briefings on the framework's seven elements. These briefings analyse not only existing performance but, more importantly, consider areas for improvement and planned or proposed actions to address these.

Comprehensive detail of both Council-wide and service-specific performance is also available on the Council's website.

For the period covered by the accounts, progress in delivering the Capital Coalition's Pledges was furthermore reported to Council on a six-monthly basis, with the final assessment being considered on 15 December 2016.

### Revenue - General Fund

The Council's financial performance is presented in the Comprehensive Income and Expenditure Statement, which can be seen on page 21. This statement has been prepared using International Financial Reporting Standards. To show the net position of the Council, it is necessary to adjust the Comprehensive Income and Expenditure Statement for statutory items that require to be taken into account in determining the position on the General Fund and Housing Revenue Account for the year. These are summarised in the Movement in Reserves Statement (pages 18 to 19).

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

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

	<b>Budget</b>	<b>Actual</b>	<b>(Under)</b>
	<b>2016/17</b>	<b>2016/17</b>	<b>/ Over</b>
	<b>£000</b>	<b>£000</b>	<b>Spend</b>
			<b>£000</b>
General Fund services	814,789	814,370	(419)
Centrally funded release costs	14,000	15,610	1,610
Dividend and other interest received	(8,802)	(9,552)	(750)
Loans charges / interest on revenue balances	113,071	112,188	(883)
Net contribution to earmarked balances	4,285	7,285	3,000
<b>Total expenditure to be funded</b>	<b>937,343</b>	<b>939,901</b>	<b>2,558</b>
Council Tax	(244,131)	(244,796)	(665)
Council Tax Reduction Scheme	26,357	23,406	(2,951)
Total - Council Tax income account	(217,774)	(221,390)	(3,616)
General revenue funding	(344,919)	(344,919)	0
Distribution from non-domestic rate pool	(374,650)	(374,650)	0
<b>Funding</b>	<b>(937,343)</b>	<b>(940,959)</b>	<b>(3,616)</b>
<b>Transfer to Council Priorities Fund</b>	<b>0</b>	<b>(1,058)</b>	<b>(1,058)</b>

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

# MANAGEMENT COMMENTARY

## Financial Performance - continued

### Budget performance - General Fund - continued

The approved budget for 2016/17 was underpinned by an unprecedented level of savings, many affecting key frontline service areas, as well as a need to manage demographic and other demand-led pressures, particularly in fostering, adoption, out-of-authority placements and older people's care. Despite this, thanks to close tracking of the delivery of these savings and early identification of any required mitigating actions, the provisional outturn for the year shows a slight overall underspend of £1.058m, comprised as shown in the following sections.

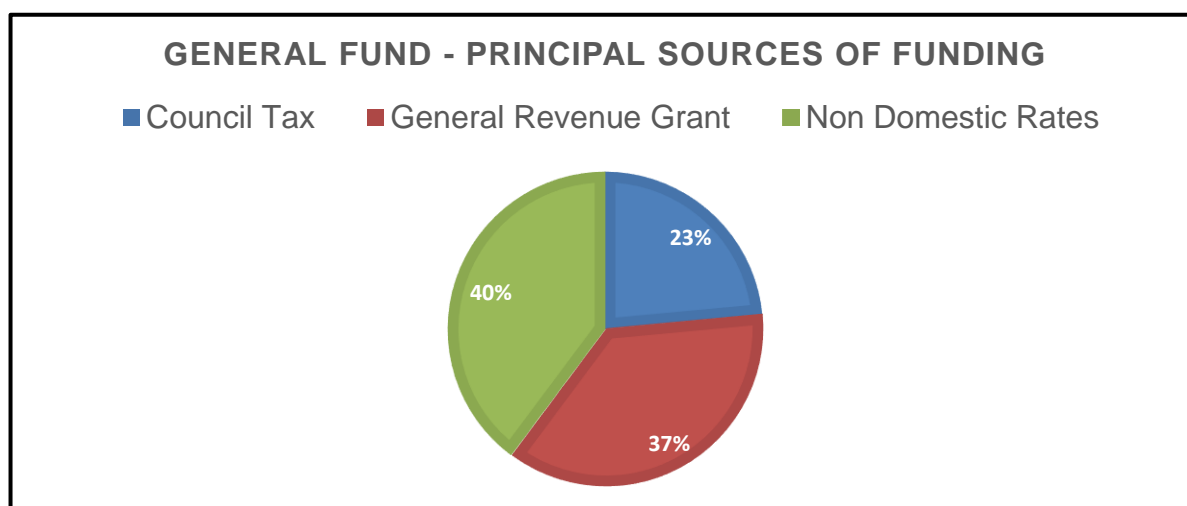
The main variances in the Council's outturn position arose in the following areas:

- An underspend within General Fund services of £0.419m, primarily due to underspends against the revised budgets for all services except for Place, unfavourable movements in non service specific payments and provisions during the year and favourable movements in net cost of benefits.
- Centrally funded release costs variance of £1.610m, as a result of £15.610m costs incurred as part of the Transformation Programme, see page 9, funded from underspends elsewhere within the General
- A reduction of £1.633m on loan charges / interest received, mainly as a result of the Council's planned strategy not to undertake borrowing to finance capital investment during the year.
- Additional Council Tax receipts, compared to budget, of £0.665m, mainly as a result of additional properties on which tax can be levied, and a reduction in exemptions. A further saving of £2.951m compared to budget was achieved on the Council Tax Reduction Scheme.
- The Council transferred a net sum of £7.285m to earmarked reserves during 2016/17. The Council's reserves are covered on page 8 of the management commentary and in more detail in note 12.1.
- The surplus of £1.058m returned in 2016/17 was transferred to the Council Priorities Fund, which forms part of the earmarked proportion of the General Fund for contingency funding, as detailed in note 12.1.

### Principal Sources of Funding - General Fund

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

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



# MANAGEMENT COMMENTARY

## Financial Performance - continued

### Reserves

#### General Fund

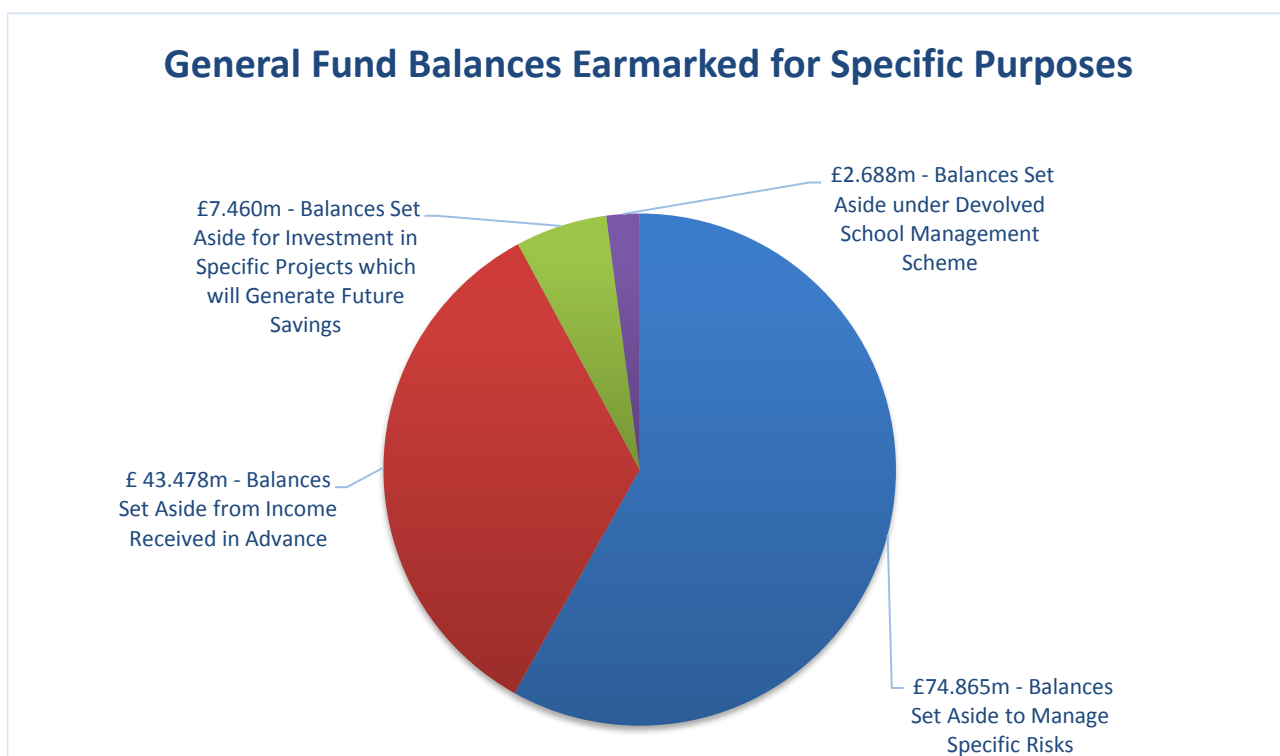
The Council's General Fund reserves comprise two elements:

- The unallocated General Fund; and
- Balances earmarked for specific purposes.

The unallocated General Fund is held against the risk of unanticipated expenditure and/or reduced income arising in any particular year. The level of this reserve is reviewed annually by the Council as part of the revenue budget process. This review considers the level of balances held, the financial risks which could be realised and the arrangements in place to manage these.

The **latest review** was in January 2017, as part of the 2017/18 budget setting process. The unallocated General Fund balance remains at £13.025m, which equates to 1.36% of the annual budgeted net expenditure. There were no planned or actual contributions to the unallocated General Fund for 2016/17.

In addition, the Council has a further £128.801m of balances earmarked for specific purposes. Details can be seen in note 12 to the Financial Statements. The chart below highlights the split of these balances.



These balances are held for a number of reasons:

- Balances set aside for specific financial risks which are likely to arise in the medium term future. Examples include monies earmarked for staff release costs and the insurance fund.
- Balances set aside from income received in advance are primarily from grant income, due to timing differences between the receipt of the grant income and the planned expenditure thereof.
- Balances set aside to enable the Council to undertake investment in specific projects which will deliver savings in future years. These savings are used, initially, to reimburse the earmarked balances.
- Balances held under the School Board Delegation Scheme (DSM), which permits balances on individual school budgets to be carried forward to the following financial year.

In summary, the level of reserves at 31 March 2017, together with the forward strategy, are considered appropriate in view of the financial liabilities and risks likely to face the Council in the short to medium term.

#### Other Reserves

The Council holds other usable reserves; these are the Capital Grants Unapplied Account with a balance of £0.766m, the Capital Fund with a balance of £61.178m and the Renewal and Repairs Fund with a balance of £50.141m.

# MANAGEMENT COMMENTARY

## Financial Performance - continued

### Treasury Management Strategy and Loans Fund

The Annual Treasury Strategy for 2016/17 was approved on 2 February 2016 and the **2017/18 Annual Treasury Strategy** was approved on 23 February 2017. The Treasury Strategy aims to:

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

## On-Going and Future Developments

### PPP1 Incident

As was noted in 2015/16's Annual Accounts, 17 schools falling within the remit of the PPP1 contract were closed in April 2016 due to the findings of property surveys following an earlier wall collapse at Oxgangs Primary School. Necessary remedial works subsequently undertaken by the contractor were deemed to have brought the properties back to an equivalent value to that prior to identification of the defects and thus no impairment was reflected in the 2015/16 financial statements.

The Council nonetheless incurred additional costs of some £3m as a result of the unavailability of the schools and two other facilities between April and August 2016. Subject to finalisation of the terms of settlement, however, it is not anticipated that there will be any direct cost to the Council arising from this incident.

At the meeting of the **Finance and Resources Committee** on 23 January 2017, members approved that any excess of contractual deductions due over costs incurred be earmarked to take forward any necessary remedial work identified through the programme of property surveys undertaken in buildings of similar construction. The extent and associated cost of these works will be reported to Committee once the programme of inspections has been completed.

### Transformation Programme

The Council continues to operate in a challenging environment with increases in demand for services within ongoing financial constraints. In response, the Council has developed a Transformation Programme aimed at building a lean and agile organisation, centred on customers, services and communities. On 25 June 2015, Council approved a report on the **Transformation Programme** which set out the future operating model for the Council.

The programme has an associated savings target by 2018/19 of £70 million, with 99% of these savings by value currently assessed to be on track. As most Organisational Reviews have either been completed or are approaching completion, however, the programme is now moving focus onto working with the Council's Corporate Leadership Team and Directorates to identify and deliver change programmes and projects that will allow it to further transform service delivery through the new structures and realise further savings.

As at 6 September 2017, staff accounting for approximately 933 FTE have left or are confirmed to be leaving the organisation under Voluntary Early Release Arrangements (VERA) or Voluntary Redundancy (VR) arrangements. The one-off cost associated with these cases is £39.5m and the overall payback is 13.5 months, which is in line with the original planning assumptions.



# MANAGEMENT COMMENTARY

## Financial Performance - continued

### Budget framework

On 9 February 2017, the Council set a balanced budget for 2017/18 and an indicative balanced budget for 2018/19 as part of a longer-term framework. As in 2016/17, delivery of approved savings and prompt identification and management of underlying or emerging risks and pressures will be key to maintaining financial stability in the coming year. Looking forward, in view of recent financial settlements, economic forecasts and wider infrastructure-linked requirements, it is anticipated that a comprehensive update of the Council's budget framework to be considered by the Finance and Resources Committee in October 2017 will show a significant increase in the overall savings requirement over the period of the framework. Proposals to address this requirement will then be developed over the following months.

### Local Development Plan

The Edinburgh Local Development Plan (LDP) was adopted on 24 November 2016. To support the growth of Edinburgh and to ensure the city grows in a sustainable way, new infrastructure provision and enhancements associated with new development (particularly additional school, transport and green space provision) must be delivered. The Council has identified the infrastructure actions required to help deliver the growth and these are set out in the LDP Action Programme. While an element of this capital-related infrastructure requirement, estimated at around £450m, will be met through developers' contributions, a range of other potential funding options, including borrowing by the Council, are being considered to address the shortfall. Work is also underway to quantify with greater accuracy the additional associated revenue expenditure requirement, with an update report anticipated to be considered by Committee in due course.

### Edinburgh and South-East Scotland Region City Deal

The City Region Deal brings together local authorities and public sector partner organisations across the South-East of Scotland and serves as a mechanism for accelerating growth by pulling in significant government investment. By investing this funding in infrastructure, skills and innovation, the region's economic performance will be significantly improved, which will not only generate funds to pay back this initial investment but also draw in significant additional funding from the private sector.

The City Region Deal is also about providing greater autonomy and decision-making powers for the region to help partners deliver public services more effectively and to tackle inequality and deprivation. **A £1.1bn deal** from the UK and Scottish Governments was confirmed on 20 July 2017. Both governments are committed to jointly investing £600m over the next 15 years and regional partners have committed to adding up to £500m, overall representing a deal worth £1.1bn. In addition, it is anticipated the deal will generate over £5bn worth of Gross Value Added (GVA) over the same period.

### Welfare Reform

The Council continues to support citizens through the changes and challenges resulting from welfare reform. The Welfare Reform Core Group meets quarterly to agree the delivery of the key actions to achieve the outcomes of mitigating risks of hardship and worsening inequality, providing targeted and tailored support to vulnerable individuals and families and responding promptly and effectively to crisis needs for housing, heat and food. Changes affecting the level of temporary accommodation-related management fee eligible to be met through Housing Benefit have the potential to hasten significant additional expenditure pressures in 2017/18 and the position will be kept under review as the Council moves towards full introduction of Universal Credit in June 2018.

# MANAGEMENT COMMENTARY

## Financial Performance

### Financial Ratios

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

<b>Council Tax</b>	<b>2016/17</b>	<b>2015/16</b>	<b>Notes on Ratios</b>
In-year collection rate	96.42%	96.10%	This shows the % of Council Tax collected during the financial year that relates to bills issued for that year. It does not include collection of funding relating to previous financial years.
Council Tax income as a percentage of overall funding	23.50%	22.50%	This shows the proportion of total funding that is derived from Council Tax, net of Council Tax Reduction Scheme (CTRS).
<b>Debt and Borrowing - Prudence</b>			<b>Notes on Ratios</b>
Capital Financing Requirement	£1,616.0m	£1,633.0m	The capital financing requirement represents the underlying need to borrow to fund expenditure on assets. Financing costs are provided for within the Council's Long-Term Financial Plan. Further details of the capital financing requirement can be seen in note 39 to the Financial Statements.
External debt levels	£1,543.3m	£1,622.9m	External debt levels include long-term commitments in respect of finance leases (mainly schools provided through PPP schemes) together with borrowing undertaken to finance capital expenditure.  External debt levels are lower than the capital financing requirement as the Council has adopted a position of under borrowing, as set out in the Treasury Strategy.
<b>Debt and Borrowing - Affordability</b>			<b>Notes on Ratios</b>
Financing costs to net revenue stream - General Fund	11.92%	11.80%	These ratios show the proportion of total revenue funding that is used to meet financing costs. The ratios exclude any voluntary repayments of debt made during the year. The financing costs continue to fall however due to reduced overall funding within the general fund, the relative percentage is rising.
Financing costs to net revenue stream - HRA	34.48%	33.23%	
Impact of capital investment on Council Tax	-0.55%	-0.61%	These ratios show incremental impact of financing costs (the increase in financing costs from the previous financial year) as a percentage of Council Tax, in respect of costs payable through the General Fund and house rents for the HRA.
Impact of capital investment on house rents	-1.62%	0.45%	

### Key Statistics

Actual expenditure within budget for 10th successive year
£39.6m of savings approved for 2017/18 financial year
No external borrowing since 2012/13 (except Salix borrowing which is interest free) - annual interest savings of £6.6m compared to 2012/13
Investment returns continue to out-perform benchmark whilst maintaining security of investments

# MANAGEMENT COMMENTARY

## Financial Performance - continued

### Housing Revenue Account

The Council has a statutory obligation to maintain a housing revenue account (HRA) which records all income and expenditure for the management of, and investment in, Council homes. All expenditure on homes let by the Council is funded through the rent and related service charges paid by its tenants.

In January 2016, the Council approved the five year Housing Revenue Account Budget Strategy. The two aims of the strategy are to expand and accelerate the Council's affordable and low cost house-building programme and, secondly, to prioritise investment in services that reduce the cost of living for tenants.

The strategy has been informed and expanded based on extensive consultation with tenants on their priorities for future investment and rent levels. Many Council tenants are experiencing real and significant financial hardship and there are not sufficient homes being built in the housing market which meet current need and demand and the challenge of a growing population. In response to this the investment strategy includes the significant expansion of the Council's affordable homes programme from 3,000 to 8,000 over the next ten years. The city's main developing housing associations have since matched the Council's house-building target. This partnership has agreed to deliver 16,000 new affordable and low cost homes over the next ten years, making it one of the largest Council led house-building programmes in the UK.

Delivery in 2016/17 has been strong. The current 21st Century Homes programme has around 1,800 quality, new energy efficient homes completed, under construction or in procurement, with a further 660 homes at detailed design stage. The programme has been a catalyst for wider regeneration and has brought the Council recognition as a successful house builder, which has been evidenced through awards.

Progress on measures to reduce tenants' cost of living has also been strong. The heating replacement programme has accelerated delivery by 40% and the kitchen and bathroom programme by 50% on 2015/16 levels. The 2016/17 Capital Programme prioritised investment in energy efficiency measures to alleviate fuel poverty and contribute to Council and national carbon saving targets. All Council homes need to meet the Energy Efficiency Standard for Social Housing (EESH) by 2020. The Capital Programme also focused delivery on an external fabric programme to improve energy efficiency in blocks across the city, through a combination of insulation and external render upgrades.

In addition to this, tenants have benefited from further modernisation investment to common areas including lift car upgrades, stair windows, door entry systems and external fabric improvements. New initiatives, identified through the 2016/17 budget consultation, such as the tenants discount card and new, lower cost energy suppliers, have been introduced and will, along with the community gardens programme and energy advice services be further expanded in 2017/18.

The majority of the delivery of the 2016/17 capital investment programme is through a new Housing Asset Management framework. The new framework has had a positive impact on value for money and quality to customers, achieving savings of up to 20% on certain elements of the programme. The new framework also gives the Council more flexibility and includes performance measures enabling robust contract management.

In 2016, like many other areas of the Council, the Housing Service has undergone a transformational change process, adopting a new service model. The twin objectives of increasing efficiency and delivering better integrated local services have driven this transition and the service has now adopted a patch based model. There are around 100 patches across Localities, each with its own dedicated housing officer. This model of working has been heavily shaped by feedback from customers and other local residents.

## MANAGEMENT COMMENTARY

### Financial Performance - continued

#### Housing Revenue Account - continued

The capital programme is funded mainly through prudential borrowing; however capital receipts, capital funded from current revenue and grants (Home Energy Efficiency Programme Scotland) also contribute to capital investment. HRA income pays for housing management services and repairs and maintenance. It also meets the cost of servicing borrowing required for capital investment. Feedback from Council tenants shows satisfaction with the overall housing service is very high with many areas of satisfaction being top quartile or above average compared to other local authorities. The results show that the Council continues to be in the top three local authorities for satisfaction with the service, the local neighbourhood and quality of homes. There has also been a 14% increase in the number of tenants who think their rent provides value for money, placing the Council above average and amongst the top performing local authorities in this area.

In line with the HRA Business Plan, at the end of 2016/17 the HRA was balanced after making a contribution of £11.886m to the Renewal and Repairs Fund. These funds are earmarked for future capital investment in new homes through 21st Century Homes.

#### Capital Expenditure

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

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

The outturn position for capital expenditure is summarised below:

	<b>Revised Budget 2016/17 £000</b>	<b>Actual 2016/17 £000</b>	<b>(Slippage) / Acceleration £000</b>
Capital expenditure			
General Fund services	159,722	157,976	(1,746)
Housing Revenue Account	<u>44,304</u>	<u>43,627</u>	<u>(677)</u>
Total capital expenditure	<u>204,026</u>	<u>201,603</u>	<u>(2,423)</u>
Capital receipts and other contributions			
- General Fund services	(35,791)	(28,325)	7,466
- Housing Revenue Account	(16,000)	(21,247)	(5,247)
Government and other grants			
- General Fund services	(75,140)	(81,329)	(6,189)
- Housing Revenue Account	<u>(5,274)</u>	<u>(2,015)</u>	<u>3,259</u>
Total capital income	<u>(132,205)</u>	<u>(132,916)</u>	<u>(711)</u>
Balance to be funded through borrowing			
- General Fund services	48,791	48,322	(469)
- Housing Revenue Account	<u>23,030</u>	<u>20,365</u>	<u>(2,665)</u>
Total advances from loans fund	<u>71,821</u>	<u>68,687</u>	<u>(3,134)</u>

Expenditure on General Fund services slipped in total by £1.746m. The majority of slippage related to delays on the Boroughmuir High School replacement, Early Years improvement projects and major carriageway and footway refurbishment, caused by factors largely out with the Council's control, however acceleration in the programme of Asset Management Works largely offset the slippage in these projects. Expenditure on the Housing Revenue Account slipped by £0.677m.

The Council received £41.626m of general capital grant. The support provided through general capital grant enables the Council to direct resources to its own priorities.

# MANAGEMENT COMMENTARY

## Financial Performance - continued

### Capital Expenditure - continued

Capital expenditure for the year totalled £201.603m. Major capital projects undertaken during the year included:

- Educational properties - £41.816m;
- Investing in new council homes and enhancing existing assets through the Housing Revenue Account programme - £30.534m;
- Social housing through the housing development fund - £36.871m;
- Roads, carriageways and other infrastructure - £29.096m;
- Health and Social Care establishments - £4.527m;
- New Industrial Units - £1.278m;
- Recreational venues (including libraries, parks and open spaces) - £1.010m; and
- Providing funding for homes for mid market rent from private developers through the National Housing Trust - £13.093m.

## Group Accounts

### CEC Holdings Ltd

- **EDI Group Ltd (subsidiary of CEC Holdings Ltd)**

The EDI Group was established in 1988 by The City of Edinburgh Council to carry out the development of Edinburgh Park, now regarded as one of the principal business parks in Europe. Since then, the company has grown steadily, developing land and property on its own or through joint ventures with developers, landowners, local authorities and other public sector bodies.

In early 2017, the Council conducted a review of its approach to the use of surplus land and its interactions with the property market. For land and buildings which are no longer being used for Council activities, the Council has concluded that the default position will be that the land or building is used to deliver affordable housing, meaning that EDI has no future pipeline of projects. As a result, the Council has concluded that in the longer term it should not have an arm's length development company. The Council has therefore now instructed the directors to begin a process of closure, although no specific timescale has been set and it is anticipated that all current contractual obligations will be fulfilled.

- **Edinburgh International Conference Centre (EICC) Ltd (subsidiary of CEC Holdings Ltd)**

EICC Ltd operates a prime conference venue in the centre of Edinburgh. The Centre was built in 1995 and since that time has welcomed 1.3 million delegates from more than 120 countries, generating £545m of economic impact for the city region. The Centre's principal remit is to:

- procure the successful and continued operation of the Centre as a venue for conferences, exhibitions, trade shows, annual general meetings, cultural and sporting events, award ceremonies and other such events in a global market place with international and national customers so as to maximise the economic benefit to the City of Edinburgh;
- insure, maintain and upgrade the Centre from time to time as necessary to carry on its business; and
- operate on a prudent commercial basis in accordance with the Business Plan.

In 2016, the Centre made a small loss before tax from continuing operations of £0.127m. Trading conditions during the year remained difficult due to the depressed state of the global economy, continuing pressures on clients' budgets and increased competition from a number of conference centres worldwide. Despite, the Centre's underlying operating profitability improved. Looking forward, the current level of bookings for 2017, high volume of enquiries received and increase in the number of short-lead bookings augurs well for the current and future years.

### Edinburgh Integration Joint Board

The Edinburgh Integration Joint Board was formally delegated the functions and resources of the Council's Health and Social Care Service and NHS Lothian's Community Health Partnership, with effect from 1 April 2016. An assessment was undertaken on the relationship of the Council with the Edinburgh Integration Joint Board and on the basis of level of control, being fifty percent Board representation and materiality levels, this Joint Venture has been consolidated into the Group accounts for the year to 31 March 2017, see note 9.3.

## MANAGEMENT COMMENTARY

### Financial Performance - Group Accounts - continued

#### Lothian Valuation Joint Board (LVJB)

As reported to its meeting on 18 September 2017, the Board reported an audited overall outturn underspend of £0.262m against a revised budget of £6.118m during 2016/17. The reported surplus was mainly due to the achievement of additional savings within employee costs, premises and supplies and services expenditure relative to budget assumptions. The cost of Individual Electoral Registration (IER) was fully funded by grant, with the Board also receiving a one-off grant in respect of the EU Referendum.

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

- Some uncertainty over continuing Cabinet Office funding support for IER;
- On-going workload and cost pressures arising from appeals associated with the 2017 revaluation;
- Potential changes arising from the review of the system of local property-based taxation but with an assumption that corresponding funding will be made available by the Scottish Government;
- Implementation of the Board's Transformation and Cultural Change Programme; and
- Continuing pressure on the level of grant and other funding available to the Board's constituent authorities.

#### Festival City Theatres Trust

2016/17 was another strong year for the Trust, with an exciting and innovative programme of work resulting in a substantial increase in both attendances and income, with the latter increasing by 25% year-on-year.

Maintaining its prominence for two of the leading theatres in the country - the opulent King's Theatre and the grand Festival Theatre - the Trust hosted the exclusive Scottish performances for over a quarter of the shows in its programme. The theatres hosted some of the major productions in the Edinburgh International Festival and its theatres were also important venues for another nine of Edinburgh's other Festivals.

The Trust achieved its most successful-ever Christmas season and also extended its pioneering work for people living with dementia by presenting the UK's first dementia-friendly opera, in collaboration with Scottish Opera, and the first dementia-friendly performance in Scotland of a major touring musical. The Trust also strengthened its commitment to nurturing young talent with an extensive programme of work with young people including showcases of young disabled artists and youth dance and the establishment of the Attic Collective, a Theatre Repertory Company for emerging artists aged 18-26.

#### Edinburgh Leisure

Edinburgh Leisure operates over fifty sport and leisure facilities across the city on behalf of the Council, attracting over four million visits each year. The range of facilities include sport and leisure centres, swim centres, golf courses, tennis courts, bowling greens and sports pitches. Edinburgh Leisure also deliver coaching activities, programmes and initiatives for people of all ages and abilities; services that will help Edinburgh become a more active and healthy city. In 2016/17, an overall outturn operational surplus of £0.442m was achieved against a backdrop of increasing competition, increasing cost pressures and a reduced payment for service from the Council.

Edinburgh Leisure continues to work with the Council and other stakeholders on a range of projects. Progress has been made with the Community Access to Schools programme and Edinburgh Leisure is now managing community access to sports facilities at James Gillespie's High School, Portobello High School and Queensferry Community High School.

#### Transport for Edinburgh Ltd

The core purpose of Transport for Edinburgh Ltd (TfE) is to deliver a high-quality and integrated transport service. It also delivers profit through a strong commercial focus and drive for efficiency across all of its activities. TfE's long-term vision is to be an integral part of the future success of the city and the Lothians, by providing world-class, environmentally-friendly and socially-inclusive public transport.

The Group retained a substantial share of the local public transport market in Edinburgh and, with the creation of East Lothian Buses, the wider region during 2016. Year-on-year revenue increased by 3.9%, with a profit from operations margin of 8.9%. The Group faced significant cost pressures in 2016, however, and management of these pressures through on-going service efficiencies has continued to form a key focus in 2017.

## MANAGEMENT COMMENTARY

### Financial Performance - Group Accounts - continued

#### Group

Net assets for 2016/17 include a combined group pension liability of £722.078m (2015/16 £426.753m), as shown in note 43.9. This reflects the inclusion of pension liabilities relating to Council, other employees, including subsidiary companies and the incorporation of Lothian and Borders Valuation Joint Board as an associate within the group. This exceeds the value of distributable reserves held by the Group. It should be noted that this is a snapshot of the position at 31 March 2017. The actuarial valuation, which takes a longer term view, will consider the appropriate employers' contribution rates and these, together with employee contributions and revenues generated from fund investments, will be utilised to meet the financing of these liabilities. It is therefore appropriate to adopt a going concern basis for the preparation of the group financial statements.

ANDREW KERR  
Chief Executive

28 September 2017

STEPHEN S. MOIR  
Executive Director of Resources

28 September 2017

ADAM MCVEY  
Council Leader

28 September 2017

# STATEMENT OF RESPONSIBILITIES FOR THE ANNUAL ACCOUNTS

## The Authority's Responsibilities

The Authority is required:

- to make arrangements for the proper administration of its financial affairs, including group interests, and to secure that the proper officer of the authority has the responsibility for the administration of those affairs (section 95 of the Local Government (Scotland) Act 1973). In this Authority, that officer is the Acting Executive Director of Resources.
- to manage its affairs to secure economic, efficient and effective use of its resources and safeguard its assets.
- to ensure the Annual Accounts are prepared in accordance with legislation (The Local Authority Accounts (Scotland) Regulations 2014), and so far as is compatible with that legislation, in accordance with proper accounting practices (section 12 of the Local Government in Scotland Act
- to approve the Annual Accounts for signature.

I confirm that these Annual Accounts were approved for signature by the Finance and Resources Committee at its meeting on 28 September 2017.

ADAM MCVEY  
Council Leader

28 September 2017

## The Section 95 Officer's responsibilities

The Section 95 Officer is responsible for the preparation of the Authority's Annual Accounts in accordance with proper practices as required by legislation and as set out in the CIPFA / LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Accounting Code).

In preparing the Annual Accounts, the Section 95 Officer has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with legislation; and
- complied with the Local Authority Accounting Code (insofar as it is compatible with legislation), except where stated in the Policies and Notes to the Accounts.

The Section 95 Officer has also:

- kept proper accounting records which were up to date;
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

## Annual Accounts

I certify that the financial statements give a true and fair view of the financial position of the Council and its Group at the reporting date and the transactions of the Council and its Group for the year ended 31 March 2017.

HUGH DUNN, CPFA  
Head of Finance  
Section 95 Officer

28 September 2017



## MOVEMENT IN RESERVES STATEMENT

This statement shows the movement in the year on the different reserves held by the Council and its Group members. Reserves are analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation), most of which is already earmarked and other, unusable reserves. The surplus or deficit on the provision of services line shows the true economic cost of providing the Group's services, more details of which are shown in the Group Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund balance and the Housing Revenue Account for Council Tax setting and dwelling rent setting purposes. The net increase / decrease before transfers to earmarked reserves line shows the statutory General Fund and Housing Revenue Account balances before any discretionary transfers to or from earmarked reserves undertaken by the Council. Group reserves are shown as either usable or unusable reserves.

	<b>General Fund Balance £000</b>	<b>Housing Revenue Account Balance £000</b>	<b>Renewal and Repairs Fund £000</b>	
<b>2016/17</b>				
Balance at 31 March 2016	128,396	0	38,194	
<b>Movement in reserves during 2016/17</b>				
Total Comprehensive Income and Expenditure	(6,826)	17,594	0	
Adjustments between accounting basis and funding basis under regulations (Note 11)	20,317	(5,708)	0	
<b>Net (increase) / decrease before transfers to statutory reserves</b>	13,491	11,886	0	
Transfer (to) / from other statutory reserves (Note 12.3)	(61)	(11,886)	11,947	
Increase / (decrease) in year	13,430	0	11,947	
<b>Balance at 31 March 2017</b>	<b>141,826</b>	<b>0</b>	<b>50,141</b>	
	<b>Capital Grants Unapplied Account £000</b>	<b>Capital Fund £000</b>	<b>Council's Total Usable Reserves £000</b>	<b>Group Usable Reserves £000</b>
<b>2016/17</b>				
Balance at 31 March 2016	2,657	68,793	238,040	40,418
<b>Movement in reserves during 2016/17</b>				
Total Comprehensive Income and Expenditure	0	0	10,768	12,522
Adjustments between accounting basis and funding basis under regulations (Note 11)	(1,891)	(7,615)	5,103	0
<b>Net (increase) / decrease before transfers to statutory reserves</b>	(1,891)	(7,615)	15,871	12,522
Transfer (to) / from other statutory reserves (Note 12.3)	0	0	0	(24,424)
Increase / (decrease) in year	(1,891)	(7,615)	15,871	(11,902)
<b>Balance at 31 March 2017</b>	<b>766</b>	<b>61,178</b>	<b>253,911</b>	<b>28,516</b>
	<b>Total Usable Reserves £000</b>	<b>Council's Unusable Reserves £000</b>	<b>Group Unusable Reserves £000</b>	<b>Total Reserves £000</b>
<b>2016/17</b>				
Balance at 31 March 2016	278,458	1,731,418	108,366	2,118,242
<b>Movement in reserves during 2016/17</b>				
Total Comprehensive Income and Expenditure	23,290	(214,358)	(22,989)	(214,057)
Adjustments between accounting basis and funding basis under regulations (Note 11)	5,103	(5,103)	0	0
<b>Net (increase) / decrease before transfers to statutory reserves</b>	28,393	(219,461)	(22,989)	(214,057)
Transfer (to) / from other statutory reserves (Note 12.3)	(24,424)	0	24,424	0
Increase / (decrease) in year	3,969	(219,461)	1,435	(214,057)
<b>Balance at 31 March 2017</b>	<b>282,427</b>	<b>1,511,957</b>	<b>109,801</b>	<b>1,904,185</b>

## MOVEMENT IN RESERVES STATEMENT

	General Fund Balance £000	Housing Revenue Account Balance £000	Renewal and Repairs Fund £000	
<b>2015/16 Comparative Data</b>				
Balance at 31 March 2015	117,524	0	35,833	
<b>Movement in reserves during 2015/16</b>				
Total Comprehensive Income and Expenditure	(14,291)	15,568	0	
Adjustments between accounting basis and funding basis under regulations (Note 11)	25,268	(13,312)	0	
<b>Net (increase) / decrease before transfers to statutory reserves</b>	10,977	2,256	0	
Transfer (to) / from other statutory reserves (Note 12.3)	(105)	(2,256)	2,361	
Increase / (decrease) in year	10,872	0	2,361	
<b>Balance at 31 March 2016</b>	<b>128,396</b>	<b>0</b>	<b>38,194</b>	
	<b>Capital Grants Unapplied Account £000</b>	<b>Capital Fund £000</b>	<b>Council's Total Usable Reserves £000</b>	<b>Group Usable Reserves £000</b>
<b>2015/16 Comparative Data</b>				
Balance at 31 March 2015	4,349	31,721	189,427	9,876
<b>Movement in reserves during 2015/16</b>				
Total Comprehensive Income and Expenditure	0	0	1,277	33,004
Adjustments between accounting basis and funding basis under regulations (Note 11)	(1,692)	37,072	47,336	
<b>Net (increase) / decrease before transfers to statutory reserves</b>	(1,692)	37,072	48,613	33,004
Transfer (to) / from other statutory reserves (Note 12.3)	0	0	0	(2,462)
Increase / (decrease) in year	(1,692)	37,072	48,613	30,542
<b>Balance at 31 March 2016</b>	<b>2,657</b>	<b>68,793</b>	<b>238,040</b>	<b>40,418</b>
	<b>Total Usable Reserves £000</b>	<b>Council's Unusable Reserves £000</b>	<b>Group Unusable Reserves £000</b>	<b>Total Reserves £000</b>
<b>2015/16 Comparative Data</b>				
Balance at 31 March 2015	199,303	1,449,087	99,107	1,747,497
<b>Movement in reserves during 2015/16</b>				
Total Comprehensive Income and Expenditure	34,281	160,634	175,830	370,745
Adjustments between accounting basis and funding basis under regulations (Note 11)	47,336	(47,336)	0	0
<b>Net (increase) / decrease before transfers to statutory reserves</b>	81,617	113,298	175,830	370,745
Transfer (to) / from other statutory reserves (Note 12.3)	(2,462)	0	2,462	0
Increase / (decrease) in year	79,155	113,298	178,292	370,745
<b>Balance at 31 March 2016</b>	<b>278,458</b>	<b>1,562,385</b>	<b>277,399</b>	<b>2,118,242</b>

## GROUP COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

This statement shows the accounting cost in the year of providing services for the Group in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. The Council raises taxation to cover its expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

for the year ended 31 March 2017

Re-stated 2015/16 £000		Notes	Gross Expend. £000	Income £000	Net Expend. £000
	<b>SERVICES</b>				
416,628	Communities and Families		370,456	(18,805)	351,651
238,374	Place		308,406	(168,126)	140,280
(25,441)	Housing Revenue Account		74,306	(102,065)	(27,759)
216,635	Health and Social Care		459,388	(270,429)	188,959
85,434	Resources		193,477	(40,257)	153,220
0	Chief Executive		48,151	(6,231)	41,920
0	Safer and Stronger Communities		73,623	(48,002)	25,621
3,744	Lothian Valuation Joint Board		3,744	0	3,744
(156)	Net cost of benefits		196,866	(197,235)	(369)
20,942	Early release costs		15,610	0	15,610
2,501	Other non-service specific costs		14,225	(256)	13,969
(7,568)	Subsidiary Companies		158,684	(172,631)	(13,947)
951,093	<b>COST OF SERVICES</b>		<u>1,916,936</u>	<u>(1,024,037)</u>	892,899
(35,949)	Other Operating Income	13.			(12,009)
106,779	Financing and Investment Income and Exp.	14.			93,155
(1,032,322)	Taxation and Non-Specific Grant Income	15.			(999,442)
(10,399)	<b>SURPLUS ON PROVISION OF SERVICES</b>				(25,397)
2,750	Associates and Joint Ventures Accounted for on an Equity Basis				273
2,612	Taxation of Group entities	15.			1,895
(5,037)	<b>GROUP (SURPLUS)</b>				<u>(23,229)</u>
(3,169)	Surplus on Revaluation of Non-Current Assets			(40,474)	
16	Deficit / (Surplus) on Revaluation of Available for Sale Financial Assets			(16)	
(37,286)	Return on assets excluding amounts incl. in Financing and Investment Inc / Exp			(428,706)	
(285,852)	Changes in Financial and Demographic Assumptions / Other Experience			672,917	
(39,417)	Other Unrealised (Gains) / Losses			33,565	
(365,708)	Other Comprehensive Income and Expend.				237,286
(370,745)	<b>TOTAL COMPREHENSIVE (INCOME) / EXPENDITURE</b>				<u>214,057</u>

## COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

This statement shows the accounting cost in the year of providing Council services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. The Council raises taxation to cover its expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

		for the year ended 31 March 2017		
Re-stated 2015/16		Gross Expend.	Income	Net Expend.
£000	SERVICES	£000	£000	£000
416,628	Communities and Families	370,456	(18,805)	351,651
238,374	Place	308,406	(168,126)	140,280
(25,441)	Housing Revenue Account	74,306	(102,065)	(27,759)
216,635	Health and Social Care	459,388	(270,429)	188,959
85,434	Resources	193,477	(40,257)	153,220
0	Chief Executive	48,151	(6,231)	41,920
0	Safer and Stronger Communities	73,623	(48,002)	25,621
3,744	Lothian Valuation Joint Board	3,744	0	3,744
(156)	Net cost of benefits	196,866	(197,235)	(369)
20,942	Early release costs	15,610	0	15,610
2,501	Other non-service specific costs	14,225	(256)	13,969
<u>958,661</u>	<b>COST OF SERVICES</b>	<u>1,758,252</u>	<u>(851,406)</u>	906,846
(35,947)	Other Operating Income	13.		(12,061)
108,331	Financing and Investment Income and Exp.	14.		93,889
(1,032,322)	Taxation and Non-Specific Grant Income	15.		(999,442)
<u>(1,277)</u>	<b>SURPLUS ON PROVISION OF SERVICES</b>			(10,768)
2,294	Deficit / (Surplus) on Revaluation of Non-Current Assets		(40,473)	
(37,286)	Return on assets excluding amounts incl. in Financing and Investment Inc / Exp		(428,706)	
(285,852)	Changes in Financial and Demographic Assumptions / Other Experience		672,917	
<u>(8,823)</u>	Other Unrealised (Gains) / Losses		<u>10,620</u>	
<u>(329,667)</u>	Other Comprehensive Income and Expend.			<u>214,358</u>
<u>(330,944)</u>	<b>TOTAL COMPREHENSIVE (INCOME) / EXPENDITURE</b>			<u>203,590</u>

### RECONCILIATION OF THE COUNCIL'S POSITION TO THE GROUP POSITION

£000		£000
(330,944)	Total Comprehensive (Income) and Expenditure on the Council's Comprehensive Income and Expenditure Statement (CIES)	203,590
(761)	Subsidiary and associate transactions included in the Council's CIES	(6,197)
(34,840)	(Surplus) / deficit arising from other entities included in the Group Accounts Subsidiaries	10,030
<u>(4,200)</u>	Associates and Joint Ventures	<u>6,634</u>
<u>(370,745)</u>	Group total Comprehensive (Income) / Expenditure for the year	<u>214,057</u>

In 2015/16 income and expenditure related to the Chief Executive service area was reported within Resources and Safer and Stronger Communities predominantly within Place.

## GROUP BALANCE SHEET

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

<b>(re-stated)</b>			<b>31 March 2017</b>	
<b>31 March 2016</b>			<b>£000</b>	<b>£000</b>
<b>£000</b>		<b>Notes</b>		
3,665	Intangible Assets	18.		2,665
1,030,623	Council Dwellings		1,037,991	
1,613,201	Other Land and Buildings		1,715,607	
177,742	Vehicles, Plant, Furniture and Equipment		175,062	
872,920	Infrastructure Assets		835,684	
12,964	Community Assets		14,562	
2,420	Surplus Assets		2,421	
89,688	Assets under Construction		38,927	
<u>3,799,558</u>	<b>Property, Plant and Equipment</b>	16.		3,820,254
17,450	Investment Properties	17.		16,821
31,116	Heritage Assets	19.		31,127
43,746	Assets Held for Sale	24.		13,498
733	Available for Sale Financial Assets			726
202	Deferred Tax			351
17,936	Other Long-Term Assets (Pension)			0
11,516	Long-Term Investments			11,970
32,315	Investments in Associates and Joint Ventures			32,188
94,648	Long-Term Debtors	22.		106,970
<u>4,052,885</u>	<b>Long-Term Assets</b>			<u>4,036,570</u>
13,022	Short-Term Investments		26,477	
683	Assets Held for Sale	24.	29,359	
64,311	Available for Sale Financial Assets	20.	967	
17,661	Inventories	21.	16,166	
96,379	Short-Term Debtors	22.	86,930	
118,712	Cash and Cash Equivalents	23.	159,831	
<u>310,768</u>	<b>Current Assets</b>			319,730
(69,444)	Short-Term Borrowing		(70,334)	
(174,802)	Short-Term Creditors	25.	(169,542)	
(13,004)	Provisions	26.	(12,863)	
<u>(257,250)</u>	<b>Current Liabilities</b>			<u>(252,739)</u>

## GROUP BALANCE SHEET

(re-stated) 31 March 2016		31 March 2017	
£000	Notes	£000	£000
(1,298,249)	Long-Term Borrowing	(1,243,890)	
(219,947)	Other Long-Term Liabilities	(207,484)	
(9,072)	Deferred Tax	(5,490)	
(17,877)	Deferred Liability	(22,357)	20.
(3,066)	Liabilities in Associates and Joint Ventures	(9,573)	
<u>(439,950)</u>	Other Long-Term Liabilities (Pensions)	<u>(710,582)</u>	
<u>(1,988,161)</u>	<b>Long-Term Liabilities</b>		<u>(2,199,376)</u>
<u><b>2,118,242</b></u>	<b>Net Assets</b>		<u><b>1,904,185</b></u>
856,303	Revaluation Reserve	873,986	
1,376,129	Capital Adjustment Account	1,403,268	
(47,214)	Financial Instruments Adjustment Account	(45,390)	
2	Available for Sale Financial Assets Reserve	0	
(438,940)	Pensions Reserve	(705,786)	
(14,862)	Employee Statutory Adjustment Account	(14,121)	
<u>108,366</u>	Group Unusable Reserves	<u>109,801</u>	
<u>1,839,784</u>	<b>Unusable Reserves</b>		28. 1,621,758
2,657	Capital Grants Unapplied Account	766	
68,793	Capital Fund	61,178	
38,194	Renewal and Repairs Fund	50,141	
128,396	General Fund	141,826	
<u>40,418</u>	Group Usable Reserves	<u>28,516</u>	
<u>278,458</u>	<b>Usable Reserves</b>		12. 282,427
<u><b>2,118,242</b></u>	<b>Total Reserves</b>		<u><b>1,904,185</b></u>

The unaudited accounts were issued on 23 June 2017. The audited accounts were authorised for issue on 28 September 2017.

HUGH DUNN, CPFA  
Head of Finance  
28 September 2017

## BALANCE SHEET

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

<b>(re-stated)</b>			<b>31 March 2017</b>	
<b>31 March</b>				
<b>2016</b>				
<b>£000</b>		<b>Notes</b>	<b>£000</b>	<b>£000</b>
3,665	Intangible Assets	18.		2,665
1,030,623	Council Dwellings		1,037,991	
1,583,123	Other Land and Buildings		1,684,810	
105,961	Vehicles, Plant, Furniture and Equipment		98,891	
871,874	Infrastructure Assets		834,928	
12,964	Community Assets		14,562	
2,420	Surplus Assets		2,421	
89,688	Assets under Construction		38,927	
<u>3,696,653</u>	<b>Property, Plant and Equipment</b>	16.		3,712,530
17,250	Investment Properties	17.		16,471
31,116	Heritage Assets	19.		31,127
43,746	Assets Held for Sale	24.		13,498
23,474	Long-Term Investments			23,436
99,274	Long-Term Debtors	22.		<u>111,684</u>
<u>3,915,178</u>	<b>Long-Term Assets</b>			<u>3,911,411</u>
13,022	Short-Term Investments		25,709	
683	Assets Held for Sale	24.	29,359	
64,311	Available for Sale Financial Assets	20.	967	
2,699	Inventories	21.	3,048	
86,401	Short-Term Debtors	22.	74,388	
97,991	Cash and Cash Equivalents	23.	<u>133,142</u>	
<u>265,107</u>	<b>Current Assets</b>			266,613
(69,444)	Short-Term Borrowing		(70,334)	
(148,008)	Short-Term Creditors	25.	(142,671)	
<u>(11,532)</u>	Provisions	26.	<u>(10,551)</u>	
<u>(228,984)</u>	<b>Current Liabilities</b>			(223,556)

## BALANCE SHEET

(re-stated) 31 March 2016			31 March 2017	
£000		Notes	£000	£000
(1,308,889)	Long-Term Borrowing	20.	(1,254,590)	
(216,137)	Other Long-Term Liabilities	20.	(205,867)	
(17,877)	Deferred Liability	20.	(22,357)	
<u>(438,940)</u>	Other Long-Term Liabilities (Pensions)	43.9	<u>(705,786)</u>	
<u>(1,981,843)</u>	<b>Long-Term Liabilities</b>			<u>(2,188,600)</u>
<u><b>1,969,458</b></u>	<b>Net Assets</b>			<u><b>1,765,868</b></u>
856,303	Revaluation Reserve		873,986	
1,376,129	Capital Adjustment Account		1,403,268	
(47,214)	Financial Instruments Adjustment Account		(45,390)	
2	Available for Sale Financial Assets Reserve		0	
(438,940)	Pensions Reserve		(705,786)	
<u>(14,862)</u>	Employee Statutory Adjustment Account		<u>(14,121)</u>	
<u>1,731,418</u>	<b>Unusable Reserves</b>	28.		1,511,957
2,657	Capital Grants Unapplied Account		766	
68,793	Capital Fund		61,178	
38,194	Renewal and Repairs Fund		50,141	
<u>128,396</u>	General Fund		<u>141,826</u>	
<u>238,040</u>	<b>Usable Reserves</b>	12.		253,911
<u><b>1,969,458</b></u>	<b>Total Reserves</b>			<u><b>1,765,868</b></u>

The unaudited accounts were issued on 23 June 2017. The audited accounts were authorised for issue on 28 September 2017.

HUGH DUNN, CPFA  
Head of Finance  
28 September 2017



## GROUP CASH FLOW STATEMENT

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

<b>(re-stated)</b> <b>2015/16</b> <b>£000</b>		<b>Year ended 31 March 2017</b>	
		<b>Notes</b>	<b>£000</b>
	<b>Operating Activities</b>		<b>£000</b>
(10,399)	Surplus on the Provision of Services		(25,397)
2,612	Adjustment to Surplus / (Deficit) for Taxation of Group entities		1,895
(148,629)	Adjustments to Surplus on the Provision of Services for non-cash movements		(166,853)
(36,247)	Adjustments for items included in the Surplus on the Provision of Services that are investing or Financing Activities		(34,672)
<u>(192,663)</u>	Net cash flows from operating activities		<u>(225,027)</u>
	<b>Investing Activities</b>		
131,664	Net cash flows from investing activities	31.	140,572
	<b>Financing Activities</b>		
<u>37,791</u>	Net cash flows from financing activities	32.	<u>43,336</u>
<u><u>(23,208)</u></u>	<b>Net increase in cash and cash equivalents</b>		<u><u>(41,119)</u></u>
<u>(95,504)</u>	Cash and cash equivalents at 1 April		<u>(118,712)</u>
<u>(118,712)</u>	Cash and cash equivalents at 31 March	23.	<u>(159,831)</u>
<u><u>(23,208)</u></u>	<b>Net increase in cash and cash equivalents</b>		<u><u>(41,119)</u></u>

## CASH FLOW STATEMENT

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

<b>(re-stated)</b> <b>2015/16</b> <b>£000</b>		<b>Year ended 31 March 2017</b>	
		<b>Notes</b>	<b>£000</b>
	<b>Operating Activities</b>		<b>£000</b>
(1,277)	Surplus on the Provision of Services		(10,768)
(137,132)	Adjustments to Surplus on the Provision of Services for non-cash movements		(152,742)
(37,798)	Adjustments for items included in the Surplus on the Provision of Services that are investing or Financing Activities		(35,405)
<u>(176,207)</u>	Net cash flows from operating activities	29.	<u>(198,915)</u>
	<b>Investing Activities</b>		
126,970	Net cash flows from investing activities	31.	120,978
	<b>Financing Activities</b>		
<u>33,194</u>	Net cash flows from financing activities	32.	<u>42,786</u>
<u>(16,043)</u>	<b>Net increase in cash and cash equivalents</b>		<u>(35,151)</u>
<u>(81,948)</u>	Cash and cash equivalents at 1 April		<u>(97,991)</u>
<u>(97,991)</u>	Cash and cash equivalents at 31 March	23.	<u>(133,142)</u>
<u>(16,043)</u>	<b>Net increase in cash and cash equivalents</b>		<u>(35,151)</u>

# NOTES TO THE FINANCIAL STATEMENTS

## 1. Accounting Policies

The Annual Accounts for the year ended 31 March 2017 have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (the Code) and the Service Reporting Code of Practice. This is to ensure that the accounts 'present a true and fair view' of the financial position and transactions of the Council.

### 1.1 Accruals of Income and Expenditure

- The revenue and capital accounts have been prepared on an accruals basis in accordance with the Code of Practice.
- Provision has been made in the relevant accounts for bad and doubtful debts.

### 1.2 Debt Redemption

- The Council operates a consolidated loans fund under the terms of the Local Government (Scotland) Act 1975. Capital payments made by services are financed from the loans fund and repaid on an annuity basis.
- Gains or losses arising on the repurchase or early settlement of borrowing are recognised in the Comprehensive Income and Expenditure Statement in the period during which the repurchase or early settlement is made. Where the repurchase of borrowing is taken with a refinancing or restructuring option, gains or losses are recognised over the life of the replacement borrowing.

### 1.3 Cash and Cash Equivalents

Cash and cash equivalents includes:

- credit and debit funds held in banks; and
- investments maturing within three months of the Balance Sheet date in respect of the Council and two months of the Balance Sheet date in respect of other Group members.

### 1.4 Contingent Assets and Liabilities

Contingent assets are not recognised in the accounting statements. Where there is a probable inflow of economic benefits or service potential, this is disclosed in the notes to the financial statements.

Contingent liabilities are not recognised in the accounting statements. Where there is a possible obligation that may require a payment or transfer of economic benefit, this is disclosed in the notes to the financial statements.

### 1.5 Provisions

The value of provisions is based upon the Council's obligations arising from past events, the probability that a transfer of economic benefit will take place and a reasonable estimate of the obligation.

### 1.6 Employee Benefits

#### • Accruals of Holiday Leave

'Cost of services' within the Comprehensive Income and Expenditure Statement includes a charge for annual leave to which employees are entitled, but have not taken, as at the Balance Sheet date.

The Council is not required to raise Council Tax to cover the cost of accrued annual leave. These costs are a reconciling item in the Movement in Reserves Statement for the General Fund and Housing Revenue Account balances by way of an adjusting transaction with the employee statutory adjustment account.

#### • Pensions

The Council participates in two different pension schemes which meet the needs of employees in particular services. Both the schemes provide members with defined benefits related to pay and service. The schemes are as follows:

##### • Teachers

This is an unfunded scheme administered by the Scottish Public Pensions Agency. The pension cost charged in the accounts is the contribution rate set on the basis of a notional fund.

##### • Other Employees

Other employees, subject to certain qualifying criteria, are eligible to join the Local Government Pension Scheme (LGPS). The LGPS is a defined benefit statutory scheme, administered in accordance with the Local Government Pension Scheme (Scotland) Regulations 1998, as amended.

# NOTES TO THE FINANCIAL STATEMENTS

## 1. Accounting Policies - continued

### 1.6 Employee Benefits - continued

- Pensions - continued

- Other Employees - continued

The Financial Statements have been prepared including pension costs as determined under International Accounting Standard 19 - Employee Benefits (IAS19). The cost of services includes expenditure equivalent to the amount of retirement benefits the Council has committed to during the year. The interest cost on defined benefit obligation and interest income on plan assets have been charged / credited to 'financing and investment income' in the Comprehensive Income and Expenditure Statement.

The pension costs charged to the Comprehensive Income and Expenditure Statement in respect of employees are not equal to contributions paid to the funded scheme for employees. The amount by which pension costs under IAS19 are different from the contributions due under the pension scheme regulations is disclosed in the Movement in Reserves Statement for the General Fund and Housing Revenue Account.

Pension assets have been valued at bid value (purchase price), as required under IAS19.

Under pension regulations, contribution rates are set to meet 100% of the overall liabilities of the Fund.

### 1.7 Financial Instruments

- Financial Liabilities

Financial liabilities are initially measured at fair value and carried at their amortised cost. Annual charges to the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. For the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest) and interest charged to the Comprehensive Income and Expenditure Statement (CIES) is the amount payable for the year in the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to surplus or deficit on provision of services in the Comprehensive Income and Expenditure Statement in the year of repurchase / settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new loan and the write-down to the CIES is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the CIES, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain / loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the CIES to the net charge against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement for the General Fund Balance.

- Financial Assets

Loans and receivables are initially measured at fair value and carried at their amortised cost. Annual credits to the CIES for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

However, the Council may make loans to related parties at less than market rates (soft loans). When soft loans are made, a loss is recorded in the CIES for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited at a marginally higher effective rate of interest than the rate receivable from the related party, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. For soft loans to subsidiary bodies, the writedown is accounted for as an additional investment in the subsidiary in the Council's Group Accounts.

# NOTES TO THE FINANCIAL STATEMENTS

## 1. Accounting Policies - continued

### 1.7 Financial Instruments - continued

- **Financial Assets - continued**

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the Comprehensive Income and Expenditure Statement.

Any gains and losses that arise on the de-recognition of the asset are credited / debited to the Comprehensive Income and Expenditure Statement.

Surplus funds on behalf of the Council and associated bodies and cash monies of Lothian Pension Funds are now managed by the Council under a formal management agreement in a pooled investment arrangement. While the monies continue to be shown as investments in Lothian Pension Funds' accounts, they are no longer shown as both liabilities and investments in the Council's accounts.

- **Available-for-Sale-Financial Instruments**

The Council has a significant financial interest in several companies and trusts which have been set up for specific purposes. Details of these appear in note 9 to the Financial Statements. These financial interests have been assessed under the requirements of IAS39 Financial Instruments: Measurement.

The Council's investments in Transport for Edinburgh, CEC Holdings Limited and CEC Recovery Limited (formerly tie Limited) have been assessed as outwith the scope of IAS39.

Unless otherwise stated, the accounts of these companies may be obtained on application to the Corporate Finance Senior Manager, Waverley Court, 4 East Market Street, Edinburgh EH8 8BG.

### 1.8 Government and non-Government Grants and Contributions

- **Revenue**

Revenue grants and contributions have been included in the financial statements on an accruals basis.

Where such funds remain unapplied at the Balance Sheet date, but approval has been given to carry these funds forward to the next financial year, these amounts have been set aside in the General Fund.

- **Capital**

Capital grants and contributions are recognised in the Comprehensive Income and Expenditure Statement except to the extent there are conditions attached to them that have not been met.

Where there are no conditions attached to capital grants and contributions, these funds are a reconciling item in the Movement in Reserves Statement for the General Fund and Housing Revenue Account by way of an adjusting transaction with the capital adjustment account, where expenditure has been incurred and the unapplied capital grants account, where expenditure has not been incurred.

Where there are outstanding conditions attached to capital grants and contributions that have not been met at the Balance Sheet date, the grant or contribution will be recognised as part of capital grants receipts in advance. Once the condition has been met, the grant or contribution will be transferred from capital grants received in advance and recognised as income in the Comprehensive Income and Expenditure Statement, as above.

### 1.9 Intangible Assets

Intangible fixed assets represent software licences purchased by the Council.

- **Recognition**

Expenditure on the acquisition, creation or enhancement of intangible fixed assets has been capitalised on an accruals basis.

- **Measurement**

Intangible fixed assets are initially measured at cost.

# NOTES TO THE FINANCIAL STATEMENTS

## 1. Accounting Policies - continued

### 1.9 Intangible Assets - continued

- **Depreciation**

Software licences are depreciated over the period of the licence, commencing in the year after acquisition.

### 1.10 Inventories

Inventories are measured at the lower of cost and net realisable value.

Inventories acquired through a non-exchange transaction are measured at their fair value as at the date of acquisition.

Inventories held for distribution at no charge or a nominal charge are measured at the lower of cost and current replacement cost.

### 1.11 Investment Properties

- **Measurement**

Investment properties are initially measured at cost. After initial recognition, investment properties are measured at fair value (the price that would be received for the asset in its highest and best use).

Any gains or losses arising from a change in the fair value of investment properties are recognised in the Comprehensive Income and Expenditure Statement for the period in which they arise.

- **Revaluation**

Investment properties are revalued annually.

- **Depreciation**

Investment properties held at fair value are not depreciated.

- **De-recognition**

Investment properties are de-recognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential is expected from its disposal.

The gain or loss arising from the retirement or disposal of an investment property is recognised in the 'surplus or deficit on provision of services' within the Comprehensive Income and Expenditure Statement in the period of the retirement or disposal.

### 1.12 Leases

- **Finance Leases**

Finance leases, which have substantially transferred to the authority the benefits and risks of ownership of a non-current asset, are treated as if the asset had been purchased outright.

- **Leased-in Assets**

Assets acquired under finance leases are included in non-current assets at the lower of the fair value or the present value of the minimum lease payments. The capital element of the lease is included as obligations under finance leases / creditors.

The lease rentals comprise capital and interest elements. The capital element is applied to reduce the outstanding obligation and the interest element is charged to revenue on a straight line basis over the terms of the lease.

- **Operating Leases**

Leases that do not meet the definition of a finance lease are accounted for as operating leases.

- **Leased-in Assets**

Rental payments, net of benefits received, under operating leases are charged to the relevant service on a straight line basis over the life of the lease.

# NOTES TO THE FINANCIAL STATEMENTS

## 1. Accounting Policies - continued

### 1.12 Leases - continued

- **Operating Leases - continued**

- **Leased-out Assets**

- Rental income received under operating leases is credited to the relevant service in accordance with the terms specified in the lease agreement.

### 1.13 Current and Non-Current Assets Held for Sale

Current assets held for sale are assets that the Council has identified as surplus to requirements, are being actively marketed and it is expected that the sale will be realised within twelve months of the Balance Sheet date.

Non-current assets held for sale are assets that the Council has identified as surplus to requirements, are being actively marketed, but it is not expected that the sale will be realised within twelve months of the Balance Sheet date.

- **Measurement**

- Assets held for sale are measured at the lower of carrying value and fair value less costs to sell at the Balance Sheet date. Where the sale is expected to occur in more than twelve months, the cost is measured at present value.

- **Depreciation**

- Current and non-current assets held for sale are not depreciated.

### 1.14 Overheads

The costs of support services are reported in accordance with the current management structure. Certain support service costs are recovered through direct charges during the year.

### 1.15 Public Private Partnership - School Buildings, Maintenance and Other Facilities

Public Private Partnership (PPP) contracts are agreements to receive services, where the responsibility for making available the non-current assets required to provide the services passes to the PPP contractor. As the Council is deemed to control the services that are provided under this scheme and as ownership of the schools and other facilities will pass to the Council at the end of the contracts for no additional charge, the Council carries the non-current assets used under the contracts on its Balance Sheet.

Non-current assets recognised on the Balance Sheet are revalued and depreciated in the same way as other assets owned by the Council.

The amounts payable to the PPP operators each year are analysed into five elements:

- fair value of the services received during the year - debited to education services in the Comprehensive Income and Expenditure Statement.
- finance cost - an interest charge of 8.968% (PPP1 scheme), 5.895% (PPP2 scheme) and 8.197% (James Gillespie's High School) on the outstanding balance sheet liability - debited to 'financing and investment income' in the Comprehensive Income and Expenditure Statement.
- contingent rent - increases in the amount to be paid for the property arising during the contract - debited to 'financing and investment income' in the Comprehensive Income and Expenditure Statement.
- payment towards liability - applied to write down the value of the finance lease on the Balance Sheet.
- lifecycle replacement costs - recognised as non-current assets on the Balance Sheet.

# NOTES TO THE FINANCIAL STATEMENTS

## 1. Accounting Policies - continued

### 1.16 Fair Value measurement - surplus assets and investment properties

Surplus assets, investment properties and relevant financial instruments are measured at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value of an asset or liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

In measuring the fair value, the market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use is taken into account.

Appropriate valuation techniques have been applied, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy as:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities that the authority can access at the measurement date.
- Level 2 - inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 - unobservable inputs for the asset or liability.

### 1.17 Heritage Assets

- **Categories of Assets**

Heritage assets comprise the following:

Monuments and statues	Civic regalia and artefacts
Archival collections	Libraries' special collections
Museum and gallery collections	

Intangible heritage assets represent three private vehicle registration plates.

It has not been practical or possible to split out all heritage assets belonging to the common good fund, charities or trusts. Therefore, the Council's Balance Sheet may hold elements of heritage assets that belong to other entities. Work is on-going to establish and maintain a common good register, in accordance with the Community Empowerment (Scotland) Act 2015.

- **Recognition**

Expenditure on the acquisition, creation or enhancement of heritage assets has been capitalised on an accruals basis.



# NOTES TO THE FINANCIAL STATEMENTS

## 1. Accounting Policies - continued

### 1.17 Heritage assets - continued

- **Measurement**

Heritage asset valuations may be made by any method that is appropriate and relevant. Furthermore valuations need not be carried out by external valuers and there is no prescribed minimum period between valuations.

The following measurement bases have been applied to heritage assets based on the most relevant and appropriate information available. This is set in the context where it is not practicable to obtain up to date valuations for all heritage assets at a cost which is commensurate with the benefits to users of the Council's financial statements.

- Monuments and statues Historic value
- Civic regalia and artefacts Insurance purposes valuation
- Archival collections Insurance purposes valuation, based on restoration costs only
- Libraries' special collections Insurance purposes valuation
- Museum and gallery collections Insurance purposes valuation
- Private vehicle registration plates Cost or current value information is not readily available, therefore these assets have not been recognised on the Council's Balance Sheet

- **Depreciation**

Heritage assets are deemed to have indeterminate lives and a high residual value; hence it is not considered appropriate to charge depreciation.

### 1.18 Property, Plant and Equipment

- **Categories of Assets**

Property, plant and equipment is categorised into the following classes:

Council dwellings	Other land and buildings
Vehicles, plant, furniture and equipment	Infrastructure assets, e.g. roads and footways
Community assets, e.g. parks	Assets under construction
Surplus assets (assets that are surplus to requirements, but there are no clear plans to sell these at the current time.)	

- **Recognition**

Expenditure on the acquisition, creation or enhancement of non-current assets has been capitalised on an accruals basis. Expenditure lower than £6,000 on individual assets is charged to revenue.

- **Measurement**

Infrastructure, community assets and assets under construction are measured at historical cost.

All other classes of property, plant and equipment are measured at fair value.

- Other land and buildings - fair value is the amount that would be paid for the assets in their existing use.
- Council dwellings - fair value is measured at existing use value - social housing.
- Vehicles, plant, furniture and equipment - fair value is the amount equivalent to depreciated historical cost for short life and/or low values assets. For assets with longer lives and/or high values, fair value is the amount that would be paid for the asset in its existing use or depreciated replacement cost for specialised /rarely sold assets where insufficient market-based evidence exists.
- Surplus assets - fair value is the price that would be paid for an asset in its highest and best use.

# NOTES TO THE FINANCIAL STATEMENTS

## 1. Accounting Policies - continued

### 1.18 Property, Plant and Equipment - continued

- **Depreciation**

Depreciation is provided on all property, plant and equipment, other than freehold land, community assets and assets under construction.

The Council does not depreciate its non-current assets in the year of acquisition. The Council operates a five-year rolling revaluation programme for assets and provides for depreciation on a straight line basis on the opening book value over the remaining useful life of the asset. Thus the charge to the Comprehensive Income and Expenditure Statement for the year is not impacted by changes in asset value during the year arising from either revaluation or enhancements.

Component accounting is applied as part of the revaluation process. As a result, where a building asset is split down into further components for the first time in year, the depreciation charge is based on the opening book value over the opening remaining useful life of the asset rather than subsequent component values and associated lives. The difference is not considered material.

- **Charges to Revenue for use of Non-Current Assets**

Service revenue accounts, support services and trading accounts are debited with the following amounts to record the real cost of holding non-current assets during the year:

- depreciation attributable to the assets used by the relevant service.
- impairment losses attributable to the clear consumption of economic benefits on property, plant and equipment used by the service and other losses where there are no accumulated gains in the Revaluation Reserve against which they can be written off.

The Council is not required to raise council tax to cover depreciation or impairment losses. Depreciation and impairment losses are therefore a reconciling item in the Movement in Reserves Statement for the General Fund and Housing Revenue Account by way of an adjusting transaction with the capital adjustment account.

- **Revaluations**

Where assets are included in the Balance Sheet at fair value, revaluations are carried out at intervals of no more than five years. The Council operates a rolling programme for revaluations. The determination of fair value of land and buildings is undertaken by the Council's Operational Estate Manager (Projects).

- **De-recognition**

An asset is de-recognised either on its disposal, or where no future economic benefits or service potential are expected from its use or disposal. The gain or loss arising from de-recognition of an asset is included in 'surplus or deficit on the provision of services' within the Comprehensive Income and Expenditure Statement when the asset is de-recognised.

The gain or loss on de-recognition of property, plant and equipment assets is a reconciling item in the Movement in Reserves Statement for the General Fund and Housing Revenue Account.

# NOTES TO THE FINANCIAL STATEMENTS

## 1. Accounting Policies - continued

### 1.18 Property, Plant and Equipment - continued

- **Components**

Component accounting is applied to all assets that comprise land and buildings. Land and buildings are treated as separate components of an asset and accounted for separately.

The building component of an asset is separated into further components primarily to those with a carrying value of over £5 million. This policy is also applied to buildings with a carrying value of less than £5 million where enhancement expenditure is considered significant in relation to the overall carrying value of the building component.

Where it is necessary to break a building down into further components, the following categories are applied:

- Structural - includes external and internal walls, traditional roofing, doors, etc.
- Non-traditional roofing - includes flat roof, non-traditional roof coverings and industrial type roofs.
- Finishes - includes doors, windows and room finishes.
- Mechanical and electrical services - includes water, heat, ventilation, electrical, lifts, fire and communications.
- Fittings and furnishings - includes fittings, furnishings and sanitary appliances.

### 1.19 Reserves

Reserves held on the Balance Sheet are classified as either usable or unusable reserves.

Usable reserves hold monies that can be applied to fund expenditure or reduce Council Tax.

Unusable reserves cannot be applied to fund expenditure.

- **Usable Reserves**

The Council operates the following usable reserves:

- Capital receipts reserve - this represents capital receipts available to finance capital expenditure in future years.
- Capital grants unapplied account - holds capital grants and contributions that have been received towards specific works that have yet to be completed.
- Capital fund - under Schedule 3 of the Local Government (Scotland) Act 1975, certain receipts derived from the sale of property may also be used to create a capital fund "to be used for defraying any expenditure of the authority to which capital is properly applicable, or in providing money for repayment of the principal of loans".
- Renewal and repairs fund - holds monies set aside for the renewal and repair of Council property. This fund is operated under the terms of Schedule 3 to the Local Government (Scotland) Act 1975.
- General Fund - held to mitigate financial consequences of risks and other events impacting on the Council's resources. Monies within the General Fund can be earmarked for specific purposes.

# NOTES TO THE FINANCIAL STATEMENTS

## 1. Accounting Policies - continued

### 1.19 Reserves - continued

#### • Unusable Reserves

The Council operates the following unusable reserves:

- Revaluation reserve - holds unrealised gains arising since 1 April 2007 from holding non-current assets.
- Capital adjustment account - provides a mechanism between the different rates at which assets are depreciated and are financed through the capital controls system.
- Financial instruments adjustment account - provides a mechanism between the different rates at which gains and losses (such as premiums on the early repayment of debt) are recognised under the Code and are required by statute to be met from the General Fund.
- Available for sale financial assets - provides a mechanism to recognise the unrealised gains and losses on the revaluation of financial assets (such as investment bonds).
- Pension reserve - represents the net monies which the Council requires to meet its pension liability, as calculated under IAS19, Employee Benefits. The Council operates a pensions reserve fund under the terms of the Local Government Pension Reserve Fund (Scotland) Regulations 2003.
- Employee statutory adjustment account - represents the net monies which the Council requires to meet its short-term compensated absences for employees under IAS19.

### 1.20 Revenue Expenditure Funded from Capital Under Statute

Expenditure that may be capitalised under statutory provisions that does not result in the creation of assets for the Council has been charged to the 'net cost of services' in the Comprehensive Income and Expenditure Statement.

These costs are a reconciling item in the Movement in Reserves Statement for the General Fund by way of an adjusting transaction with the capital adjustment account.

### 1.21 Value Added Tax

Value added tax (VAT) is excluded from the financial statements unless it is not recoverable from HM Revenue and Customs.

### 1.22 Group Account Consolidation

The group has reviewed its investments in other entities to assess whether the conclusion to consolidate is different under IFRS 10 than under IAS 27. No differences were found.

Group accounts have been prepared on the following basis:

- Accounting policies for group members have been aligned where possible.
- The following methods of consolidation have been used:
  - Subsidiaries - line-by-line basis;
  - Associates - equity method.
- Transport for Edinburgh Limited's and CEC Holdings Limited's reporting periods are to 31 December. As this is within three months of the Council's reporting period (to 31 March), no consolidation adjustments have been made.
- Inter-company transactions have been eliminated on consolidation.
- Group members' financial statements have been prepared on an accruals basis, with the exception of the International Conference Centre Income Trust and International Conference Centre Expenditure Trust, which have been prepared on a cash basis.

## NOTES TO THE FINANCIAL STATEMENTS

### 2. Expenditure and Funding Analysis - Council

The objective of the Expenditure and Funding Analysis is to demonstrate to council tax and rent payers how the funding available to the authority (i.e. government grants, rents, fees and charges, council tax and business rates) for the year has been used in providing services in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. The Expenditure and Funding Analysis also shows how this expenditure is allocated for decision making purposes between the Council's services. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement on Page 21.

2016/17	Net Expend. Chargeable to the General Fund and HRA Balances £000	Adjustments £000	Net Expenditure in the CIES £000
Communities and Families Place	341,807	9,844	351,651
Housing Revenue Account	68,388	71,892	140,280
Health and Social Care Resources	0	(27,759)	(27,759)
Chief Executive	187,838	1,121	188,959
Safer and Stronger Communities	130,860	22,360	153,220
Lothian Valuation Joint Board	41,302	618	41,920
	25,486	135	25,621
	3,744	0	3,744
<b>Net Cost of Services</b>	<b>799,425</b>	<b>78,211</b>	<b>877,636</b>
<b>Other income and expenditure</b>			
Early release costs	15,610	0	15,610
Net cost of benefits	(369)	0	(369)
Other non-service specific costs	15,315	(1,346)	13,969
Net deficit on trading activities	0	191	191
Net income and changes in relation to investment properties and changes in their fair value	0	(600)	(600)
Interest and investment income	(9,552)	(117)	(9,669)
Interest payable and similar charges ( <i>loan charges in management reporting</i> )	112,188	(23,697)	88,491
Net pension interest cost	0	15,476	15,476
Gains on disposal of assets	0	(12,061)	(12,061)
Contribution to Renewal and Repairs Fund	60	(60)	0
Contribution from Capital Fund	(2,120)	2,120	0
Contribution to General Fund	9,344	(9,344)	0
Income from Council Tax	(221,390)	0	(221,390)
Government Grants	(344,919)	0	(344,919)
Distribution from NDRI pool	(374,650)	0	(374,650)
Capital grants and contributions	0	(58,483)	(58,483)
<b>Surplus on the provision of services</b>	<b>(1,058)</b>	<b>(9,710)</b>	<b>(10,768)</b>
Opening General Fund and HRA Balance	128,396		
Contributions to / (from) reserves, including those within services ( <i>see notes 12.1 and 12.3 for detail</i> )	14,488		
Surplus on the provision of services	(1,058)		
Closing General Fund and HRA Balance at 31 March	141,826		

For a split of the balance between the General Fund and the HRA, see the Movement in Reserves Statement on page 18.

The Council has undertaken a major programme of transformation during 2016/17. Whilst it is therefore difficult to fully compare net expenditure on services between years, net expenditure in 2015/16 has been broadly aligned where possible.

## NOTES TO THE FINANCIAL STATEMENTS

### 2. Expenditure and Funding Analysis - Council - continued

2015/16 Comparative Data	Net Expend. Chargeable to the General Fund and HRA		Net Expenditure in the CIES
	Balances £000	Adjustments £000	
Communities and Families Place	399,003	17,625	416,628
Housing Revenue Account	146,237	92,137	238,374
Health and Social Care Resources	0	(25,441)	(25,441)
	207,482	9,153	216,635
Lothian Valuation Joint Board	79,810	5,624	85,434
	3,744	0	3,744
<b>Net Cost of Services</b>	<b>836,276</b>	<b>99,098</b>	<b>935,374</b>
<b>Other income and expenditure</b>			
Early release costs	20,942	0	20,942
Net cost of benefits	(156)	0	(156)
Other non-service specific costs	5,111	(2,610)	2,501
Net deficit on trading activities	0	232	232
Net income and changes in relation to investment properties and changes in their fair value	0	(2,512)	(2,512)
Interest and investment income	(7,760)	(212)	(7,972)
Interest payable and similar charges ( <i>loan charges in management reporting</i> )	116,765	(21,627)	95,138
Net pension interest cost	0	23,445	23,445
(Gains) / Losses on disposal of assets	0	(35,947)	(35,947)
Contribution to Renewal and Repairs Fund	105	(105)	0
Contribution from Capital Fund	(2,062)	2,062	0
Contribution from General Fund	(8,217)	8,217	0
Income from Council tax	(216,351)	0	(216,351)
Revenue support grant	(354,576)	0	(354,576)
Distribution from NDRI pool	(390,862)	0	(390,862)
Capital grants and contributions	0	(70,533)	(70,533)
<b>Surplus on the provision of services</b>	<b>(785)</b>	<b>(492)</b>	<b>(1,277)</b>
Opening General Fund and HRA Balance	117,524		
Contributions to / (from) reserves, including those within services ( <i>see notes 12.1 and 12.3 for detail</i> )	11,657		
Surplus on the provision of services	(785)		
Closing General Fund and HRA Balance at 31 March	128,396		

For a split of the balance between the General Fund and the HRA, see the Movement in Reserves Statement on page 19.

## NOTES TO THE FINANCIAL STATEMENTS

### 2. Expenditure and Funding Analysis - Council

#### 2.1 Adjustments from the General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts

2016/17	Adjusts. For Capital Purposes £000	Net Change for Pensions Adjusts. £000	Other Differences £000	Total Statutory Adjusts. £000
Communities and Families Place	4,478	1,363	2,135	7,976
Housing Revenue Account	71,318	1,052	(1,147)	71,223
Health and Social Care Resources	(15,350)	117	(640)	(15,873)
Chief Executive	157	1,064	(1,538)	(317)
Safer and Stronger Communities	40,895	976	(188)	41,683
	1,325	35	95	1,455
	0	264	(135)	129
<b>Net Cost of Services</b>	<b>102,823</b>	<b>4,871</b>	<b>(1,418)</b>	<b>106,276</b>
<b>Other income and expenditure</b>				
Other non-service specific costs	(470)	2,288	178	1,996
Net income and changes in relation to investment properties and changes in their fair value	0	0	779	779
Interest and investment income	(52)	0	0	(52)
Interest payable and similar charges	(40,245)	0	(1,399)	(41,644)
Net pension interest cost	0	15,476	0	15,476
Gains on disposal of assets	(12,061)	0	0	(12,061)
Capital grants and contributions	(58,483)	0	0	(58,483)
<b>(Surplus) or deficit on the provision of services</b>	<b>(8,488)</b>	<b>22,635</b>	<b>(1,860)</b>	<b>12,287</b>

Notes -

Adjustments for capital purposes include the replacement of depreciation and impairment costs with repayment of borrowing to the Loans Fund.

Net changes for pensions adjustment relates to the adjustment made for the removal of IAS19 Employee Benefits pension related expenditure and income with the pension contributions.

Other differences include reversal of the value of entitlement to accrued leave, the revaluation of investment properties and the timing differences for premiums and discounts associated with borrowing within the Loans Fund.

## NOTES TO THE FINANCIAL STATEMENTS

### 2. Expenditure and Funding Analysis - Council - continued

#### 2.1 Adjustments from the General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts

2016/17	Total Statutory Adjusts. b/fwd £000	Presentation Adjusts. £000	Use of Reserves £000	Total Adjusts. £000
Communities and Families Place	7,976	(108)	1,976	9,844
Housing Revenue Account	71,223	35	634	71,892
Health and Social Care Resources	(15,873)	0	(11,886)	(27,759)
Chief Executive	(317)	0	1,438	1,121
Safer and Stronger Communities	41,683	(16,468)	(2,855)	22,360
	1,455	0	(837)	618
	129	0	6	135
<b>Net Cost of Services</b>	<b>106,276</b>	<b>(16,541)</b>	<b>(11,524)</b>	<b>78,211</b>
<b>Other income and expenditure</b>				
Other non-service specific costs	1,996	(218)	(3,124)	(1,346)
Net deficit on trading activities	0	191	0	191
Net income and changes in relation to investment properties and changes in their fair value	779	(1,379)	0	(600)
Interest and investment income	(52)	0	(65)	(117)
Interest payable and similar charges	(41,644)	17,947	0	(23,697)
Net pension interest cost	15,476	0	0	15,476
Gains on disposal of assets	(12,061)	0	0	(12,061)
Use of reserves	0	0	(7,284)	(7,284)
Capital grants and contributions	(58,483)	0	0	(58,483)
<b>(Surplus) or deficit on the provision of services</b>	<b>12,287</b>	<b>0</b>	<b>(21,997)</b>	<b>(9,710)</b>

Notes -

Presentational adjustments relate primarily to the presentation of interest payments on finance leases (*including PPP schemes*), trading operations and income and expenditure on investment properties for decision making purposes.



## NOTES TO THE FINANCIAL STATEMENTS

### 2. Expenditure and Funding Analysis - Council - continued

#### 2.1 Adjustments from the General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts

2015/16 Comparative Data	Adjusts. For Capital Purposes £000	Net Change for Pensions Adjusts. £000	Other Differences £000	Total Statutory Adjusts. £000
Communities and Families Place	39,839	3,310	(3,920)	39,229
Housing Revenue Account	89,603	3,783	(948)	92,438
Health and Social Care Resources	(22,968)	348	(565)	(23,185)
	8,186	2,998	(583)	10,601
	1,693	1,233	(323)	2,603
<b>Net Cost of Services</b>	<b>116,353</b>	<b>11,672</b>	<b>(6,339)</b>	<b>121,686</b>
<b>Other income and expenditure</b>				
Other non-service specific costs	3,194	(8)	(24)	3,162
Net income and changes in relation to investment properties and changes in their fair value	0	0	(1,146)	(1,146)
Interest and investment income	(98)	0	0	(98)
Interest payable and similar charges	(38,642)	0	(1,440)	(40,082)
Net pension interest cost	0	23,445	0	23,445
Gains on disposal of assets	(35,947)	0	0	(35,947)
Capital grants and contributions	(70,533)	0	0	(70,533)
<b>(Surplus) or deficit on the provision of services</b>	<b>(25,673)</b>	<b>35,109</b>	<b>(8,949)</b>	<b>487</b>

Notes -

Adjustments for capital purposes include the replacement of depreciation and impairment costs with repayment of borrowing to the Loans Fund.

Net changes for pensions adjustment relates to the adjustment made for the removal of IAS19 Employee Benefits pension related expenditure and income with the pension contributions.

Other differences include reversal of the value of entitlement to accrued leave, the revaluation of investment properties and the timing differences for premiums and discounts associated with borrowing within the Loans Fund.

## NOTES TO THE FINANCIAL STATEMENTS

### 2. Expenditure and Funding Analysis - Council - continued

#### 2.1 Adjustments from the General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts

2015/16 Comparative Data	Total Statutory Adjusts. £000	Presentation Adjusts. £000	Use of Reserves £000	Total Adjusts. £000
Communities and Families Place	39,229	(18,238)	(3,366)	17,625
Housing Revenue Account	92,438	1,144	(1,445)	92,137
Health and Social Care Resources	(23,185)	0	(2,256)	(25,441)
	10,601	0	(1,448)	9,153
	2,603	(5)	3,026	5,624
<b>Net Cost of Services</b>	<b>121,686</b>	<b>(17,099)</b>	<b>(5,489)</b>	<b>99,098</b>
<b>Other income and expenditure</b>				
Other non-service specific costs	3,162	(222)	(5,550)	(2,610)
Net deficit on trading activities	0	232	0	232
Net income and changes in relation to investment properties and changes in their fair value	(1,146)	(1,366)	0	(2,512)
Interest and investment income	(98)	0	(114)	(212)
Interest payable and similar charges	(40,082)	18,455	0	(21,627)
Net pension interest cost	23,445	0	0	23,445
Gains on disposal of assets	(35,947)	0	0	(35,947)
Use of reserves	0	0	10,174	10,174
Capital grants and contributions	(70,533)	0	0	(70,533)
<b>(Surplus) or deficit on the provision of services</b>	<b>487</b>	<b>0</b>	<b>(979)</b>	<b>(492)</b>

Notes -

Presentational adjustments relate primarily to the presentation of interest payments on finance leases (*including PPP schemes*), trading operations and income and expenditure on investment properties for decision making purposes.

## NOTES TO THE FINANCIAL STATEMENTS

### 2. Expenditure and Funding Analysis - Council

#### 2.2 Segmental Analysis of Expenditure and Income included in Expenditure and Funding Analysis

2016/17	Communities and Families		Housing Revenue Account	Health and Social Care
	£000	Place £000	£000	£000
<b>Expenditure</b>				
Employee expenses	260,950	78,491	8,198	88,769
Other service expenses	106,341	161,131	38,757	182,339
Support service recharges	0	0	8,450	0
Depreciation, amortisation and impairment	0	47	0	0
Interest payments	104	0	18,660	0
Debt repayments ( <i>HRA only</i> )	0	0	16,585	0
<b>Total Expenditure</b>	<b>367,395</b>	<b>239,669</b>	<b>90,650</b>	<b>271,108</b>
<b>Income</b>				
Revenues from external customers	(6,790)	(125,954)	(87,797)	(20,284)
Income from recharges for services	(16)	(822)	(191)	(16)
Government grants and other contribs.	(18,782)	(44,505)	(2,610)	(62,970)
Interest and investment income	0	0	(52)	0
<b>Total Income</b>	<b>(25,588)</b>	<b>(171,281)</b>	<b>(90,650)</b>	<b>(83,270)</b>
<b>Net Cost of Services</b>	<b>341,807</b>	<b>68,388</b>	<b>0</b>	<b>187,838</b>
	<b>Resources</b>	<b>Chief Executive</b>	<b>Safer and Stronger Communities</b>	<b>Lothian Valuation Joint Board</b>
<b>Expenditure</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Employee expenses	67,540	11,398	19,813	0
Other service expenses	89,966	36,224	53,754	3,744
Support service recharges	63	0	0	0
Depreciation, amortisation and impairment	0	0	0	0
Interest payments	17,656	0	0	0
Debt repayments ( <i>HRA only</i> )	0	0	0	0
<b>Total Expenditure</b>	<b>175,225</b>	<b>47,622</b>	<b>73,567</b>	<b>3,744</b>
<b>Income</b>				
Revenues from external customers	(24,537)	(1,069)	(35,199)	0
Income from recharges for services	(7,777)	(2,572)	0	0
Government grants and other contribs.	(12,051)	(2,679)	(12,882)	0
Interest and investment income	0	0	0	0
<b>Total Income</b>	<b>(44,365)</b>	<b>(6,320)</b>	<b>(48,081)</b>	<b>0</b>
<b>Net Cost of Services</b>	<b>130,860</b>	<b>41,302</b>	<b>25,486</b>	<b>3,744</b>
	<b>Council Total</b>	<b>Subsidiaries</b>	<b>Associates and Joint Ventures</b>	<b>Group Total</b>
<b>Expenditure</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Employee expenses	535,159	92,534	0	627,693
Other service expenses	672,256	56,941	0	729,197
Support service recharges	8,513	0	0	8,513
Depreciation, amortisation and impairment	47	9,209	0	9,256
Interest payments	36,420	0	0	36,420
Debt repayments ( <i>HRA only</i> )	16,585	0	0	16,585
Net expend from Associates and Joint Ventures	0	0	2,222	2,222
<b>Total Expenditure</b>	<b>1,268,980</b>	<b>158,684</b>	<b>2,222</b>	<b>1,429,886</b>
<b>Income</b>				
Revenues from external customers	(301,630)	(143,277)	0	(444,907)
Income from recharges for services	(11,394)	0	0	(11,394)
Government grants and other contribs.	(156,479)	(29,354)	0	(185,833)
Interest and investment income	(52)	0	0	(52)
Net income from Associates and Joint Ventures	0	0	(1,949)	(1,949)
<b>Total Income</b>	<b>(469,555)</b>	<b>(172,631)</b>	<b>(1,949)</b>	<b>(644,135)</b>
<b>Net Cost of Services</b>	<b>799,425</b>	<b>(13,947)</b>	<b>273</b>	<b>785,751</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 2. Expenditure and Funding Analysis - Council - continued

#### 2.2 Segmental Analysis of Expenditure and Income included in Expenditure and Funding Analysis

2015/16 Comparative Data	Communities and Families		Housing Revenue	Health and Social Care
	£000	Place £000	Account £000	£000
<b>Expenditure</b>				
Employee expenses	263,027	124,875	14,102	104,128
Other service expenses	140,435	268,518	38,527	180,888
Support service recharges	0	804	8,698	0
Depreciation, amortisation and impairment	0	52	0	0
Interest payments	18,238	0	19,509	0
Debt repayments ( <i>HRA only</i> )	0	0	27,329	0
<b>Total Expenditure</b>	<b>421,700</b>	<b>394,249</b>	<b>108,165</b>	<b>285,016</b>
<b>Income</b>				
Revenues from external customers	(7,776)	(195,400)	(104,892)	(20,169)
Income from recharges for services	0	(6,173)	(274)	(20)
Government grants and other contribs.	(14,921)	(46,439)	(2,901)	(57,345)
Interest and investment income	0	0	(98)	0
<b>Total Income</b>	<b>(22,697)</b>	<b>(248,012)</b>	<b>(108,165)</b>	<b>(77,534)</b>
<b>Net Cost of Services</b>	<b>399,003</b>	<b>146,237</b>	<b>0</b>	<b>207,482</b>

2015/16 Comparative Data	Lothian Valuation		
	Resources £000	Joint Board £000	Total £000
<b>Expenditure</b>			
Employee expenses	42,032	0	548,164
Other service expenses	74,134	3,744	706,246
Support service recharges	0	0	9,502
Depreciation, amortisation and impairment	0	0	52
Interest payments	0	0	37,747
Debt repayments ( <i>HRA only</i> )	0	0	27,329
<b>Total Expenditure</b>	<b>116,166</b>	<b>3,744</b>	<b>1,329,040</b>
<b>Income</b>			
Revenues from external customers	(12,701)	0	(340,938)
Income from recharges for services	(7,818)	0	(14,285)
Government grants and other contribs.	(15,837)	0	(137,443)
Interest and investment income	0	0	(98)
<b>Total Income</b>	<b>(36,356)</b>	<b>0</b>	<b>(492,764)</b>
<b>Net Cost of Services</b>	<b>79,810</b>	<b>3,744</b>	<b>836,276</b>

2015/16 Comparative Data	Associates and Joint Ventures		
	Subsidiaries £000	Ventures £000	Group Total £000
<b>Expenditure</b>			
Employee expenses	91,797	0	639,961
Other service expenses	47,588	0	753,834
Support service recharges	0	0	9,502
Depreciation, amortisation and impairment	9,731	0	9,783
Interest payments	0	0	37,747
Debt repayments ( <i>HRA only</i> )	0	0	27,329
Net expend from Associates and Joint Ventures	0	2,780	2,780
<b>Total Expenditure</b>	<b>149,116</b>	<b>2,780</b>	<b>1,480,936</b>
<b>Income</b>			
Revenues from external customers	(156,684)	0	(497,622)
Income from recharges for services	0	0	(14,285)
Government grants and other contribs.	0	0	(137,443)
Interest and investment income	0	0	(98)
Net income from Associates and Joint Ventures	0	(30)	(30)
<b>Total Income</b>	<b>(156,684)</b>	<b>(30)</b>	<b>(649,478)</b>
<b>Net Cost of Services</b>	<b>(7,568)</b>	<b>2,750</b>	<b>831,458</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 3. Expenditure and Income Analysed by Nature Group

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

	2016/17	2015/16
	£000	£000
<b>Expenditure</b>		
Employee expenses	645,753	673,200
Other service expenses	913,714	930,217
Support service recharges	8,513	9,502
Depreciation, amortisation and impairment	161,288	185,613
Interest payments	197,097	201,215
Net Interest in the profit/loss of associates and joint ventures	273	2,750
<b>Total Expenditure</b>	<b><u>1,926,638</u></b>	<b><u>2,002,497</u></b>
<b>Income</b>		
Fees, charges and other service income	(663,512)	(702,588)
Gain on the disposal of assets	(12,009)	(35,950)
Interest and investment income	(104,133)	(88,902)
Income from Council Tax and Non-Domestic Rates	(596,040)	(606,745)
Government grants and other contributions	(515,690)	(502,816)
Recognised capital income	(58,483)	(70,533)
<b>Total Income</b>	<b><u>(1,949,867)</u></b>	<b><u>(2,007,534)</u></b>
<b>Surplus on the Provision of Services</b>	<b><u>(23,229)</u></b>	<b><u>(5,037)</u></b>

#### Council

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

	2016/17	2015/16
	£000	£000
<b>Expenditure</b>		
Employee expenses	553,218	583,516
Other service expenses	854,878	877,891
Support service recharges	8,513	9,502
Depreciation, amortisation and impairment	152,079	175,896
Interest payments	182,465	187,151
<b>Total Expenditure</b>	<b><u>1,751,153</u></b>	<b><u>1,833,956</u></b>
<b>Income</b>		
Fees, charges and other service income	(518,955)	(573,064)
Gain on the disposal of assets	(12,061)	(35,947)
Interest and investment income	(88,766)	(73,288)
Income from Council Tax and Non-Domestic Rates	(596,040)	(606,745)
Government grants and other contributions	(487,616)	(475,656)
Recognised capital income	(58,483)	(70,533)
<b>Total Income</b>	<b><u>(1,761,921)</u></b>	<b><u>(1,835,233)</u></b>
<b>Surplus on the Provision of Services</b>	<b><u>(10,768)</u></b>	<b><u>(1,277)</u></b>

## NOTES TO THE FINANCIAL STATEMENTS

### 4. Accounting Standards that have been Issued but not yet adopted

The Code requires the disclosure of information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. This applies to the adoption of the following new or amended standards within the 2017/18 Code:

The Code requires implementation from 1 April 2017 and there is therefore no impact on the 2016/17 financial statements.

There are no new standards issued that require to be disclosed in the 2016/17 financial statements.

### 5. Judgements Made in Applying Accounting Policies

In applying the accounting policies set out in Note 1 to the Financial Statements, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The most significant judgements made in these Financial Statements are detailed below:

#### 5.1 Provision of School Buildings

The Council is deemed to control the services provided under the Public Private Partnership agreements (PPP1 and PPP2) and the Design, Build, Finance and Maintain (DBFM) for James Gillespie's High School, for the provision of school buildings, maintenance and other facilities with Edinburgh Schools Partnership (PPP1), Axiom Education Limited (PPP2) and Hub South East Scotland (JGHS).

The accounting policies for public private partnerships have been applied to these arrangements and the schools (valued at net book value of £562.171m at 31 March 2017) are recognised as Property, Plant and Equipment on the Council's Balance Sheet.

#### 5.2 Group Membership

The Council has an interest in a number of subsidiary and associate companies and trusts. Full details of these interests are shown in note 9 to the Financial Statements. The most significant of these companies in terms of the size of trading operations and other factors are included in the Group Accounts.

### 6. Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

The Financial Statements contain estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

## NOTES TO THE FINANCIAL STATEMENTS

### 6. Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

The following table details uncertainties on assumptions and estimates, and outlines the potential effect if actual results differ from the assumptions made.

Item	Uncertainty	Effect if Actual Results Differ from Assumptions
Property, Plant and Equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. A reduction in spending on repairs and maintenance would bring into doubt the useful lives assigned to the assets.	If the useful life of assets is reduced, depreciation increases and the carrying value of the assets falls.  It is estimated that the annual depreciation charge would increase and the carrying value would fall by £10.860m for each year that useful lives were reduced.
Long-Term Contracts	The Council's approved budget provides for inflationary uplifts on long-term contracts.	If inflation were to increase by 1%, this would result in an additional cost of £0.541m per annum.
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.	The effects on the net pensions liability of changes in individual assumptions can be measured.  Note 43.6 provides further information on the Council's pension liability.
Arrears	At 31 March, the Council had a balance of sundry debtors of £30.487m. A review of significant balances suggested that an impairment of doubtful debts of £4.823m (15.8%) was appropriate. In the current economic climate it is not certain that this will be sufficient.	If collection rates were to deteriorate, a 5% increase in the rate of the impairment of doubtful debts would require an additional £1.524m to be set aside as an allowance.
VAT Recovery Status	The Council's accounts are prepared on the assumption that VAT charged on its purchases is fully recoverable and that it will not become partially exempt.	If the Council were to exceed its 5% de minimis level, a minimum repayment of £4.047m would be due to HM Revenue and Customs.

## NOTES TO THE FINANCIAL STATEMENTS

### 6. Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty - continued

Item	Uncertainty	Effect if Actual Results Differ from Assumptions
Council Tax Arrears	The Council makes an assumption on the level of Council Tax that will be collected over a number of years. The Council currently assumes that 96.95% of Council Tax will be collected. An impairment for doubtful debts of £7.731m has been provided for in respect of sums due in the year. In the current economic climate it is not certain that this would be sufficient.	If collection rates were to deteriorate by 1%, the amount to be impaired would require an additional £2.535m to be set aside as an allowance.
House Rent Arrears	At 31 March, the Council had a balance of housing rent arrears of £6.647m. A review of significant balances suggested that an impairment of doubtful debts of £5.757m (86.6%) was appropriate. In the current economic climate it is not certain that this will be sufficient.	There is a high level of arrears and the impairment set aside should help protect against additional welfare reforms such as Universal Credit and the reduction in the benefits cap announced in the UK government's budget, which will potentially impact on the level of rent arrears.
Council Dwellings - Housing Stock	Council dwellings are valued using the Beacon Method which aggregates the vacant possession values of each unit of housing stock. The beacon discount factor is determined by applying a capitalisation yield to the gross rental income and comparing this to the aggregate value. This methodology takes account of regional variations in capital values, stock condition, rent arrears and voids. The discount factor applied is 48%.	If the discount factor is increased by 1%, this would lead to a corresponding reduction in the total value of council dwellings of £19.181m.  If the discount factor is reduced by 1%, this would lead to a corresponding increase in the total value of council dwellings of £19.181m.

This list does not include assets and liabilities that are carried at fair value based on recently observed market prices.

### 7. Material Items of Income and Expense

The Council incurred costs of £15.610m (£20.943m 2015/16 ) related to staff release costs arising from the council-wide Transformation programme. These cost are included within the Comprehensive Income and Expenditure Statement.

### 8. Events After the Balance Sheet Date

A fatality occurred on 31 May 2017 in a tram related incident on Princes Street, which is the subject of an ongoing Police inquiry. No provision has been made within these statements for any financial implications that may arise.



## NOTES TO THE FINANCIAL STATEMENTS

### 9. Subsidiaries and Associates

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

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

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

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

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

	<b>Shareholding</b>
• Capital City Partnership Limited	100.00%
• CEC Recovery Limited (formerly tie Limited)	100.00%
• Marketing Edinburgh Limited	100.00%
• LPFE Limited	100.00%
• LPFI Limited	100.00%

Unless otherwise stated, the accounts of these bodies may be obtained on application to the Corporate Finance Senior Manager, Waverley Court, 4 East Market Street, Edinburgh EH8 8BG.

## NOTES TO THE FINANCIAL STATEMENTS

### 9. Subsidiaries and Associates - continued

#### 9.1 Subsidiary Companies

- **Capital City Partnership**

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

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

The most recent audited results of the company are as follows:	<b>31.03.17</b>	<b>31.03.16</b>
	<b>£000</b>	<b>£000</b>
Net assets	877	1,149
Net (profit) / loss before taxation	(16)	180
Retained profit / (loss) carried forward	(123)	567

- **CEC Holdings Limited**

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

The most recent audited results of the company are as follows:	<b>31.12.16</b>	<b>(re-stated) 31.12.15</b>
	<b>£000</b>	<b>£000</b>
Net assets	16,214	16,140
Net (profit) / loss before taxation	(464)	(185)
Retained profit / (loss) carried forward	(51,410)	(51,361)

The Council inherited its interest in CEC Holdings Limited following the local government reorganisation in 1996. It is considered that this was on an acquisition basis, however, as no consideration was given for these interests, there was no goodwill involved in these transactions.

- **CEC Recovery Limited (formerly tie Limited)**

The principal activity of the company was previously the promotion, development, procurement, project management and implementation of certain nominated projects. The company did not actively trade in the year to 31 March 2017 and is actively pursuing the transferral of project documentation to Transport Scotland. The company changed its name from tie Limited to CEC Recovery Limited on 13 May 2013.

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

	<b>31.03.17</b>	<b>31.03.16</b>
	<b>£000</b>	<b>£000</b>
Net assets	0	0
Net deficit before taxation	0	0
Retained profit / (loss) carried forward	(1)	(1)

- **LPFE Limited**

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

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

The audited results of the company are as follows:	<b>31.03.17</b>	<b>14 months to 31.03.16</b>
	<b>£000</b>	<b>£000</b>
Net liabilities	(539)	(142)
Net (profit) / loss before taxation	(6)	66
Retained profit / (loss) carried forward	(539)	(142)

## NOTES TO THE FINANCIAL STATEMENTS

### 9. Subsidiaries and Associates - continued

#### 9.1 Subsidiary Companies - continued

##### ● LPFI Limited

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

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

The audited results of the company are as follows:	<b>31.03.17</b>	<b>31.03.16</b>
	<b>£000</b>	<b>£000</b>
Net assets	50	0
Net (profit) / loss before taxation	(1)	0
Retained profit / (loss) carried forward	0	0

##### ● Marketing Edinburgh Limited

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

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

The most recent audited results of the company are as follows:	<b>31.03.17</b>	<b>31.03.16</b>
	<b>£000</b>	<b>£000</b>
Net assets	300	261
Net (profit) / loss before taxation	1	(2)
Retained profit / (loss) carried forward	300	261

##### ● Transport for Edinburgh Limited

The principal activities of the company are as a holding company for the City of Edinburgh Council's interest in public transport companies; Lothian Buses Limited and Edinburgh Trams Limited. The company is wholly owned by the City of Edinburgh Council.

The Council's major shareholding in Lothian Buses of 5,824,139 (91.01%) £1 ordinary shares (fully paid) was transferred to Transport for Edinburgh Limited in 2014.

The Council inherited its interest in Lothian Buses Limited, following the reorganisation of local government in 1996. It is considered that this was on an acquisition basis, however, as no consideration was given for these interests, there was no goodwill involved in these transactions.

Edinburgh Trams Limited commenced a fare paying revenue service on 31 May 2014.

The most recent audited results of the company are as follows:

	<b>31.12.16</b>	<b>31.12.15</b>
	<b>£000</b>	<b>£000</b>
<b>Transport for Edinburgh Limited (Consolidated Group)</b>		
Net assets	95,955	99,395
Net (profit) / loss before taxation	(14,165)	(8,936)
Retained earnings	9,779	18,320
Dividend paid	5,517	494

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

## NOTES TO THE FINANCIAL STATEMENTS

### 9. Subsidiaries and Associates - continued

#### 9.2 Associates

- **Edinburgh Leisure**

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

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

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

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

The most recent audited results of the company are as follows:	<b>31.03.17</b>	<b>31.03.16</b>
	<b>£000</b>	<b>£000</b>
Net assets / (liabilities)	(8,638)	657
Net operating (profit) / loss	944	1,524
Earnings / (Losses) carried forward	(8,638)	657

Although Edinburgh Leisure is included in the Group Accounts, as the nature of its activities is a core part of Council policy, the Council has no legal interest in the assets or liabilities of the company.

The group share of the results of Edinburgh Leisure, based on 33.33% (2015/16 33.33%) Board Representation, is as follows:

	<b>31.03.17</b>	<b>31.03.16</b>
	<b>£000</b>	<b>£000</b>
Total Comprehensive (Income) and Expenditure	3,098	(2,365)
Net assets / (liabilities)	(2,879)	219
Total usable reserves	(2,879)	219

- **Festival City Theatres Trust**

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

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

The most recent audited results of the company are as follows:	<b>31.03.17</b>	<b>31.03.16</b>
	<b>£000</b>	<b>£000</b>
Net assets	3,261	3,734
Net operational (profit) / loss	359	597
Fund balances carried forward	3,261	3,734

Although Festival City Theatres Trust is included in the Group Accounts, due to the nature of its activities being a core part of the Council's policy, the Council has no legal interest in the assets or liabilities of the company.

The group share of the results of the Festival City Theatres Trust, based on 33.33% (2015/16 33.33%) Board representation, is as follows:

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

## NOTES TO THE FINANCIAL STATEMENTS

### 9. Subsidiaries and Associates - continued

#### 9.2 Associates - continued

- **Lothian Valuation Joint Board**

The Lothian Valuation Joint Board provides Valuation Appeals, Lands Valuation, Electoral Registration and Council Tax Valuation Services.

The Board comprises 16 members of whom nine are elected by the City of Edinburgh, three by West Lothian and two each by East and Midlothian Councils.

Costs incurred by the Lothian Valuation Joint Board are apportioned in accordance with the non-domestic rateable subjects and dwellings valued for Council Tax within the areas of each constituent authority.

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

The group share of the results of the Lothian Valuation Joint Board, based on a 61.19% (2015/16 61.22%) funding percentage is as follows:

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

#### 9.3 Joint Ventures

- **Edinburgh Integration Joint Board**

The Edinburgh Integration Joint Board (EIJB) was established by order of Scottish Ministers on 27 June 2015 under the Public Bodies (Joint Working) (Scotland) Act 2014.

The Board comprises 10 voting members, made up of five elected members appointed by the City of Edinburgh Council and five NHS non-executive directors appointed by NHS Lothian, along with a number of non voting members.

The expenditure incurred by the EIJB is covered in full by income received from the partner bodies, NHS Lothian and the City of Edinburgh Council. EIJB will therefore commission services from the parent bodies based on the approved strategic plan.

	<b>31.03.17</b>	<b>31.03.16</b>
	<b>£000</b>	<b>£000</b>
The most recent audited results of the company are as follows:		10 months to
Gross expenditure	676,164	97
Surplus for the year	(3,690)	0
Usable reserves	3,690	0

# NOTES TO THE FINANCIAL STATEMENTS

## 9. Subsidiaries and Associates - continued

### 9.3 Joint Ventures - continued

#### • Edinburgh Integration Joint Board

The group share of the results of the Edinburgh Integration Joint Board, based on a 50% (2015/16 50%) funding percentage is as follows:

	10 months to 31.03.17 £000	31.03.16 £000
Net assets	1,845	0
Usable reserves	1,845	0

### 9.4 Audit Opinions noted on the Accounts of the Companies

Unless otherwise indicated, the companies' accounts are unaudited.

### 9.5 Shareholder Support to Council Companies

A number of companies within the group are currently dependent on the continued financial support of the Council. The companies are EICC Limited, a subsidiary of CEC Holdings Limited - (the Council owns 100% of the shares in CEC Holdings Limited), Festival City Theatres Trust and Edinburgh Leisure.

### 9.6 Financial Impact of Consolidation

The effect of inclusion of subsidiaries and associates on the Group Balance Sheet is to increase both reserves and net assets by £138.317m (2015/16 £148.784m re-stated) representing the Council's share of the realisable surpluses or deficits in these companies.

## 10. Trusts

#### • International Conference Centre Expenditure Trust

This Trust was set up to hold funds provided by the Council for its development of the Edinburgh International Conference Centre. The balance of unexpended funds held at 31 March 2017 was £4.072m (31 March 2016 £4.183m).

The Expenditure Trust received interest of £0.043m during the year.

£1.536m transferred from the Income Trust noted below was transferred to the Council to defray the development and running costs of the new additional function space. Payments were also made to EICC Limited for construction services (£0.057m).

#### • International Conference Centre Income Trust

This Trust was set up to hold funds received from the sale of land at the Edinburgh International Conference Centre site, pending their use for development and other costs of the centre. The balance of unexpended funds held at 31 March 2017 was £0.810m (31 March 2016 £2.398m).

Funds in the Income Trust have reduced by £1.593m during the year, relating to the transfer, noted above, to the International Conference Centre Expenditure Trust. The Income Trust received interest of £0.005m.

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

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the Council in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure.

# NOTES TO THE FINANCIAL STATEMENTS

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

	Usable Reserves		
	General Fund Balance £000	Housing Revenue Account Balance £000	Capital Receipts Reserve £000
<b>2016/17</b>			
<b>Adjustments primarily involving the Capital Adjustment Account</b>			
<b>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement (CIES)</b>			
Charges for depreciation and impairment of non-current assets	131,514	19,345	0
Movements in the market value of investment properties	779	0	0
Amortisation and impairment of intangible assets	1,221	0	0
Capital grants and contributions applied	(50,897)	(7,587)	0
Capital funded from revenue	(2,056)	0	0
Revenue expenditure funded from capital under statute	35,529	0	0
<b>Insertion of items not debited or credited to the CIES</b>			
Statutory provision for the financing of capital investment	(69,061)	(16,585)	0
Capital expenditure charged against General Fund and HRA balances	(35,529)	0	0
<b>Adjustments primarily involving the Capital Grant Unapplied Account</b>			
Application of grants to capital financing transferred to the Capital Adjustment Account	0	0	0
<b>Adjustments primarily involving the Capital Receipts Reserve</b>			
Net (gain) / loss on sale of property, plant and equipment and assets held for sale	(11,306)	(754)	27,922
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	(27,922)
<b>Adjustments primarily involving the Financial Instruments Adjustment Account</b>			
Amount by which finance costs charged are different from finance costs chargeable in the year in accordance with statutory requirements	(1,400)	(498)	0
<b>Adjustments primarily involving the Pensions Reserve</b>			
Reversal of items relating to retirement benefits debited or credited to the CIES	86,883	2,016	0
Employer's pension contributions and direct payments to pensioners payable in the year	(64,761)	(1,503)	0
<b>Adjustments primarily involving the Employee Statutory Adjustment Account</b>			
Amount by which officer remuneration charges to the CIES are different from remuneration chargeable in the year in accordance with statutory requirements	(599)	(142)	0
<b>Total Adjustments</b>	<b>20,317</b>	<b>(5,708)</b>	<b>0</b>

## NOTES TO THE FINANCIAL STATEMENTS

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

2016/17	Usable Reserves		Movement in Unusable Reserves £000
	Capital Grants Unapplied Account £000	Capital Fund £000	
<b>Adjustments primarily involving the Capital Adjustment Account</b>			
<b>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement (CIES)</b>			
Charges for depreciation and impairment of non-current assets	0	0	(150,859)
Movements in the market value of investment properties	0	0	(779)
Amortisation of intangible assets	0	0	(1,221)
Capital grants and contributions applied	14	0	58,470
Capital funded from revenue	0	0	2,056
Revenue expenditure funded from capital under statute	0	0	(35,529)
<b>Insertion of items not debited or credited to the CIES</b>	0	0	0
Statutory provision for the financing of capital investment	0	(7,615)	93,261
Capital expenditure charged against General Fund and HRA balances	0	0	35,529
<b>Adjustments primarily involving the Capital Grant Unapplied Account</b>			
Application of grants to capital financing transferred to the Capital Adjustment Account	(1,905)	0	1,905
<b>Adjustments primarily involving the Capital Receipts Reserve</b>			
Net gain / (loss) on sale of property, plant and equipment and assets held for sale	0	0	(15,862)
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	27,922
<b>Adjustments primarily involving the Financial Instruments Adjustment Account</b>			
Amount by which finance costs charged are different from finance costs chargeable in the year in accordance with statutory requirements	0	0	1,898
<b>Adjustments primarily involving the Pensions Reserve</b>			
Reversal of items relating to retirement benefits debited or credited to the CIES	0	0	(88,899)
Employer's pension contributions and direct payments to pensioners payable in the year	0	0	66,264
<b>Adjustments primarily involving the Employee Statutory Adjustment Account</b>			
Amount by which officer remuneration charges to the CIES are different from remuneration chargeable in the year in accordance with statutory requirements	0	0	741
<b>Total Adjustments</b>	<b>(1,891)</b>	<b>(7,615)</b>	<b>(5,103)</b>



# NOTES TO THE FINANCIAL STATEMENTS

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

	Usable Reserves		
	General Fund Balance £000	Housing Revenue Account Balance £000	Capital Receipts Reserve £000
<b>2015/16 Comparative Data</b>			
<b>Adjustments primarily involving the Capital Adjustment Account</b>			
<b>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement (CIES)</b>			
Charges for depreciation and impairment of non-current assets	154,075	23,285	0
Movements in the market value of investment properties	(1,146)	0	0
Amortisation of intangible assets	1,289	0	0
Capital grants and contributions applied	(63,094)	(7,439)	0
Capital funded from revenue	(215)	0	0
Revenue expenditure funded from capital under statute	38,846	0	0
<b>Insertion of items not debited or credited to the CIES</b>			
Statutory provision for the financing of capital investment	(58,829)	(27,328)	0
Capital expenditure charged against General Fund and HRA balances	(38,846)	0	0
<b>Adjustments primarily involving the Capital Grant Unapplied Account</b>			
Application of grants to capital financing transferred to the Capital Adjustment Account	0	0	0
<b>Adjustments primarily involving the Capital Receipts Reserve</b>			
Net loss / (gain) on sale of property, plant and equipment and assets held for sale	(33,700)	(2,247)	120,492
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	(120,492)
<b>Adjustments primarily involving the Financial Instruments Adjustment Account</b>			
Amount by which finance costs charged are different from finance costs chargeable in the year in accordance with statutory requirements	(1,440)	(488)	0
<b>Adjustments primarily involving the Pensions Reserve</b>			
Reversal of items relating to retirement benefits debited or credited to the CIES	104,720	2,676	0
Employer's pension contributions and direct payments to pensioners payable in the year	(70,594)	(1,693)	0
<b>Adjustments primarily involving the Employee Statutory Adjustment Account</b>			
Amount by which officer remuneration charges to the CIES are different from remuneration chargeable in the year in accordance with statutory requirements	(5,798)	(78)	0
<b>Total Adjustments</b>	<b>25,268</b>	<b>(13,312)</b>	<b>0</b>

## NOTES TO THE FINANCIAL STATEMENTS

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

2015/16 Comparative Data	Usable Reserves		Movement in Unusable Reserves £000
	Capital Grants Unapplied Account £000	Capital Fund £000	
<b>Adjustments primarily involving the Capital Adjustment Account</b>			
<b>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement (CIES)</b>			
Charges for depreciation and impairment of non-current assets	0	0	(177,360)
Movements in the market value of investment properties	0	0	1,146
Amortisation of intangible assets	0	0	(1,289)
Capital grants and contributions applied	1,593	0	68,940
Capital funded from revenue	0	0	215
Revenue expenditure funded from capital under statute	0	0	(38,846)
<b>Insertion of items not debited or credited to the CIES</b>			
Statutory provision for the financing of capital investment	0	(18,069)	104,226
Capital expenditure charged against General Fund and HRA balances	0	0	38,846
<b>Adjustments primarily involving the Capital Grant Unapplied Account</b>			
Application of grants to capital financing transferred to the Capital Adjustment Account	(3,285)	0	3,285
<b>Adjustments primarily involving the Capital Receipts Reserve</b>			
Net (loss) / gain on sale of property, plant and equipment and assets held for sale	0	0	(84,545)
Use of the Capital Receipts Reserve to finance new capital expenditure	0	55,141	65,351
<b>Adjustments primarily involving the Financial Instruments Adjustment Account</b>			
Amount by which finance costs charged are different from finance costs chargeable in the year in accordance with statutory requirements	0	0	1,928
<b>Adjustments primarily involving the Pensions Reserve</b>			
Reversal of items relating to retirement benefits debited or credited to the CIES	0	0	(107,396)
Employer's pension contributions and direct payments to pensioners payable in the year	0	0	72,287
<b>Adjustments primarily involving the Employee Statutory Adjustment Account</b>			
Amount by which officer remuneration charges to the CIES are different from remuneration chargeable in the year in accordance with statutory requirements	0	0	5,876
<b>Total Adjustments</b>	<b>(1,692)</b>	<b>37,072</b>	<b>(47,336)</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 12. Usable Reserves

#### 12.1 Transfers to and from Usable Reserves

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

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

## NOTES TO THE FINANCIAL STATEMENTS

### 12. Usable Reserves - continued

#### 12.1 Transfers to and from Usable Reserves - continued

	(re-stated) Balance at 01.04.15 £000	Net Transfers Out 2015/16 £000	Net Transfers In 2015/16 £000	(re-stated) Balance at 31.03.16 £000
<b>Group Reserves</b>				
<b>Subsidiaries</b>				
CEC Holdings Limited				
Revenue reserves	(52,011)	0	650	(51,361)
Capital grants unapplied account	3,213	(484)	0	2,729
Transport for Edinburgh				
Revenue reserves	48,523	0	29,726	78,249
<b>Total Usable Reserves - Subsidiaries</b>	<b>(275)</b>	<b>(484)</b>	<b>30,376</b>	<b>29,617</b>
<b>Associates and Joint Ventures</b>				
Common Good Fund				
Earmarked revenue reserves	2,836	(538)	0	2,298
Edinburgh Leisure				
Earmarked revenue reserve	576	(402)	0	174
Revenue reserves	(2,722)	0	2,766	44
International Conference Centre Trusts				
Income Trust	3,551	(1,153)	0	2,398
Expenditure Trust	4,153	0	30	4,183
Festival City Theatres Trust				
Earmarked capital reserve	1,457	(255)	0	1,202
Revenue reserves	(64)	0	107	43
Lothian Valuation Joint Board				
Revenue reserves	364	0	95	459
<b>Total Usable Reserves - Associates and Joint Ventures</b>	<b>10,151</b>	<b>(2,348)</b>	<b>2,998</b>	<b>10,801</b>
<b>Total Usable Reserves - Subsidiaries, Associates and Joint Ventures</b>	<b>9,876</b>	<b>(2,832)</b>	<b>33,374</b>	<b>40,418</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 12. Usable Reserves - continued

#### 12.1 Transfers to and from Usable Reserves - continued

	Balance at 01.04.16 £000	Transfers Out 2016/17 £000	Transfers In 2016/17 £000	Balance at 31.03.17 £000
<b>Council's Usable Reserves</b>				
<b>General Fund</b>				
Unallocated General Fund	13,025	0	0	13,025
Balances held by schools under Devolved School Management (DSM)	2,804	(2,804)	2,688	2,688
Balances set aside for specific inv.	12,565	(4,011)	17,105	25,659
Contingency funding, workforce mgmt.	18,075	0	19	18,094
Council Priorities Fund	1,128	0	2,973	4,101
Dilapidations Fund	12,094	(450)	700	12,344
Energy Efficiency Fund	846	(830)	82	98
Insurance Funds	13,539	(99)	1,226	14,666
Licensing and Registration Income	1,394	0	1,699	3,093
Recycling balances	1,372	(211)	0	1,161
Revenue grants and contributions received in advance of planned expenditure	15,243	(9,301)	2,943	8,885
Council Tax Discount Fund	21,596	(250)	2,888	24,234
Spend to Save Fund and similar projects	7,017	(1,558)	1,903	7,362
Other earmarked balances	240	(17)	13	236
City Strategic Investment Fund	7,458	(1,278)	0	6,180
Surplus on Housing Revenue Account transferred to Renewal and Repairs Fund	0	(11,886)	11,886	0
<b>Total General Fund</b>	<b>128,396</b>	<b>(32,695)</b>	<b>46,125</b>	<b>141,826</b>
<b>Housing Revenue Account Balance</b>	<b>0</b>	<b>(11,886)</b>	<b>11,886</b>	<b>0</b>
<b>Renewal and Repairs Fund</b>	<b>38,194</b>	<b>0</b>	<b>11,947</b>	<b>50,141</b>
<b>Capital Fund</b>	<b>68,793</b>	<b>(8,165)</b>	<b>550</b>	<b>61,178</b>
<b>Capital Receipts Reserve</b>	<b>0</b>	<b>(27,922)</b>	<b>27,922</b>	<b>0</b>
<b>Capital Grants Unapplied Account</b>	<b>2,657</b>	<b>(1,905)</b>	<b>14</b>	<b>766</b>
<b>Total Usable Reserves - Council</b>	<b>238,040</b>	<b>(82,573)</b>	<b>98,444</b>	<b>253,911</b>
<b>Total Usable Reserves - Group</b>	<b>278,458</b>	<b>(96,535)</b>	<b>100,504</b>	<b>282,427</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 12. Usable Reserves - continued

#### 12.1 Transfers to and from Usable Reserves - continued

	Balance at 01.04.15 £000	Inter-Fund Transfer 2015/16 £000	Transfers Out 2015/16 £000	Transfers In 2015/16 £000	Balance at 31.03.16 £000
<b>General Fund</b>					
Unallocated General Fund	13,025	0	0	0	13,025
Balances held by schools under DSM	1,054	0	(1,054)	2,804	2,804
Balances set aside for specific inv.	13,889	(3,000)	(2,661)	4,337	12,565
Contingency funding, workforce mgmt.	17,901	0	0	174	18,075
Council Priorities Fund	3,365	0	(3,022)	785	1,128
Dilapidations Fund	8,759	3,000	(402)	737	12,094
Energy Efficiency Fund	799	0	0	47	846
Insurance Funds	12,557	0	(250)	1,232	13,539
Licensing Income	1,402	0	(347)	339	1,394
Recycling balances	1,372	0	0	0	1,372
Revenue grants and contributions received in advance of planned expend.	14,077	0	(3,912)	5,078	15,243
Council Tax Discount Fund	18,636	0	0	2,960	21,596
Spend to Save Fund and similar projects	7,469	0	(4,729)	4,277	7,017
Other earmarked balances	219	0	0	21	240
City Strategic Investment Fund	3,000	0	(42)	4,500	7,458
Surplus on Housing Revenue Account transferred to Renewal and Repairs Fund	0	0	(2,256)	2,256	0
<b>Total General Fund</b>	<b>117,524</b>	<b>0</b>	<b>(18,675)</b>	<b>29,547</b>	<b>128,396</b>
<b>Housing Revenue Account Balance</b>	<b>0</b>	<b>0</b>	<b>(2,256)</b>	<b>2,256</b>	<b>0</b>
<b>Renewal and Repairs Fund</b>	<b>35,833</b>	<b>0</b>	<b>0</b>	<b>2,361</b>	<b>38,194</b>
<b>Capital Fund</b>	<b>31,721</b>	<b>0</b>	<b>(18,198)</b>	<b>55,270</b>	<b>68,793</b>
<b>Capital Receipts Reserve</b>	<b>0</b>	<b>0</b>	<b>(120,690)</b>	<b>120,690</b>	<b>0</b>
<b>Capital Grants Unapplied Account</b>	<b>4,349</b>	<b>0</b>	<b>(3,285)</b>	<b>1,593</b>	<b>2,657</b>
<b>Total Usable Reserves - Council</b>	<b>189,427</b>	<b>0</b>	<b>(163,104)</b>	<b>211,717</b>	<b>238,040</b>
<b>Total Usable Reserves - Group</b>	<b>199,303</b>	<b>0</b>	<b>(165,936)</b>	<b>245,091</b>	<b>278,458</b>

#### 12.2 Devolved School Management

A net credit balance of £2.688m (2015/16 £2.804m) is held within the General Fund in accordance with the Devolved School Management scheme.

## NOTES TO THE FINANCIAL STATEMENTS

### 12. Usable Reserves - continued

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

<b>2016/17</b>	<b>General Fund £000</b>	<b>HRA Balance £000</b>	<b>Renewal / Repairs Fund £000</b>	<b>Capital Receipts Reserve £000</b>
Transfers out	(32,695)	(11,886)	0	(27,922)
Transfers in	46,125	11,886	11,947	27,922
Total movements in fund	<u>13,430</u>	<u>0</u>	<u>11,947</u>	<u>0</u>
Recognised in Comprehensive Income and Expenditure Statement	13,491	11,886	0	0
Transfers to other earmarked reserves	(61)	(11,886)	11,947	0
Total movements in fund	<u>13,430</u>	<u>0</u>	<u>11,947</u>	<u>0</u>
	<b>Capital Grants Unapplied £000</b>	<b>Capital Fund £000</b>	<b>Group Usable Reserves £000</b>	<b>Total £000</b>
Transfers out	(1,905)	(8,165)	(13,962)	<b>(96,535)</b>
Transfers in	14	550	2,060	<b>100,504</b>
Total movements in fund	<u>(1,891)</u>	<u>(7,615)</u>	<u>(11,902)</u>	<u><b>3,969</b></u>
Recognised in Comprehensive Income and Expenditure Statement	(1,891)	(7,615)	12,522	<b>28,393</b>
Transfers to other earmarked reserves	0	0	(24,424)	<b>(24,424)</b>
Total movements in fund	<u>(1,891)</u>	<u>(7,615)</u>	<u>(11,902)</u>	<u><b>3,969</b></u>
	<b>General Fund £000</b>	<b>HRA Balance £000</b>	<b>Renewal / Repairs Fund £000</b>	<b>Capital Receipts Reserve £000</b>
<b>2015/16 Comparative Data</b>				
Transfers out	(18,675)	(2,256)	0	(120,690)
Transfers in	29,547	2,256	2,361	120,690
Total movements in fund	<u>10,872</u>	<u>0</u>	<u>2,361</u>	<u>0</u>
Recognised in Comprehensive Income and Expenditure Statement	10,977	2,256	0	0
Transfers to other earmarked reserves	(105)	(2,256)	2,361	0
Total movements in fund	<u>10,872</u>	<u>0</u>	<u>2,361</u>	<u>0</u>

## NOTES TO THE FINANCIAL STATEMENTS

### 12. Usable Reserves - continued

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

2015/16 Comparative Data	Capital Grants Unapplied £000	Capital Fund £000	Group Usable Reserves £000	Total £000
Transfers out	(3,285)	(18,198)	(2,832)	<b>(165,936)</b>
Transfers in	1,593	55,270	33,374	<b>245,091</b>
Total movements in fund	<u>(1,692)</u>	<u>37,072</u>	<u>30,542</u>	<u><b>79,155</b></u>
Recognised in Comprehensive Income and Expenditure Statement	(1,692)	37,072	33,004	<b>81,617</b>
Transfers to other earmarked reserves	0	0	(2,462)	<b>(2,462)</b>
Total movements in fund	<u>(1,692)</u>	<u>37,072</u>	<u>30,542</u>	<u><b>79,155</b></u>

13. Other Operating Expenditure	2016/17		Re-stated 2015/16	
	Group £000	Council £000	Group £000	Council £000
Gains on the disposal of non-current assets	(12,009)	(12,061)	(35,949)	(35,947)
	<u>(12,009)</u>	<u>(12,061)</u>	<u>(35,949)</u>	<u>(35,947)</u>

14. Financing and Investment Income and Expenditure	2016/17		Re-stated 2015/16	
	Group £000	Council £000	Group £000	Council £000
Interest payable and similar charges	88,756	88,491	95,552	95,138
Interest cost on defined benefit obligation	108,342	93,974	105,663	92,013
Interest receivable and similar income	(9,838)	(9,669)	(8,166)	(7,972)
Interest income on plan assets	(93,498)	(78,498)	(81,732)	(68,568)
Net income in relation to investment properties and changes in their fair value	(750)	(600)	(2,512)	(2,512)
Net (surplus) / deficit from trading activities	143	191	(2,026)	232
	<u>93,155</u>	<u>93,889</u>	<u>106,779</u>	<u>108,331</u>

15. Taxation and Non-Specific Grant Income	2016/17		2015/16	
	Group £000	Council £000	Group £000	Council £000
Council Tax income	(221,390)	(221,390)	(216,351)	(216,351)
Non-domestic rates	(374,650)	(374,650)	(390,862)	(390,862)
Non-ring fenced government grants	(344,919)	(344,919)	(354,576)	(354,576)
Capital grants and contributions	(58,483)	(58,483)	(70,533)	(70,533)
Taxation expenses	1,895	0	2,612	0
	<u>(997,547)</u>	<u>(999,442)</u>	<u>(1,029,710)</u>	<u>(1,032,322)</u>



## NOTES TO THE FINANCIAL STATEMENTS

### 16. Property, Plant and Equipment

#### 16.1 Depreciation

No depreciation is provided in the year of an asset's purchase. Assets in the course of construction are not depreciated until they are brought into use. Where depreciation is provided for, assets are depreciated using the straight line method over the following periods:

Council dwellings	50 years
Buildings	50 years (assets not subject to component accounting)
Buildings - structural	50 years
Buildings - non-traditional roofing	35 years
Buildings - finishes	25 years
Buildings - mechanical and electrical	20 years
Buildings - fittings and furnishings	15 years
PPP Schools	40 years (PPP1 schools) and 35 years (PPP2 schools)
Infrastructure assets	20 years
Vehicles, plant, furniture and equipment	5 years to 30 years, to reflect estimated useful life 3 years to 15 years, Group Companies

#### 16.2 Capital Commitments

At 31 March 2017, the Council had entered into a number of contracts for the construction or enhancement of property, plant and equipment. These are budgeted to cost £226.111m. A number of these amounts relate to contract retentions, as projects are now complete. Similar commitments at 31 March 2016 were £76.678m.

	£000	Expected Completion Date
Leith Fort	1,000	Jul-17
Rising School Rolls 5 School extension	2,054	Aug-17
Nurseries phase 2	5,874	Aug-17
Boroughmuir New High School	6,982	Jan-18
St John's Primary School	11,977	Aug-19
WHEC upgrade Block A	3,739	2017-2018
Other property and infrastructure works	2,159	2017-2018
Kitchen and Bathroom upgrade	5,752	2017-2018
External Fabric highrise	5,035	2017-2018
Liberton High School electrical services and windows upgrade	734	2018-2019
Communities and Families Fire upgrade works	1,594	2019-2020
Gilmerton Primary School M&E upgrade	675	2019-2020
Water Tank upgrade works for Legionella	1,350	2019-2020
St James Quarter - Growth Accelerator Model	61,400	2020-2021
ICT capital investment / ICT transformational change investment	14,951	1 year
Water of Leith Phase 2 (flood defence work)	4,990	2 years
Granton to Roseburn land compensation	1,750	1 year
Calton Hill Project	2,500	Oct-17
North Sighthill	17,215	May-19
Small Sites Programme	28,938	Apr-19
Pennywell Town Centre	23,317	Sep-20
Pennywell Phases 1 to 4	22,125	Oct-24
	<u>226,111</u>	

## NOTES TO THE FINANCIAL STATEMENTS

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

#### 16.3 Movements on Balances - Group Movements in 2016/17

	Council Dwellings £000	Other Land and Buildings £000	Vehicles, Plant, Furniture and Equipment £000	Infrastructure Assets £000
<b>Cost or Valuation</b>				
At 1 April 2016	1,066,016	1,724,709	312,416	1,376,084
Additions	41,395	32,436	18,756	26,958
Revaluation increases / (decreases) recognised in the Revaluation Reserve	(455)	22,765	0	0
Revaluation decreases recognised in the Surplus on the Provision of Services	0	(14,354)	(25)	0
Derecognition - disposals	(15,580)	(148)	(3,532)	0
Derecognition - other	0	0	0	0
Assets reclassified (to) / from held for sale	0	3,065	0	0
Other movements in cost or valuation	0	83,765	0	0
At 31 March 2017	<u>1,091,376</u>	<u>1,852,238</u>	<u>327,615</u>	<u>1,403,042</u>
<b>Accumulated Depreciation and Impairment</b>				
At 1 April 2016	(35,393)	(111,508)	(134,674)	(503,164)
Depreciation charge	(18,975)	(42,269)	(21,205)	(64,194)
Depreciation charge written out to Revaluation Reserve	209	9,646	0	0
Depreciation written out to the Surplus on the Provision of Services	0	7,516	15	0
Derecognition - disposals	774	5	3,311	0
Derecognition - other	0	0	0	0
Impairment losses recognised in the Surplus on the Provision of Services	0	0	0	0
Other movements in cost or valuation	0	(21)	0	0
At 31 March 2017	<u>(53,385)</u>	<u>(136,631)</u>	<u>(152,553)</u>	<u>(567,358)</u>
<b>Net book value</b>				
At 31 March 2017	<u>1,037,991</u>	<u>1,715,607</u>	<u>175,062</u>	<u>835,684</u>
At 31 March 2016	<u>1,030,623</u>	<u>1,613,201</u>	<u>177,742</u>	<u>872,920</u>

## NOTES TO THE FINANCIAL STATEMENTS

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

#### 16.3 Movements on Balances - Group Movements in 2016/17

	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	Total Property Plant and Equipment £000
<b>Cost or Valuation</b>				
At 1 April 2016	12,964	2,420	89,688	4,584,297
Additions	1,842	1	33,004	154,392
Revaluation increases / (decreases) recognised in the Revaluation Reserve	0	0	0	22,310
Revaluation decreases recognised in the Surplus on the Provision of Services	(244)	0	0	(14,623)
Derecognition - disposals	0	0	0	(19,260)
Derecognition - other	0	0	0	0
Assets reclassified (to) / from held for sale	0	0	0	3,065
Other movements in cost or valuation	0	0	(83,765)	0
At 31 March 2017	<u>14,562</u>	<u>2,421</u>	<u>38,927</u>	<u>4,730,181</u>
<b>Accumulated Depreciation and Impairment</b>				
At 1 April 2016	0	0	0	(784,739)
Depreciation charge	0	0	0	(146,643)
Depreciation charge written out to Revaluation Reserve	0	0	0	9,855
Depreciation written out to the Surplus on the Provision of Services	0	0	0	7,531
Derecognition - disposals	0	0	0	4,090
Derecognition - other	0	0	0	0
Impairment losses recognised in the Surplus on the Provision of Services	0	0	0	0
Other movements in cost or valuation	0	0	0	(21)
At 31 March 2017	<u>0</u>	<u>0</u>	<u>0</u>	<u>(909,927)</u>
<b>Net book value</b>				
At 31 March 2017	<u><u>14,562</u></u>	<u><u>2,421</u></u>	<u><u>38,927</u></u>	<u><u>3,820,254</u></u>
At 31 March 2016	<u><u>12,964</u></u>	<u><u>2,420</u></u>	<u><u>89,688</u></u>	<u><u>3,799,558</u></u>

## NOTES TO THE FINANCIAL STATEMENTS

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

#### 16.4 Movements on Balances - Group Accounts 2015/16 Comparative Data

	Council Dwellings £000	Other Land and Buildings £000	Vehicles, Plant, Furniture and Equipment £000	Infrastructure Assets £000
<b>Cost or Valuation</b>				
At 1 April 2015	1,047,151	1,841,517	300,619	1,350,760
Additions	31,257	34,385	20,673	25,324
Revaluation increases / (decreases) recognised in the Revaluation Reserve	(1,931)	(24,783)	0	0
Revaluation decreases recognised in the Surplus on the Provision of Services	(3,539)	(42,827)	0	0
Derecognition - disposals	(6,870)	(68,381)	(8,421)	0
Derecognition - other	0	0	(455)	0
Assets reclassified (to) / from held for sale	(52)	(20,069)	0	0
Other movements in cost or valuation	0	4,867	0	0
At 31 March 2016	<u>1,066,016</u>	<u>1,724,709</u>	<u>312,416</u>	<u>1,376,084</u>
<b>Accumulated Depreciation and Impairment</b>				
At 1 April 2015	(17,593)	(109,400)	(122,492)	(438,264)
Depreciation charge	(18,457)	(47,356)	(19,965)	(64,900)
Depreciation charge written out to Revaluation Reserve	211	26,224	0	0
Depreciation written out to the Surplus on the Provision of Services	216	11,667	0	0
Derecognition - disposals	228	6,698	7,377	0
Derecognition - other	0	0	455	0
Impairment losses recognised in the Surplus on the Provision of Services	0	0	(49)	0
Other movements in cost or valuation	2	659	0	0
At 31 March 2016	<u>(35,393)</u>	<u>(111,508)</u>	<u>(134,674)</u>	<u>(503,164)</u>
<b>Net book value</b>				
At 31 March 2016	<u><u>1,030,623</u></u>	<u><u>1,613,201</u></u>	<u><u>177,742</u></u>	<u><u>872,920</u></u>
At 31 March 2015	<u><u>1,029,558</u></u>	<u><u>1,732,117</u></u>	<u><u>178,127</u></u>	<u><u>912,496</u></u>

## NOTES TO THE FINANCIAL STATEMENTS

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

#### 16.4 Movements on Balances - Group 2015/16 Comparative Data

	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	Total Property Plant and Equipment £000
<b>Cost or Valuation</b>				
At 1 April 2015	12,192	12,634	50,330	4,615,203
Additions	1,328	137	44,485	157,589
Revaluation increases / (decreases) recognised in the Revaluation Reserve	0	2,553	0	(24,161)
Revaluation decreases recognised in the Surplus on the Provision of Services	(556)	(142)	0	(47,064)
Derecognition - disposals	0	(2,917)	0	(86,589)
Derecognition - other	0	0	0	(455)
Assets reclassified (to) / from held for sale	0	(10,105)	0	(30,226)
Other movements in cost or valuation	0	260	(5,127)	0
At 31 March 2016	<u>12,964</u>	<u>2,420</u>	<u>89,688</u>	<u>4,584,297</u>
<b>Accumulated Depreciation and Impairment</b>				
At 1 April 2015	0	(10)	0	(687,759)
Depreciation charge	0	(41)	0	(150,719)
Depreciation charge written out to Revaluation Reserve	0	0	0	26,435
Depreciation written out to the Surplus on the Provision of Services	0	0	0	11,883
Derecognition - disposals	0	16	0	14,319
Derecognition - other	0	0	0	455
Impairment losses recognised in the Surplus on the Provision of Services	0	0	0	(49)
Other movements in cost or valuation	0	35	0	696
At 31 March 2016	<u>0</u>	<u>0</u>	<u>0</u>	<u>(784,739)</u>
<b>Net book value</b>				
At 31 March 2016	<u>12,964</u>	<u>2,420</u>	<u>89,688</u>	<u>3,799,558</u>
At 31 March 2015	<u>12,192</u>	<u>12,624</u>	<u>50,330</u>	<u>3,927,444</u>

## NOTES TO THE FINANCIAL STATEMENTS

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

#### 16.5 Movements on Balances - Council Movements in 2016/17

	Council Dwellings £000	Other Land and Buildings £000	Vehicles, Plant, Furniture and Equipment £000	Infrastructure Assets £000
<b>Cost or Valuation</b>				
At 1 April 2016	1,066,016	1,663,708	179,516	1,369,414
Additions	41,395	31,535	5,408	26,958
Revaluation increases / (decreases) recognised in the Revaluation Reserve	(455)	22,765	0	0
Revaluation decreases recognised in the Surplus on the Provision of Services	0	(14,354)	(25)	0
Derecognition - disposals	(15,580)	(148)	0	0
Derecognition - other	0	0	0	0
Assets reclassified (to) / from held for sale	0	3,065	0	0
Other movements in cost or valuation	0	83,765	0	0
At 31 March 2017	<u>1,091,376</u>	<u>1,790,336</u>	<u>184,899</u>	<u>1,396,372</u>
<b>Accumulated Depreciation and Impairment</b>				
At 1 April 2016	(35,393)	(80,585)	(73,555)	(497,540)
Depreciation charge	(18,975)	(42,087)	(12,468)	(63,904)
Depreciation charge written out to Revaluation Reserve	209	9,646	0	0
Depreciation written out to the Surplus on the Provision of Services	0	7,516	15	0
Derecognition - disposals	774	5	0	0
Derecognition - other	0	0	0	0
Impairment losses recognised in the Surplus on the Provision of Services	0	0	0	0
Other movements in cost or valuation	0	(21)	0	0
At 31 March 2017	<u>(53,385)</u>	<u>(105,526)</u>	<u>(86,008)</u>	<u>(561,444)</u>
<b>Net book value</b>				
At 31 March 2017	<u>1,037,991</u>	<u>1,684,810</u>	<u>98,891</u>	<u>834,928</u>
At 31 March 2016	<u>1,030,623</u>	<u>1,583,123</u>	<u>105,961</u>	<u>871,874</u>

## NOTES TO THE FINANCIAL STATEMENTS

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

#### 16.5 Movements on Balances - Council

##### Movements in 2016/17

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

The disclosure for PPP assets is for information only. The costs and depreciation are included in 'Other Land and Buildings' and 'Assets Under Construction'.

## NOTES TO THE FINANCIAL STATEMENTS

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

#### 16.6 Movements on Balances - Council 2015/16 Comparative Data

<b>Cost or Valuation</b>	<b>Council Dwellings £000</b>	<b>Other Land and Buildings £000</b>	<b>Vehicles, Plant, Furniture and Equipment £000</b>	<b>Infrastructure Assets £000</b>
At 1 April 2015	1,047,151	1,783,676	167,200	1,344,090
Additions	31,257	34,385	12,964	25,324
Revaluation increases / (decreases) recognised in the Revaluation Reserve	(1,931)	(30,869)	0	0
Revaluation decreases recognised in the Surplus on the Provision of Services	(3,539)	(42,827)	0	0
Derecognition - disposals	(6,870)	(65,455)	(193)	0
Derecognition - other	0	0	(455)	0
Assets reclassified (to) / from held for sale	(52)	(20,069)	0	0
Other movements in cost or valuation	0	4,867	0	0
At 31 March 2016	<u>1,066,016</u>	<u>1,663,708</u>	<u>179,516</u>	<u>1,369,414</u>
<b>Accumulated Depreciation and Impairment</b>				
At 1 April 2015	(17,593)	(79,214)	(63,173)	(432,929)
Depreciation charge	(18,457)	(47,091)	(10,788)	(64,611)
Depreciation charge written out to Revaluation Reserve	211	26,847	0	0
Depreciation written out to the Surplus on the Provision of Services	216	11,667	0	0
Derecognition - disposals	228	6,547	0	0
Derecognition - other	0	0	455	0
Impairment losses recognised in the Surplus on the Provision of Services	0	0	(49)	0
Other movements in cost or valuation	2	659	0	0
At 31 March 2016	<u>(35,393)</u>	<u>(80,585)</u>	<u>(73,555)</u>	<u>(497,540)</u>
<b>Net book value</b>				
At 31 March 2016	<u>1,030,623</u>	<u>1,583,123</u>	<u>105,961</u>	<u>871,874</u>
At 31 March 2015	<u>1,029,558</u>	<u>1,704,462</u>	<u>104,027</u>	<u>911,161</u>



## NOTES TO THE FINANCIAL STATEMENTS

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

#### 16.6 Movements on Balances - Council

##### 2015/16 Comparative Data

	Community Assets £000	Surplus Assets £000	Total Assets Under Construction £000	Total Property Plant and Equipment £000	PPP Assets £000
<b>Cost or Valuation</b>					
At 1 April 2015	12,192	12,634	50,330	4,417,273	572,541
Additions	1,328	137	44,485	149,880	9,432
Revaluation increases / (decreases) recognised in the Revaluation Reserve	0	2,553	0	(30,247)	3,062
Revaluation decreases recognised in the Surplus on the Provision of Services	(556)	(142)	0	(47,064)	(1,254)
Derecognition - disposals	0	(2,917)	0	(75,435)	0
Derecognition - other	0	0	0	(455)	0
Assets reclassified (to) / from held for sale	0	(10,105)	0	(30,226)	0
Other movements in cost or valuation	0	260	(5,127)	0	0
At 31 March 2016	12,964	2,420	89,688	4,383,726	583,781
<b>Accumulated Depreciation and Impairment</b>					
At 1 April 2015	0	(10)	0	(592,919)	(15,231)
Depreciation charge	0	(41)	0	(140,988)	(13,085)
Depreciation charge written out to Revaluation Reserve	0	0	0	27,058	5,498
Depreciation written out to the Surplus on the Provision of Services	0	0	0	11,883	566
Derecognition - disposals	0	16	0	6,791	0
Derecognition - other	0	0	0	455	0
Impairment losses recognised in the Surplus on the Provision of Services	0	0	0	(49)	0
Other movements in cost or valuation	0	35	0	696	0
At 31 March 2016	0	0	0	(687,073)	(22,252)
<b>Net book value</b>					
At 31 March 2016	12,964	2,420	89,688	3,696,653	561,529
At 31 March 2015	12,192	12,624	50,330	3,824,354	557,310

The disclosure for PPP assets is for information only. The costs and depreciation are included in 'Other Land and Buildings'.

## NOTES TO THE FINANCIAL STATEMENTS

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

#### 16.7 Council Dwellings, Other Land and Buildings and Investment Properties

The Council carries out a rolling programme of revaluations that ensures that all property, plant and equipment required to be measured at fair value is revalued at least every five years. All valuations were carried out internally. Valuations of land and buildings were carried out under the direction of the Council's Operational Estate Manager, L. Turner RICS, in accordance with the Statements of Asset Valuation Practice and Guidance Notes of The Royal Institution of Chartered Surveyors. Fixtures and fittings are included in the valuation of the buildings where appropriate.

The significant assumptions applied in estimating fair value are:

- Unless otherwise stated, all properties with a greater than de minimis value were assumed to be in a reasonable state of repair and have a life expectancy of more than fifty years. Where the Council has a planned replacement programme asset life is reviewed accordingly.
- The valuations were prepared using information from the Council's internal records, together with the valuation roll produced by Lothian Valuation Joint Board.
- Not all properties were inspected.

The following statement shows the progress of the Council's five-year rolling programme for the revaluation of property, plant and equipment.

<b>Council assets</b>	<b>Council Dwellings £000</b>	<b>Other Land and Buildings £000</b>	<b>Vehicles, Plant, Furniture and Equipment £000</b>	<b>Infrastructure Assets £000</b>
Carried at historical cost	90,796	73,636	116,250	1,396,372
Valued at fair value as at:				
31 March 2017	0	238,328	0	0
31 March 2016	1,061	308,940	0	0
31 March 2015	1,425	274,751	67,674	0
31 March 2014	997,751	435,188	125	0
31 March 2013	343	459,493	850	0
<b>Total cost or valuation</b>	<b>1,091,376</b>	<b>1,790,336</b>	<b>184,899</b>	<b>1,396,372</b>

<b>Council assets</b>	<b>Community Assets £000</b>	<b>Surplus Assets £000</b>	<b>Assets Under Construction £000</b>	<b>Total £000</b>
Carried at historical cost	14,562	1	38,927	1,730,544
Valued at fair value as at:				
31 March 2017	0	0	0	238,328
31 March 2016	0	2,420	0	312,421
31 March 2015	0	0	0	343,850
31 March 2014	0	0	0	1,433,064
31 March 2013	0	0	0	460,686
<b>Total cost or valuation</b>	<b>14,562</b>	<b>2,421</b>	<b>38,927</b>	<b>4,518,893</b>

## NOTES TO THE FINANCIAL STATEMENTS

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

#### 16.8 Surplus Assets and Investment Properties - Fair Value Disclosure

Recurring fair value measurements using:	Quoted prices in active markets for identical assets (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Fair Value as at 31 March 2017
	£000	£000	£000	£000
Surplus assets	0	2,421	0	2,421
Investment properties - advertising hoardings	0	16,471	0	16,471
<b>Total cost or valuation</b>	<b>0</b>	<b>18,892</b>	<b>0</b>	<b>18,892</b>

- There were no transfers between levels during the year.
- The fair value for surplus assets has been based on the market approach using current market conditions and recent sales prices and other relevant information for similar assets in similar locations. Market conditions are such that similar properties are actively purchased and sold and the level of observable inputs is significant, leading to the properties being categorised at level 2 in the fair value hierarchy. In estimating the fair value of the Council's surplus assets, the assumption has been made that these would be disposed for highest and best use consideration.
- The fair value for investment properties has been based on the market approach using current rent receivable with a capitalisation rate applied. The rate reflects the return that an investor would expect from the capital employed. There is evidence of lettings from the Council's property information systems which have been used to determine valuation parameters and the level of observable inputs is significant, leading to the investment properties being categorised at level 2 in the fair value hierarchy. In estimating the fair value of the Council's investment properties, the highest and best use of the properties is their current use.

### 17. Investment Properties

#### 17.1 Income and Expenses on Investment Properties

The following items of income and expense have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

	2016/17		2015/16	
	Group £000	Council £000	Group £000	Council £000
Rental income from investment properties	(1,384)	(1,384)	(1,401)	(1,401)
Direct operating expenses arising from investment property	5	5	35	35
	<u>(1,379)</u>	<u>(1,379)</u>	<u>(1,366)</u>	<u>(1,366)</u>

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

## NOTES TO THE FINANCIAL STATEMENTS

### 17. Investment Properties - continued

#### 17.2 Movement in Fair Value

The following table summarises the movement in the fair value of investment properties over the year.

	2016/17		2015/16	
	Group £000	Council £000	Group £000	Council £000
Value at 1 April	17,450	17,250	16,304	16,104
Additions:				
- Subsequent expenditure	0	0	0	0
Disposals	0	0	0	0
Net (loss) / gain from fair value adjustments	(629)	(779)	1,146	1,146
Transfers				
- (to) / from Inventories	0	0	0	0
- (to) / from Property, Plant and Equipment	0	0	0	0
- (to) / from Assets Held for Sale	0	0	0	0
Value at 31 March	<u>16,821</u>	<u>16,471</u>	<u>17,450</u>	<u>17,250</u>

## NOTES TO THE FINANCIAL STATEMENTS

### 18. Intangible Assets

Intangible assets mainly represent purchased software licences.

Software is given a finite useful life based on the period of the licence purchased.

The carrying amount of intangible assets is amortised on a straight-line basis. The amortisation of £1.221m in 2016/17 (2015/16 £1.289m) was charged to the following services.

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

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

	<b>2016/17</b>		<b>2015/16</b>	
	<b>Group</b>	<b>Council</b>	<b>Group</b>	<b>Council</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Balance at 1 April				
Gross carrying amount	8,557	8,557	8,557	8,557
Less: Accumulated amortisation	<u>(4,892)</u>	<u>(4,892)</u>	<u>(3,603)</u>	<u>(3,603)</u>
Net carrying amount at 1 April	3,665	3,665	4,954	4,954
Additions during the year				
- Purchased intangible assets	221	221	0	0
Impairment during the year	0	0	0	0
Amortisation for the period	<u>(1,221)</u>	<u>(1,221)</u>	<u>(1,289)</u>	<u>(1,289)</u>
Net carrying amount at 31 March	<u>2,665</u>	<u>2,665</u>	<u>3,665</u>	<u>3,665</u>
Comprising:				
Gross carrying amounts	8,778	8,778	8,557	8,557
Accumulated amortisation	<u>(6,113)</u>	<u>(6,113)</u>	<u>(4,892)</u>	<u>(4,892)</u>
Net carrying amount at 31 March	<u>2,665</u>	<u>2,665</u>	<u>3,665</u>	<u>3,665</u>

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

	<b>Carrying Amount</b>		<b>Remaining</b>
	<b>2016/17</b>	<b>2015/16</b>	<b>Amortisation</b>
	<b>£000</b>	<b>£000</b>	<b>Period</b>
			<b>31.03.17</b>
Master data management software	444	666	2 years
Web-based solution software, including web forms	476	715	2 years
Integration engine software	405	608	2 years
Customer relationship management solutions	844	1,266	2 years
Security management software	143	213	2 years
Telephony system software	220	0	5 years

## NOTES TO THE FINANCIAL STATEMENTS

### 19. Heritage Assets

#### 19.1 Reconciliation of the Carrying Value of Heritage Assets Movements in 2016/17

	<b>Monuments and Statues £000</b>	<b>Civic Regalia and Artefacts £000</b>	<b>Archival Collections £000</b>
<b>Cost or Valuation</b>			
At 1 April 2016	654	2,047	6,797
Additions	11	0	0
Revaluation increases / (decreases) recognised in the Revaluation Reverse	0	0	0
At 31 March 2017	<u>665</u>	<u>2,047</u>	<u>6,797</u>
<b>Accumulated Impairment</b>			
At 1 April 2016	<u>0</u>	<u>0</u>	<u>0</u>
At 31 March 2017	<u>0</u>	<u>0</u>	<u>0</u>
<b>Net book value</b>			
At 31 March 2017	<u>665</u>	<u>2,047</u>	<u>6,797</u>
At 31 March 2016	<u>654</u>	<u>2,047</u>	<u>6,797</u>

	<b>Libraries' Special Collections £000</b>	<b>Museum and Gallery Collections £000</b>	<b>Total Heritage Assets £000</b>
<b>Cost or Valuation</b>			
At 1 April 2016	1,975	19,643	31,116
Additions	0	0	11
Revaluation increases / (decreases) recognised in the Revaluation Reverse	0	0	0
At 31 March 2017	<u>1,975</u>	<u>19,643</u>	<u>31,127</u>
<b>Accumulated Impairment</b>			
At 1 April 2016	<u>0</u>	<u>0</u>	<u>0</u>
At 31 March 2017	<u>0</u>	<u>0</u>	<u>0</u>
<b>Net book value</b>			
At 31 March 2017	<u>1,975</u>	<u>19,643</u>	<u>31,127</u>
At 31 March 2016	<u>1,975</u>	<u>19,643</u>	<u>31,116</u>

## NOTES TO THE FINANCIAL STATEMENTS

### 19. Heritage Assets - continued

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

	<b>Monuments and Statues £000</b>	<b>Civic Regalia and Artefacts £000</b>	<b>Archival Collections £000</b>
<b>Cost or Valuation</b>			
At 1 April 2015	613	2,047	6,797
Additions	40	0	0
Revaluation increases / (decreases) recognised in the Surplus on the Provision of Services	1	0	0
At 31 March 2016	<u>654</u>	<u>2,047</u>	<u>6,797</u>
<b>Accumulated Impairment</b>			
At 1 April 2015	<u>0</u>	<u>0</u>	<u>0</u>
At 31 March 2016	<u>0</u>	<u>0</u>	<u>0</u>
<b>Net book value</b>			
At 31 March 2016	<u>654</u>	<u>2,047</u>	<u>6,797</u>
At 31 March 2015	<u>613</u>	<u>2,047</u>	<u>6,797</u>
	<b>Libraries' Special Collections £000</b>	<b>Museum and Gallery Collections £000</b>	<b>Total Heritage Assets £000</b>
<b>Cost or Valuation</b>			
At 1 April 2015	1,975	19,643	31,075
Additions	0	0	40
Revaluation increases / (decreases) recognised in the Surplus on the Provision of Services	0	0	1
At 31 March 2016	<u>1,975</u>	<u>19,643</u>	<u>31,116</u>
<b>Accumulated Impairment</b>			
At 1 April 2015	<u>0</u>	<u>0</u>	<u>0</u>
At 31 March 2016	<u>0</u>	<u>0</u>	<u>0</u>
<b>Net book value</b>			
At 31 March 2016	<u>1,975</u>	<u>19,643</u>	<u>31,116</u>
At 31 March 2015	<u>1,975</u>	<u>19,643</u>	<u>31,075</u>

#### 19.2 Details of Heritage Assets

- Monuments and Statues are valued on a historic basis and valuations are carried out under the direction of the Council's Operational Estate Manager.
- Civic Regalia and artefacts include items such as the Lord Provost's Badge and Chain of Office and the Rosebery Jewel. The value of these assets is based on an insurance purposes valuation carried out in 1998.
- Archival collections include historical records which relate to the history of Edinburgh and its surrounding areas. The value of these assets is based on a current insurance purposes valuation based on restoration costs only. This valuation has not changed since 2008/09.

## NOTES TO THE FINANCIAL STATEMENTS

### 19. Heritage Assets - continued

#### 19.2 Details of Heritage Assets - continued

- Libraries special collections include items such as rare book collections and pictures in Calotype. The value of these assets is based on an insurance purposes valuation carried out in 2007 with a minor proportions valuation being updated in 2014.
- Museums and Gallery collections include various collections held at a number of museums across Edinburgh. They include items held within the Social History, Applied Art, Writers Museum, Childhood, City Art Centre and Picture Loan Scheme. The value of these assets is based on insurance purposes valuations carried out in 2003 along with a minor proportions valuation being updated in 2014. A small minority of the assets are based on insurance purposes valuations carried out in 1996.
- The valuations for heritage assets have all been carried out internally and although they are from earlier periods, they are considered the most appropriate and relevant. Carrying out valuations for the majority of collections held is very costly and time consuming so it is not practicable to obtain recent valuations at a cost which is commensurate with the benefits to users of the financial statements. The carrying amounts of these heritage assets will be reviewed with sufficient regularity in the future to ensure they are brought up to date and remain appropriate.
- It has not been practical or possible to split out all heritage assets belonging to common good, charities or trusts. Therefore, the Council's balance sheet may hold this element of heritage assets that belong to other entities.
- The Council has three private vehicle registration plates which meet the definition of intangible heritage assets. These have not been recognised on the balance sheet due to lack of information on cost or current value. They are limited registration numbers that rarely become available for sale and therefore no relevant or appropriate current value can be placed on these.

### 20. Financial Instruments

#### 20.1 Categories of Financial Instruments

The following categories of financial instrument are carried on the Council's Balance Sheet

	<b>Long-Term</b>		<b>Current</b>		<b>Re-stated</b>
	<b>31.03.17</b>	<b>31.03.16</b>	<b>31.03.17</b>	<b>31.03.16</b>	
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Investments</b>					
Loans and receivables	0	0	172,542	128,378	
Available for sale	0	0	967	64,311	
Unquoted equity investment at cost	23,436	23,474	0	0	
Total investments	23,436	23,474	173,509	192,689	
<b>Debtors</b>					
Loans and receivables	5,665	5,538	28,293	29,978	
Total debtors	5,665	5,538	28,293	29,978	
<b>Borrowings</b>					
Financial liabilities (principal amount)	(1,245,546)	(1,299,901)	(54,355)	(51,983)	
Accrued interest	0	0	(16,019)	(17,513)	
Cost of amortisation	(9,044)	(8,988)	30	35	
Total borrowings	<u>(1,254,590)</u>	<u>(1,308,889)</u>	<u>(70,344)</u>	<u>(69,461)</u>	

The Council's policy of investing in Treasury Bills with the intention of holding to maturity remains unchanged, despite the reclassification of Financial Instruments per Note 20.5.



## NOTES TO THE FINANCIAL STATEMENTS

### 20. Financial Instruments - continued

#### 20.1 Categories of Financial Instruments - continued

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

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

Other deferred liabilities relate to income received in advance, which is required to be put on interest bearing deposit.

Further detail on the finance lease and PPP liabilities can be seen in notes 40 and 41.

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

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

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

In addition to the above interest expense, £1.849m (2015/16 £1.849m) was charged to the loans pool from the financial instruments adjustment account during the year, but not reflected in the Comprehensive Income and Expenditure Statement. It also excludes £0.211m (2015/16 £0.305m) of loans fund expenses charged to the Council.

## NOTES TO THE FINANCIAL STATEMENTS

### 20. Financial Instruments - continued

#### 20.3 Fair Value of Assets and Liabilities

The Council has adopted IFRS 13 for the calculation of fair values. Financial assets classified as available for sale are carried in the Balance Sheet at fair value. For Treasury Bills and shares in Money Market Funds, the fair value is taken from the market price. Financial assets classified as loans and receivables and all financial liabilities are carried in the Balance Sheet at amortised cost. Their fair values have been estimated by calculating the net present value of the remaining contractual cash flows at 31 March 2017, using the following methods and assumptions:

- Loans, including PWLB loans, borrowed by the Council have been valued by discounting the contractual cash flows over the whole life of the instrument at the appropriate market rate for local authority loans.
- The value of “Lender’s Option Borrower’s Option” (LOBO) loans has been increased by the value of the embedded options.
- The fair values of other long-term loans and investments have been discounted at the market rates for similar instruments with similar remaining terms to maturity on 31 March.
- The fair values of finance lease assets and liabilities and of PFI scheme liabilities have been calculated by discounting the contractual cash flows (excluding service charge elements) at the appropriate AA-rated corporate bond yield.
- The fair value of soft loan assets has been calculated using the cash flows implied by the appropriate market interest rate which has been deemed to be the appropriate PWLB rate plus a credit spread of between 2% and 5% depending on the party to whom the advance has been made.
- The fair value of short-term instruments, including trade payables and receivables, is assumed to approximate to the carrying amount.

Fair values are shown in the table below, split by their level in the fair value hierarchy:

- Level 1 – fair value is only derived from quoted prices in active markets for identical assets or liabilities, e.g. bond prices.
- Level 2 – fair value is calculated from inputs other than quoted prices that are observable for the asset or liability, e.g. interest rates or yields for similar instruments.
- Level 3 – fair value is determined using unobservable inputs, e.g. non-market data such as cash flow forecasts or estimated creditworthiness.

The fair values are calculated as follows:

		31.03.17		31.03.16	
	Fair Value Level	Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000
Public Works Loans Board	2	(1,034,769)	(1,400,491)	(1,086,887)	(1,365,967)
Salix	2	(1,736)	(1,791)	(2,004)	(2,042)
Market debt	2	(288,419)	(559,498)	(289,443)	(497,978)
Other long-term liabilities	n/a	(350)	(350)	(350)	(350)
Trade creditors	n/a	(23,548)	(23,548)	(15,277)	(15,277)
Finance Leases	3	(215,887)	(313,562)	(226,600)	(311,832)
Financial liabilities		<u>(1,564,709)</u>	<u>(2,299,240)</u>	<u>(1,620,561)</u>	<u>(2,193,446)</u>

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

## NOTES TO THE FINANCIAL STATEMENTS

### 20. Financial Instruments - continued

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

	Fair Value Level	31.03.17		31.03.16	
		Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000
<b>Investments held at Fair Value</b>					
Treasury Bills	1	0	0	38,455	38,455
Money Market Funds	1	967	967	25,856	25,856
		<u>967</u>	<u>967</u>	<u>64,311</u>	<u>64,311</u>
<b>Investment held at Amortised Cost</b>					
Bank Call Accounts	n/a	17,646	17,646	41,028	41,028
Building Society Deposits	2	0	0	0	0
Local Authority Loans	2	154,896	154,927	87,350	87,357
Unquoted Equity investment at cost	n/a	23,436	23,436	23,474	23,474
		<u>195,978</u>	<u>196,009</u>	<u>151,852</u>	<u>151,859</u>
<b>Debtors</b>					
Loan Stock	n/a	4,714	4,714	4,626	4,626
Soft Loans	3	951	951	912	912
Other trade debtors	n/a	28,293	28,293	29,978	29,978
		<u>33,958</u>	<u>33,958</u>	<u>35,516</u>	<u>35,516</u>
<b>Total Investments</b>		<u>230,903</u>	<u>230,934</u>	<u>251,679</u>	<u>251,686</u>

#### 20.5 Available for Sale Financial Assets

As part of the introduction of IFRS13, a review of the classification of Financial Instruments has been undertaken and as a result, investment in Treasury Bills and Money Market Funds have been reclassified as Available for Sale per the table below.

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

There was no unrealised gain on the available for sale financial assets (2015/16 £1,857).

## NOTES TO THE FINANCIAL STATEMENTS

### 21. Inventories Movements in 2016/17 and 2015/16

	2016/17		2015/16	
	Group £000	Council £000	Group £000	Council £000
<b>Fuel Stocks</b>				
Balance at 1 April	391	115	500	114
Purchases	21,863	2,461	22,162	2,162
Recognised as an expense in the year	(21,679)	(2,405)	(22,271)	(2,161)
Balance at 31 March	575	171	391	115
<b>Gift Stock and Community Equipment</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Balance at 1 April	1,423	1,423	1,165	1,165
Purchases	2,650	2,650	2,611	2,611
Held by a third party	37	37	34	34
Recognised as an expense in the year	(2,653)	(2,653)	(2,387)	(2,387)
Balance at 31 March	1,457	1,457	1,423	1,423
<b>Construction and Other Raw Materials</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Balance at 1 April	1,173	835	1,391	1,155
Purchases	20,394	4,832	17,324	3,413
Recognised as an expense in the year	(20,220)	(4,568)	(17,542)	(3,733)
Balance at 31 March	1,347	1,099	1,173	835
<b>Items held for sale</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Balance at 1 April	108	108	91	91
Purchases	317	317	376	376
Recognised as an expense in the year	(301)	(301)	(358)	(358)
Stock written off	(2)	(2)	(1)	(1)
Balance at 31 March	122	122	108	108
<b>Work in Progress</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Balance at 1 April	14,348	0	8,686	0
Purchases	0	0	5,662	0
Recognised as an expense in the year	(1,882)	0	0	0
Balance at 31 March	12,466	0	14,348	0
<b>Clothing and Equipment</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Balance at 1 April	95	95	90	90
Purchases	196	196	240	240
Recognised as an expense in the year	(208)	(208)	(235)	(235)
Balance at 31 March	83	83	95	95
<b>Catering Stocks</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Balance at 1 April	123	123	134	134
Purchases	2,862	2,862	2,847	2,847
Recognised as an expense in the year	(2,869)	(2,869)	(2,858)	(2,858)
Balance at 31 March	116	116	123	123

## NOTES TO THE FINANCIAL STATEMENTS

21. Inventories - continued	2016/17		2015/16	
	Group £000	Council £000	Group £000	Council £000
Total				
Balance at 1 April	17,661	2,699	12,057	2,749
Purchases	48,282	13,318	51,222	11,649
Held by a third party	37	37	34	34
Recognised as an expense in the year	(49,812)	(13,004)	(45,651)	(11,732)
Stock written off	(2)	(2)	(1)	(1)
Balance at 31 March	<u>16,166</u>	<u>3,048</u>	<u>17,661</u>	<u>2,699</u>

## 22. Debtors

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

## 22.2 Analysis of Long-term Debtors

Long-term debtors comprise the following elements:

	2016/17		2015/16	
	Group £000	Council £000	Group £000	Council £000
Capital advances				
Police Scotland	14,198	14,198	16,151	16,151
Fire Scotland	1,043	1,043	2,052	2,052
Council Tax	80,121	80,121	90,417	90,417
Non-Domestic Rates	1,896	1,896	1,700	1,700
CEC Holdings	0	4,714	0	4,626
NHT Loans (see note 34.3)	60,255	60,255	47,162	47,162
House rents	5,492	5,492	5,252	5,252
Car loan scheme	71	71	131	131
Shared equity scheme (see note 34.2)	401	401	485	485
Scheme of assistance (see note 34.2)	920	920	901	901
Other debtors	<u>48,274</u>	<u>48,274</u>	<u>42,807</u>	<u>42,807</u>
	<u>212,671</u>	<u>217,385</u>	<u>207,058</u>	<u>211,684</u>

Long-term debtors include £14.198m (2015/16 £16.151m) and £1.043m (2015/16 £2.052m) for sums recoverable from Police Scotland and Fire Scotland respectively. These sums relate to monies advanced to the former joint boards for capital expenditure.

## NOTES TO THE FINANCIAL STATEMENTS

### 22. Debtors - continued

#### 22.3 Current Debtors

	2016/17		Re-stated 2015/16	
	Group £000	Council £000	Group £000	Council £000
Central government bodies	25,436	21,456	25,971	23,364
Other local authorities	688	406	1,473	1,078
NHS bodies	1,026	1,026	1,642	1,641
Public corporations and trading funds	9	9	33	33
Other entities and individuals	167,355	159,066	162,738	155,763
Total current debtors before provision for impairment	194,514	181,963	191,857	181,879
Less: Provision for impairment	(107,584)	(107,575)	(95,478)	(95,478)
Total net current debtors	86,930	74,388	96,379	86,401

#### 22.4 Provision for Impairment

	2016/17		2015/16	
	Group £000	Council £000	Group £000	Council £000
<b>Long-term provision for impairment</b>				
Council tax	(78,295)	(78,295)	(87,765)	(87,765)
Non-Domestic rates	(1,373)	(1,373)	(1,357)	(1,357)
Sundry debtors	(26,033)	(26,033)	(23,288)	(23,288)
Total long-term provision for impairment	(105,701)	(105,701)	(112,410)	(112,410)
<b>Current provision for impairment</b>				
Council tax	(98,119)	(98,119)	(84,367)	(84,367)
Non-Domestic rates	(226)	(226)	(60)	(60)
Sundry debtors	(9,239)	(9,230)	(11,051)	(11,051)
Total current provision for impairment	(107,584)	(107,575)	(95,478)	(95,478)

### 23. Cash and Cash Equivalents

The balance of cash and cash equivalents comprises the following elements. Investments maturing within three months of the balance sheet are deemed to be cash and cash equivalents.

	2016/17		2015/16	
	Group £000	Council £000	Group £000	Council £000
Cash held	387	387	385	385
Bank current accounts	12,610	(14,079)	2,972	(17,749)
Short-term deposits:				
With banks or building societies	17,646	17,646	41,028	41,028
With other local authorities	129,188	129,188	74,327	74,327
	159,831	133,142	118,712	97,991

## NOTES TO THE FINANCIAL STATEMENTS

### 24. Assets Held for Sale

	2016/17		2015/16	
	Group £000	Council £000	Group £000	Council £000
<b>24.1 Non-Current Assets</b>				
Balance at 1 April	43,746	43,746	21,179	21,179
Additions	259	259	174	174
Revaluation gains/(losses) recognised in the revaluation reserve	4,660	4,660	893	893
Revaluation gains/(losses) recognised in Surplus on the Provision of Services	(1,893)	-1,893	0	0
Assets reclassified as held for sale: Property, Plant and Equipment	(3,116)	(3,116)	29,528	29,528
Assets sold	(913)	(913)	(2,517)	(2,517)
Transfers from non-current to current	(29,245)	(29,245)	(5,511)	(5,511)
Balance at 31 March	<u>13,498</u>	<u>13,498</u>	<u>43,746</u>	<u>43,746</u>

	2016/17		2015/16	
	Group £000	Council £000	Group £000	Council £000
<b>24.2 Current Assets</b>				
Balance at 1 April	683	683	8,503	8,503
Additions	3	3	49	49
Revaluation gains/(losses) recognised in the revaluation reserve	(500)	(500)	0	0
Revaluation gains/(losses) recognised in Surplus on the Provision of Services	(72)	(72)	0	0
Assets reclassified as held for sale: Property, Plant and Equipment	0	0	3	3
Assets sold	0	0	(13,383)	(13,383)
Transfers from non-current to current	29,245	29,245	5,511	5,511
Balance at 31 March	<u>29,359</u>	<u>29,359</u>	<u>683</u>	<u>683</u>

### 25. Creditors

	2016/17		2015/16	
	Group £000	Council £000	Group £000	Council £000
Central government bodies	(12,763)	(8,545)	(25,979)	(21,823)
Other local authorities	(9,116)	(8,065)	(8,278)	(7,136)
NHS bodies	(270)	(270)	(639)	(639)
Public corporations and trading funds	(1,082)	(1,082)	(11,500)	(11,500)
Other entities and individuals	(146,311)	(124,709)	(128,406)	(106,910)
	<u>(169,542)</u>	<u>(142,671)</u>	<u>(174,802)</u>	<u>(148,008)</u>

## NOTES TO THE FINANCIAL STATEMENTS

### 26. Provisions

Provision has been made within the Group Financial Statements for outstanding payments of £12.863m (2015/16 £13.004m).

Of this amount, £10.551m (2015/16 £11.532m) relates to the Council. These include estimates of settlements on outstanding equal pay, compensation, insurance and other claims, land acquisition costs for the tram project and Council Tax discounts that require to be set aside for housing projects. The precise amount of these payments is unknown, however, provision has been made in the accounts, as summarised below, based on the Council's assessment of the costs.

	<b>Trams £000</b>	<b>Equal Pay Claims £000</b>	<b>Council Tax Discounts £000</b>
Balance at 1 April 2016	(2,912)	(568)	(1,716)
Additional provisions made during the year	(233)	(295)	(172)
Amounts used during the year	27	401	0
Unused amounts reversed during the year	0	0	0
Balance at 31 March 2017	<u>(3,118)</u>	<u>(462)</u>	<u>(1,888)</u>
	<b>Housing Benefit Subsidy £000</b>	<b>Insurance Claims £000</b>	<b>Other Provisions £000</b>
Balance at 1 April 2016	(170)	(471)	(5,695)
Additional provisions made during the year	0	(245)	(33)
Amounts used during the year	0	166	483
Unused amounts reversed during the year	0	0	882
Balance at 31 March 2017	<u>(170)</u>	<u>(550)</u>	<u>(4,363)</u>
	<b>Total Council Provisions £000</b>	<b>Group Provisions £000</b>	<b>Total Provisions £000</b>
Balance at 1 April 2016	(11,532)	(1,472)	(13,004)
Additional provisions made during the year	(978)	(1,976)	(2,954)
Amounts used during the year	1,077	1,136	2,213
Unused amounts reversed during the year	882	0	882
Balance at 31 March 2017	<u>(10,551)</u>	<u>(2,312)</u>	<u>(12,863)</u>



## NOTES TO THE FINANCIAL STATEMENTS

### 27. Usable Reserves

Movements in the Group and the Council's usable reserves are detailed in the Movement in Reserves Statement (on pages 18 to 19) and Note 12.

### 28. Unusable Reserves

#### 28.1 Summary of Unusable Reserves

	Balance as at:	
	31 March 2017 £000	31 March 2016 £000
Revaluation Reserve	873,986	856,303
Capital Adjustment Account	1,403,268	1,376,129
Financial Instruments Adjustment Account	(45,390)	(47,214)
Available for Sale Financial Assets Reserve	0	2
Pensions Reserve	(705,786)	(438,940)
Employee Statutory Adjustment Account	(14,121)	(14,862)
Total Council Unusable Reserves	1,511,957	1,731,418
Subsidiaries, Associates and Joint Ventures	109,801	108,366
Total Group Unusable Reserves	<u>1,621,758</u>	<u>1,839,784</u>

#### 28.2 Revaluation Reserve

The revaluation reserve contains the gains made by the Council arising from increases in the value of its property, plant and equipment. The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost;
- used in the provision of services and the gains are consumed through depreciation; or
- disposed of and the gains are realised.

The reserve contains unrealised gains accumulated since 1 April 2007, the date the reserve was created. Accumulated gains arising before 1 April 2007 were consolidated into the capital adjustment account.

	2016/17 £000	2015/16 £000
Balance at 1 April	856,303	905,886
Upward revaluation of assets	47,395	49,068
Downward revaluation of assets and impairment losses not charged to the Surplus on the Provision of Services	(6,922)	(51,362)
Surplus on revaluation of non-current assets not posted to the Surplus on the Provision of Service	40,473	(2,294)
Difference between fair value depreciation and historical cost depreciation	(18,868)	(18,860)
Accumulated gains on assets sold	(3,922)	(28,429)
Amount written off to the capital adjustment account	(22,790)	(47,289)
Balance at 31 March	<u>873,986</u>	<u>856,303</u>

## NOTES TO THE FINANCIAL STATEMENTS

### 28. Unusable Reserves - continued

#### 28.3 Capital Adjustment Account

The capital adjustment account provides a balancing mechanism for timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (CIES) (with reconciling postings from the revaluation reserve to convert fair value figures to a historical cost basis). The account is credited with the amounts set aside by the Council to finance the costs for acquisition, construction and enhancement of non-current assets. The account also holds accumulated gains and losses on investment properties and revaluation gains accumulated on property, plant and equipment prior to 1 April 2007.

Note 11 provides details of the source of the transactions posted to this account, except those involving the revaluation reserve.

	2016/17 £000	Re-stated 2015/16 £000
Balance at 1 April	1,376,129	1,340,067
<u>Reversal of items relating to capital expenditure debited or credited to the CIES</u>		
Charges for depreciation and impairment of non-current assets	(134,700)	(138,284)
Revaluation losses on property, plant and equipment heritage assets and assets held for sale	(13,425)	(36,323)
Amortisation of intangible assets	(1,221)	(1,289)
Capital funded from revenue	2,056	215
Revenue exp. funded from capital under statute	(35,529)	(38,846)
Amounts of non-current assets written off on disposal or sale as part of the gain / loss on disposal to the CIES	(12,061)	(35,947)
	<u>(194,880)</u>	<u>(250,474)</u>
Adjusting amounts written out of the revaluation reserve	22,790	47,289
	<u>(172,090)</u>	<u>(203,185)</u>
Net written out amount of the costs of non-current assets consumed in the year		
<u>Capital financing applied in the year:</u>		
Use of the capital receipts reserve to finance new capital expenditure	27,922	120,491
Capital grants and contributions credited to the CIES that have been applied to capital financing	58,470	68,940
Application of grants from the capital grants unapplied account / capital fund	1,905	3,285
Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	91,149	101,473
Capital expenditure charged against the General Fund and HRA balances	35,529	38,846
	<u>214,975</u>	<u>333,035</u>
Movements in the market value of investment properties credited to the CIES	(779)	1,146
Other unrealised losses debited to the CIES	<u>(14,967)</u>	<u>(94,934)</u>
Balance at 31 March	<u><u>1,403,268</u></u>	<u><u>1,376,129</u></u>

## NOTES TO THE FINANCIAL STATEMENTS

### 28. Unusable Reserves - continued

#### 28.4 Financial Instruments Adjustment Account

The financial instruments adjustment account provides a balancing mechanism between the different rates at which gains and losses (such as premiums on the early repayment of debt) are recognised under the Code and are required by statute to be met from the General Fund and Housing Revenue Account. This account also holds the equivalent interest rate adjustment on lender option / borrower option loans.

	2016/17 £000	2015/16 £000
Balance at 1 April	(47,214)	(49,159)
Proportion of premiums incurred in previous financial years to be charged against the General Fund and HRA balances in accordance with statutory requirements	1,849	1,849
Proportion of equivalent interest rate calculation on lender option / borrower option loans (LOBOs)	48	79
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in accordance with statutory requirements	1,897	1,928
Difference between actual interest paid and interest rate assumed in equivalent interest rate calculation on transition	(73)	17
Balance at 31 March	<u>(45,390)</u>	<u>(47,214)</u>

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

#### 28.5 Available for Sale Financial Assets Reserve

The available for sale financial assets reserve provides a balancing mechanism for gains and losses arising on movements in fair value of financial assets (such as Treasury Bills and Money Market Funds).

	2016/17 £000	2015/16 £000
Balance at 1 April	2	0
Unrealised gains / (losses) on revaluation of assets	(2)	2
Balance at 31 March	<u>0</u>	<u>2</u>

#### 28.6 Pensions Reserve

The pensions reserve provides a balancing mechanism arising from the different arrangements for accounting for post employment benefits (pension costs) and for funding pensions in accordance with statutory provisions. The Council accounts for pensions in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs.

Statutory arrangements, however, require benefits to be financed as the Council makes its contributions to Lothian Pension Fund or pays any pensions for which it is directly responsible.

## NOTES TO THE FINANCIAL STATEMENTS

### 28. Unusable Reserves - continued

#### 28.6 Pensions Reserve - continued

The debit balance on the pension reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources that the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits require to be paid.

	<b>2016/17</b>	<b>2015/16</b>
	<b>£000</b>	<b>£000</b>
Balance at 1 April	(438,940)	(726,969)
Actuarial gains or (losses) on pension assets and liabilities	(244,211)	323,138
Reversal of items relating to retirement benefits debited or credited to the Surplus on the Provision of Services in the Comprehensive Income and Expenditure Statement	(88,899)	(107,396)
Employer's pension contributions and direct payments to pensioners payable in the year	66,264	72,287
Balance at 31 March	<u>(705,786)</u>	<u>(438,940)</u>

#### 28.7 Employee Statutory Adjustment Account

The employee statutory adjustment account provides a balancing mechanism arising from the different arrangements that would otherwise impact on the General Fund and HRA balances from accruing for compensated absences earned but not taken in the year (annual leave entitlement carried forward at 31 March). Statutory arrangements require that the impact on the General Fund and HRA balances is mitigated by transfers to or from this account.

	<b>2016/17</b>	<b>2015/16</b>
	<b>£000</b>	<b>£000</b>
Balance at 1 April	(14,862)	(20,738)
Settlement or cancellation of accrual made at the end of the preceding year	14,862	20,738
Amount accrued at the end of the current year	<u>(14,121)</u>	<u>(14,862)</u>
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	741	5,876
Balance at 31 March	<u>(14,121)</u>	<u>(14,862)</u>

## NOTES TO THE FINANCIAL STATEMENTS

### 28. Unusable Reserves - continued

#### 28.8 Unusable Reserves - Group Members

	Balance as at:	
	31 March 2017 £000	31 March 2016 £000
<b>Subsidiaries</b>		
CEC Holdings Limited		
Capital financing account	64,466	64,466
Capital contribution	10,254	10,131
Transport for Edinburgh		
Revaluation reserve	11,309	11,309
Non Controlling Interest	8,110	8,527
Other Unusable Reserves	1,004	(4,514)
<b>Total Unusable Reserves - Subsidiaries</b>	<b>95,143</b>	<b>89,919</b>
<b>Associates and Joint Ventures</b>		
Common Good		
Capital adjustment account	(22)	(22)
Revaluation reserve	21,994	21,994
Lothian Valuation Joint Board		
Capital adjustment account	329	352
Employee statutory adjustment account	(58)	(57)
Pension reserve	(7,585)	(3,820)
<b>Total Unusable Reserves - Associates and Joint Ventures</b>	<b>14,658</b>	<b>18,447</b>
<b>Total Unusable Reserves - Subsidiaries, Associates and Joint Ventures</b>	<b>109,801</b>	<b>108,366</b>

### 29. Cash Flow Statement - Operating Activities

The cash flows for operating activities include the following items:

	2016/17		2015/16	
	Group £000	Council £000	Group £000	Council £000
Cash paid to and on behalf of employees	567,959	567,959	578,770	578,770
General Revenue Grant	(344,919)	(344,919)	(354,576)	(354,576)
Non-Domestic Rates receipts from national pool	(374,650)	(374,650)	(390,862)	(390,862)
Other net operating cash payments / (receipts)	(47,305)	(47,305)	(9,539)	(9,539)
Net cash flows from subsidiary companies	(26,112)	0	(16,456)	0
<b>Net cash flows from operating activities</b>	<b>(225,027)</b>	<b>(198,915)</b>	<b>(192,663)</b>	<b>(176,207)</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 30. Cash Flow Statement - Operating Activities - continued

The cash flows for operating activities include the following items:

	2016/17		2015/16	
	Group £000	Council £000	Group £000	Council £000
Interest received	(3,840)	(3,669)	(2,136)	(1,924)
Interest paid	87,805	87,431	97,540	97,072
Investment income received	(6,000)	(6,000)	(4,925)	(4,925)

### 31. Cash Flow Statement - Investing Activities

	2016/17		2015/16	
	Group £000	Council £000	Group £000	Council £000
Purchase of Property, Plant and Equipment, Investment Property and Intangible Assets	179,388	165,139	142,625	134,928
Proceeds from the Sale of Property, Plant and Equipment, Investment Property and Intangible	(25,146)	(24,916)	(121,467)	(118,016)
Net purchase of Short-Term and Long-Term Investments	(50,681)	(50,658)	77,288	77,334
Other payments for investing activities	48,507	42,990	44,348	43,854
Other receipts from investing activities	<u>(11,496)</u>	<u>(11,577)</u>	<u>(11,130)</u>	<u>(11,130)</u>
<b>Net cash flows from investing activities</b>	<b><u>140,572</u></b>	<b><u>120,978</u></b>	<b><u>131,664</u></b>	<b><u>126,970</u></b>

### 32. Cash Flow Statement - Financing Activities

	2016/17		2015/16	
	Group £000	Council £000	Group £000	Council £000
Cash Receipts of Short- and Long-Term Borrowing	(193)	(70)	87,472	88,263
Other Receipts for Financing Activities	(37,700)	(37,700)	(20,784)	(20,784)
Cash Payments for the Reduction of the Outstanding Liability relating to Finance Leases and on-Balance Sheet PPP Contracts	11,386	10,713	16,113	10,725
Repayment of short-term and long-term borrowing	69,843	69,843	(45,010)	(45,010)
<b>Net cash flows from investing activities</b>	<b><u>43,336</u></b>	<b><u>42,786</u></b>	<b><u>37,791</u></b>	<b><u>33,194</u></b>

## NOTES TO THE FINANCIAL STATEMENTS

### 33. Trading Operations

The Edinburgh Catering Service - Other Catering continues to meet the definition of significant trading operations under the terms of the Local Government in Scotland Act 2003, as amended.

The Refuse Collection service ceased to meet the definition of a significant trading operation, with effect from 1 July 2016. The service withdrew the trade waste provision to external parties and only now deals with domestic and internal refuse collection.

#### 33.1 Edinburgh Catering Services - Other Catering

Edinburgh Catering Services - Other Catering is a quality accredited trading operation providing a catering service to staff and the public across seven Council buildings which includes civic hospitality in Waverley Court and the City Chambers.

	<b>2016/17</b>	<b>2015/16</b>	<b>2014/15</b>	<b>Cumulative</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Turnover	902	980	1,297	n/a
Deficit	(191)	(232)	(66)	(489)

Edinburgh Catering Services - Other Catering failed to achieved its statutory obligation to break even over the three-year period, due to a continuing downturn in turnover on internal hospitality, an increase in other staffing and equipment costs.

There are ongoing plans to invest in the catering service to establish a dedicated catering team responsible for School and Welfare Catering and the STO Staff Catering Service. During 2016-17 the service was delivered through property managers but with no specific catering experience and no overall strategic catering expertise. It is envisaged that these new roles will be filled early in 2017 and will focus on Corporate catering as a priority. It is anticipated that changes to the service to address commercial issues will commence from August to October. Immediate short-term actions are being considered and will be implemented upon Corporate Leadership Group approval.

The results of Edinburgh Catering Services - Other Catering are included within 'Financing and Investment Income and Expenditure' in the Comprehensive Income and Expenditure Statement.

#### 33.2 Refuse Collection, including Trade Waste

This trading operation provided refuse collection services for over 239,000 households and trade waste collection and disposal service to producers of commercial waste throughout the city. The Council approved the discontinuation of the trade waste services as part of the 2016/17 budget setting process, with effect from 1 July 2016. The trade waste provision represented the only element of external trading within this service and therefore was determined to change the status of the service to a Non-Trading Operation from 1 July 2016, upon its cessation. The turnover and deficit reported below for 2016/17 represents three months of trading.

	3 months to 30.06.2016	<b>2015/16</b>	<b>2014/15</b>	<b>Cumulative</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Turnover	3,906	16,723	17,155	n/a
Surplus / (deficit)	(470)	(242)	2,279	1,567

Refuse Collection achieved its statutory obligation to break even over the three-year period, up to 30 June 2016.

The results of Refuse Collection / Trade Waste are included within 'Place' in the Comprehensive Income and Expenditure Statement.

## NOTES TO THE FINANCIAL STATEMENTS

### 34. Financial Support and Guarantees

#### 34.1 Loans and guarantees

The Council has made loans to the following organisations at less than market interest rates (soft loans).

	<b>2016/17 £000</b>	<b>2015/16 £000</b>	<b>2016/17 £000</b>	<b>2015/16 £000</b>
	Transport for Edinburgh Ltd.	Transport for Edinburgh Ltd.	Spartan Community Football Academy	Spartan Community Football Academy
Opening Balance	861	824	52	51
New Loans	0	0	0	0
Increase in the Discounted Amount	38	37	5	4
Fair Value Adjustment	0	0	0	0
Loan Repayment	0	0	(3)	(3)
Balance Carried Forward	<u>899</u>	<u>861</u>	<u>54</u>	<u>52</u>
Nominal Value Carried Forward	<u>1,000</u>	<u>1,000</u>	<u>102</u>	<u>105</u>

Adjustments have been made under the requirements of IAS 39 Financial Instruments: Recognition and Measurement, as required by the Code.

The Transport for Edinburgh loan relates to two £500,000 loans to Transport for Edinburgh Ltd. to provide a loan facility to Tramco for its general working capital purposes and funding its business and activities.

The Spartans loan relates to the lease of an area of ground lying immediately to the west of Ainslie Park Leisure Centre, Pilton Drive, Edinburgh. The original outstanding payment was £120,000, with £3,000 to be paid on or before 31 March each year for ten consecutive years from 31 March 2012 and £9,000 to be paid for ten consecutive years on or before 31 March from 31 March 2022.



## NOTES TO THE FINANCIAL STATEMENTS

### 34. Financial Support and Guarantees - continued

#### 34.2 Shared Equity Scheme / Scheme of Assistance

In 2010/11, the Council approved a shared equity scheme to help buyers purchase homes from PARC. The Council provided assistance to sixteen purchasers, at a cost of £0.484m. No further assistance has been provided since 2012/13.

The monies are required to be repaid to the Council either on sale of the property or after twenty years, whichever occurs earlier.

Purchasers have the option to pay interest annually or accumulate charges on the same terms as the original equity. Sums due to the Council, including accrued interest, where owners have opted to defer interest, are included in long-term debtors.

The assisted purchase scheme was an initiative administered on behalf of the Council to allow home owners to enter into a lifetime mortgage agreement to finance repairs to their properties. Forty loans were made between 2007 and 2012, with an original loan principal value of £0.762m. These sums are included in long-term debtors.

The loans are repayable on sale of the property or on the death of the home owner. The amount repayable is a minimum of the original loan principal and a maximum of the original loan as a percentage of the property value on signing the agreement, as applied to the value on redeeming the loan.

#### 34.3 National Housing Trust

The National Housing Trust (NHT) is a housing initiative developed by the Scottish Government, in partnership with the Scottish Futures Trust (SFT) and local authorities. The aim is to deliver new homes for mid-market rent while at the same time stimulating the housing market. The scheme is underwritten by the Scottish Government, by way of a guarantee against the borrowing and associated interest costs. The Council works with the Scottish Government and SFT to procure private developers to build homes for mid-market rent and enter into joint ventures with the Council, by way of Limited Liability Partnerships through the NHT initiative.

Phase 1 and 2 of NHT are now complete and have delivered 518 new homes.

Phase 3 of NHT has been approved and will deliver up to 368 mid-market rent homes across three separate sites by December 2020. All NHT Phase 3 projects are now in contract and construction has commenced. The total required budget for NHT3 is £50.121m for three projects which will deliver up to 368 new affordable homes. Fruitmarket is the first NHT 3 project which is due to complete with investment totalling £9.153m. £2.683m of expenditure was incurred in 2016/17 and the remaining balance of £6.470m spent in 2017/18.

The Council has advanced the following sums through the NHT scheme:

Developer	Development Site	Phase	Total No. of Units	2016/17 £000	Prior Years £000	Total £000
Places for People	Lochend North	1	126	0	13,323	13,323
Places for People	Lighthouse Court	1	62	0	6,492	6,492
Teague Homes Limited	Salamander Place / Leith Links	1	145	0	15,551	15,551
Miller Homes	Telford North	1	89	0	10,299	10,299
FP Newhaven Ltd	Sandpiper Road	2	96	10,410	1,498	11,908
Ediston Homes Ltd	Fruitmarket	3	24	2,683	0	2,683
			<b>542</b>	<b>13,093</b>	<b>47,163</b>	<b>60,256</b>

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

## NOTES TO THE FINANCIAL STATEMENTS

### 35. Agency Income and Expenditure

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

<b>Expenditure</b>	<b>2016/17 £000</b>	<b>2015/16 £000</b>
Payments to other local authorities in respect of:		
Area waste project	74	71
Educational services for children	1,727	2,176
Care services for children	1,644	1,653
Scottish Cities Alliance Investment Fund (see note 46.)	978	900
Others		
Business Improvement District Scheme - Payments to Schemes	4,797	3,478
Police Scotland - Community Police	2,561	2,560
Police Scotland - cab inspection	124	120
Scottish Cities Alliance Investment Fund (see note 46.)	0	180
Scottish Water - Integrated Water Catchment Model	84	84
NHS Lothian - Blue Badge medical assessments	44	43
<b>Total Expenditure</b>	<b><u>12,033</u></b>	<b><u>11,265</u></b>
<b>Income</b>		
Receipts in respect of library services:		
Health Boards	(19)	(19)
Scottish Prison Service	(24)	(16)
Receipts in respect of translation and Interpretation services:		
Lothian Health Board	(1,233)	(1,377)
Receipts in respect of rates collection services:		
Scottish Water	(1,680)	(1,680)
Midlothian Council	(63)	(62)
BID Income Levy	(5,071)	(3,637)
Receipts in respect of property management		
Police Scotland	(60)	(61)
Receipts from other local authorities in respect of:		
Criminal justice services	(1,007)	(975)
Educating pupils	(649)	(634)
Pentland Hills Regional Park management	(78)	(78)
Care services for children	(797)	(958)
Risk Factory	(38)	(35)
Social work undertakings	(3,689)	(3,995)
City Mortuary	(250)	(292)
Scientific Services	(379)	(341)
Area waste project	(96)	(85)
Miscellaneous Licensing	(100)	(99)
<b>Total Income</b>	<b><u>(15,233)</u></b>	<b><u>(14,344)</u></b>

### 36. Audit Costs

The fees payable to Scott Moncrieff in respect of external audit services undertaken in accordance with the Code of Audit Practice are £0.561m (2015/16 £0.691m to Audit Scotland). The Council has re-charged £nil of the audit fee to Lothian Pension Funds in respect of its audit (2015/16 £0.048m) as it was invoiced directly this year. Similarly, £nil has been re-charged to The City of Edinburgh Council Charitable Trusts (2015/16 £0.04m) as they have also been charged directly.

In addition, the Council paid audit fees to Scott Moncrieff for the audit of CEC Recovery Limited's accounts (formerly tie Limited). The Council paid £0.002m during 2016/17 (2015/16 £0.002m) for the audit of 2015/16 financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

### 37. Grant Income

Grants and contributions credited to the Comprehensive Income and Expenditure Statement include the following:

	2016/17		2015/16	
	£000	£000	£000	£000
<b>Revenue Funding</b>				
<b>Credited to taxation and non-specific grant income</b>				
General revenue funding	(344,919)		(354,576)	
Non-domestic rates	<u>(374,650)</u>		<u>(390,862)</u>	
		(719,569)		(745,438)
<b>Credited to services</b>				
Government grants	(22,200)		(19,611)	
Department for Work and Pensions				
- Housing benefits	(199,556)		(202,668)	
- Other funding	(4,044)		(4,537)	
N.H.S. Lothian	(55,507)		(41,348)	
Other Local Authorities	(3,231)		(3,447)	
Scottish Water	(1,770)		(1,758)	
Lothian Road Income Trust	(65)		(621)	
Edinburgh Leisure	(708)		(684)	
Scottish Prison Service	(536)		(489)	
Lottery funding	(113)		(21)	
SportScotland	<u>(889)</u>		<u>(881)</u>	
		<u>(288,619)</u>		<u>(276,065)</u>
<b>Total</b>		<u><u>(1,008,188)</u></u>		<u><u>(1,021,503)</u></u>
<b>Capital Funding</b>				
Scottish Government		(53,049)		(63,499)
Transport Scotland		0		347
Other grants and contributions, including contributions from developers and individuals		(2,721)		(3,236)
Port of Leith Housing Association		(148)		(985)
Kirkliston Consortium		(1,179)		(1,979)
Henderson Global		0		533
Cruden Homes		0		(507)
Historic Scotland		0		(431)
Heritage Lottery Fund		(478)		(664)
Scottish Borders Council		0		(112)
Creative Scotland		(164)		0
Lothian Road Income Trust		<u>(744)</u>		<u>0</u>
<b>Total</b>		<u><u>(58,483)</u></u>		<u><u>(70,533)</u></u>

## NOTES TO THE FINANCIAL STATEMENTS

### 38. Related Parties

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

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

	<b>2016/17</b>	<b>2015/16</b>
	<b>£000</b>	<b>£000</b>
• <b>Revenue Expenditure</b>		
Capital City Partnership	4,225	4,056
CEC Holdings (including EDI Group, EICC)	284	152
Edinburgh Festival Theatres	704	800
Edinburgh Leisure Limited		
Revenue funding	8,449	8,419
Other expenditure	30	52
Edinburgh Trams Ltd	714	688
Lothian Buses Limited		
Supported bus services	985	891
Other expenditure	1,536	1,457
NHS Bodies	2,356	2,294
Other Local Authorities	2,486	2,995
Scottish Government	208	163
Scottish Qualifications Authority	1,523	1,511
Subsidiaries / Voluntary Organisations		
Criminal Justice Bodies	592	678
Dean and Cauvin Charitable Trust	854	817
Edinburgh International Festival Society	2,317	2,409
Edinburgh Voluntary Organisations Council	1,185	151
Festivals Edinburgh Ltd	173	178
Handicab	448	448
Lifecare Edinburgh	288	342
Marketing Edinburgh	918	953
Royal Lyceum Theatre Co Ltd	358	369
<b>Total Revenue Expenditure</b>	<b>30,633</b>	<b>29,823</b>
• <b>Revenue Income</b>		
CEC Holdings Limited (EDI Group Limited)		
Loan interest	(200)	(221)
Edinburgh Festival Theatres	(150)	(149)
Edinburgh Trams	(2,318)	(3,217)
Edinburgh Tattoo	(401)	(401)
Professional services, rents, other grants and funding		
Other Local Authorities	(698)	(1,095)
Scottish Government	(86)	(404)
Lothian Health Board		
Change Fund	(6,994)	(5,881)
Resource transfers	(21,406)	(21,499)
<b>Total Revenue Income</b>	<b>(32,253)</b>	<b>(32,867)</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 38. Related Parties - continued

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

	2016/17 £000	2015/16 £000
<ul style="list-style-type: none"> <li>● <b>Joint Board Requisitions</b></li> </ul>		
Lothian Valuation Joint Board	3,744	3,744
<b>Total Joint Board Requisitions</b>	<b>3,744</b>	<b>3,744</b>
<ul style="list-style-type: none"> <li>● <b>Central Support Income</b></li> </ul>		
Lothian Valuation Joint Board	(49)	(61)
Pension Funds	(264)	(279)
<b>Total Central Support Income</b>	<b>(313)</b>	<b>(340)</b>
<ul style="list-style-type: none"> <li>● <b>Interest on Revenue Balances</b></li> </ul>		
Lothian Valuation Joint Board	3	3
Pension Funds	5	33
SESTRAN	1	0
<b>Total Interest on Revenue Balances</b>	<b>9</b>	<b>36</b>
<ul style="list-style-type: none"> <li>● <b>Loans Charges Recovered</b></li> </ul>		
Lothian and Borders Fire and Rescue Board	(1,112)	(1,306)
Lothian and Borders Police Board	(2,771)	(3,060)
<b>Total Loans Charges</b>	<b>(3,883)</b>	<b>(4,366)</b>
<b>38.2 Subsidiaries and Other Organisations - Capital Expenditure</b>		
<ul style="list-style-type: none"> <li>● <b>Capital Expenditure</b></li> </ul>		
CEC Holdings (including EDI Group, EICC)	1,155	2,021
Edinburgh Leisure	165	165
Hubco	9,204	15,773
Other Local Authorities	148	1,163
Scottish Government	3,352	5,565
<b>Total Capital Expenditure</b>	<b>14,024</b>	<b>24,687</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 38. Related Parties - continued

#### 38.3 Related Parties - Indebtedness

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

	<b>2016/17</b>	<b>2015/16</b>
	<b>£000</b>	<b>£000</b>
CEC Holdings Limited (including all subsidiaries)	(535)	(442)
Edinburgh Military Tattoo	(11)	52
Hubco	(273)	(310)
Lothian and Borders Criminal Justice Authority	237	227
Scottish Fire and Rescue Service	674	676
Lothian Valuation Joint Board	(1,512)	(1,302)
NHS Bodies	14,158	1,411
Pension Funds	(499)	(1,981)
Scottish Government	620	14,006
Scottish Water	70	70
SESTRAN	(84)	613
SUSTRANS	1,246	872
Audit Scotland	374	465
	<b><u>14,465</u></b>	<b><u>14,357</u></b>
<b>• Other Indebtedness</b>		
HM Revenue and Customs - VAT	9,170	8,089
HM Revenue and Customs - PAYE and NI	<u>(9,041)</u>	<u>(9,035)</u>
	<b><u>129</u></b>	<b><u>(946)</u></b>

## NOTES TO THE FINANCIAL STATEMENTS

### 39. Capital Expenditure and Capital Financing

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

	2016/17		Re-stated 2015/16	
	£000	£000	£000	£000
Opening capital financing requirement		1,688,160		1,726,030
<b>Capital Investment</b>				
Property, plant and equipment	140,143		149,880	
Heritage Assets	11		40	
Assets held for sale	262		223	
Intangible assets	221		0	
Capital Receipts transferred to Capital Fund	420		55,141	
National Housing Trust - Consent to borrow (see note 34.3)	13,093		1,498	
Revenue expenditure funded from capital under statute	35,529		38,846	
Adjustments to PPP schools during the year	(9)		(9,195)	
		189,670		236,433
<b>Sources of Finance</b>				
Capital receipts	(27,922)		(65,351)	
Capital Funded from Current Revenue	(2,056)		(215)	
Government grants and other contributions	(91,017)		(112,974)	
Loans fund / finance lease repayments	(85,744)		(95,763)	
		(206,739)		(274,303)
<b>Closing capital financing requirement</b>		<b>1,671,091</b>		<b>1,688,160</b>
<b>Explanation of movements in year</b>				
(Decrease) / increase in underlying need to borrow		(17,069)		(83,209)
Voluntary debt repayment - HRA		0		(10,000)
Assets acquired under finance leases		0		0
Assets acquired under PFI/PPP contracts		0		0
<b>(Decrease) / Increase in capital financing requirement</b>		<b>(17,069)</b>		<b>(93,209)</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 40. Leases

#### 40.1 Assets Leased in - Finance Leases

The Council has classified one building and its IT equipment as finance leases. The assets classified under these leases are included in property, plant and equipment in the Balance Sheet:

	2016/17		2015/16	
	Group £000	Council £000	Group £000	Council £000
Value at 1 April	7,380	6,707	12,658	9,523
Additions during the year	0	0	0	0
Reclassification to operating lease during the year	0	0	0	0
Repayments during the year	<u>(3,470)</u>	<u>(2,797)</u>	<u>(5,278)</u>	<u>(2,816)</u>
Value at 31 March	<u>3,910</u>	<u>3,910</u>	<u>7,380</u>	<u>6,707</u>
Other land and buildings	0	0	63	63
Vehicles, plant, equipment and furniture	<u>3,910</u>	<u>3,910</u>	<u>7,317</u>	<u>6,644</u>
Value at 31 March	<u><u>3,910</u></u>	<u><u>3,910</u></u>	<u><u>7,380</u></u>	<u><u>6,707</u></u>

The Council is committed to making minimum lease payments under these leases, comprising settlement of the long-term liability for the interest in the assets acquired and finance costs that will be payable by the Council in future years while the liability remains outstanding. The minimum lease payments are shown below:

	2016/17		2015/16	
	Group £000	Council £000	Group £000	Council £000
Finance lease liabilities:				
Current	2,476	2,476	3,310	2,797
Non-current	1,434	1,434	4,070	3,910
Finance costs payable	<u>313</u>	<u>313</u>	<u>531</u>	<u>531</u>
Minimum lease payments	<u><u>4,223</u></u>	<u><u>4,223</u></u>	<u><u>7,911</u></u>	<u><u>7,238</u></u>

The minimum lease payments will be payable over the following periods:

Minimum Finance Lease Repayments	at 31.03.17		at 31.03.16	
	Group £000	Council £000	Group £000	Council £000
Not later than one year	2,674	2,674	3,528	3,015
Later than one year and not later than five years	1,549	1,549	4,383	4,223
Later than five years	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
	<u><u>4,223</u></u>	<u><u>4,223</u></u>	<u><u>7,911</u></u>	<u><u>7,238</u></u>
<b>Finance Lease Liabilities</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Not later than one year	2,476	2,476	3,310	2,797
Later than one year and not later than five years	1,434	1,434	4,070	3,910
Later than five years	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
	<u><u>3,910</u></u>	<u><u>3,910</u></u>	<u><u>7,380</u></u>	<u><u>6,707</u></u>



## NOTES TO THE FINANCIAL STATEMENTS

### 40. Leases - continued

#### 40.2 Assets Leased in - Operating Leases

The Group leases in property, vehicles and copying equipment financed under the terms of operating leases. The amount charged to the Comprehensive Income and Expenditure Statement under these arrangements and the value of future payments under operating leases is shown below.

In 2015/16, the Council revised its car leasing scheme which it now operates in association with an external provider. The amounts recognised as an expense during the year include £0.036m of contributions paid by employees towards cost of car leasing (2015/16 £0.047m).

Under these operating leases, the Group and Council is committed to paying the following sums, of which £0.002m is recoverable from employees (2015/16 £0.030m):

	2016/17		2015/16	
	Group £000	Council £000	Group £000	Council £000
<b>Future Repayment Period</b>				
Not later than one year	1,896	1,398	2,467	2,074
Later than one year and not later than five years	4,978	3,842	5,402	4,350
Later than five years	5,915	4,479	6,755	5,286
	<b>12,789</b>	<b>9,719</b>	<b>14,624</b>	<b>11,710</b>
<b>Value at 31 March</b>				
Other land and buildings	11,838	9,680	13,613	11,598
Vehicles, plant, equipment and furniture	951	39	1,011	112
	<b>12,789</b>	<b>9,719</b>	<b>14,624</b>	<b>11,710</b>
<b>Recognised as an expense during the year</b>	<b>2,573</b>	<b>2,027</b>	<b>2,565</b>	<b>2,094</b>

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

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

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

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

	2016/17 £000	2015/16 £000
Not later than one year	11,965	14,625
Later than one year and not later than five years	39,169	41,975
Later than five years	150,186	151,887
	<b>201,320</b>	<b>208,487</b>

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

## NOTES TO THE FINANCIAL STATEMENTS

### 41. Public Private Partnerships and Similar Contracts

#### 41.1 PPP - Education Projects

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

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

In December 2013, the Council entered in to an agreement with Hub South East Scotland for the provision of a new building for James Gillespie's High School. This has been procured using a Design, Build, Finance and Maintain (DBFM) agreement with Hub South East Scotland. The concession is due to terminate in July 2041.

Under the agreements the Council is committed to paying the following sums as detailed in the contractor's final bid model:

	<b>Payment for Services £000</b>	<b>Reimburse. of Capital Expenditure £000</b>	<b>Interest £000</b>	<b>Total £000</b>
Payable in 2017/18	17,963	7,894	18,591	44,448
Payable within two to five years	79,230	33,259	71,370	183,859
Payable within six to ten years	122,315	41,894	79,957	244,166
Payable within eleven to fifteen years	138,386	53,972	68,900	261,258
Payable within sixteen to twenty years	102,267	53,301	48,280	203,848
Payable within twenty one to twenty five years	27,852	21,657	10,950	60,459
	<u>488,013</u>	<u>211,977</u>	<u>298,048</u>	<u>998,038</u>

Payments due under the following schemes have been inflated by 1.11% per annum for the PPP1 scheme, 1.67% per annum for the PPP2 scheme and 2.5% per annum for the James Gillespie's High School scheme, reflecting the terms of the separate contracts and assumed inflation of 2.5% per annum. The actual level of payment made in 2016/17 was adjusted to reflect non-availability of a number of school facilities over the period between April and August 2016.

The amounts disclosed as reimbursement of capital expenditure are included in creditors and other long-term liabilities on the Balance Sheet.

The unitary charges paid to the service providers include amounts to compensate them for the capital expenditure incurred and interest payable whilst the capital expenditure remains to be reimbursed. The liability outstanding to pay the service providers for capital expenditure incurred is as follows:

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

## NOTES TO THE FINANCIAL STATEMENTS

### 41. Public Private Partnerships and Similar Contracts - continued

#### 41.2 Provision of Information Technology services

In 2015 the Council entered into a seven year contract with CGI for the provision of information technology services. This contract became operational on 1 April 2016.

Under the agreement the Council is committed to paying the following sums in cash terms (assuming an inflationary uplift).

Future Repayment		
Period		£000
2017/18		34,762
2018/19 - 2021/22		94,987
2022/23		20,289
		<u>150,038</u>

The cost of information technology will be included in the Resources service area, with effect from 1 July 2017.

#### 41.3 Provision of Parking Enforcement

The Council has entered into a five year contract with NSL for the provision of parking enforcement. The contract commenced on 1 October 2014 and ends on 30 September 2019. There is also a five year extension clause at the end of this period.

Under the agreement the Council is committed to paying the following sums in cash terms: (renegotiated annually)

Future Repayment		
Period		£000
2017/18		5,975
2018/19 - 2019/20		8,641
		<u>14,616</u>

#### 41.4 Waste Disposal

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

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

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

#### 41.5 Food Waste Contract

The Council entered into a twenty year contract with Alauna Renewable Energy to supply food waste treatment at Millerhill from 1 April 2016.

Future Repayment			Inflationary
Period		£000	Uplift
2017/18		521	2.50%
2018/19 - 2021/22		2,196	2.50%
2022/23 - 2026/27		2,942	2.50%
2027/28 - 2031/32		3,187	2.50%
2032/33 - 2035/36		2,748	2.50%
		<u>11,594</u>	

## NOTES TO THE FINANCIAL STATEMENTS

### 41. Public Private Partnerships and Similar Contracts - continued

#### 41.6 Residual Waste Contract

In 2016 the Council entered into a twenty five year contract with FCC to supply residual waste treatment at Millerhill. This contract will become operational from 1 October 2018.

Future Repayment Period	£000	Inflationary Uplift
2017/18	0	2.50%
2018/19 - 2021/22	23,984	2.50%
2022/23 - 2026/27	35,430	2.50%
2027/28 - 2031/32	37,379	2.50%
2032/33 - 2036/37	39,584	2.50%
2037/38 - 2041/42	42,079	2.50%
2042/43	8,743	2.50%
	<u>187,199</u>	

#### 41.7 Other Rolling Contracts

The Council has entered into a number of rolling contracts to provide services, which are mainly care orientated through 'Supporting People'. The annual value of these contracts is £18.442m.

### 42. Pension schemes accounted for as defined contribution schemes

The Scottish Teachers' Superannuation Scheme is an unfunded scheme administered by the Scottish Public Pensions Agency. The scheme is excluded from the accounting requirements of IAS 19 as it is a national scheme which does not allow for the identification of pension liabilities consistently and reliably between participating authorities. The accounts, therefore, only include the payments made by the Council to the scheme in year and do not reflect the estimated pension assets or liabilities of the scheme. The exception to this are payments in relation to unfunded pension enhancements for members of the scheme as they are administered through the Local Government Pension Scheme and are taken into consideration in accounting for pension costs under IAS 19.

	2016/17		2015/16	
	£000	%	£000	%
Amount paid to Scottish Government in respect of teachers' pension costs	21,315		19,715	
As a percentage of teachers' pensionable pay		17.20		17.20
Amount paid in respect of added years	0		0	
As a percentage of teachers' pensionable pay		0.00		0.00
Capitalised value of discretionary awards entered into prior to 2015/16	19,765		19,296	

At 31 March 2017, creditors include £2.763m (2015/16 £2.731m) in respect of teachers' superannuation.

### 43. Defined Pension Schemes

#### 43.1 Participation in Pension Scheme

The Council makes contributions towards the cost of post-employment benefits. Although these benefits will not be payable until employees retire, the Council has a commitment to make payment for those benefits and to disclose them at the time that employees earn their future entitlement.

Employees other than teachers are eligible to join the Local Government Pension Scheme. The pension costs charged to Services in respect of these employees have been calculated under IAS 19 - Employee Benefits.

In terms of this scheme, in 2016/17 the Council paid an employer's contribution of £52.689m (2015/16 £55.446m) into the Lothian Pension Fund, representing 21.3% (2015/16 21.3%) of pensionable pay. Contribution rates are determined by the Fund's Actuary based on triennial actuarial valuations of the pension fund. The data is based on the latest available valuations as at March 2014.

## NOTES TO THE FINANCIAL STATEMENTS

### 43. Defined Pension Schemes - continued

#### 43.1 Participation in Pension Scheme - continued

The Fund's Actuary is unable to provide an analysis of IAS19 pension costs by individual service. The charge in the Comprehensive Income and Expenditure Statement applied against each service included in 'Cost of Services' reflects an apportionment of costs in line with the actual cash payments made by the Council to Lothian Pension Fund.

#### 43.2 Transactions Relating to Post-Employment Benefits

The cost of pension benefits, as assessed by the Fund's Actuary and reflected within 'Cost of Services', differed from the cash payment to the Fund charged against Council Tax. The following summarises the entries reflected within the Comprehensive Income and Expenditure Statement in respect of accounting for pensions under IAS19. The amount by which pension costs calculated in accordance with IAS19 are different from the contributions due under the pension scheme regulations is included in the Movement in Reserves Statement.

	2016/17		2015/16	
	£000	£000	£000	£000
<b>Comprehensive Income and Expenditure Statement</b>				
<i>Cost of services:</i>				
Service cost, comprising:				
Current service costs	66,394		82,023	
Past service costs	7,029		2,087	
Effect of Settlements	<u>0</u>		<u>(159)</u>	
		73,423		83,951
<i>Financing and investment income:</i>				
Net interest expense		<u>15,476</u>		<u>23,445</u>
<b>Total post employee benefit charged to the surplus on the provision of services</b>		88,899		107,396
<i>Other post-employment benefits charges to the Comprehensive Income / Expenditure Statement</i>				
Re-measurement of the net defined liability, comprising:				
Return on plan assets, excluding the amount incl. in the net interest expense above.	(428,706)		(37,286)	
Actuarial (gains) and losses arising on changes in financial assumptions	669,702		(253,389)	
Other experience	<u>3,215</u>		<u>(32,463)</u>	
		<u>244,211</u>		<u>(323,138)</u>
<b>Total post-employment benefits charged to the Comprehensive Income / Expenditure Statement</b>		<u>333,110</u>		<u>(215,742)</u>
<b>Movement in Reserves Statement</b>				
Reversal of net charges made to the surplus on the provision of services for post-employment benefits in accordance with the Code.		<u>(88,899)</u>		<u>(107,396)</u>
<b>Actual amount charged against the General Fund Balance for pensions in the year:</b>				
Employer's contributions payable to the scheme		60,457		66,297
Contributions in respect of unfunded benefits		<u>5,807</u>		<u>5,990</u>
		<u>66,264</u>		<u>72,287</u>

## NOTES TO THE FINANCIAL STATEMENTS

### 43. Defined Pension Schemes - continued

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

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

	2016/17 £000	2015/16 £000
Fair value of employer assets	2,747,964	2,247,877
Present value of funded liabilities	(3,368,139)	(2,605,380)
Present value of unfunded liabilities	<u>(85,611)</u>	<u>(81,437)</u>
Net liability arising from defined benefit obligation	<u>(705,786)</u>	<u>(438,940)</u>

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

	2016/17 £000	2015/16 £000
Opening fair value of scheme assets	2,247,877	2,144,897
Effect of settlements	0	(1,917)
Interest income	78,498	68,568
Re-measurement gain / (loss):		
Return on plan assets, excluding the amount included in the net interest expense	428,706	37,286
Contributions from employer	60,457	66,297
Contributions from employees into the scheme	13,845	16,502
Contributions in respect of unfunded benefits	5,807	5,990
Benefits paid	(81,419)	(83,756)
Unfunded benefits paid	<u>(5,807)</u>	<u>(5,990)</u>
Closing fair value of scheme assets	<u>2,747,964</u>	<u>2,247,877</u>

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

	2016/17 £000	2015/16 £000
Present value of funded liabilities	(2,605,380)	(2,782,482)
Present value of unfunded liabilities	<u>(81,437)</u>	<u>(89,384)</u>
Opening balance at 1 April	(2,686,817)	(2,871,866)
Current service cost	(66,394)	(82,023)
Interest cost	(93,974)	(92,013)
Contributions from employees into the scheme	(13,845)	(16,502)
Re-measurement gain / (loss):		
Change in financial assumptions	(669,702)	253,389
Change in demographic assumptions	0	0
Other experience	(3,215)	32,463
Past service cost	(7,029)	(2,087)
Effects of settlements	0	2,076
Benefits paid	81,419	83,756
Unfunded benefits paid	<u>5,807</u>	<u>5,990</u>
Closing balance at 31 March	<u>(3,453,750)</u>	<u>(2,686,817)</u>

## NOTES TO THE FINANCIAL STATEMENTS

### 43. Defined Pension Schemes - continued

#### 43.5 Fair Value of Employer Assets

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

	2016/17 £000	%	2015/16 £000	%
Consumer *	412,549	15	342,338	15
Manufacturing *	416,581	15	265,121	12
Energy and Utilities *	203,906	8	178,558	8
Financial Institutions *	191,883	7	190,391	8
Health and Care *	161,077	6	149,425	7
Information technology *	136,000	5	134,677	6
Other *	<u>189,359</u>	7	<u>128,664</u>	6
Sub-total Equity Securities	<u>1,711,355</u>		<u>1,389,174</u>	
Debt Securities:				
UK Government *	275,933	10	144,656	6
Other *	<u>5,710</u>	0	<u>56,864</u>	3
Sub-total Debt Securities	<u>281,643</u>		<u>201,520</u>	
Private Equity				
All *	31,954	1	25,228	1
All	<u>56,808</u>	2	<u>73,078</u>	3
Sub-total Private Equity	<u>88,762</u>		<u>98,306</u>	
Real Estate:				
UK Property	<u>185,409</u>	7	<u>192,281</u>	9
Sub-total Real Estate	<u>185,409</u>		<u>192,281</u>	
Investment Funds and Unit Trusts:				
Bonds *	6,153	0	6,032	0
Bonds	34,601	1	12,180	1
Commodities *	8,058	0	6,235	0
Infrastructure *	17,459	1	12,509	1
Infrastructure	228,444	8	136,998	6
Other	<u>58,621</u>	2	<u>53,855</u>	2
Sub-total Investment Funds and Unit Trusts	<u>353,336</u>		<u>227,809</u>	
Derivatives:				
Foreign Exchange *	<u>0</u>	0	<u>(130)</u>	0
Sub-total Derivatives	<u>0</u>		<u>(130)</u>	
Cash and Cash Equivalents				
All *	<u>127,459</u>	5	<u>138,917</u>	6
Sub-total Cash and Cash Equivalents	<u>127,459</u>		<u>138,917</u>	
Total Fair Value of Employer Assets	<u>2,747,964</u>	<u>100</u>	<u>2,247,877</u>	<u>100</u>

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

## NOTES TO THE FINANCIAL STATEMENTS

### 43. Defined Pension Schemes - continued

#### 43.6 Basis for Estimating Assets and Liabilities

Hymans Robertson, the independent actuaries to Lothian Pension Fund, have advised that the financial assumptions used to calculate the components of the pension expense for the year ended 31 March 2017 were those from the beginning of the year (i.e. 31 March 2016) and have not been changed during the year. The main assumptions in the calculations are:

#### Investment returns

Actual return for period from 1 April 2016 to 31 December 2016	17.10%
Estimated return for period from 1 April 2016 to 31 March 2017	22.60%

#### Average future life expectancies at age 65:

		31.03.17	31.03.16
Current pensioners	male	22.1 years	22.1 years
Current pensioners	female	23.7 years	23.7 years
Future pensioners	male	24.2 years	24.2 years
Future pensioners	female	26.3 years	26.3 years

Period ended	31.03.17	31.03.16
Pension increase rate	2.4%	2.2%
Salary Increase rate	4.4%	4.2%
Discount rate	2.6%	3.5%

Estimation of defined benefit obligations is sensitive to the actuarial assumptions set out above. In order to quantify the impact of a change in the financial assumptions used, the Actuary has calculated and compared the value of the scheme liabilities as at 31 March 2017 on varying bases. The approach taken by the Actuary is consistent with that adopted to derive the IAS19 figures.

For example, to quantify the uncertainty around life expectancy, the Actuary has calculated the difference in cost to the Employer of a one year increase in life expectancy. For sensitivity purposes, this is assumed to be an increase in the cost of benefits of broadly 3-5%. In practice the actual cost of a one year increase in life expectancy will depend on the structure of the revised assumption and changes in some of the assumptions may be interrelated.

Change in assumptions at 31 March 2017	Approximate % Increase to Employer	Approximate Monetary Amount £000
0.5% decrease in Real Discount Rate	11%	364,274
0.5% increase in the Salary Increase Rate	3%	118,190
0.5% increase in the Pension Increase Rate	7%	235,414

#### 43.7 Impact on the Council's Cash Flows

The objectives of the scheme are to keep employers' contributions at as constant a rate as possible. The Council has agreed a contribution stability mechanism with the scheme's actuary until 31 March 2018. Thereafter, for the next actuarial valuation period of three years, rates could vary from this rate by a maximum increase of 0.5% or a maximum decrease of (0.5%) per annum.



## NOTES TO THE FINANCIAL STATEMENTS

### 43. Defined Pension Schemes - continued

#### 43.8 Information about the defined benefit obligation

	Liability Split		Weighted Average Duration
	£000	%	
Active members	2,025,773	60.2	23.1
Deferred members	394,911	11.7	22.4
Pensioner members	947,455	28.1	11.9
Total	3,368,139	100.0	18.3

The above figures are for funded obligations only and do not include the unfunded pensioner liabilities. The durations are effective as at the previous formal valuation as at 31 March 2014.

The unfunded pensioner liability at 31 March 2017 comprises approximately £65.846m (2015/16 £62.141m) in respect of LGPS unfunded pensions and £19.765m (2015/16 £19.296m) in respect of teachers' unfunded pensions. For unfunded liabilities as at 31 March 2017, it is assumed that all unfunded pensions are payable for the remainder of the member's life. It is further assumed that 90% of pensioners are married (or cohabiting) at death and that their spouse (cohabitee) will receive a pension between 37.5% and 50% of the member's pension as at the date of the member's death.

#### 43.9 Pension Reserves - Group Position

The pension reserves shown in the Group Balance Sheet relate to the Council. Pension reserves for the Valuation Joint Board are included in unusable reserves. Local government legislation provides that local authorities have an obligation to meet the expenditure of the joint boards of which they are constituent members. As a consequence, the City of Edinburgh Council has obligations to meet the liabilities arising from the joint board pension deficits as they fall due. Pension reserves for other companies in the group are included in usable reserves. The value of the pension reserves is shown separately below.

	2016/17 Pension Reserve £000	2015/16 Pension Reserve £000
<b>Unusable Reserves</b>		
Council	(705,786)	(438,940)
Lothian Valuation Joint Board	(7,585)	(3,820)
	<u>(713,371)</u>	<u>(442,760)</u>
<b>Usable Reserves</b>		
CEC Holdings	(1,757)	(1,010)
Festival City Theatres Trust	(116)	(75)
Edinburgh Leisure	(3,795)	(844)
Transport for Edinburgh Ltd	(3,039)	17,936
	<u>(8,707)</u>	<u>16,007</u>

## NOTES TO THE FINANCIAL STATEMENTS

### 43. Defined Pension Schemes - continued

#### 43.10 Analysis of projected amount to be charged to profit or loss for the period to 31 March 2017

	Assets £000	Obligations £000	Net (liability) / asset £000	% of pay
Current service cost	0	(83,044)	(83,044)	(37%)
Past service cost including curtailments	0	0	0	0.0%
Effect of settlements	0	0	0	0.0%
Total Service Cost	0	(83,044)	(83,044)	(37%)
Interest income on plan assets	71,154	0	71,154	31.7%
Interest cost on defined benefit obligation	0	(89,880)	(89,880)	(40.1%)
Total Net Interest Cost	71,154	(89,880)	(18,726)	8.4%
Total included in Profit or Loss	71,154	(172,924)	(101,770)	(45.4%)

The Council's estimated contribution to Lothian Pension Fund for 2017/18 is £48.119m.

#### 43.11 Strain on the Pension Fund

Lothian Pension Fund has the right to require the Council to make additional payments to the pension fund to reflect the extra cost to the pension fund of immediate payment of benefits to employees who retire early on efficiency, redundancy or voluntary grounds. This amounted to £10.933m, including accrued payments (2015/16 £7.994m).

#### 43.12 Further Information

Further information on Lothian Pension Fund can be found in the Council's Pension Fund's Annual Report which is available upon application to the Chief Executive Officer, Lothian Pension Fund, Atria One, 144 Morrison Street, Edinburgh, EH3 8EX.

### 44. Contingent Liabilities

- There may be outstanding liability claims or claims to be submitted against the Council in relation to insured and uninsured losses or incidents. The actual cost and timing of any claims cannot be estimated with reasonable accuracy and consequently no specific provision has been made in the financial statements in respect of any such claims.
- The provision for equal pay claims includes an estimate of the costs for all staff with unsettled equal pay claims against the Council as at 31 March 2017. Additional equal pay liabilities may arise if further eligible claims are made. This potential additional liability will be confirmed only by further eligible claims being lodged and its amount cannot be estimated with reasonable accuracy. Consequently, no provision has been made in the financial statements in respect of this.
- Whilst the Council has made an impairment provision for statutory repairs debtors, there may also be further liability claims against the Council in relation to works carried out under statutory repair notices served by the Council. The actual cost of these claims cannot be estimated with reasonable accuracy. It is also not possible to estimate precisely when these claims could become due.
- There may be claims in relation to a decision by the European Court of Justice under the Working Time Directive. The actual cost and timing of any claims cannot be estimated with reasonable accuracy and consequently no specific provision has been made in the financial statements.
- The Scottish Child Abuse Inquiry was set up in October 2015 to examine the abuse of children in care from the 1930s to the present day and has identified a number of care institutions it wishes to investigate, including four council establishments - Howdenhall Centre, St Katherine's and two children's homes that closed in the 1980s. The Council has set up a project team to support the inquiry, review historic records and ensure that the evidence required by the Inquiry can be provided. There is a possibility that these investigations may give rise to claims against local authorities in Scotland, including the Council.

# NOTES TO THE FINANCIAL STATEMENTS

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

### 45.1 Overall Procedures for Managing Risk

The Council's overall risk management procedures focus on the unpredictability of financial markets, and implementing restrictions to minimise these risks. The Council complies with the CIPFA Prudential Code and has adopted the CIPFA Treasury Management in the Public Services Code of Practice. Overall these procedures require the Council to manage risk in the following ways:

- by formally adopting the requirements of the Code of Practice;
- by approving annually in advance prudential indicators for the following three years limiting:
  - the Council's overall borrowing;
  - its maximum and minimum exposures to fixed and variable rates;
  - its maximum and minimum exposures in the maturity structure of its debt;
- by selecting investment counterparties in compliance with the Council's Treasury Policy Statement.

The annual treasury management strategy which incorporates the prudential indicators was approved by the Council on 10 March 2017 and is available on the Council website. The key issues within the strategy are:

- The authorised limit for 2017/18 has been set at £1.833bn. This is the maximum limit for external borrowings and other short and long term liabilities.
- The operational boundary for 2017/18 has been set at £1.703bn. This is the expected upper level of borrowing and other short and long term liabilities during the year.
- The maximum amounts of fixed and variable interest rate exposure were set at 100% and 75% of the Council's net debt respectively.

The prudential indicators are reported and approved as part of the Council's annual budget setting process. Actual performance is also reported annually to members of the Council.

### 45.2 Key Risks

The Council's activities expose it to a variety of financial risks, the key risks are:

- Credit risk – the possibility that other parties might fail to pay amounts due to the Council;
- Liquidity risk – the possibility that the Council might not have funds available to meet its commitments to make payments;
- Re-financing risk – the possibility that the Council might be requiring to renew a financial instrument on maturity at disadvantageous interest rates or terms;
- Market risk - the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates movements.

### 45.3 Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers. Deposits are with banks, building societies, and other institutions in line with the Council's prevailing counterparty limits as set out in the Council's treasury policy statement. Investment decisions are considered daily as part of the daily cash flow management by the Council's Treasury Team who can, and do, restrict the list further in light of market conditions.

The Council's funds are managed along with those of Lothian Pension Fund and some other related organisations which are pooled for investment purposes as a treasury cash fund. Management of the cash fund is on a low risk, low return basis, with security of the investments the key consideration while at the same time seeking innovative and secure cash investment opportunities. This arrangement has allowed a better management of the Council's risk in the exceptional financial and market circumstances in recent years.

## NOTES TO THE FINANCIAL STATEMENTS

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

#### 45.3 Credit Risk - continued

As well as lending monies to other local authorities, the Council purchases UK Government Treasury Bills and has previously purchased Bonds and Floating Rate Notes with an explicit UK Government Guarantee. At 31 March 2017, the Council had £25.7m in short term investments, all of which were loans to other local authorities. Of the net Cash and Cash Equivalents, 87.4% were loans to other local authorities, a further 0.7% was held in two AAA rated Money Market Funds, leaving only 11.9% with banks. All of the monies held on deposit with banks at 31 March 2017 was in call or near call accounts.

The Council's principal cash holding under its treasury management arrangements at 31 March 2017 was £173.5 million (31 March 2016: £192.5m). This was held with the following institutions:

<b>Summary</b>	<b>Standard and Poors Rating</b>	<b>Principal Outstanding 31.03.17 £000</b>	<b>Carry Value 31.03.17 £000</b>	<b>Fair Value 31.03.17 £000</b>	<b>Carry Value 31.03.16 £000</b>
<b>Money Market Funds</b>					
Deutsche Bank AG, London	AAAm	942	947	947	25,672
Goldman Sachs	AAAm	19	20	20	183
<b>Bank Call Accounts</b>					
Bank of Scotland	A	17,310	17,314	17,314	12,608
Royal Bank of Scotland	BBB+	246	246	246	2,042
Santander UK	A	43	43	43	16
Barclays Bank	A-	3	3	3	13,048
Svenska Handelsbanken	AA-	32	34	34	13,295
HSBC Bank Plc	AA-	0	0	0	19
<b>UK Pseudo-Sovereign Risk Instruments</b>					
Local Authorities (see below)	n/a	154,832	154,896	154,927	87,350
UK Government Treasury Bills	AA	0	0	0	38,455
		<u>173,427</u>	<u>173,503</u>	<u>173,534</u>	<u>192,688</u>

Local Authorities are generally assumed to have a pseudo-sovereign credit rating (which in the UK at 31 March 2017 would have been 'AA' from S&P) due to their tax raising powers and the perceived government support. Very few have their own credit rating, but of the £154.83m above, £11.43m is with a local authority which had an 'Aa2' credit rating from Moodys.

The Council's maximum exposure to credit risk in relation to its direct investments in banks and building societies of £17.6m cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Council's deposits, but the Council takes a low risk approach to investment. Despite continuing concerns over the European Sovereign Debt crisis and the effects that this might have on the banking system, there was no evidence at 31 March 2017 that this risk was likely to crystallise.

## NOTES TO THE FINANCIAL STATEMENTS

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

#### 45.3 Credit Risk - continued

No breaches of the Council's counterparty criteria occurred during the reporting period and the Council does not expect any losses from non-performance by any of its counterparties in relation to deposits. In October 2008 the Icelandic banking sector defaulted on its obligations. The Council has never had any exposure to Icelandic banks and had no investment in the sector at that time.

In line with the Investment Regulations governing local authorities introduced in 2010, the Council approved an annual investment strategy and treasury policy statement for both the Council and the Cash Fund at its March 2017 meeting. The papers are available on the Council's website. A full list of the deposits outstanding at 31 March 2017 is contained in the Treasury Cash Fund Investment Report for Quarter 1 2017. This is available on request from the Council's Treasury Section - Waverley Court, 4 East Market Street, Edinburgh, EH8 8BG.

All Council invoices become due for payment on issue. Excluding pre-payments of £2.641m (2015/16 £2.769m), trade debtors past due date can be analysed by age as follows:

	2016/17	2015/16
	£000	£000
Less than two months	14,823	13,163
Two to four months	1,292	1,055
Four to six months	1,002	786
Six months to one year	1,838	4,088
More than one year	9,338	10,886
Total	<u>28,293</u>	<u>29,978</u>

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

#### 45.4 Liquidity risk

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

Whilst the PWLB provides access to longer term funds, it also acts as a lender of last resort to the Council. The Council is also required by statute to achieve a balanced budget, which ensures sufficient monies are raised to cover annual expenditure. There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

The Council manages its liquidity position through the risk management procedures above (the setting and approval of prudential indicators and the approval of the treasury and investment strategy reports), as well as through cash flow management procedures required by the Code of Practice.

#### 45.5 Re-financing and Maturity Risk

The Council maintains significant debt and investment portfolios. The re-financing risk to the Council relates to managing the exposure to replacing financial instruments as they mature. As shown in the chart in 45.6, the majority of the Council's debt portfolio consists of fixed rate longer term loans, and as such, the Council has a relatively low re-financing risk on its liabilities. However, the Council has market debt which allows the lender the option to ask for a rate increase at set dates and at that point the Council may choose to repay the loan at no additional cost. This gives a potential re-financing risk which the Council monitors and manages.

## NOTES TO THE FINANCIAL STATEMENTS

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

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

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

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

	<b>2016/17</b>	<b>2015/16</b>
	<b>£000</b>	<b>£000</b>
Less than one year	(64,725)	(62,796)
Between one and two years	(64,419)	(66,155)
Between two and five years	(181,620)	(188,770)
Between five and ten years	(278,115)	(264,343)
More than ten years	<u>(926,909)</u>	<u>(996,419)</u>
Financial Liabilities	<u>(1,515,788)</u>	<u>(1,578,483)</u>

All trade and other payables are due to be paid in less than one year and trade creditors of £23.548m (2015/16 £15.277m) are not shown in the table above. The above figures show the principal outstanding, therefore, neither accrued interest of £16.019m (2015/16 £17.513m) nor net equivalent interest rate (EIR) adjustments of £9.014m (2015/16 £8.954m) to the carrying amounts of market debt shown in the financial liabilities are included.

The only investment which the Council has with a maturity of greater than one year is £4.6m in EDI loan stock.

#### 45.6 Market risk

##### Interest rate risk

The Council is exposed to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council, depending on how variable and fixed interest rates move across differing financial instrument periods. For instance, a rise in variable and fixed interest rates would have the following effects:

- borrowings at variable rates – the interest expense charged to the Comprehensive Income and Expenditure Statement will rise;
- borrowings at fixed rates – the fair value of the borrowing liability will fall;
- investments at variable rates – the interest income credited to the Comprehensive Income and Expenditure Statement will rise; and
- investments at fixed rates – the fair value of the assets will fall.

Borrowings are not carried at fair value on the Balance Sheet, so nominal gains and losses on fixed rate borrowings would not impact on the Comprehensive Income and Expenditure Statement or Movement in Reserves Statement. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Comprehensive Income and Expenditure Statement and affect the General Fund Balance, subject to influences from Government grants. Movements in the fair value of fixed rate investments will be reflected in the Movement in Reserves Statement, unless the investments have been designated as fair value through the Comprehensive Income and Expenditure Statement.

The Council has a number of strategies for managing interest rate risk. The annual treasury management strategy includes a forecast for short and longer term interest rates. The treasury team continue to monitor market and forecast interest rates during the year and adjust investment policies accordingly. For instance during periods of falling interest rates, and where economic circumstances make it favourable, fixed rate investments may be taken for longer periods to secure better long term returns. Any such strategy is run within the short and medium term liquidity requirements of the Council.

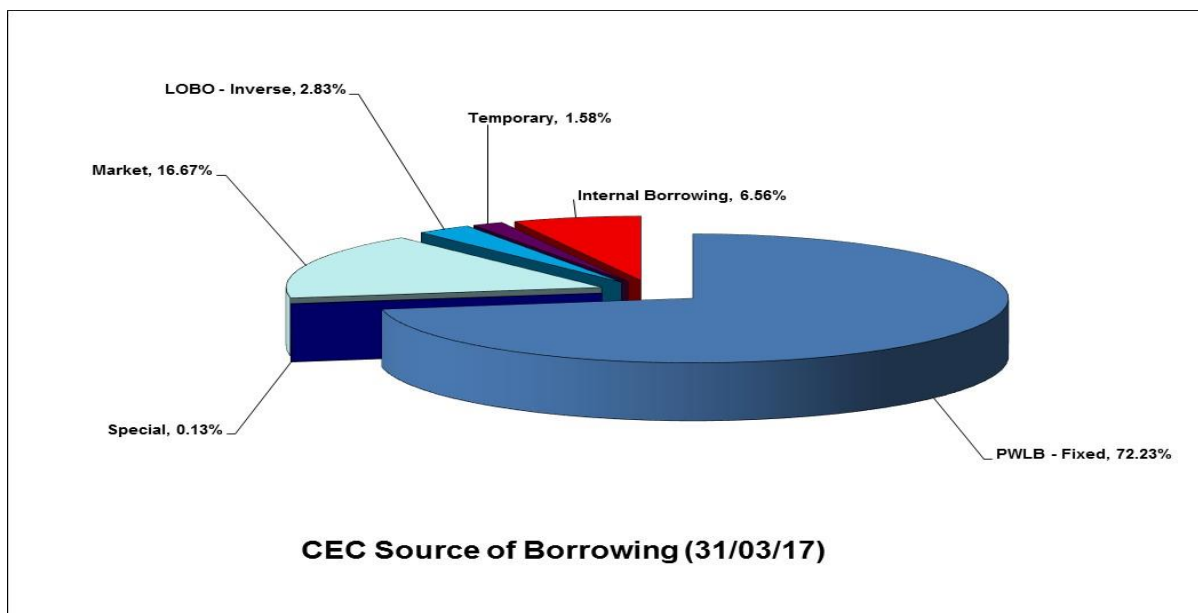
## NOTES TO THE FINANCIAL STATEMENTS

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

#### 45.6 Market risk - continued

##### Interest Rate Risk - continued

The following chart shows the source of the Council's borrowing. Most of the Council's borrowings are from the Government by way of the Public Works Loans Board (PWLB). As interest rates are historically low, none of the PWLB borrowing was variable rate.



If all interest rates had been 1% higher with all other variables held constant, the financial effect would be:

	£000
Increase in interest payable on variable rate borrowings	0
Increase in interest receivable on variable rate investments	(1,038)
Impact on Comprehensive Income and Expenditure Statement	(1,038)
Increase in Government grant receivable for financing costs	0
Share of overall impact debited to the HRA	0
Decrease in fair value of fixed rate investment assets	0
Decrease in fair value of fixed rate borrowings liabilities	293,628

##### Price Risk

The Council does not generally invest in equity shares but does have shareholdings of £23.436m (2015/16 £23.474m) in a number of Council owned Companies and joint ventures. Whilst these holdings are generally illiquid, the Council is exposed to losses arising from movements in the prices of the shares.

As the shareholdings have arisen in the acquisition of specific interests, the Council is not in a position to limit its exposure to price movements by diversifying its portfolio.

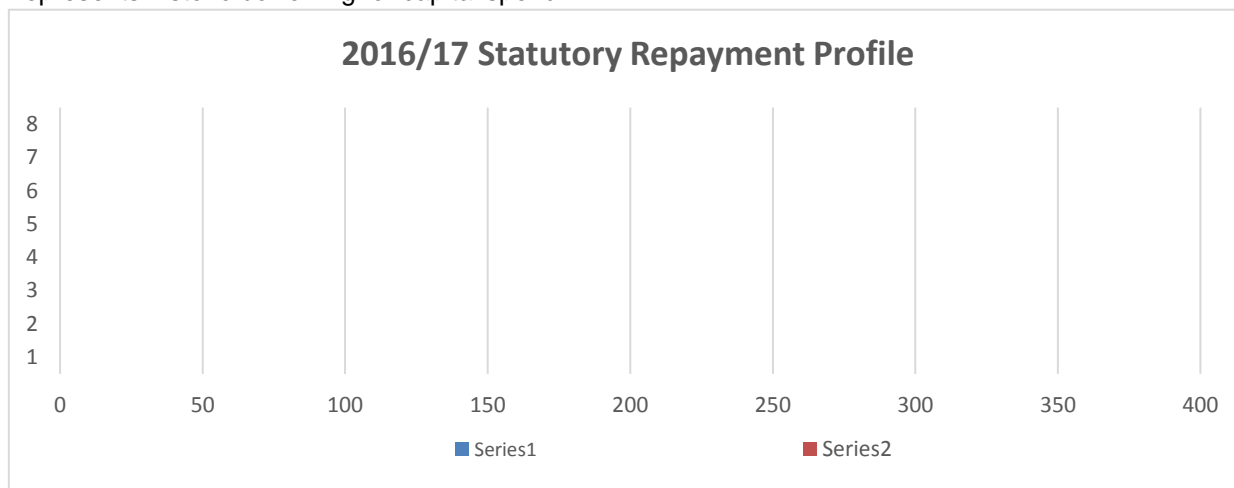
##### Foreign exchange risk

The Council has no financial assets or liabilities denominated in foreign currencies. It therefore has no exposure to loss arising from movements in exchange rates.

## NOTES TO THE FINANCIAL STATEMENTS

45.7 The **Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016** require the statutory loans fund to be administered in accordance with the 2016 Regulations, proper accounting practices and prudent financial management.

The Council operates a consolidated loans fund under the terms of these Regulations. Capital payments made by services are financed by capital advances from the loans fund. All advances from the loans fund in the current year have a repayment profile set out using Option 1, the statutory method. All capital advances from the loans fund are repaid using the previous hybrid annuity structure with fixed principal repayments. The Council operates the loans fund to manage historic debt and the balance therefore represents historic borrowing for capital spend.



### 46. Scottish Cities Alliance

The Scottish Cities Alliance was created in 2012 to promote collaboration between Scotland's cities and the Scottish Government to grow city economies, create jobs and deliver benefits across the country. Total Scottish Government investment funding of £7m has been provided to take forward a range of relevant initiatives. The Council undertakes, on an agency basis, the associated financial administration. During the year £0.98m was paid out to the respective lead authorities of the projects concerned.

	<b>2016/17</b>		<b>2015/16</b>	
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Balance as at 1 April		3,846		4,819
Contribution from Scottish Government		0		90
Investment income		7		17
Less: Payments made:				
Aberdeen City Council	(136)		(4)	
City of Edinburgh Council	(117)		(4)	
Dundee City Council	(33)		0	
Glasgow City Council	(269)		(409)	
Highland Council	0		(37)	
Perth and Kinross Council	(73)		(102)	
Stirling Council	(350)		(344)	
		<u>(978)</u>		<u>(900)</u>
Contribution to SCDI				
2014/15	0		(90)	
2015/16	0		(90)	
		<u>0</u>		<u>(180)</u>
Balance as at 31 March		<u><b>2,875</b></u>		<u><b>3,846</b></u>

As of April 2017, the Alliance had approved total project funding allocations of £5.79m (£4.66m April 2016), covering a range of initiatives spanning the areas of Infrastructure, Investment Promotion, Low Carbon and Smart Cities.



## NOTES TO THE FINANCIAL STATEMENTS

### 47. Business Improvement District Scheme

The Council acts as the Billing Authority for a number of Business Improvement Districts (BIDs). The Council collects a levy from the business rate payers on behalf of the BID bodies, Essential Edinburgh, Greater Grassmarket, Queensferry Ambition and Edinburgh's West End.

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

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

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

### 48. The City of Edinburgh Council Charitable Funds

The City of Edinburgh Council administers a number of charitable funds. Over the last few years, the Council has rationalised the number of charitable trusts down from over a hundred to seven, with further plans in place to wind up of the Usher Hall Conservation Trust in 2017/18.

#### 48.1 The funds are:

	<b>Scottish Charity Registration Number</b>	<b>Market Value 31.03.17 £000</b>	<b>Market Value 31.03.16 £000</b>
<b>Scottish Registered Charities</b>			
Lauriston Castle	SC020737	7,041	7,039
Jean F. Watson	SC018971	6,274	6,177
Edinburgh Education Trust	SC042754	919	852
Nelson Halls	SC018946	227	214
Boyd Anderson	SC025067	113	118
Usher Hall	SC030180	65	68
The Royal Scots Trust	SC018945	<u>32</u>	<u>30</u>
Total market value		<u>14,671</u>	<u>14,498</u>

These funds do not represent assets of the Council and are not included in the Consolidated Balance Sheet.

## NOTES TO THE FINANCIAL STATEMENTS

### 48. The City of Edinburgh Council Charitable Funds - continued

#### 48.2 Financial Position of the Scottish Registered Charity Funds

Re-stated		
2015/16	Income and Expenditure Account	2016/17
£000		£000
	<b>Income</b>	
(54)	Investment income	(73)
(2)	Other non-investment income	(14)
	<hr/>	<hr/>
(56)		(87)
	 <b>Expenditure</b>	
20	Prizes, awards and other expenses	22
13	Governance Costs	15
	<hr/>	<hr/>
33		37
	<hr/>	<hr/>
(23)	Surplus for the year	(50)
	<hr/> <hr/>	<hr/> <hr/>
	 <b>2015/16 Balance Sheet</b>	 <b>2016/17</b>
	<b>£000</b>	<b>£000</b>
	<b>Long-Term Assets</b>	
1,843	Investments	2,066
5,236	Artworks - Jean Watson Trust	5,275
7,020	Heritable property	7,020
	<hr/>	<hr/>
14,099	<b>Total Long-Term Assets</b>	14,361
	 <b>Current Assets</b>	
420	Cash and bank	333
	<hr/>	<hr/>
420		333
	 <b>Current Liabilities</b>	
(21)	Creditors	(23)
	<hr/>	<hr/>
(21)		(23)
	<hr/>	<hr/>
14,498	<b>Total Assets less Liabilities</b>	14,671
	<hr/> <hr/>	<hr/> <hr/>
	 <b>Funds</b>	
3,194	Capital at 1 April	3,120
23	Surplus for the year	50
0	Realised and unrealised gains on investments	123
(97)	Realised and unrealised losses on investments	0
	<hr/>	<hr/>
3,120		3,293
	<hr/>	<hr/>
11,378	Revaluation reserve	11,378
	<hr/>	<hr/>
14,498	<b>Funds at 31 March</b>	14,671
	<hr/> <hr/>	<hr/> <hr/>

At the request of the Office of the Scottish Charity Regulator, a separate Trustee's Report and Accounts have been prepared which give further information on the Scottish registered charities in the trusteeship of the Council. A copy of this document may be obtained from the Council's Finance Division - Business Centre 2.6, Waverley Court, 4 East Market Street, Edinburgh, EH8 8BG.

## NOTES TO THE FINANCIAL STATEMENTS

### 48. The City of Edinburgh Council Charitable Funds - continued

#### 48.3 Purpose, and financial position, of the largest of the charitable funds

- **Jean F. Watson Bequest (Scottish Charity Reg. No. SC018971)**

The purpose of the fund is to purchase works of art by artists who have connections with the city.

	<b>31.03.17</b>	<b>Re-stated 31.03.16</b>
	<b>£000</b>	<b>£000</b>
The financial results of the fund are as follows:		
Income	(47)	(27)
Expenditure	45	7
Assets	6,278	6,178
Liabilities	(4)	(1)

- **Lauriston Castle (Scottish Charity Reg. No. SC020737)**

The purpose of the fund is for the advancement of arts, heritage and culture linked to Lauriston Castle.

	<b>31.03.17</b>	<b>31.03.16</b>
	<b>£000</b>	<b>£000</b>
The financial results of the fund are as follows:		
Income	(1)	(1)
Expenditure	1	1
Assets	7,042	7,043
Liabilities	(1)	(4)

- **Edinburgh Education Trust (Scottish Charity Reg No SC042754)**

The purposes of the Trust include the advancement of education, citizenship and community development, and the organisation of recreational activities.

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

#### 48.4 Financial Position of Other Funds

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

<b>2015/16</b>	<b>Balance Sheet</b>	<b>2016/17</b>
<b>£000</b>	<b>Current Assets</b>	<b>£000</b>
45	Cash and bank	44
45		44
	<b>Current Liabilities</b>	
(1)	Balance with City of Edinburgh Council	(1)
(1)		(1)
44	<b>Total Assets less Liabilities</b>	43
45	<b>Capital at 1 April</b>	44
(1)	Deficit for the year	(1)
0	Compensation fund paid	0
44	<b>Capital at 31 March</b>	43

## NOTES TO THE FINANCIAL STATEMENTS

### 49. Prior Period Adjustments

49.1 The following prior period adjustment has been made. The change is adopted retrospectively for the prior period 2015/16, in accordance with IAS 8: Accounting Policies, Changes in Accounting Estimates and

- **Asset Sales**

In 2015/16 the Council recognised income and gains on the sale of land on a phased sale arrangement, the income being treated as a debtor in the balance sheet. The receipt from one of these asset sales was overstated. A prior period adjustment has been made to correct the debtor and gain.

- **CEC Holdings Ltd**

In 2016/17 EDI Central Limited (part of EDI Group Ltd) adopted IFRS, which resulted in changes to accounting treatment of long term debtors and notional interest. A prior period adjustment has been made to reflect the newly adopted standards. EDI Central Limited is a subsidiary of CEC Holding Ltd.

### 49.2 Impact on Financial Statements

Movement in Reserves Statement	2015/16 Statements £000	Asset Sales £000	CEC Holdings £000	2015/16 Re-stated £000
<u>Balance at 31 March 2015</u>				
Group Usable Reserves	10,172	0	(296)	9,876
Total Usable Reserves	199,599	0	(296)	199,303
Total Reserves	1,747,793	0	(296)	1,747,497
<u>Total Comprehensive Income and Expenditure</u>				
Group Usable Reserves	32,916	0	88	33,004
Total Usable Reserves	34,392	0	88	34,480
Total Reserves	370,856	(199)	88	370,745
<u>Net decrease between before transfers to reserves</u>				
Group Usable Reserves	33,392	0	88	33,480
Total Usable Reserves	(83,298)	0	88	(83,210)
Total Reserves	370,856	(199)	88	370,745
<u>Increase in year</u>				
Group Usable Reserves	30,454	0	88	30,542
Total Usable Reserves	79,067	0	88	79,155
Council Unusable Reserves	282,530	(199)	0	282,331
Total Reserves	370,856	0	88	370,944
<u>Balance at 31 March 2016</u>				
Group Usable Reserves	40,626	0	(208)	40,418
Total Usable Reserves	278,666	0	(208)	278,458
Council Unusable Reserves	1,731,617	(199)	0	1,731,418
Total Reserves	2,118,649	(199)	(208)	2,118,242

## NOTES TO THE FINANCIAL STATEMENTS

### 49. Prior Period Adjustments - continued

#### 49.2 Impact on Financial Statements - continued

<b>Group</b>				
<b>Comprehensive Income and Expenditure Statement</b>	<b>2015/16 Statements £000</b>	<b>Asset Sales £000</b>	<b>CEC Holdings £000</b>	<b>2015/16 Re-stated £000</b>
Cost of Services	953,846	0	(3)	953,843
Gain on Disposal of Fixed Assets	(36,148)	199	0	(35,949)
Financing and Investment Income	106,863	0	(84)	106,779
Taxation and Non-Specific Grant Income	(1,029,709)	0	(1)	(1,029,710)
Surplus on provision of service	(5,148)	199	(88)	(5,037)
Total Comprehensive Income and Expenditure	(370,856)	199	(88)	(370,745)
<b>Council</b>				
<b>Comprehensive Income and Expenditure Statement</b>	<b>2015/16 Statements £000</b>	<b>Asset Sales £000</b>		<b>2015/16 Re-stated £000</b>
Gain on Disposal of Fixed Assets	(36,146)	199	n/a	(35,947)
Surplus on Provision of Service	(1,476)	199	n/a	(1,277)
Total Comprehensive Income and Expenditure	(331,143)	398	n/a	(330,944)
<b>Group</b>				
<b>Balance Sheet</b>	<b>2015/16 Statements £000</b>	<b>Asset Sales £000</b>	<b>CEC Holdings £000</b>	<b>2015/16 Re-stated £000</b>
Short-term debtors	96,785	(199)	(208)	96,379
Net assets	2,118,649	(199)	(208)	2,118,242
Capital Adjustment Account	1,376,328	(199)	0	1,376,129
Unusable Reserves	1,839,983	(199)	0	1,839,784
Group Usable Reserves	40,626	0	(208)	40,418
Total Reserves	2,118,649	(199)	(208)	2,118,242
<b>Council</b>				
<b>Balance Sheet</b>	<b>2015/16 Statements £000</b>	<b>Asset Sales £000</b>		<b>2015/16 Re-stated £000</b>
Short-term debtors	86,600	(199)	n/a	86,401
Net assets	1,969,657	(199)	n/a	1,969,458
Capital Adjustment Account	1,376,328	(199)	n/a	1,376,129
Unusable Reserves	1,731,617	(199)	n/a	1,731,418
Total Reserves	1,969,657	(199)	n/a	1,969,458

# HOUSING REVENUE ACCOUNT

## INCOME AND EXPENDITURE STATEMENT for the year ended 31 March 2017

The Housing Revenue Account (HRA) Income and Expenditure Statement shows in more detail the income and expenditure on HRA services included in the Council's Comprehensive Income and Expenditure Statement.

<b>2015/16</b>		<b>2016/17</b>	
<b>£000</b>	<b>EXPENDITURE</b>	<b>£000</b>	<b>£000</b>
27,765	Repairs and maintenance	27,469	
26,132	Supervision and management	21,069	
23,285	Depreciation and impairment of non-current assets	19,345	
5,609	Other expenditure	5,279	
1,073	Impairment of debtors	251	
83,864			73,413
	<b>INCOME</b>		
(93,015)	Dwelling rents	(95,674)	
(467)	Non-Dwelling rents (gross)	(496)	
(17,102)	Other income	(5,901)	
(110,584)			(102,071)
(26,720)	Net income for HRA Services (as included in the Council's Comprehensive Income and Expenditure Statement)		(28,658)
274	HRA share of corporate and democratic core		191
1,005	HRA share of other amounts included in the Council's Net Cost of Services but not allocated to specific services		708
(25,441)	Net income for HRA Services		(27,759)
	HRA share of other operating expenditure included in the Council's Comprehensive Income and Expenditure Statement		
(2,247)	Gain on sale of HRA fixed assets	(755)	
19,021	Interest payable and similar charges	18,162	
2,494	Interest cost on defined benefit obligation ( <i>pension-related</i> )	2,410	
(98)	Interest and investment income	(52)	
(1,858)	Interest income on plan assets ( <i>pension-related</i> )	(2,013)	
(7,439)	Capital grants and contributions	(7,587)	
9,873			10,165
(15,568)	Surplus for the year on HRA services		(17,594)

# HOUSING REVENUE ACCOUNT

## MOVEMENT ON THE HRA STATEMENT

2015/16 £000		2016/17 £000
0	Balance on the HRA at the end of the previous year	0
15,568	Surplus for the year on the HRA Income and Exp Account	17,594
(13,312)	Adjustments between accounting basis and funding basis under statute	(5,708)
<u>2,256</u>	<b>Net increase before transfers to reserves</b>	<u>11,886</u>
<u>(2,256)</u>	Contribution to renewal and repairs fund, via the General Fund	<u>(11,886)</u>
<u><u>0</u></u>	<b>Balance on the HRA at the end of the current year</b>	<u><u>0</u></u>

## Adjustments Between Accounting Basis and Funding Basis Under Regulations

£000		£000
	<b>Adjustments primarily involving the Capital Adjustment Account</b>	
	<b>Reversal of items debited or credited to the Income and Expenditure Statement</b>	
23,285	Charges for depreciation and impairment of non-current assets	19,345
(7,439)	Capital grants and contributions applied	(7,587)
	<b>Insertion of items not debited or credited to the Income and Expenditure Statement</b>	
(27,328)	Statutory provision for the financing of capital investment	(16,585)
0	Capital funded from revenue	0
	<b>Adjustments primarily involving the Capital Receipts Reserve</b>	
(2,247)	Transfer of cash sale proceeds credited as part of the gain / loss on disposal of assets	(754)
	<b>Adjustments primarily involving the Financial Instruments Adjustment Account</b>	
(488)	Amount by which finance costs charged are different from finance costs chargeable in the year in accordance with statutory requirements	(498)
	<b>Adjustments primarily involving the Pensions Reserve</b>	
2,676	Reversal of items relating to retirement benefits debited or credited to the Income and Expenditure Statement	2,016
(1,693)	Employer's pension contributions and direct payments to pensioners payable in the year	(1,503)
	<b>Adjustments primarily involving the Employee Statutory Adjustment Account</b>	
(78)	Amount by which officer remuneration charged to the Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(142)
<u>(13,312)</u>		<u>(5,708)</u>

# HOUSING REVENUE ACCOUNT

## Notes to the Housing Revenue Account

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

Types of Houses	2017		2016	
	Number	Annual Average Rent (£)	Number	Annual Average Rent (£)
<b>Main provision Council dwellings</b>				
1 Apartment	316	3,814.00	302	3,726.00
2 Apartment	5,367	4,266.00	5,459	4,177.00
3 Apartment	9,920	4,944.00	10,145	4,842.00
4 Apartment	3,353	5,693.00	3,426	5,579.00
5 Apartment	505	6,118.00	516	6,015.00
6 Apartment	9	6,164.00	9	6,043.00
7 Apartment	4	5,971.00	4	5,854.00
8 Apartment	1	5,971.00	1	5,854.00
<b>Mid-market rent dwellings</b>				
2 Apartment	23	5,556.00	21	5,447.00
3 Apartment	83	6,821.00	75	6,706.00
4 Apartment	22	8,598.00	22	8,430.00
	<u>19,603</u>		<u>19,980</u>	

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

- The amount of rent arrears included as debtors in the Council's Consolidated Balance Sheet was £6.647m (£6.799m 2015/16) against which a provision amounting to £5.757m (£5.399m 2015/16), has been created in respect of non collectable debts.
- Significant non-residential income includes ground rent at Broomhouse Drive of £0.160m per annum.
- The total value of uncollectable void rents for main provision properties was £0.552m (2015/16 £0.464m). This has been netted against rental income.



## COUNCIL TAX INCOME ACCOUNT

The Council Tax Income Account (Scotland) shows the gross income raised from council taxes levied and deductions made under Statute. The resultant net income is transferred to the Comprehensive Income and Expenditure Statement.

for the year ended 31 March 2017

2015/16 £000		2016/17 £000	£000
(300,827)	Gross council tax levied and contributions in lieu		(304,281)
49,860	Less: - Exemptions and other discounts	50,057	
7,956	- Provision for bad debts	7,731	
24,255	- Council Tax Reduction Scheme	23,406	
2,689	- Other reductions	3,265	
<u>84,760</u>		<u>84,459</u>	
(216,067)			(219,822)
<u>(324)</u>	Previous years' adjustments		<u>(1,569)</u>
<u><b>(216,391)</b></u>	<b>Total transferred to General Fund</b>		<u><b>(221,391)</b></u>

### Notes to the Council Tax Income Account

The in-year collection rate for Council Tax was 96.4% (2015/16 96.1%).

Each household or occupied dwelling is allocated to a Council Tax band by the Assessor. The charge per Council Tax band is calculated as a proportion of band D - these proportions are determined by legislation.

A Council Tax bill was reduced by 25% where a dwelling had only one occupant or, with certain exceptions, 10% where the property was a second home, up until 31 March 2017. Unoccupied properties are eligible for 10% discount for up to 12 months, from the date the property was last occupied, thereafter 100% additional charge, with certain exceptions. For Council Tax purposes, students and certain other categories of people are not regarded as occupants. Reductions in Council Tax payable are also granted for physically disabled people.

Charges in respect of water and sewerage are the responsibility of Scottish Water. The Council collects both water and sewerage charges and makes payment to the Water Authority.

### Calculation of the Council Tax Base 2016/17

Band	Number of Properties	Disabled Relief	Exemptions	Discounts	Effective Properties	Ratio to Band D	Band D Equivalents	Charges per Band
A Up to £27,000	23,505	77	3,411	3,402	16,769	6/9	11,179	£779.33
B £27,001 - £35,000	47,290	68	3,613	6,941	36,804	7/9	28,625	£909.22
C £35,001 - £45,000	44,219	(24)	3,139	5,440	35,616	8/9	31,659	£1,039.11
D £45,001 - £58,000	38,346	65	2,693	4,215	31,503	9/9	31,503	£1,169.00
E £58,001 - £80,000	40,757	(31)	3,592	3,673	33,461	11/9	40,897	£1,428.78
F £80,001 - £106,000	24,839	(27)	1,436	1,993	21,383	13/9	30,887	£1,688.56
G £106,001 - £212,000	21,206	(100)	485	1,254	19,367	15/9	32,278	£1,948.33
H Over £212,000	3,969	(28)	130	184	3,627	18/9	7,254	£2,338.00
							214,282	
							437	
							<u>(6,549)</u>	
							<u><b>208,170</b></u>	

From 1 April 2017, the nine year Council Tax freeze was lifted with Local Authorities able to increase Council Tax by up to 3 per cent. In addition the Scottish Government introduced an increase in the property band multipliers for properties in bands E to H, also effective from 1 April 2017.

## NON-DOMESTIC RATES INCOME ACCOUNT

The Non-Domestic Rate Account is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Non-Domestic Rate Account. The statement shows the gross income from the rates and deductions made under statute. The net income is paid to the Scottish Government as a contribution to the national Non-Domestic Rate pool.

### for the year ended 31 March 2017

2015/16		2016/17	
£000		£000	£000
(444,260)	Gross rates levied and contributions in lieu		(458,112)
85,276	Less: - Reliefs and other deductions	82,424	
4,752	- Uncollectable debt written off and provision for impairment	4,986	
<u>90,028</u>			<u>87,410</u>
(354,232)			(370,702)
13,161	Previous years' adjustments		2,501
<b><u>(341,071)</u></b>	<b>Net Non-Domestic Rates Income</b>		<b><u>(368,201)</u></b>
Allocated to:			
(341,540)	Contribution to National Non-Domestic Rates Pool		(368,712)
469	Adjustments for years prior to introduction of National Non-Domestic Rates Pool		511
<b><u>(341,071)</u></b>			<b><u>(368,201)</u></b>

### Notes to the Non-Domestic Rates Income Account

Rateable Values as at 1 April 2016	Number	Rateable Value £000
Shops, offices and other commercial subjects	14,403	647,060
Industrial and freight transport	2,733	73,224
Telecommunications	7	22
Public service subjects	363	48,622
Miscellaneous	2,733	139,715
	<u>20,239</u>	<u>908,644</u>

### Contribution to / from National Non-Domestic Rates Pool

The contribution to the National Non-Domestic Rates Pool of £368.712m (2015/16 £341.540m) is the non-domestic rates contributed by the Council through pooling arrangements for government grant purposes. The amount distributed to the Council under these arrangements was £374.650m (2015/16 £390.862m).

With effect from 2011/12, authorities retain in full the income raised locally up to the baseline level assumed in the Local Government Financial Settlement. Any variation from this assumed level is then met by means of a corresponding transfer of funds to or from the Scottish Government.

### Poundage

Occupiers of non-domestic property pay rates based on the valuation of the property within the valuation roll for Edinburgh. The non-domestic rate poundage is determined by the Scottish Ministers, and was 48.4p per £ in 2016/17 (2015/16 48.0p per £).

Properties with a rateable value greater than £35,000 (2015/16 £35,000) had their rate charges calculated using the poundage of 51.0p per £ (2015/16 49.3p per £).

From 1 April 2008, the Scottish Government introduced the Small Business Bonus Scheme. Business properties with a rateable value of £18,000 or less may have received relief as set out below:

100% Relief	below	£10,000
50% Relief	£10,001 to	£12,000
25% Relief	£12,001 to	£18,000
Upper limit for combined rateable value		£35,000

## COMMON GOOD FUND

The Common Good Fund stands separate from the Council's accounts and has been described as "the ancient patrimony of the community". It was originally derived from the grants by the Sovereigns of Scotland at various times. The present fund is an amalgam of the funds of the City and Royal Burgh of Edinburgh and the Royal Burgh of South Queensferry.

A report on the (Edinburgh) Common Good prepared by the Town Clerk and City Chamberlain in 1905 set out the historical background of the fund and listed its then assets in some detail. The report also stated a "General Principle" that the Fund should be administered "for the purpose of upholding the dignity and suitable hospitality of the City; performing the duties incumbent upon a Royal Burgh ..... maintaining the municipal establishment and managing the municipal affairs; vindicating or extending the corporate rights of the community and defending its interests; acquiring additional land or property for the corporate benefit, or improving existing corporation property, and generally for any purpose which, in the bona fide judgement of the Town Council, is for the good of the community as a whole, or in which the inhabitants at large may share, as distinct from the separate interests or benefit of any particular individual or class, however deserving or needy. The purpose must be limited to those which concern the City and its interests".

The Local Government etc. (Scotland) Act 1994 confirms this interpretation that use of the Fund shall "have regard to the interests of all the inhabitants" of the area.

During 2016/17, the Council generated two capital receipts for the Common Good. 6-8 Market Street was sold with a receipt of £183,494 and land at St James Quarter was sold with a receipt of £42,000, both of which were credited to the Common Good Fund. There has been no reduction in the value of the existing Common Good assets in year.

In 2015/16, £2m of the common good fund was earmarked to be utilised to fund a planned property maintenance programme. To date, £110,000 of this funding has been used to fund Scott Monument Lighting work. The resulting balance of the Common Good Fund is £2.402m as at 31 March 2017. (£2.298m 2015/16). This is split £0.512m in the fund and £1.890m in the planned property maintenance fund.

### COMMON GOOD FUND - MOVEMENT IN RESERVES STATEMENT

	Common Good Fund £000	Property Maintenance Fund £000	Capital Adjust. Account £000	Reval. Reserve £000	Total Reserves £000
<b>2016/17 Movements</b>					
Balance at 31 March 2016	298	2,000	(22)	21,994	24,270
Movement in reserves during 2016/17					
(Deficit) / Surplus on the provision of services	104	0	0	0	104
Revaluation Reserve	0	0	0	0	0
<b>Total Comprehensive Income and Expenditure</b>	104	0	0	0	104
Adjustments between accounting basis and funding basis under regulations:	0	0	0	0	0
<b>Net increase / decrease before transfers to earmarked reserves</b>	104	0	0	0	104
Transfer (to) / from reserves	110	(110)	0	0	0
Increase / (decrease) in year	214	(110)	0	0	104
<b>Balance at 31 March 2017</b>	512	1,890	(22)	21,994	24,374

## COMMON GOOD FUND - MOVEMENT IN RESERVES STATEMENT

	Common Good Fund £000	Property Maintenance Fund £000	FFF Earmarked Fund £000	Capital Adjust. Account £000	Reval. Reserve £000	Total Reserves £000
<b>2015/16 Comparative Data</b>						
Balance at 31 March 2015	1,654	0	1,182	(22)	21,860	24,674
Movement in reserves during 2015/16						
Surplus on the provision of services	(538)	0	0	0	0	(538)
Revaluation Reserve	0	0	0	0	134	134
<b>Total Comprehensive Income and Expenditure</b>	(538)	0	0	0	134	(404)
Adjustments between accounting basis and funding basis under regulations:	0	0	0	0	0	0
<b>Net increase / decrease before transfers to earmarked reserves</b>	(538)	0	0	0	134	(404)
Transfer (to) / from reserves	(818)	2,000	(1,182)	0	0	0
Increase / (decrease) in year	(1,356)	2,000	(1,182)	0	134	(404)
<b>Balance at 31 March 2016</b>	298	2,000	0	(22)	21,994	24,270

## COMMON GOOD FUND - COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

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

## COMMON GOOD FUND - BALANCE SHEET

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

The unaudited accounts were issued on 23 June 2017. The audited accounts were authorised for issue on 28 September 2017.

HUGH DUNN, CPFA  
Head of Finance  
28 September 2017

# COMMON GOOD FUND - NOTES TO FINANCIAL STATEMENTS

## 1. Property, Plant and Equipment and Heritage Assets

### 1.1 Movements on Balances

	Community Assets £000	Total Property, Plant and Equipment £000	Heritage Assets £000
<b>Cost or Valuation</b>			
At 1 April 2016	21,892	21,892	103
Revaluation increases / (decreases) recognised in the Revaluation Reserve	0	0	0
At 31 March 2017	<u>21,892</u>	<u>21,892</u>	<u>103</u>
<b>Accumulated Depreciation</b>			
At 1 April 2016	0	0	0
At 31 March 2017	<u>0</u>	<u>0</u>	<u>0</u>
<b>Net Book Value</b>			
At 31 March 2017	<u>21,892</u>	<u>21,892</u>	<u>103</u>
At 31 March 2016	<u>21,892</u>	<u>21,892</u>	<u>103</u>
<b>Cost or Valuation</b>			
At 1 April 2015	21,757	21,757	104
Revaluation increases / (decreases) recognised in the Revaluation Reserve	135	135	(1)
At 31 March 2016	<u>21,892</u>	<u>21,892</u>	<u>103</u>
<b>Accumulated Depreciation</b>			
At 1 April 2015	0	0	0
At 31 March 2016	<u>0</u>	<u>0</u>	<u>0</u>
At 31 March 2016	<u>21,892</u>	<u>21,892</u>	<u>103</u>
At 31 March 2015	<u>21,757</u>	<u>21,757</u>	<u>104</u>

### 1.2 Information on Assets Held

Assets owned by the Common Good Fund at 31 March 2017 include:

Monuments and statues	22
Parks and open spaces and other properties	32
Shops, industrial units and other commercial lettings	18

## 2. Usable Reserves

Movements in the Common Good's usable reserves are detailed in the Movement in Reserves Statement (on page 132).

## COMMON GOOD FUND - NOTES TO FINANCIAL STATEMENTS

### 3. Unusable Reserves

#### 3.1 Revaluation Reserve

The revaluation reserve contains the gains made by the Common Good Fund arising from increases in the value of its property, plant and equipment. The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost;
- used in the provision of services and the gains are consumed through depreciation; or
- disposed of and the gains are realised.

The reserve contains unrealised gains accumulated since 1 April 2007, the date the reserve was created. Accumulated gains arising before 1 April 2007 were consolidated into the capital adjustment account.

	2016/17		2015/16	
	£000	£000	£000	£000
Balance at 1 April		21,994		21,860
Upward revaluation of assets	0		134	
Downward revaluation of assets and impairment losses not charged to the Surplus on the Provision of Services	0		0	
Deficit on revaluation of non-current assets not posted to the Surplus on the Provision of Service		0		134
Derecognition of asset disposals				0
Balance at 31 March		<u>21,994</u>		<u>21,994</u>

#### 3.2 Capital Adjustment Account

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

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

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

# ANNUAL GOVERNANCE STATEMENT

## Scope of Responsibility

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

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

To this end, the Council has adopted a Local Code of Corporate Governance that is consistent with the principles of the Chartered Institute of Public Finance and Accountancy (CIPFA) and Society of Local Authority Chief Executives (SOLACE) framework 'Delivering Good Governance in Local Government'. This statement outlines how the City of Edinburgh Council delivers good governance and reviews the effectiveness of those arrangements.

This statement also covers the organisations included in the Council's Group Accounts, a list of which is included on page 50 of the Accounts.

## The Group's Governance Framework

The governance framework comprises the systems, processes, cultures and values by which the Group is directed and controlled. It also describes the way it engages with, accounts to and leads its communities. It enables the Group to monitor the achievement of its objectives and consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The Council's Local Code of Corporate Governance is supported by evidence of compliance which is regularly reviewed and considered by the Governance, Risk & Best Value Committee. The rest of the Group observes the principles of the code.

The Council has implemented arrangements for monitoring each element of the framework and providing evidence of compliance. The Council's Governance and Democratic Services manager reviewed the arrangements and is satisfied that the Code continues to be adequate and effective. Internal Audit has also reviewed the annual assurance questionnaire process in relation to Arms-Length Companies and has found that this provides the Chief Executive with a level of assurance on the adequacy of the governance arrangements. The Council's Corporate governance framework meets the principles of effective governance.

The key elements of the framework are set out below:

- The Council's key corporate vision and priorities are set out and published in the City of Edinburgh Council Business Plan 2016-2020. The plan forms part of a single planning and performance framework that connects the strategic vision of the Council and its partners to the detailed operational plans which guide the delivery of our frontline services. The Plan was first approved by Council in January 2016 and included a commitment to provide an annual update of the Plan. This annual update was considered and agreed by Council in February 2017 to ensure that the priorities and direction of the Plan continue to remain relevant and focused on the needs of our customers and citizens.
- Empowered communities. The Council has created four localities and is using these to restructure and deliver a range of frontline services. This will ensure integrated local services and improved outcomes for citizens. This locality model operates in co-terminosity with our partners (such as police and fire services) enabling closer working and integration of services around our citizens. A Local Outcome Improvement Plan describes the work of the Council and our partners to deliver our shared vision and provide for improved outcomes across the city as a whole. Local Improvement Plans cover every area of the city and describe in detail our multi-agency approach to improve the delivery of services in our communities.
- The Community Risk Register, Council Risk Register and Service area risk registers identify risks and proposed treatment or actions. These registers are regularly reviewed, updated and reported to the Corporate Leadership Team and Governance, Risk and Best Value Committee for scrutiny and challenge.
- The risk management policy and framework set out the responsibilities of Elected Members, the Governance, Risk and Best Value Committee, management and staff for the identification and management of risks to key corporate priorities.



# ANNUAL GOVERNANCE STATEMENT

The key elements of the framework are set out below - continued

- The Council's long term financial plan sets out how pressures arising from demographic change, inflation and legislative reform, coupled with reducing real-terms resource levels, will need to be addressed on a sustainable basis whilst still meeting the needs of our customers. This is aligned to a re-design of our service structures to make them more efficient and a transformation of the way that services are provided.
- Our programme of transformation focuses efforts on achieving priority outcomes by reducing internal business costs, applying channel shift to reduce the cost of simple transactions and enabling customers and staff to do more through self service.
- The Council is embedding a culture of commercial excellence to ensure that our services always deliver Best Value. The Council's Business Plan describes our determination to have class leading commercial and procurement practices that are sustainable and realise benefits for our customers and the local supply chain. We are also developing a more commercial approach in considering how we best use our assets and generate income in the context of our overall strategic objectives and management of risk. The Council received a "superior performance" rating through the independent Procurement Capability Assessment and the Procurement and Commercial Improvement Programme (PCIP) assessment is currently in progress.
- The submission of reports, findings and recommendations from Audit Scotland, the external auditor, other inspectorates and internal audit, to the Corporate Leadership Team, Governance, Risk and Best Value Committee and Council, where appropriate, supports effective scrutiny and service improvement activities.
- Performance Reports are considered on a monthly basis at the Corporate Leadership Team (CLT), with key indicators being reported and exceptions highlighted. A twice- yearly performance overview is reported to full Council and all Executive Committees, with inadequate performance highlighted within an accompanying exception report and reported to the appropriate team or committee.
- Audit actions are reviewed monthly by CLT and quarterly reviewed by GRBV. No significant control weaknesses were identified in either the Council's 2015/16 audit or the specific 2015/16 review of the Council's internal control framework. These assessments and prompt implementation of the recommendations have attested to the soundness of current controls although the Council recognises the importance of consolidating these improvements amidst significant organisational change.
- The roles and responsibilities of Elected Members and Officers are defined in Procedural Standing Orders, Committee Terms of Reference and Delegated Functions, Contract Standing Orders, Scheme of Delegation to Officers, the Member/officer protocol and Financial Regulations. These are subject to annual review.
- The Chief Executive has overall responsibility to Council, as head of paid service, for all aspects of operational management and overall responsibility for ensuring the continued development and improvement of systems and processes concerned with ensuring appropriate direction, accountability and control.
- The Chief Finance Officer has overall responsibility for ensuring appropriate advice is given to the Council and Group on all financial matters, keeping proper financial records of accounts and maintaining an effective system of internal financial control.
- The Chief Internal Auditor has overall responsibility to review, appraise and report to management and the Governance, Risk and Best Value Committee on the adequacy of the Council's internal control and corporate governance arrangements and on risks relating to approved policies, programmes and projects.
- The Council's Governance and Democratic Services Manager, reporting to the Head of Strategy and Insight, has responsibility for advising the Council on corporate governance arrangements.
- The Governance, Risk and Best Value Committee provides the Council with independent assurance of the adequacy of the governance and risk management frameworks and internal control environment. It also provides independent scrutiny of the Council's financial and non-financial performance, approves and monitors the progress of the Internal Audit risk based plan, and monitors performance of the internal audit service.

# ANNUAL GOVERNANCE STATEMENT

The key elements of the framework are set out below - continued

- A Council Governance Hub, chaired by the Chief Executive, has been established to scrutinise the management of Council companies, seek assurance over the delivery of services and to ensure that the Council is aware of any risks. This responds to areas for improvement recommended by internal audit - the independence of elected members as directors of companies; governance reporting to Council committees; the Council Observer role; and the annual assurance process for Council companies. The Hub provides oversight of the Council's companies, scrutinises the business plan, past performance and accounts; scrutinises compliance of the shareholder's agreement; identifies risks to the Council; provides an opportunity for Council Companies to raise issues directly with the Council's Chief Executive; and provides an opportunity for Council Companies to engage on issues of common interest and with the Council.

Specific work has been undertaken on reviewing the role of the Council's observers on company boards to ensure that the correct officers with the right level of seniority are attending board meetings and are accountable internally. Council companies are required to report to the Governance Hub once a year with the forward plans then considered at the relevant Council committee and the accounts and past performance scrutinised by the Governance, Risk and Best Value Committee.

- Resilience and business continuity plans are in place for all essential Council services. These set out arrangements for continuing to deliver essential services in the event of an emergency or other disruption.
- Senior management and Heads of Service have formal objectives, with performance reviewed by the appropriate chief officer. Officers have personal work objectives, and receive feedback on their performance through the Council-wide performance review and development process.
- An Elected Members' remuneration and expenses scheme is in place and is consistent with the Scottish Government's 'Councillors' Remuneration: allowances and expenses – Guidance'. Information on the amounts and composition of Elected Members' salaries, allowances and expenses is published on the Council's website.
- The Council's Governance and Democratic Services Manager ensures that induction training on roles and responsibilities, and ongoing development opportunities, are provided for Elected Members. The Council has revised its Councillor Induction and Training programme, drawing upon best practice from other organisations including The Scottish Parliament, informed by exit interviews conducted with councillors who indicated their intention not to stand again and also reflecting the views of political groups. Some distinctive features of the initial training programme included a Welcome Event, a Freshers Fayre, organised tours, each councillor being allocated a dedicated senior manager as a buddy to assist their assimilation and an informal evening reception at which their families could join them.

The induction training itself is structured in two phases – concentrating initially on what is immediately required, mandatory training (Councillors Code of Conduct, etc.), that which is of practical necessity (how committees and the decision-making process works, how to deal with casework, etc.) and core training for quasi-judicial functions (licensing, planning etc) together with some introductory sessions for each service area. A Training Needs Analysis will then be undertaken over the summer to inform the second (Autumn) phase of training.

- Codes of Conduct that set out the standards of behaviour expected from Elected Members and officers are in place.
- The Employee Code of Conduct, Anti Bribery Policy and Policy on Fraud Prevention set out the responsibilities of officers and Elected Members in relation to fraud and corruption, and are reinforced by the Councillors' Code of Conduct, the Code of Ethical Standards and the Financial Regulations. Under the mandatory policy awareness programme it is an annual requirement that officers confirm their awareness and understanding of these key policies.
- The Whistleblowing policy provides a process for disclosure in the public interest about the Council and its activities by officers, Elected Members and others.
- A Register of Members' Interests and Registers of Officers' interests are maintained and available for public inspection.

A significant element of the governance framework is the system of internal controls, which is based on an ongoing process to identify and prioritise risks to the achievement of the Group's objectives.

# ANNUAL GOVERNANCE STATEMENT

## Review of Effectiveness

The Local Code of Governance details the Council's arrangements for monitoring each element of the framework and providing evidence of compliance. The Council's Governance and Democratic Services Manager has reviewed the effectiveness of the Code and will report the result to the Governance, Risk and Best Value Committee in Autumn 2017 to ensure that the Council's annual governance practice is open, transparent and reflects best practice.

The Internal Audit Section operates in accordance with CIPFA's Code of Practice for Internal Audit. The Section undertakes an annual work programme based on agreed audit strategy and formal assessments of risk that are reviewed regularly. During the year, the Chief Internal Auditor reported to the Head of Legal and Risk but had free access to the Chief Executive, all Executive Directors and Elected Members along with reporting directly to the Governance, Risk and Best Value Committee.

The Chief Internal Auditor and Council's Head of Strategy and Insight have provided an assurance statement on the effectiveness of the system of internal control, which was informed by:

- The work of the Corporate Leadership Team which develops and maintains the governance environment;
- The certified annual assurance statements provided by all Executive Directors;
- The certified assurance statements provided by the Chief Executives and Directors of Finance of the Council's group companies;
- Council officers' management activities;
- The Chief Internal Auditor's annual report and internal audit reports, risk-based, across a range of Council services;
- An annual review by the Council's Governance and Democratic Services Manager of the Council's compliance with the Local Code of Corporate Governance, reported to the Governance, Risk and Best Value Committee;
- Reports from the Council's external auditor; and
- Reports by external, statutory inspection agencies.

In compliance with standard accounting practice, the Chief Finance Officer has provided the Chief Executive with a statement of the effectiveness of the Group's internal financial control system for the year ended 31st March 2017. It is the Chief Finance Officer's opinion that reasonable assurance can be placed upon its effectiveness.

Each Executive Director has reviewed the arrangements in his / her service area and reported on their assessment of the effectiveness of control arrangements, together with any potential areas requiring improvement, to the Chief Executive. Where improvement actions are identified, an action plan will be developed and subject to regular monitoring. In reviewing the overall governance framework, the Council has also considered any relevant third party reviews and recommendations. Reliance has also been placed on each organisation's most recent audited accounts together with the Council's detailed knowledge of these organisations as a consequence of their continued involvement with these. These reviews have not identified any fundamental weaknesses in the framework of governance, risk management and control at the Council.

## Certification

It is our opinion that in light of the foregoing, reasonable assurance can be placed upon the adequacy and effectiveness of City of Edinburgh Council and its Group's systems of governance. The annual review demonstrates sufficient evidence that the Code is operated effectively and the Council and its Group comply with the Local Code of Corporate Governance in all significant respects.

ANDREW KERR  
Chief Executive

ADAM MCVEY  
Council Leader

STEPHEN S. MOIR  
Executive Director of Resources

28 September 2017

28 September 2017

28 September 2017

# REMUNERATION REPORT

The Council is required under statute to provide information on the remuneration of each senior officer and each senior elected member, together with any other officer not otherwise included whose remuneration is over £150,000 per annum. In addition, the Council is required to provide information for the most senior employee within each of its subsidiary companies, together with all other employees whose remuneration exceeds £150,000 per annum.

All information disclosed in the tables on pages 141 to 152 in this remuneration report has been audited by Scott Moncrieff. The other sections of the remuneration report were reviewed by Scott Moncrieff to ensure that they are consistent with the Financial Statements.

## Remuneration Arrangements Councillors

The remuneration of Councillors is regulated by the Local Governance (Scotland) Act 2004 (Remuneration) Regulations 2007 (SSI No. 2007/183) as amended by the Local Governance (Scotland) Act 2004 (Remuneration and Severance Payments) Amendment Regulations 2016. The Regulations provide for the grading of councillors for the purposes of remuneration arrangements, as either the Leader of the Council, the Civic Head (the Lord Provost), senior councillors or councillors. The Leader of the Council and the Civic Head cannot be the same person for the purposes of payment of remuneration. A senior councillor is a councillor who holds a significant position of responsibility in the Council's political management structure.

When determining the level of Councillors' remuneration, Scottish Ministers consider the recommendations of the Scottish Local Authority Remuneration Committee (SLARC). SLARC's recommendations were first implemented for councillors elected in the local government elections in May 2007. SLARC was stood down as a committee in February 2013, but the principles of its work continue.

The salary that is to be paid to the Leader of the Council is set out in the Regulations. For 2016/17, the remuneration for the Leader of the City of Edinburgh Council was £50,682. The Regulations permit the Council to remunerate one Civic Head. The Regulations set out the maximum remuneration that may be paid to the Civic Head (the Lord Provost). For 2016/17 this was £38,011. The Council's policy is to pay the Lord Provost at the national maximum.

The Regulations also set out the remuneration that may be paid to Senior Councillors and the total number of Senior Councillors the Council may have (24 for the City of Edinburgh Council). The maximum yearly amount that may be paid to a Senior Councillor is 75% of the total yearly amount payable to the Leader of the Council. The total yearly amount payable by the Council for remuneration of all of Senior Councillors shall not exceed £658,854. The Council is able to exercise local flexibility in the determination of the precise number of Senior Councillors and their remuneration within these maximum limits. The Council's current policy is summarised below. Posts in italics were remunerated until the dates shown.

	No. of Posts	% of amount payable to Leader of the Council
Depute Leader of the Council	1	75%
Depute Convener	1	50%
Conveners of Culture and Sport, Economy, Education, Children and Families, Finance and Resources, Planning, Regulatory, Transport and Environment and Health, Social Care and Housing Committees	8	65%
Convener of Licensing Board	1	60%
Convener of Governance, Risk and Best Value	1	50%
Convener of Communities and Neighbourhoods	1	45%
Convener of Police and Fire Scrutiny	1	40%
Vice-Conveners of Culture and Sport, Economy, Education, Children and Families, Finance and Resources, Planning, Regulatory, Transport and Environment and Health, Social Care and Housing Committees	8	45%
Opposition Group Leaders - Conservative and Green Groups	2	50%

In addition, the Council remunerated the Conveners and Vice Conveners of Joint Boards. The Council has an arrangement with the Joint Boards to reimburse the Council for the additional costs for councillors that arise from their being a Convener or Vice Convener of the Joint Boards.

# REMUNERATION REPORT

## Senior Employees

The salary of senior employees is set by reference to national arrangements. The Scottish Joint Negotiating Committee (SJNC) for Local Authority Services sets the salaries for Chief Executives of Scottish local authorities. Circular CO/148 set the amount of salary for the Chief Executive of the City of Edinburgh Council for the period April 2015 to March 2017. Circular CO/148 provides a revised Scheme of Salaries and Conditions of Service for Chief Officials.

There is no formal percentage relationship for salaries between the Chief Executive and other chief officers. The national salary points to be applied to Executive Directors and Head of Service posts are determined using the Hay job evaluation method. The decision on whether there is to be an annual pay increase applied to the national salary points, and at what level, for Chief Executive and Chief Officer posts is made by the SJNC for local authority services and thereafter applied locally by the Council.

The Director of Health and Social Care was a joint appointment and the terms and conditions, including pay for the post, are those set by NHS Lothian, who employed the post holder directly. The Integration Joint Board Chief Officer is a joint appointment and the terms and conditions, including pay for the post, are set by the Council, who employ the post holder directly. The appropriate costs are then recharged to NHS Lothian and the Integration Joint Board.

The Council's role in determining the remuneration policies for its companies is currently under review.

## Remuneration Paid

The following tables provide details of the remuneration paid to the Council's Senior Councillors, Senior Employees and the remuneration paid to the Chief Executive (or the most senior manager of that body) of each of the Council's subsidiary bodies. Details on roles held by Councillors are set out on pages 142 and 143. Where a Councillor has held more than one post during the year, he/she is only included once within the following table. Salary, fees and allowances represents the total amount received during the year, regardless of whether a senior Councillor role was held for the full year.

<b>Council's Leader, Civic Head and Senior Councillors</b>	<b>Salary, Fees and Allowances</b>	<b>Taxable Expenses</b>	<b>Non-Cash Expenses / Benefits-in-kind</b>	<b>Total Remun. 2016/17</b>	<b>Total Remun. 2015/16</b>
	£	£	£	£	£
A. Burns, Leader of the Council	50,682	0	104	50,786	50,436
D. Wilson, Lord Provost	38,011	0	1,679	39,690	38,462
S. Cardownie, <i>Depute Convener (from 28.05.15)</i>	25,341	0	117	25,458	24,247
S. Howat, Depute Leader of the Council <i>(from 12.03.15 until 09.03.16)</i>	n/a	n/a	n/a	n/a	37,130
F. Ross, Convener of Economy <i>(until 09.03.16)</i> Depute Leader of the Council <i>(from 10.03.16)</i>	38,011	0	812	38,823	33,540
D. Brock, Depute Convener <i>(until 18.05.15)</i>	n/a	n/a	n/a	n/a	4,860
R. Lewis, Convener of Culture and Sport	32,943	0	190	33,133	32,865
C. Day, Vice Convener Health, Social Care and Housing <i>(until 27.10.16)</i> Convener Education, Children and Families <i>(from 27.10.16)</i>	27,167	0	79	27,246	22,628
P. Godzik, Convener Education, Children and Families <i>(until 27.10.16)</i> <i>(full year equivalent)</i>	26,040	591	0	26,631	33,255
A. Rankin, Convener Finance and Resources	32,943	0	226	33,169	33,447
R. Henderson, Convener Health, Social Care and Housing	32,943	0	726	33,669	33,343
I. Perry, Convener Planning	32,943	0	180	33,123	32,831

## REMUNERATION REPORT

### Remuneration Paid - continued

	Salary, Fees and Allowances £	Taxable Expenses £	Non-Cash Expenses / Benefits- -in-kind £	Total Remun. 2016/17 £	Total Remun. 2015/16 £
<b>Council's Leader, Civic Head and Senior Councillors</b>					
G. Barrie, Convener Regulatory (until 09.03.16) Convener Economy (from 10.03.16)	32,943	0	772	33,715	32,768
L. Hinds, Convener Transport and Environment	32,943	0	887	33,830	33,375
E. Milligan, Convener Licensing Board	30,409	0	0	30,409	30,287
M. Child, Convener Communities and Neighbourhoods	22,807	0	96	22,903	22,677
J. Balfour, Convener Governance, Risk and Best Value (to 02.06.16) (full year equivalent)	6,335 25,341	0	485	6,820	25,441
J. Mowat, Convener Governance, Risk and Best Value (from 02.06.16) (full year equivalent)	23,910 25,341	0	97	24,007	n/a
M. Bridgman, Convener Police and Fire Scrutiny (until 09.03.16) Convener Regulatory (from 10.03.16)	32,943	0	136	33,079	21,656
W. Henderson, Convener Police and Fire Scrutiny (from 10.03.16)	20,273	0	96	20,369	17,020
<u>Vice-Conveners</u>					
N. Austin-Hart, Vice Convener of Culture and Sport	22,807	0	0	22,807	22,581
G. Munro, Vice Convener of Economy	22,807	0	731	23,538	23,333
C. Fullerton, Vice Convener Education, Children and Families	22,807	0	116	22,923	22,692
B. Cook, Vice Convener Finance and Resources	22,807	0	0	22,807	22,581
A. Blacklock, Vice Convener Regulatory	22,807	0	762	23,569	23,386
A. McVey, Vice Convener Transport and Environment	22,807	0	730	23,537	23,307
D. Dixon, Vice Convener Planning (from 12.03.15 until 09.03.16)	n/a	n/a	n/a	n/a	22,471
A. Lunn, Vice Convener Planning (from 10.03.16)	22,807	0	729	23,536	17,796
J. Griffiths, Vice Convener Health, Social Care and Housing (from 27.10.16) (full year equivalent)	19,437 22,807	0	117	19,554	n/a
<u>Opposition Group Leaders</u>					
C. Rose, Conservative Group Leader	25,341	0	0	25,341	25,090
S. Burgess, Green Group Leader	25,341	0	817	26,158	26,026
<b>Councillors</b>					
N Work, Convener Lothian Valuation Joint Board (Note 1)	21,118	289	1,719	23,126	22,708

### Notes:

1. The amount recharged to Lothian Valuation Joint Board in 2016/17 was £4,225 (2015/16 £4,183). Expenses relate to Councillor role.

## REMUNERATION REPORT

### Remuneration Paid - continued Members' Salaries and Expenses

The Council paid the following amounts to members of the Council during the year (these sums include the totals shown above):

	2016/17 £	2015/16 £
Salaries	1,280,368	1,271,704
Expenses		
Claimed by councillors	1,693	1,723
Paid directly by the Council	<u>25,467</u>	<u>27,072</u>
Total	<u><u>1,307,528</u></u>	<u><u>1,300,499</u></u>

Remuneration paid to Senior Officers	Salary, Fees and Allowances £	Compensation for Loss of Office £	Total Remun. 2016/17 £	(re-stated)
				Total Remun. 2015/16 £
<b>Council's Senior Officers</b>				
A. Kerr, Chief Executive ( <i>from 27.07.15</i> ) ( <i>full year equivalent</i> )	165,810	0	165,810	111,652
				164,168
S. Bruce, Chief Executive ( <i>until 31.08.15</i> ) ( <i>full year equivalent</i> )	n/a	n/a	n/a	67,392
			n/a	161,741
A. Maclean, Deputy Chief Executive ( <i>until 05.01.16</i> ) ( <i>full year equivalent</i> )	n/a	n/a	n/a	110,881
			n/a	147,427
A. Gaw, Executive Director of Communities and Families ( <i>Acting Director from 05.01.16 until 15.03.17</i> ) ( <i>full year equivalent</i> )	148,901	0	148,901	35,272
				147,427
G. Tee, Director Children and Families ( <i>until 31.12.15</i> ) ( <i>full year equivalent</i> )	n/a	n/a	n/a	145,816
			n/a	147,427
R. McCulloch-Graham, Integration Joint Board Chief Officer ( <i>from 26.10.15</i> ) ( <i>full year equivalent</i> )	74,451	0	74,451	31,903
				74,451
P. Gabbittas, Director Health and Social Care ( <i>until 31.07.15</i> ) ( <i>full year equivalent</i> )	n/a	n/a	n/a	24,587
			n/a	82,928
P. Lawrence, Executive Director of Place ( <i>from 30.11.15</i> ) ( <i>full year equivalent</i> )	148,901	0	148,901	49,552
				147,427
J. Bury, Acting Director Services for Communities ( <i>from 08.05.14 until 18.10.15</i> ) ( <i>full year equivalent</i> )	n/a	n/a	n/a	67,380
			n/a	134,760
G. Ward, Director of Economic Development ( <i>until 30.11.15</i> ) ( <i>full year equivalent</i> )	n/a	n/a	n/a	79,390
			n/a	127,758
M. Miller, Head of Safer and Stronger Communities and Chief Social Work Officer	102,256	0	102,256	101,243

# REMUNERATION REPORT

## Remuneration Paid - continued

### Remuneration paid to Senior Officers - continued

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

#### Notes:

1. Remuneration shown above excludes any fees payable in respect of returning officer or other election duties. The approved remuneration for A Kerr for Returning Officer Duties in 2016/17 amounted to £41,358.
2. A. Kerr was appointed Chief Executive in July 2015. Salaries shown for A. Kerr and S. Bruce relate to the responsibilities as shown.
3. H. Dunn was appointed Acting Executive Director of Resources in January 2016. Salaries shown for H. Dunn and A. Maclean relate to the responsibilities as shown.
4. P. Lawrence was appointed Executive Director of Place in November 2015. Salaries shown for J. Bury and P. Lawrence relate to the responsibilities as shown.
5. A. Gaw was appointed Acting Director of Communities and Families in January 2016 until March 17 when this was made permanent. Salaries shown for A. Gaw and G. Tee relate to the responsibilities as shown.
6. R. McCulloch-Graham was appointed Integration Joint Board Chief Officer in October 2015. Salaries shown for R. McCulloch-Graham and P. Gabbitas relate to the responsibilities as shown.
7. P. Gabbitas was employed by NHS Lothian and 50% of his salary costs were recharged to the Council. The above figures therefore show the Council's share. R. McCulloch-Graham was employed by the Council with 50% of his salary costs reflected above.
8. Pay in lieu of notice is included within Salary, Fees and Allowances where applicable.



## REMUNERATION REPORT

### Remuneration Paid - continued

### Remuneration paid to Senior Officers - continued

### Council Subsidiary Companies

EDI Group and EICC are subsidiary companies of CEC Holdings Limited. Figures shown for these companies, Edinburgh Trams Ltd. and Lothian Buses Ltd. are for the year ended 31 December 2016 and 2015 respectively.

	Salary, Fees and Allowances	Bonus	Other Benefits	Compensation for Loss of Office	Total Remun. 2016/17	Total Remun. 2015/16
	£	£	£	£	£	£
<b>Council's Subsidiary Companies</b>						
E. Adair, Operations and Finance Director, EDI Group	104,412	0	1,253	0	105,665	105,744
H. Rissmann, Chief Executive, EICC (until 31.03.15) (full year equivalent)	n/a	n/a	n/a	n/a	n/a	51,665 170,191
M. Dallas, Chief Executive, EICC	135,584	27,316	0	0	162,900	158,470
J. Donnelly, Chief Executive, Marketing Edinburgh Ltd (Note 2)	122,960	0	0	0	122,960	116,600
J. Rafferty, Chief Executive, Capital City Partnership (until 1 December 2016) (full year equivalent)	49,016 73,524	0	0	70,908	119,924	72,795
R. Hunter, Chief Executive, Capital City Partnership (from 21 November 2016) (full year equivalent)	20,204	0	0	0	20,204 48,490	n/a
<u>LPFE Limited</u>						
C. Scott, Chief Executive Officer (from 01.05.16) (full year equivalent)	92,000	0	0	0	92,000	78,384 85,236
<u>Transport for Edinburgh</u>						
G. Lowder, Chief Executive (from 07.01.16) (full year equivalent)	138,983	14,180	684	0	153,847 156,664	n/a
<u>Lothian Buses Ltd.</u>						
I. Craig, Managing Director (until 31.01.16) (full year equivalent)	16,546	0	14,579	88,998	120,123 212,786	211,206
W. Campbell, Operations Director	n/a	n/a	n/a	n/a	n/a	116,076
W. Devlin, Engineering Director (until 31.01.17)	154,804	46,441	3,858	150,000	355,103	203,507
N. Strachan, Finance Director (until 31.01.17)	154,804	46,441	2,368	150,000	353,613	201,926
R. Hall, Managing Director (from 01.05.16) (full year equivalent)	110,188	33,000	0	0	143,188 214,500	n/a
<u>Edinburgh Trams Ltd.</u>						
T. Norris, Director and General Manager (until 26.06.15) (full year equivalent)	n/a	n/a	n/a	n/a	n/a n/a	43,474 80,705
L. Harrison, General Manager (from 01.02.16) (full year equivalent)	82,254	13,500	5,918	0	101,672	n/a
	<u>1,181,755</u>	<u>180,878</u>	<u>28,660</u>	<u>459,906</u>	<u>1,851,199</u>	<u>1,359,847</u>

### Notes:

- Other benefits paid relate to car allowance, healthcare and telephone provision, within Lothian Buses Ltd. Other benefits paid relate to relocation expenses and personal healthcare within Edinburgh Trams Ltd.
- Marketing Edinburgh Limited entered into two contracts with John P Donnelly Associates Limited for the services of J. Donnelly in the role of Chief Executive. The cost of these contracts is £122,960 in 2016/17, of which £6,960 is VAT (2015/16 £116,600, £6,600).

# REMUNERATION REPORT

## Remuneration Paid - continued

### Number of Employees by Pay Band

The total number of Council employees receiving more than £50,000 remuneration for the year (including early retirement / voluntary release costs) is shown below.

	2016/17	2015/16		2016/17	2015/16
£50,000 - £54,999	199	192	£135,000 - £139,999	1	1
£55,000 - £59,999	116	139	£140,000 - £144,999	1	1
£60,000 - £64,999	42	58	£145,000 - £149,999	3	1
£65,000 - £69,999	41	46	£150,000 - £154,999	0	0
£70,000 - £74,999	26	29	£155,000 - £159,999	0	0
£75,000 - £79,999	20	32	£160,000 - £164,999	0	1
£80,000 - £84,999	2	12	£165,000 - £169,999	1	1
£85,000 - £89,999	4	7	£170,000 - £174,999	0	0
£90,000 - £94,999	3	3	£175,000 - £179,999	0	0
£95,000 - £99,999	1	4	£180,000 - £184,999	0	0
£100,000 - £104,999	8	9	£185,000 - £189,999	0	0
£105,000 - £109,999	0	3	£190,000 - £194,999	0	0
£110,000 - £114,999	1	3	£195,000 - £199,999	0	0
£115,000 - £119,999	1	2	£200,000 - £204,999	0	0
£120,000 - £124,999	1	2	£205,000 - £209,999	0	0
£125,000 - £129,999	1	1	£210,000 - £214,999	0	1
£130,000 - £134,999	0	0			
			<b>Total No. of Employees</b>	<b>472</b>	<b>548</b>

### Exit Packages

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

Exit package cost band	Number of Compulsory Redundancies		Number of Other Departures Agreed		Total Number of Exit Packages by Cost Band		Total Cost of Exit Packages in Each Band	
	2016/17	2015/16	2016/17	2015/16	2016/17	2015/16	2016/17 £000	2015/16 £000
£0 - £20,000								
- Council	0	0	150	203	150	203	1,855	2,150
- Group companies	0	0	2	0	2	0	18	0
£20,001 - £40,000								
- Council	0	0	147	203	147	203	4,174	5,741
- Group companies	0	0	0	0	0	0	0	0
£40,001 - £60,000								
- Council	0	0	80	70	80	70	3,904	3,505
- Group companies	0	0	0	0	0	0	0	0
£60,001 - £80,000								
- Council	0	0	38	31	38	31	2,696	2,164
- Group companies	0	0	1	0	1	0	71	0
£80,001 - £100,000								
- Council	0	0	15	33	15	33	1,350	2,939
- Group companies	0	0	1	0	1	0	89	0
£100,001 - £150,000								
- Council	0	0	25	34	25	34	2,958	3,952
- Group companies	0	0	0	0	0	0	0	0
£150,001 - £200,000								
- Council	0	0	8	3	8	3	1,309	511
- Group companies	0	0	1	0	1	0	190	0
£200,001 - £250,000								
- Council	0	0	2	1	2	1	416	203
- Group companies	0	0	0	0	0	0	0	0
£250,001 - £300,000								
- Council	0	0	0	2	0	2	0	554
- Group companies	0	0	0	0	0	0	0	0
£300,001 - £350,000								
- Council	0	0	0	0	0	0	0	0
- Group companies	0	0	1	0	1	0	325	0
	<b>0</b>	<b>0</b>	<b>471</b>	<b>580</b>	<b>471</b>	<b>580</b>	<b>19,355</b>	<b>21,719</b>

# REMUNERATION REPORT

## Pension Rights

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

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

For local government employees the Local Government Pension Scheme (LGPS) became a career average pay scheme on 1 April 2015. Benefits built up to 31 March 2015 are protected and based on final salary. Accrued benefits from 1 April 2015 will be based on career average salary.

The scheme's normal retirement age for both councillors and employees is linked to the state pension age (but with a minimum of age 65).

From 1 April 2009 a five tier contribution system was introduced with contributions from scheme members being based on how much pay falls into each tier. This is designed to give more equality between the cost and benefits of scheme membership. Prior to 2009 contributions rates were set at 6% for all non-manual employees.

The tiers and members' contribution rates for 2016/17 were as follows:

<b>Whole Time Pay</b>	<b>Contribution rate</b>
On earnings up to and including £20,500 (2016 £20,500)	5.50%
On earnings above £20,500 and up to £25,000 (2016 £20,500 to £25,000)	7.25%
On earnings above £25,000 and up to £34,400 (2016 £25,000 to £34,400)	8.50%
On earnings above £34,400 and up to £45,800 (2016 £34,400 to £45,800)	9.50%
On earnings above £45,800 (2016 £45,8000)	12.00%

If a person works part-time their contribution rate is worked out on the whole-time pay rate for the job, with actual contributions paid on actual pay earned.

There is no automatic entitlement to a lump sum. Members may opt to give up (commute) pension for lump sum up to the limit set by the Finance Act 2004.

The value of the accrued benefits has been calculated on the basis of the age at which the person will first become entitled to receive a pension on retirement without reduction on account of its payment at that age; without exercising any option to commute pension entitlement into a lump sum; and without any adjustment for the effects of future inflation.

The pension figures shown relate to the benefits that the person has accrued as consequence of their total local government service, and not just their current appointment.

# REMUNERATION REPORT

## Pension Benefits - continued

## Pension Rights - continued

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

The pension entitlements of senior councillors for the year to 31 March 2017 are shown in the table below, together with the contribution made by the Council to each senior councillor's pension during the year.

	In-year pension contribs.		Accrued Pension Benefits		
	For year to 31.03.17 £	For year to 31.03.16 £		As at 31.03.17 £000	Difference from 31.03.16 £000
<b>Council's Leader and Civic Head</b>					
A. Burns, Leader of the Council	10,795	10,739	Pension	7	1
			Lump Sum	3	0
D. Wilson, Lord Provost	8,096	8,054	Pension	5	1
			Lump Sum	2	0
<b>Senior Councillors</b>					
R. Lewis	7,017	6,980	Pension	3	1
			Lump Sum	0	0
F. Ross	8,096	7,044	Pension	3	1
			Lump Sum	0	0
S. Howat	n/a	7,789	Pension	n/a	n/a
			Lump Sum	n/a	n/a
P. Godzik	5,546	6,980	Pension	4	0
			Lump Sum	2	0
A. Rankin	7,017	6,980	Pension	3	0
			Lump Sum	0	0
R. Henderson	7,017	6,980	Pension	5	1
			Lump Sum	2	0
I. Perry	7,017	6,980	Pension	5	1
			Lump Sum	2	0
G. Barrie	7,017	6,980	Pension	3	1
			Lump Sum	0	0
L. Hinds	7,017	6,980	Pension	6	0
			Lump Sum	7	1
E. Milligan	6,477	6,443	Pension	4	0
			Lump Sum	2	0
M. Child	4,858	4,832	Pension	8	0
			Lump Sum	15	0
M. Bridgman	7,017	4,454	Pension	5	1
			Lump Sum	1	0
W. Henderson	4,318	3,622	Pension	2	1
			Lump Sum	0	0
N. Austin Hart	4,858	4,832	Pension	4	1
			Lump Sum	2	1
G. Munro	4,858	4,832	Pension	4	2
			Lump Sum	1	0
D. Dixon	n/a	4,758	Pension	n/a	n/a
			Lump Sum	n/a	n/a
J. Mowat	5,093	n/a	Pension	2	n/a
			Lump Sum	0	n/a

## REMUNERATION REPORT

### Pension Benefits - continued

### Pension Rights - continued

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

	In-year pension contribs.			Accrued Pension Benefits	
	For year to 31.03.17 £	For year to 31.03.16 £		As at 31.03.17 £000	Difference from 31.03.16 £000
A. Blacklock	4,858	4,832	Pension	4	1
			Lump Sum	2	0
A. McVey	4,858	4,832	Pension	2	0
			Lump Sum	0	0
A. Lunn	4,858	3,653	Pension	2	2
			Lump Sum	0	0
J. Griffiths	4,140	n/a	Pension	2	n/a
			Lump Sum	0	n/a
C. Rose	5,398	5,369	Pension	4	1
			Lump Sum	2	1
<u>Councillors</u>					
N. Work ( <i>including role as Convener of Lothian Valuation Joint Board</i> )	4,498	4,475	Pension	4	1
			Lump Sum	2	0

All senior councillors shown in the above table are members of the Local Government Pension Scheme. Not all senior councillors are members of the Local Government Pension Scheme. The pension figures shown relate to the benefits that the person has accrued as a consequence of their total local government service, including any service with a Council subsidiary body, and not just their current position.

### Senior Employees

The pension entitlements of senior employees for the year to 31 March 2017 are shown in the table below, together with the contribution made by the Council to each senior employee's pension during the year.

	In-year pension contribs.			Accrued Pension Benefits	
	For year to 31.03.17 £	For year to 31.03.16 £		As at 31.03.17 £000	Difference from 31.03.16 £000
A. Kerr, Chief Executive ( <i>from 27.07.15</i> ) ( <i>including returning officer role</i> )	35,318	23,981	Pension	n/a	n/a
			Lump Sum	n/a	n/a
S. Bruce, Chief Executive ( <i>until 31.08.15</i> ) ( <i>including returning officer role</i> )	n/a	14,422	Pension	n/a	n/a
			Lump Sum	n/a	n/a
A. Maclean, Depute Chief Executive ( <i>until 05.01.16</i> )	n/a	23,517	Pension	n/a	n/a
			Lump Sum	n/a	n/a
A. Gaw, Executive Director of Communities and Families (Acting Director from 05.01.16 until 15.03.17)	31,716	24,031	Pension	67	18
			Lump Sum	141	35
G. Tee, Director Children and Families ( <i>until 31.12.15</i> )	n/a	83,567	Pension	n/a	n/a
			Lump Sum	n/a	n/a
R. McCulloch-Graham, Integration Joint Board Chief Officer ( <i>from 26.10.15</i> )	15,858	6,827	Pension	n/a	n/a
			Lump Sum	n/a	n/a
P. Gabbitas, Director Health and Social Care ( <i>Council proportion</i> ) ( <i>until 31.07.15</i> )	n/a	3,664	Pension	n/a	n/a
			Lump Sum	n/a	n/a

# REMUNERATION REPORT

## Pension Benefits - continued Pension Rights - continued Senior Employees

	In-year pension contribs.		Accrued Pension Benefits		
	For year to 31.03.17 £	For year to 31.03.16 £		As at 31.03.17 £000	Difference from 31.03.16 £000
P. Lawrence, Executive Director of Place ( <i>from 30.11.15</i> )	31,716	10,604	Pension Lump Sum	n/a n/a	n/a n/a
J. Bury, Acting Director Services for Communities ( <i>from 08.05.14 until 18.10.15</i> )	n/a	14,419	Pension Lump Sum	n/a n/a	n/a n/a
G. Ward, Director Economic Development ( <i>until 30.11.15</i> )	n/a	16,979	Pension Lump Sum	n/a n/a	n/a n/a
M. Miller, Head of Safer and Stronger Communities and Chief Social Work	21,781	21,666	Pension Lump Sum	42 82	3 1
H. Dunn, Head of Finance ( <i>until 05.01.16</i> ) and Acting Executive Director of Resources ( <i>from 06.01.16</i> )	31,716	24,876	Pension Lump Sum	68 143	21 42
M. Boyle, Head of Older People and Disability Service ( <i>until 31.01.16</i> )	n/a	55,481	Pension Lump Sum	n/a n/a	n/a n/a
G. Crosby, Senior Manager Disabilities ( <i>until 31.01.16</i> )	n/a	13,960	Pension Lump Sum	n/a n/a	n/a n/a
P. Campbell, Senior Manager Older People ( <i>until 31.01.16</i> )	n/a	45,989	Pension Lump Sum	n/a n/a	n/a n/a
<b>Total</b>	<b>168,105</b>	<b>383,983</b>			

### Notes:

All senior employees shown in the previous table above, with the exception of P. Gabbitas are members of the Local Government Pension Scheme. P. Gabbitas was a member of the National Health Service Superannuation Scheme (Scotland). The pension figures shown relate to the benefits that the person has accrued as consequence of their total local government / public service and not just their current appointment. Accrued pension benefits relate to the position as at 31 March 2017, or the date of leaving, if that is earlier. Employees contribute towards their pensions in accordance with the rates set out on page 148. The contribution rate for P. Gabbitas was 14.7% in 2015/16.

There are no accrued pension benefits included in the table above if the employee has been a member of the pension scheme for less than 2 years.

The in-year pension contributions include pension strain costs where applicable.

### Council's Subsidiary Companies

The pension entitlements of senior employees within the Council's subsidiary bodies for the year to 31 March 2017 are shown below, together with the contribution made to each senior employee's pension during the year.

	In-year pension contribs.		Accrued Pension Benefits		
	For year to 31.03.17 £	For year to 31.03.16 £		As at 31.03.17 £000	Difference from 31.03.16 £000
E. Adair, Operations and Finance Director, EDI Group	20,535	20,237	Pension Lump Sum	27 41	2 0
H. Rissmann, Chief Executive, EICC ( <i>until 31.03.15</i> )	n/a	5,203	Pension Lump Sum	n/a n/a	n/a n/a

# REMUNERATION REPORT

## Pension Benefits - continued

### Council's Subsidiary Companies - continued

	In-year pension contribs.		Accrued Pension Benefits		
	For year to 31.03.17 £	For year to 31.03.16 £		As at 31.03.17 £000	Difference from 31.03.16 £000
M. Dallas, Chief Executive, EICC	17,821	16,836	Pension Lump Sum	n/a n/a	n/a n/a
<u>Lothian Buses Ltd.</u>					
I. Craig, Managing Director	3,789	40,075	Pension Lump Sum	n/a n/a	n/a n/a
W. Campbell, Operations Director	n/a	33,128	Pension Lump Sum	n/a n/a	n/a n/a
W. Devlin, Engineering Director	75,587	33,128	Pension Lump Sum	49 83	3 0
N. Strachan, Finance Director	210,249	33,128	Pension Lump Sum	44 70	3 0
R. Hall, Managing Director	6,875	n/a	Pension Lump Sum	n/a n/a	n/a n/a
<u>Edinburgh Trams Ltd.</u>					
T. Norris, Director and General Manager ( <i>until 26.06.15</i> )	n/a	3,614	Pension Lump Sum	n/a n/a	n/a n/a
L. Harrison, General Manager ( <i>from 01.02.16</i> )	8,225	n/a	Pension Lump Sum	n/a n/a	n/a n/a
<u>Capital City Partnership</u>					
J. Rafferty, Chief Executive ( <i>until 01.12.16</i> )	9,558	14,073	Pension Lump Sum	32 67	2 1
<u>LPFE Limited</u>					
C. Scott, Chief Executive Officer	19,596	16,069	Pension Lump Sum	17 12	3 1
Total	<u>372,235</u>	<u>215,491</u>			

EDI Group and EICC are subsidiary companies of CEC Holdings Limited. Figures shown for these companies, Edinburgh Trams Ltd. and Lothian Buses Ltd. are for the year ended 31 December 2016 and 31 December 2015 respectively.

E. Adair, J. Rafferty and C. Scott are the only members of the Local Government Pension Scheme in the above table. The pension figures shown relate to the benefits that the person has accrued as consequence of their total relevant service and not just their current appointment.

There are no accrued pension benefits included in the table above if the employee has been a member of the pension scheme for less than 2 years.

The in-year pension contributions include pension strain costs where applicable.

ANDREW KERR  
Chief Executive

ADAM MCVEY  
Council Leader

28 September 2017

28 September 2017

# Governance, Risk and Best Value Committee

10.00am, Tuesday, 26 September 2017

## External audit review of internal financial controls, 2016/17

Item number	7.6
Report number	
Executive/routine	
Wards	
Council Commitments	

### Executive summary

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As an integral part of the annual audit cycle, the external auditor requires to assess the effectiveness of the Council's internal control framework in preventing material misstatement within its financial statements. This process involves documentation of the Council's key financial systems and the principal controls within these and then sample-testing their effectiveness.

This report presents the main findings of the 2016/17 review, concluding that, while opportunities for further improvement exist, the controls assessed are considered to be well-designed and effective.



## External audit review of internal financial controls, 2016/17

### 1. Recommendation

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- 1.1 Members of the Governance, Risk and Best Value Committee are requested to note:
- 1.1.1 the findings of the 2016/17 external review of the effectiveness of the Council's internal controls; and
  - 1.1.2 that a further update on progress in implementation of the improvement actions will be provided to the Committee in January 2018.

### 2. Background

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- 2.1 Section 95 of the Local Government (Scotland) Act 1973 requires local authorities to make arrangements for the proper administration of their financial affairs and to designate an officer to have responsibility for these arrangements. The Head of Finance is the appointed Section 95 Officer for the Council and therefore has overarching responsibility to maintain a sound system of internal control.
- 2.2 As an integral part of the annual audit cycle, the external auditor requires to assess the effectiveness of the Council's internal control framework in preventing material misstatement within its financial statements. This involves documentation of the Council's key financial systems and the principal controls within these and then sample-testing their effectiveness.

### 3. Main report

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- 3.1 Following the appointment of Scott-Moncrieff as the Council's external auditor in October 2016, the majority of the fieldwork and financial systems testing was undertaken between March and May 2017. The key areas examined are set out in Exhibit 1 on page 1 of the report.
- 3.2 For those systems falling within the scope of testing, Scott-Moncrieff's conclusion is that these controls form part of a framework that is well-designed and effective.
- 3.3 A number of opportunities for improvement have nonetheless been identified and these are listed in Section 3 of the external audit report, alongside the Council's response and an indication of the corresponding timescales within

which actions to address any outstanding issues raised will be undertaken. These actions in the main comprise recommended improvements in the maintenance and review of procedural documentation and systems access controls. A progress update will be provided to the Committee in January 2018, by which time it is anticipated that the majority of recommendations will have been fully implemented.

- 3.4 Members of the Committee will be aware of other on-going, complementary work focused upon further strengthening aspects of the Council's internal control framework. Internal audit and risk management arrangements continue to identify areas for improvement and arrangements are in place to monitor implementation of identified actions and lessons learned Council-wide.

## **4. Measures of success**

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- 4.1 Improvements to the system of internal control are intended to ensure that assets are safeguarded, transactions properly authorised and recorded and material errors or irregularities either prevented or detected timeously.

## **5. Financial impact**

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- 5.1 While there is no specific direct financial impact resulting from the report's contents, enhancements to the effectiveness of the Council's systems of internal control form an essential part of improved governance arrangements.

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

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- 6.1 Improvements to the internal control framework form an integral part of strengthening the wider governance arrangements within the Council.

## **7. Equalities impact**

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

## **8. Sustainability impact**

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- 8.1 There is no direct sustainability, climate change adaptation or sustainable development impact arising from the report's contents.

## **9. Consultation and engagement**

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- 9.1 There is no direct relevance to the report's contents.

## 10. Background reading/external references

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10.1 None.

### **Stephen S. Moir**

Executive Director of Resources

Contact: Hugh Dunn, Head of Finance

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

## 11. Appendices

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Appendix 1 – City of Edinburgh Council Review of Internal Controls, 2016/17.



**Scott-Moncrieff**  
business advisers and accountants

# City of Edinburgh Council

Review of internal financial controls  
For the year ended 31 March 2017

**August 2017**

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1

# Introduction

# Introduction

1. This report concludes our 2016/17 audit of the Council's key financial systems and internal financial controls.

## Scope of our audit

2. Auditors are required to carry out the audit of financial statements in accordance with International Standards on Auditing (UK and Ireland) (ISAs). To comply with the requirements of the ISAs we consider the Council's key accounting systems and internal financial controls and determine whether these are adequate to prevent material misstatements in the financial statements.
3. Our approach includes documenting the processes and key internal financial controls within the key financial systems (Exhibit 1) and performing testing to confirm our understanding of the system. For certain systems we also test a sample of internal financial controls to establish whether they provide adequate assurance to support the preparation of the financial statements.
4. We are committed to avoiding duplication of audit effort and ensuring an efficient use of the Council's total audit resource. Each year we aim to place reliance on the work of internal audit wherever possible. Prior to placing such reliance we are required to carry out a review of the internal audit function to ensure that it is sufficient in terms of quality and volume and performed in accordance with accepted internal audit standards. The findings from our review are detailed in this report.

## Reporting to those charged with governance

5. This report has been prepared to communicate the findings of our audit to those charged with governance. We have agreed with the Council that these communications will be through the Governance Risk and Best Value Committee.
6. Audited bodies are responsible for developing and implementing effective systems of internal control as well as financial, operational and compliance controls.
7. ISAs require us to report promptly any material weaknesses in the design or operation of

## Exhibit 1 – Key financial areas (and associated systems) considered in 2016/17

Council tax	Non domestic rates	Cash receipts and banking
Housing rents	Sundry income	Payroll
Treasury management	Members remuneration / expenses	Expenditure

internal financial controls which have come to our attention.

8. A material weakness in internal control is a deficiency which could adversely affect the Council's ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.
9. Any weaknesses or risks identified are only those that have come to our attention during our normal audit work, and may not be all that exist. Communication in this report of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve the Council of its responsibility to address the issues raised and to maintain an adequate system of control.
10. As required under the Code of Audit Practice, this report will be published on Audit Scotland's website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

## Adding value through the audit

11. All of our clients quite rightly demand of us a positive contribution to meeting their ever-changing business needs. Our aim is to add value to the Council through our external audit work by being constructive and forward looking, by identifying areas of improvement and by recommending and encouraging good practice. In this way we aim to help the Council promote

improved standards of governance, better management and decision making and more effective use of resources.

## Feedback

12. We always welcome feedback on the quality of our audit work and associated outputs. Please access the following link to provide comments: <https://www.surveymonkey.co.uk/r/S2SPZBX>
13. We would like to thank management and staff who have been involved in our work for their co-operation and assistance during our audit visits.



# 2

## Summary of findings

# Summary of findings

14. We are pleased to report that our audit work did not identify any significant deficiencies in the adequacy or design of internal financial controls over the Council's key financial systems. We consider these systems to be well designed. However, we identified a number of areas with scope for improvement which, if addressed, would further strengthen the system of internal financial control. Our findings and recommendations are included in section 3 (Action plan).

## Internal audit

15. We are committed to avoiding duplication of audit effort and ensuring an efficient use of the Council's total audit resource. Each year we consider whether it is the most effective use of the Council's total audit resource to place reliance on the work of internal audit. When reliance is to be placed over the work of internal audit we carry out an assessment of the internal audit function to ensure this is sufficient in terms of quality and volume, and is performed in accordance with the Public Sector Internal Audit Standards (PSIAS).
16. During our interim audit, we reviewed the Council's internal audit arrangements in accordance with International Standard on Auditing 610 (Using the Work of Internal Auditors), to determine we could rely on the work of internal audit and if so, to what extent. Overall we concluded that we will place reliance on the work of internal audit where appropriate.
17. A formal external quality assessment of internal audit's compliance with the Public Sector Internal Audit Standards (PSIAS) is required at least once every five years. The Head of Audit and Inspection of North Lanarkshire Council completed an External Quality Assessment Review (EQAR) in 2016/17. The review concluded that the Council's internal audit service fully conforms with the PSIAS.

**3**

# Action plan

# Action Plan

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

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

## Action plan grading structure

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

The rating structure is summarised as follows:

Finding rating	Assessment rationale
Critical	A finding that could have a: <ul style="list-style-type: none"> <li>• <b>Critical</b> impact on operational performance; or</li> <li>• <b>Critical</b> monetary or financial statement impact; or</li> <li>• <b>Critical</b> breach in laws and regulations that could result in material fines or consequences; or</li> <li>• <b>Critical</b> impact on the reputation or brand of the organisation which could threaten its future viability.</li> </ul>
High	A finding that could have a: <ul style="list-style-type: none"> <li>• <b>Significant</b> impact on operational performance; or</li> <li>• <b>Significant</b> monetary or financial statement impact; or</li> <li>• <b>Significant</b> breach in laws and regulations resulting in significant fines and consequences; or</li> <li>• <b>Significant</b> impact on the reputation or brand of the organisation.</li> </ul>
Medium	A finding that could have a: <ul style="list-style-type: none"> <li>• <b>Moderate</b> impact on operational performance; or</li> <li>• <b>Moderate</b> monetary or financial statement impact; or</li> <li>• <b>Moderate</b> breach in laws and regulations resulting in fines and consequences; or</li> <li>• <b>Moderate</b> impact on the reputation or brand of the organisation.</li> </ul>
Low	A finding that could have a: <ul style="list-style-type: none"> <li>• <b>Minor</b> impact on the organisation's operational performance ; or</li> <li>• <b>Minor</b> monetary or financial statement impact; or</li> <li>• <b>Minor</b> breach in laws and regulations with limited consequences; or</li> <li>• <b>Minor</b> impact on the reputation of the organisation.</li> </ul>
Advisory	<ul style="list-style-type: none"> <li>• A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.</li> </ul>

Payroll		
Rating	Issue & Recommendation	Management Comments
Medium	<p><b>Payroll procedures</b></p> <p>Procedures have not been documented for all key aspects of the payroll process. For example, we were unable to identify procedures covering amendments over employees standing information.</p> <p>We also noted that where procedures are in place, these are not subject to regular review and approval.</p> <p>There is a risk that key payroll processes and controls are not being implemented correctly or effectively.</p> <p>The Council should develop comprehensive procedures that cover all key aspects of the payroll process. Documented procedures should be approved by the appropriate level, made accessible to all relevant staff and subject to regular review.</p>	<p>This is currently part of an improvement project for People Support to document a comprehensive set of payroll procedures. This work is linked to ongoing process improvement activities to be completed in advance of the new Business World system. A further exercise will be undertaken to review the procedures when the new Business World System is operational.</p> <p>From 2018, the payroll procedures will be audited and updated by the Payroll Specialist on a six-monthly basis. Updates will be communicated to the team/relevant stakeholders, highlighting specific changes.</p> <p><b>Responsible Officer:</b> Payroll Specialist, Customer</p> <p><b>Completion Date:</b> January 2018</p>
Medium	<p><b>System access</b></p> <p>There is no regular review of user access to the payroll system to ensure this is up-to-date and appropriate given the employees current role.</p> <p>This was also identified by the Council's previous external auditors, Audit Scotland.</p> <p><i>"We identified a number of system users during our controls review where their system access rights did not appear appropriate for their roles."</i></p> <p>There is a risk that inappropriate transactions may be processed.</p> <p>The Council should ensure user access to the payroll system is reviewed on a regular basis.</p>	<p>Access rights for all payroll employees to be reviewed and ICT updated with list of requirements for systems access. This process will be reviewed on a quarterly basis.</p> <p><b>Responsible Officer:</b> Payroll Specialist, Customer</p> <p><b>Completion Date:</b> October 2017</p>

## Revenue expenditure

During our interim audit we documented the following systems (in the context of purchasing for the Council):

- Oracle – General operating expenditure
- Swift - Payments to care homes and foster carers
- Tranman - Supplier payments for fleet hires, fleet maintenance, and fleet purchases
- CFATS Telford - City development costing system to commission/pay subcontractors

Rating	Issue & Recommendation	Management Comments
<p><b>Medium</b></p>	<p><b>Procedures</b></p> <p>During our review we noted the following in respect of procedures:</p> <ul style="list-style-type: none"> <li>• CFATS Telford – No procedures are in place for the processing of work orders and certificates.</li> <li>• Tranman – Procedures for the ordering and receipting of goods and services have not been reviewed since 2009. On discussion with management this review has subsequently been undertaken and procedures updated.</li> <li>• Swift – Procedures for the processing of direct payments via Allpay do not include detail on how to reformat payment files, upload to Allpay or process payments to individual pre-loaded cards.</li> </ul> <p>If relevant procedures are not in place or are not reviewed and updated on a timely basis there is a risk that some key controls are not observed.</p> <p>The Council should ensure procedures cover all key aspects of the system. Documented procedures should be approved by the appropriate level, made accessible to all relevant staff and subject to regular review.</p>	<p>Documented procedures for the processing of work orders and certificates in CFATS Telford are being developed.</p> <p>Once complete these will be reviewed annually.</p> <p><b>Responsible Officer:</b> Business Support Manager, Customer</p> <p><b>Completion Date:</b> December 2017</p> <p>Tranman procedures for the ordering and receipting of goods and services have now been updated and will be reviewed annually.</p> <p><b>Responsible Officer:</b> Fleet and Workshops Manager, Place</p> <p><b>Completion Date:</b> Ongoing</p> <p>SWIFT – Procedures for processing payments in Allpay have been updated.</p> <p>SWIFT development team will update online procedures accordingly</p> <p><b>Responsible Officer:</b> Customer Manager – Transactions Assessment and Finance, Customer</p> <p><b>Completion Date:</b> December 2017</p>

## Revenue expenditure

Medium

### System access

On review of the CFATS Telford system we noted that there is no formal documentation retained for the addition of users onto the system or any amendments made to their access levels.

In addition there are no controls in place to identify and remove leavers from the system on a timely basis.

The Council should ensure user access is reviewed on a regular basis.

A log has now been established for new user and access level change requests.

An audit of current users is being undertaken to ensure appropriate user access levels and to identify and remove leavers.

User data will be subject to six-monthly review, although the scope for more regular reconciliation with data from existing leavers processes is being explored.

**Responsible Officer:** Business Support Manager, Customer

**Completion Date:** December 2017

Medium

### Documentation

During review of both the Oracle and the CFATS Telford systems we were unable to evidence that the following key controls were in operation:

- Oracle – Review of the daily amendments report which details all amendments made including addition of new suppliers.
- CFATS Telford – Reconciliation of work performed and work requested prior to payment being processed.

As these controls are not documented there is no audit trail in place to enable us, or any other interested party, to evidence their operation. There is a risk that these controls are not being adhered to.

The Council should ensure evidence is retained for all key controls in operation.

CFATS - Controls will be documented as part of the development of the procedural documentation referenced above.

**Responsible Officer:** Business Support Manager, Customer

**Completion Date:** December 2017

Oracle

**Responsible Officer:** Chief Procurement Officer, Finance

**Completion Date:** December 2017

## Members remuneration and expenses

Rating	Issue & Recommendation	Management Comments
Medium	<p><b>Guidance</b></p> <p>Guidance on members' remuneration and expenses has not been updated since March 2012 and makes reference to legislation that is out of date.</p> <p>The Council should update the guidance and ensure that new and re-elected members have access to this. Going forward, the guidance should be subject to regular review to ensure it remains up to date.</p>	<p>Guidance will be updated and published on the ORB and shared with elected members. This information will be signposted in future inductions for new elected members. The guidance will be reviewed annually as part of the Customer review of policy and procedures.</p> <p><b>Responsible Officer:</b> Transaction Team Manager: People Support, Customer</p> <p><b>Completion Date:</b> October 2017</p>

## Non domestic rates

Rating	Issue & Recommendation	Management Comments
Low	<p><b>Reliefs/exemptions – spot checks</b></p> <p>The Quality Assurance team performs spot checks on the reliefs/exemptions.</p> <p>NDR spot checks were scheduled to take place in January 2017. However, due to resource constraints, this work was not able to be performed. We understand spot checks will resume in 2017/18.</p> <p>We recommend that the Council make arrangements for the spot checks to resume in 2017/18.</p>	<p>Spot checks are underway and will be concluded by November 2017. Activities are being scheduled within the business as usual plans for future years.</p> <p><b>Responsible Officer:</b> Rating Manager</p> <p><b>Completion Date:</b> November 2017</p>





**Scott-Moncrieff**  
business advisers and accountants

# Governance, Risk and Best Value Committee

10.00am, Tuesday, 26 September 2017

## Corporate Leadership Team Risk Update

Item number	7.7
Report number	
Executive/routine	
Wards	
Council Commitments	

### Executive summary

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The Council's risk management framework ensures that risks to the Council are effectively managed, reviewed and updated through quarterly Risk and Assurance Committees being held at both Directorate and Corporate Leadership Team (CLT) levels.

The information presented in this report reflects the Council's top risks and the key controls in place to mitigate them as at 18 August 2017. These risks and the associated controls have been scrutinised and challenged by the CLT and are presented to the GRBV Committee for oversight and review.

## Corporate Leadership Team Risk Update

### 1. Recommendations

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- 1.1 To review and scrutinise the risk update and be assured by the risk management framework, controls and mitigations in operation.
- 1.2 To commission, where appropriate, further updates from relevant officers to discuss the key risks and mitigating actions identified.

### 2. Background

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- 2.1 The Governance, Risk and Best Value (GRBV) Committee is responsible for monitoring the effectiveness of the Council's risk management arrangements.
- 2.2 The Council has an Enterprise Risk Management Policy and Risk Management Procedure in place which describe why, when and how risk management should take place. These documents are reviewed and updated annually.
- 2.3 The purpose of this report is to provide an update to the Committee on the key risks facing the Council and the work being undertaken to reduce the level of risk within the Council.
- 2.4 The CLT Risk Update was last presented to the GRBV Committee on 1 August 2017.

### 3. Main report

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- 3.1 During the last quarter, risks have been reviewed at Risk Management Groups, Service Management Teams and Risk and Assurance Committees within each Directorate. The top risks that have been identified and confirmed have been escalated to the CLT Risk and Assurance Committee for oversight and scrutiny, in accordance with the Council's risk management framework.
- 3.2 The information in this report reflects the Council's top risks and the key controls in place to mitigate them, as at 18 August 2017. Appendices 1 and 2 reflect the current top risks to the Council and the key controls in place.
- 3.3 'Capital asset management', 'transformation and change agenda', 'business continuity', and 'information governance' are currently the Council's top risks, as scored using the Council's methodology, on an inherent basis. Information Governance now replaces Budget Management in the top 5. The Health and Social Care risk residual score has moved up from the yellow to red zone on the heat map.

- 3.4 Future CLT Risk Updates will present risks on a current basis, which will factor in the likely timeframe for an event occurring, the effectiveness of controls in place and the level of control which the Council may have over that event, and will present a more realistic view of the risk.
- 3.5 Recently, several high-profile events have occurred which have been considered in a risk management context. These events include the Grenfell Tower fire, NHS ransomware attacks, terrorist incidents in London, Manchester and Barcelona and the previous raising (and subsequent reduction) of the UK threat level to Critical. After review these events have not altered the scoring of the relevant risks (part of the 'capital asset management' and 'business continuity' risks).
- 3.6 Workshops are being planned to take place over the forthcoming months with CLT members. These workshops will involve a "deep dive" review of current controls/mitigating actions and risk scores for the following areas: information governance; external environment; future planning; internal processes and systems; physical structures; people; project delivery; health and social care delivery (short/medium term); major incident; council performance; third party risks including contract management and procurement. These workshops will provide a clear snapshot of how well these risks are being managed, as well as identifying further mitigation or control enhancements required.
- 3.7 Improvements to the risk management framework, based upon good practice in the public and private sector, are being continually reviewed and considered for implementation as part of continuous improvement. These are designed to refine and enhance several areas of the risk management framework and will be documented in the next update of the Policy and Procedure documents.

## **4. Measures of success**

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- 4.1 Effective risk management aims to ensure that key risks to the Council are identified, managed, and communicated appropriately and that suitable controls are put in place to mitigate risks to acceptable levels.

## **5. Financial impact**

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- 5.1 There is no direct financial impact arising from this report.
- 5.2 Control measures to mitigate risk may have an associated cost which is to be funded from existing budgets in the first instance.

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

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- 6.1 Effective risk management aims to improve performance against objectives by contributing to more efficient use of resources, reduction in management time spent dealing with sudden shock events, and more focus internally on doing the right things properly.
- 6.2 By its very nature risk management cannot guarantee to protect against every possible negative consequence. Even with a perfectly-functioning risk management framework events considered significant or untoward with a low likelihood may still occur, resulting in significant negative consequences.

## **7. Equalities impact**

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- 7.1 There are no direct impacts upon equalities arising from this report.

## **8. Sustainability impact**

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- 8.1 There are no direct impacts upon sustainability arising from this report.

## **9. Consultation and engagement**

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- 9.1 As part of the Council's risk management framework the information in Appendices 1 and 2 has been discussed and challenged by the CLT.

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

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- 10.1 [Corporate Leadership Team Risk Update: report to GRBV 1 August 2017](#)
- 10.2 [City of Edinburgh Council's Policy Register](#)

### **Stephen S. Moir**

Executive Director of Resources

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## **11. Appendices**

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Appendix 1 – CLT Top Inherent Risks as at 18 August 2017

Appendix 2 – CLT Top Inherent Risks with Mitigating Actions

Appendix 3 – Risk Scoring Matrix

# Appendix 1 - Corporate Leadership Team (CLT) Top Risks

## 1. Health and Social Care (H&SC)

Through either lack of CEC resource and/or provider capacity, the Council may be unable to secure appropriate contracts with its providers or deliver appropriate services as directed by the Integration Joint Board (IJB) As a result, we may be unable to deliver our own commitments as part of the Health and Social Care Partnership's strategic plan.

## 2. Capital asset management

With reduced resources and a heightened need for structural inspection and maintenance the current asset management plan may be insufficient to cover the immediate need for capital improvements (e.g. improvement of highways, post PPP1 structural reviews and other capital infrastructure) which could result in continued underinvestment and assets that are not fit for purpose or meet health and safety consequences now and in the future.

## 3. Transformation and change agenda

Key deliverables, benefits and timescales for achieving change may not be achieved in line with business expectations, requirements, budgets and resources. This may result in adverse impacts on service delivery and the Council's finances and/or its reputation.

## 4. Business continuity

A sudden high impact event causes buildings, people, systems to be non-operational for an unacceptably long time. Damage/harm to people, infrastructure, systems.

## 5. Maintaining service with less resource

Funding reductions, legislative changes and increased demographic pressure, the requirements of the Local Development Plan, requirement to deliver within agreed budgets, and the anticipated need for further cost efficiencies may create an unexpected material pressure on our infrastructure, capital and revenue funding, the execution of our strategy and business plan with associated adverse reputational impact.

## 6. Information Governance

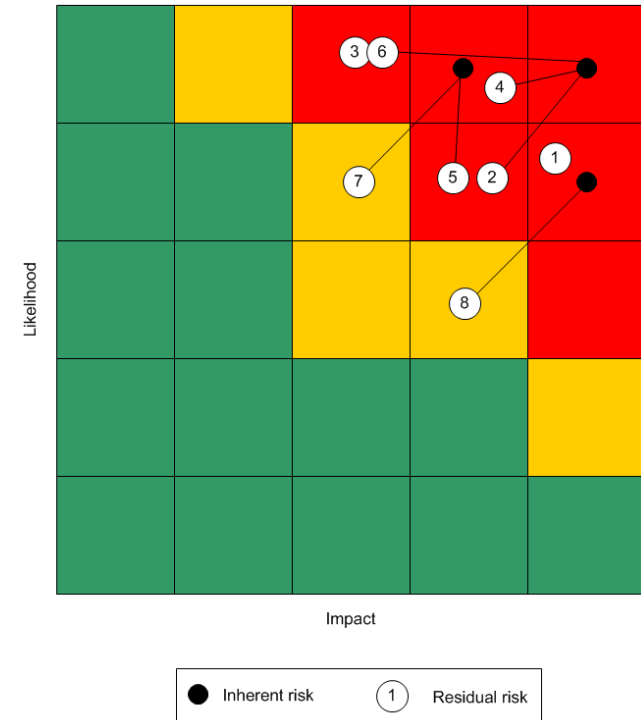
A loss of data from the Council's control could result in fines, loss of trust and reputation damage. New General Data Protection Regulation from May 2018 adds additional compliance requirements.

## 7. Customer expectations

Customer dissatisfaction around delivery of customer facing services (e.g. waste, roads, delayed discharge) may lead to increased complaints with consequential increased financial strain and reputational damage.

## 8. Health and Safety (H&S)

Non-compliance with Council Health and Safety policies and procedures and legal and regulatory requirements could lead to avoidable employee or 3rd party injury or ill health and/or regulatory fines and liability claims, and associated reputational damage.



**These are the top risks to the Council as at 18 August 2017 and are not presented in any ranked order.**

## Appendix 2 - CLT Top Risks with Mitigating Actions

	Risk description	I	L	Current key mitigating controls	I	L	Further actions
1	<p><b>Health and Social Care</b></p> <p>Through lack of CEC and/or provider resource/capability/capacity, the Council may be unable to secure appropriate contracts with its providers or deliver appropriate services as directed by the IJB. As a result we may be unable to deliver our own commitments, for example, to enable efficient discharge from hospital and consequently risk of not fulfilling our duty of care to customers and to delivery of the Health and Social Care Partnership's strategic plan.</p>	5	4	<ul style="list-style-type: none"> <li>• New structure for procurement and commercial services designed and implemented to ensure appropriate skills;</li> <li>• Access to external experts for capacity and capability and knowledge sharing;</li> <li>• Partnership working with Service Areas and IJB (IJB Procurement Board)</li> <li>• Contract register includes end of contract action plans</li> <li>• Exceptional items escalated to CLT quarterly</li> <li>• The Chief Officer of the IJB is a member of the CEC CLT and has dual accountability to NHS Lothian;</li> <li>• Care Inspectorate Action Plan to be delivered.</li> <li>• CEC Chief Internal Auditor provides the same function for the IJB to strengthen governance approach;</li> <li>• Corporate Policy and Strategy Committee to scrutinise health and social care performance, delivery and risk management.</li> </ul>	5	4	<ul style="list-style-type: none"> <li>• Management Information (MI) reporting to include red/amber/green (RAG) status on progression of contracts and exceptions</li> <li>• Comprehensive lessons learned review underway to inform enhanced provider failure protocol and contract management</li> <li>• Appropriate risks from the IJB/Health &amp; Social Care Partnership risk register to be incorporated where appropriate</li> </ul>
2	<p><b>Capital asset management</b></p> <p>With reduced resources and a heightened need for structural inspection and maintenance the current asset management plan may be insufficient to cover the immediate need for capital improvements (eg improvement of highways, post PPP1 structural reviews and other capital infrastructure) which could result in continued underinvestment and assets that are not fit for purpose or meet health and safety consequences now and in the future.</p>	5	5	<ul style="list-style-type: none"> <li>• Asset Management Strategy update to Finance and Resources committee</li> <li>• Integrated Property and Facilities Management (IPFM) report to CLT.</li> <li>• Condition Survey of all premises underway.</li> <li>• Property Rationalisation work-stream.</li> <li>• Asset registers in place with prioritised budget spend on those deemed of greatest risk to public safety.</li> <li>• General Inspections carried out annually as part of asset management programme.</li> <li>• North Bridge project.</li> </ul>	4	4	<ul style="list-style-type: none"> <li>• Ensure asset management strategy provides for a clear, prioritised, affordable and sustainable property portfolio;</li> <li>• Ascertain extent of any gaps in recording and inspection of fixed assets</li> <li>• Procurement underway for contract to inspect all boundary walls. Complete by December 2018.</li> </ul>
3	<p><b>Transformation and change agenda</b></p> <p>Key deliverables, benefits and timescales for achieving transformation may not be achieved in line with business expectations, requirements and contractual agreements. This will result in adverse impacts on service delivery and the Council's ability to operate, its finances or its reputation.</p>	5	5	<ul style="list-style-type: none"> <li>• Council Change Strategy being developed, aligned to the Business Plan.</li> <li>• Improved programme and project governance being applied through the CLT Change Board and new Business Case gateways process.</li> <li>• Plans for the key projects in terms of scoping and resources being reviewed.</li> <li>• Key transformation programmes supported by Programme / Project Management expertise.</li> </ul>	3	5	<ul style="list-style-type: none"> <li>• Implementation of Change Strategy and enhanced programme governance and business case approvals;</li> <li>• Clear and robust programme/project plans;</li> </ul>

										<ul style="list-style-type: none"> <li>• Greater focus on delivery assurance and benefits realisation.</li> </ul>
4	<p><b>Business continuity</b> A sudden high impact event causes buildings, people, systems to be non-operational for an unacceptable period. Damage/harm to people, infrastructure, systems.</p>	5	5	<ul style="list-style-type: none"> <li>• Council Business Continuity and Emergency Plans are in place</li> <li>• All Chief Officers have been briefed about the Council's Incident Management response arrangements and on-call responsibilities;</li> <li>• Appropriate expertise and capability in place via the Council Resilience Team;</li> <li>• Information Technology Disaster Recovery (IT DR) arrangements in place and being tested;</li> <li>• Effective and regular liaison and partnership working between CEC and other emergency and health services at a local and national level.</li> <li>• Business Impact Assessments in place for all Services.</li> <li>• Externally contracted services include DR and business continuity provisions.</li> </ul>	4	5	<ul style="list-style-type: none"> <li>• Council participation in multi-agency scenario testing of emergency plans;</li> <li>• Rolling programme of IT disaster recovery tests;</li> <li>• Relevant Audit actions being completed.</li> </ul>			
5	<p><b>Maintaining service with less resource</b> Funding reductions, legislative changes and increased demographic pressures, requirements of the Local Development Plan, the requirement to deliver within agreed budgets, and the anticipated need for further cost efficiencies may create an unexpected material pressure on our infrastructure, capital and revenue funding, the execution of our strategy and business plan with associated adverse reputational impact.</p>	4	5	<ul style="list-style-type: none"> <li>• Effective Long-Term Financial Planning in place, aligned to the Council's Business Plan and Performance Framework;</li> <li>• Provision for demographic change built into long term financial planning assumptions;</li> <li>• Regular review of financial challenges and assumptions with Members Budget Core Group and Finance and Resources Committee;</li> <li>• Monthly Performance Dashboard reporting to Directorates</li> <li>• Monthly budget monitoring</li> <li>• Savings and implementation plans are monitored and reviewed;</li> <li>• GRBV scrutinises Council Finance and Performance outcomes, assumptions and delivery.</li> </ul>	4	4	<ul style="list-style-type: none"> <li>• Refreshed Directorate Business Plans to be produced;</li> <li>• Revised Council Performance Dashboard/Framework to be considered by Council;</li> <li>• Annual External Audit of Council's Financial Planning and Long-Term assumptions to be reported.</li> </ul>			
6	<p><b>Information Governance</b> A loss of data from the Council's control could result in fines, loss of trust and reputation damage. New General Data Protection Regulation (GDPR) from May 2018 adds additional compliance requirements.</p>	5	5	<ul style="list-style-type: none"> <li>• Refreshed Information security policy introduced</li> <li>• Laptop and media encryption</li> <li>• Service automation controls in place</li> <li>• New IT Security Managed Service procured with requirements to adopt CESG (Communications Electronics Security Group – now part of the National Cyber Security Centre) and ISO (international standards) best practice approaches and improve the security defences, monitoring and awareness of the security threat landscape.</li> <li>• Leavers process includes removal of access to IT applications</li> <li>• GDPR Implementation Plan in place</li> </ul>	3	5	<ul style="list-style-type: none"> <li>• Assess impact of delays in delivery of IT systems</li> <li>• ISMS (Information Security Management System)</li> <li>• Monthly MI demonstrating any threats</li> </ul>			



7	<p><b>Customer expectations</b> Customer dissatisfaction around delivery of customer facing services (e.g. waste, roads, delayed discharge) may lead to increased complaints with consequential increased financial strain and reputational damage.</p>	4	5	<ul style="list-style-type: none"> <li>• Waste Services Improvement Plan in place and being progressed;</li> <li>• Roads Service Improvement Plan in place and has been approved by the T&amp;E Committee and will now be delivered;</li> <li>• Customer Transformation Programme being delivered in partnership with front-line services;</li> <li>• Customer Skills Training being deployed across all Customer Contact Centre staff;</li> <li>• Improved social media skills and capability being jointly delivered by Communications and Customer;</li> <li>• Channel Shift and Process Automation aspects of the Customer Transformation Programme are being delivered to improve accessibility and responsiveness of services;</li> <li>• Corporate Policy and Strategy Committee to receive regular reports and updates on Customer Transformation and Customer Contact Centre improvements and service delivery.</li> </ul>	3	4	<ul style="list-style-type: none"> <li>• Improvements to Council Complaints and Feedback Policy and handling arrangements;</li> <li>• Citizen Panel to provide feedback on customer experience and service improvements;</li> <li>• Enhancements to Council social media responses to issues and proactive campaigns, such as during the Edinburgh Festivals;</li> <li>• Delivery of improved customer contact service performance.</li> </ul>
8	<p><b>Health and Safety (H&amp;S)</b> Non-compliance with Council Health and Safety policies and procedures and legal and regulatory requirements could lead to avoidable employee or 3rd party injury or ill health and/or regulatory fines and liability claims, and associated reputational damage.</p>	5	4	<ul style="list-style-type: none"> <li>• Progress on Corporate H&amp;S Strategic Plan is reported annually to CLT and Finance and Resources Committee;</li> <li>• H&amp;S performance measured and reported to CLT Risk and Assurance Committee quarterly;</li> <li>• H&amp;S risks and issues reported to CLT on a weekly basis, H&amp;S is a standing CLT agenda item</li> <li>• Corporate H&amp;S Training programme available across the whole organisation and completion and update reporting is in operation across Directorate and Council H&amp;S Groups;</li> <li>• H&amp;S input and awareness raising is part of the Council's Induction Programme.</li> </ul>	4	3	<ul style="list-style-type: none"> <li>• H&amp;S Annual conference to be delivered and focus on 'H&amp;S is everyone's responsibility';</li> <li>• Service Level Agreements for new FM Service to make clear accountabilities for H&amp;S in Schools and other establishments being vested.</li> </ul>

## Appendix 3 Risk Scoring

Likelihood	1 – Rare	2 – Unlikely	3 – Possible	4 – Likely	5 – Almost Certain
Probability	0-15%	16-35%	36-60%	61-80%	81-100%
Chance of Occurrence	Hard to imagine, only in exceptional circumstances	Not expected to occur, unlikely to happen	May happen, reasonable chance of occurring	More likely to occur than not	Hard to imagine not happening
Timeframe	Greater than 10 years	Between 5-10 years	Likely between 3-5 years	Likely between 1-3 years	Likely within 1 year

Impact	1 – Negligible	2 – Minor	3 – Moderate	4 – Major	5 - Catastrophic
Effect on outcomes	Minimal effect	Minor short term effect	Part failure to achieve outcomes	Significant failure to achieve obligations	Unable to fulfil obligations
Financial effect	Corporate: up to £250k Services: up to £100k	Corporate: £250k - £750k Services: £100k - £300k	Corporate: £750k - £5m Services: £300k - £1m	Corporate: £5m - £20m Services: £1m - £5m	Corporate: £20m + Services: £5m +
Reputational damage	None	Minor	Moderate loss of confidence and embarrassment	Major loss of confidence and adverse publicity	Severe loss of confidence and public outcry

<b>Likelihood</b>	5 Almost Certain	Low	Medium	High	High	High
	4 Likely	Low	Low	Medium	High	High
	3 Possible	Low	Low	Medium	Medium	High
	2 Unlikely	Low	Low	Low	Low	Medium
	1 Rare	Low	Low	Low	Low	Low
		1 Negligible	2 Minor	3 Moderate	4 Major	5 Catastrophic
		<b>Impact</b>				

# Governance, Risk and Best Value Committee

10.00am, Tuesday, 26 September 2017

## Assurance of Council Human Resources Policies - 2017

Item number	7.8
Report number	
Executive/routine	
Wards	
Council Commitments	

### Executive Summary

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The Council has in place a Corporate Policy Framework which enables a consistent application of policy assurance processes across the organisation. At the Corporate Policy and Strategy Committee in February 2017, a request was made for a review of the current policy assurance process in relation to Human Resources Policies.

As a result of this review, this report makes recommendations to streamline the assurance process in relation to these policies, while ensuring it still maintains a focus on best practice, continuous improvement and robust governance. Additionally, this report recommends that Human Resource Policies are exempt from the application of Corporate Policy Framework templates, but instead are presented to Committee as they would be available to staff.

## Assurance of Council Human Resources Policies - 2017

### 1. Recommendations

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- 1.1 To scrutinise the proposed process for the assurance of Council Human Resources policies as detailed.
- 1.2 To refer the report to Corporate Policy and Strategy Committee for decision.

### 2. Background

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- 2.1 The Corporate Policy and Strategy Committee agreed on 3 September 2013 to strengthen governance arrangements in relation to policy assurance by agreeing a policy framework to ensure that all current Council policies are easily accessible, and are created, revised and renewed in a consistent manner. This included the development of a comprehensive register of Council policies, which are required to be assured on an annual basis, along with the introduction of a policy template to provide the Council with a standardised format in terms of content and style. This included internal Human Resource policies.
- 2.2 At the Corporate Policy and Strategy meeting in February 2017 a request was made for the Council to review its current approach to the assurance of Human Resource (HR) policies. This review has now been completed and the Governance, Risk and Best Value Committee are asked to scrutinise the proposals made.
- 2.3 Recognising the differing nature of HR Policies, in that they are typically based in statute, case law, national terms and conditions of service or Government policy this report recommends two key changes to the current approach: firstly, that HR policies should be considered throughout the year as and when there is a requirement to do so, and; that these policies are exempt from the Corporate Policy Template, but are instead presented to Committee as they would be made available to our employees.

### 3. Main report

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- 3.1 The Council has in place a Corporate Policy Framework which requires a consistent application of Policy assurance across the organisation. However, at the Corporate Policy and Strategy Committee in February 2017, a request was made for a review

of the current policy assurance specifically in relation to Council HR policies for our employees.

- 3.2 The proposed approach would mean that HR Policies would be reported to Committee as and when a change to the existing policy deemed this necessary, primarily as a result of: changes to legislation or statute; agreement of new national terms and conditions of service or Government Policy; organisational change; or resulting from changes agreed through Trade Union Consultation (a recent example being Performance Policy).
- 3.3 Additionally, recognising that it is important that when considering HR Policies, it is critical for the relevant Committee to scrutinise, review and approve changes to policy or new policies, as they would be presented to employees. The current template adopted by Committee does not enable this. Therefore, it is recommended that the relevant HR Policy is attached to the Committee report concerned at that time as an appendix as it would be made available to employees.
- 3.4 We believe that this approach will provide the Committee with a clear and consistent means of scrutinising the Council's HR Policies, whilst providing assurance that they are legally robust, adopt best practice and are reviewed within required timescales in response to external and internal drivers.
- 3.5 To provide additional oversight, it is recommended that Annual Assurance is provided to Committee, which details all the HR Policies which have been reviewed or approved in the preceding year for scrutiny together with a status report relating to the other HR Policies.
- 3.6 In addition to the assurance required by Committee, it is recognised that there is further work to undertake, to work towards ensuring that all existing HR policies are presented in a consistent and accessible template, coupled with the relevant guidance and education for line managers.

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

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- 4.1 That all Council policies are assured in a consistent and timely manner which ensures necessary scrutiny and oversight arrangement remain in place.
- 4.2 That all Council HR policies are reviewed in line with changes to such policies as a result of legislative changes or to drive best practice or continuous improvement.

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

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- 5.1 There are no financial implications as a result of this report.

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

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- 6.1 The changes to the assurance process aim to recognise the importance of the assurance of HR policies in a timely manner.

## 7. Equalities impact

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

## 8. Sustainability impact

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

## 9. Consultation and engagement

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- 9.1 Consultation has taken place with officers in Resources and in particular HR. The Governance, Risk and Best Value Committee provides member scrutiny before consideration by the Corporate Policy and Strategy Committee.

## 10. Background reading/external references

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- 10.1 Corporate Policy and Strategy Committee 3 September 2013 - [Review of Council Policy](#)

### Stephen S Moir

Executive Director of Resources

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## 11. Appendices

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- 11.1 Performance Management Policy, available on the [Orb](#).
- 11.2 [New Performance Management Framework and Policy](#), report to Corporate, Policy and Strategy Committee, 6 December 2016

## Performance Management Policy

We believe that all our employees want to do the best possible job they can for the Council and the people in our city and that we are all responsible for the work we do and how we do it. As your employer, it is our job to provide you with the right support so we can help you be at your best. Being at your best applies to both what you do and how you do it. We expect our Council Values to be at the heart of the approach we all bring to our work.

A user guide is available to support this policy to ensure that it is implemented as intended, with the focus on helping you to do your job to the best of your ability and supporting you to improve when you need help.

### Author

Employee Relations,  
Human Resources,  
Resources  
Directorate.

### Purpose

The purpose of this policy is to:

set out how we'll manage sickness absence across the organisation, and ensure that you know what's expected of you and what support we can put in place to support you, if you find yourself absent from work with an illness.

### Review

The policy will be reviewed as required, in the light of business needs or changes to legislation, in consultation with the recognised Trade Unions.

This document is a local collective agreement between the Council and the recognised Trade Unions. We will make every effort to ensure that this policy is maintained as a local collective agreement, with changes made by agreement. If we cannot agree, either party can end the local collective agreement by giving four months' notice in writing. In such circumstances, the terms of the local agreement will cease to apply to existing and future employees.

We will review this policy regularly to ensure that it continues to support the performance of our colleagues.

### Scope

The principles of this policy apply to all our colleagues and we expect everyone to approach their work in line with our Values. We recognise that there are groups of employees who have their own nationally agreed procedures for continuing professional development and managing performance. These remain in place.

However, nothing in those procedures exempts staff and managers from following the key principles outlined in this policy, and all staff are expected to have regular conversations with their managers, as a matter of good practice and to demonstrate the Council's Values as they go about their work.

### Contents

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## 1 Key principles

### Clear expectations

We can all expect to have clarity on our role and what's expected of us. From your first weeks with the organisation onwards, you can expect to have an understanding of how your work fits in to the work we do in the city and to have clear goals, standards and measures for the part you play.

### Focus on you

This policy is designed to look beyond the narrow focus of how you do your job and looks at you as an individual, giving the flexibility to factor in your personal circumstances where they relate to your performance.

### Feedback

We can all expect to get regular feedback on how we are doing. We will all get the chance to have regular, two-way conversations about our performance and development. Your manager will help you seek feedback from others and will regularly review your performance with you.

### Support

We can all expect to be supported to perform at our best. This support includes advice, coaching, training and support for our development on the job. In return, we are all expected to do our very best and participate fully in conversations about our performance.

### Focus on improvement

The focus of this policy is on supporting you to do your job in the best way you can and identifying any additional support, tools or adjustments needed where there are any issues meeting the standards required.

## 2 Responsibilities

We will make sure that our approach to performance helps you be at your best at work. We will support your manager, so that they feel confident in providing you with the tools you need to do your job as well as the support and information you need. If you cannot meet the requirements of your job, your line manager will provide you with the support to help you reach the expected standards.

### Employee's responsibilities

We are all individually responsible for managing our performance and engaging in conversations about it.

- You are responsible for the quality of your work and for putting in the effort needed to do the job to the standard required.
- You need to be clear on what it is you are being asked to do at work and what you need to do to achieve your goals and/or measures.
- You will need to work with your manager to agree how you are going to achieve your goals and/or measures and when you need to achieve them by.

If you need help, tell your manager and make it clear what support you think you need to be able to do your job.

### Manager's responsibilities

- Your manager will make sure that you understand what you are expected to do in your job and that you know how to do it well.



- They will agree a set of goals and/or measures for you to achieve each year, starting from when you first join the Council.
- They will give you the support you need to achieve these by having regular conversations with you about your work throughout the year and by providing you with the time and development you need to do the best you can.

Your manager will have received appropriate performance management training to ensure that the performance management framework is adopted and applied consistently and fairly across the organisation.

Your manager's performance will be evaluated each year on how effectively they support their people to perform and how they manage the performance of their area.

### 3 Performance management

#### Setting and measuring goals

When you join us, your manager will set goals and/or measures for you and set out the wider standards of performance expected, in line with what is required in your area and with the Council's Values. Performance conversations will then happen throughout the year.

#### Annual conversation about progress and priorities

There will also be a more formal annual conversation between you and your manager. The annual meeting will be your opportunity to review your progress in the year that has just passed and to get clear on the priorities and expectations for the year ahead. The date at which the annual conversation takes place will be determined by the needs of the area where you work. Senior managers will still have their annual conversation in the spring.

During the annual conversation, as well as being clear on what you are aiming to achieve and how you should go about achieving it, you will also discuss any development and support needs you might have. The aim is to ensure that you can give your best possible performance and we absolutely encourage you to ask for the help you need to achieve that. Your work goals and/or measures and your development priorities will be recorded along with the support you need.

#### Regular one-to-one catch-ups

Throughout the year, you and your manager will have the opportunity to have regular one-to-one catch-ups. The frequency will depend on what works well for you and your manager. During these conversations, you will be able to discuss progress against your goals and/or measures, your health and wellbeing, any challenges you are encountering, along with support and development needs you might have. You will also be able to share and receive feedback on your performance.

#### Looking back over the year

At the end of the performance management cycle, you should arrange the next annual conversation to look back and review your performance for the year and provide an opportunity for reflection, feedback and recognition before planning for the year ahead once again. The 'looking back' part of the annual conversation will build on all the catch-up conversations you have had throughout the year so there should be no surprises. You and

your manager will agree a performance rating that reflects what you have accomplished during the year and how you have approached it.

### **If you don't feel you're achieving your goals**

Occasionally you might feel that you are not going to be able to meet the standard of performance for the job or some goals and/or measures that were agreed. If you feel that, you should speak to your manager and let them know why you think you will not achieve what's expected of you and discuss what help you need. Your manager will listen to what you say and will give you the help you need where they can. It is your responsibility to make sure that you ask for help and take responsibility for meeting the necessary standards.

### **If your manager doesn't feel you're achieving your goals**

In some cases, your manager might feel that you are not performing to the required standard, in which case they will bring this up as part of normal day-to-day management. Additional support should be discussed as part of everyday performance management. If you feel you need additional support, make sure that you ask for it. Your manager will be supportive in this. They will also be specific about expected improvements.

Managers will always want to understand why you might not be performing as well as expected and will try to understand your point of view, as well as giving you clear and honest feedback. Our aim is always to find out how we can help you achieve the required standards and expectations and to agree a way of resolving any issues and getting back on track. Your manager and yourself will agree how your performance can be improved and how often to meet in order to monitor your improvement until you are back performing at your best.

## **4 Performance improvement**

### **Performance improvement plan**

We understand that under-performance cannot always be improved by everyday performance management and further intervention is sometimes needed. If you have been given help but your manager feels that you are continuing to underperform, then they will set up a meeting with you to put a formal performance improvement plan in place. You can be represented at this meeting by a trade union representative or accompanied by a work colleague.

However, we must stress that being asked to attend a formal meeting about your performance should not come as a surprise to you. Your manager will have been discussing your performance with you throughout the year.

Any areas where your performance could improve will have been brought to your attention before any formal action is considered and your manager will have supported you to try to improve your performance on an informal basis, through normal day-to-day management at the time. We see formal performance improvement as the last stage of a concerted effort to help you achieve the desired level of performance, backed by evidence of the support you've received.

<b>Stage</b>	<b>Actions and outcomes</b>
<b>Meeting to discuss the plan</b>	<p>The meeting will be a structured conversation between you and your manager about putting in place a formal plan to resolve the performance issues. Your manager will set out where you have not met the expected standards, with the evidence they've got from the conversations you had through the year. It's important that both you and your manager share feedback on any issues that are affecting your performance and that you discuss the impact they are having on your ability to do your work. It is important that you speak up about any factors impacting on your ability to perform so that your manager can consider any reasonable adjustments or whether your performance would be better dealt with under another Council policy.</p>
<b>Making you aware of potential outcomes</b>	<p>By the end of the meeting, your manager will set out the improvement in your performance that they expect to see. They will confirm that this represents a formal warning about your performance. This means that if there is no improvement in your performance, then this could result in your dismissal. Your manager will also tell your head of service that your performance is being managed using a performance improvement plan.</p> <p>We must emphasise that your manager will want to help you improve your performance and will want you to succeed. Equally, it's important that you see this as an opportunity to show that you can perform well in your job.</p>
<b>Confirming improvement needed</b>	<p>After the meeting to discuss the performance improvement plan, your manager will send you a completed performance improvement plan and a letter confirming that you are under performance improvement measures. In this letter, they will confirm that you have 12 working weeks to improve. They will also set out how often you will meet to monitor your improvement and the actions you are expected to take to show your improvement.</p> <p>The letter will also confirm your formal warning and note that if you do not improve your performance, then this could result in your dismissal. The warning will be live for 9 months and if your performance drops during that time, then you will be given a final written warning.</p>
<b>Monitoring performance</b>	<p>While your performance is under review, you and your manager will meet regularly to review your progress and, where required, adjust any development support you need to help. We would expect this to be at least weekly, in order for both you and manager to see if your performance is improving and to give feedback on progress made.</p>
<b>Improvement achieved</b>	<p>At the end of the review period, your manager will meet with you to discuss the outcome of the improvement period. You can be represented at this meeting by a trade union representative or accompanied by a work colleague. If you have achieved the improvement needed, then no further action will be taken and everyday performance management will continue. Your written warning will still be live for 9 months. If there is another drop in performance during this period, your manager will meet with you to discuss the situation. If the dip in performance means that further formal performance improvement support is put in place for you, then you will also be given a final written warning.</p>

<p><b>No improvement</b></p>	<p>If you have not met the required standard of performance at the end of the improvement period, then your manager will meet with you to discuss the situation. You can be represented at this meeting by a trade union representative or accompanied by a work colleague.</p> <p>The meeting will be a structured conversation between you and your manager about putting in place a formal plan to resolve the performance issues. Your manager will set out where you have not met the expected standards, with the evidence they've got from the conversations you had through the year. It's important that both you and your manager share feedback on any issues that are affecting your performance and that you discuss the impact they are having on your ability to do your work. It is important that you speak up about any factors impacting on your ability to perform so that your manager can consider any reasonable adjustments or whether your performance would be better dealt with under another Council policy.</p> <p>By the end of the meeting, your manager will set out the improvement in your performance that they expect to see. You will then be given a final warning and a further 4 working weeks to try to improve your performance levels. This means that if there is no improvement in your performance, then this could result in your dismissal. The warning will be live for one year. Your manager will also tell your head of service that your performance is being managed using a performance improvement plan.</p>
<p><b>Final performance improvement meeting</b></p>	<p>If you do not reach the standard of performance needed for your job in the final 4 working week period, then your manager will meet with you to confirm this and arrange for a final meeting to be chaired by your head of service (or a senior manager in your area with the authority to dismiss). You can be represented by a trade union representative or accompanied by a work colleague to both the meeting with your manager and the meeting with your head of service.</p> <p>At the final performance improvement meeting, the chairperson will review your performance improvement plan, consider the performance level you have been able to achieve, the support you received, your own feedback on what has prevented you achieving the standards required and feedback from your manager. You will be given the opportunity to share your thoughts on the situation.</p> <p>At the end of the meeting, the chairperson will confirm what action is to be taken. This will be either dismissal, action short of dismissal, redeployment or, in exceptional circumstances, a further period of review of up to 4 working weeks. This will only be considered if you have been able to demonstrate that you can achieve the required standard within that time. The chairperson will send you a letter confirming the decision.</p>

## 5 Appeals

If you are dismissed or action short of dismissal is taken, you can appeal that decision by following the standard appeal process, which will be set out in your confirmation letter. You cannot appeal any other outcome of the final meeting.

10.00am, Tuesday, 6 December 2016

Appendix 2

## New Performance Management Framework and Policy

**Item number**  
**Report number**  
**Executive/routine**  
**Wards**

### Executive Summary

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The organisation is under pressure to transform itself and become fit for purpose to operate effectively in a much altered financial climate. It also has bold ambitions to deliver joined up public services that have the biggest impact in strengthening and empowering the communities we serve. The organisation's Wider Leadership Team have a clear and ambitious vision of the type of culture that needs to be established to ensure the organisation is at its most effective and productive in delivering for the city in new ways.

Our approach to managing performance and supporting our people to perform at their best plays a crucial role in enabling the organisation to be at its best in delivering for the city.

In response to insight from staff and managers that was sought out in 2015, a group of staff and managers from around the organisation have worked together to transform our approach to performance management.

Included with this report is the new approach that has been tested extensively across the organisation and negotiated with our trade unions. Agreement is sought on the new Performance Management Policy that accompanies this new Performance Framework, to enable us to create a culture of learning and performance across the Council.

### Links

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**Coalition Pledges**  
**Council Priorities**  
**Single Outcome Agreement**

## New Performance Management Framework and Policy

### 1. Recommendations

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- 1.1 Note our ambitions to establish excellent performance management practices and create a positive culture of learning and performance, as represented in our new Performance Framework, which will come in to effect from 1 April 2017.
- 1.2 Agree the accompanying new Performance Management Policy as a replacement to the Managing Work Performance Policy with effect from 1 April 2017, in line with the introduction of the new Performance Framework.

### 2. Background

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- 2.1 The organisation is under pressure to transform itself and become fit for purpose to operate effectively in a much altered financial climate. It also has bold ambitions to deliver joined up public services that have the biggest impact in strengthening and empowering the communities we serve. The organisation's Wider Leadership Team have a clear and aspirational vision of the type of culture that needs to be established to ensure the organisation is at its most effective and productive in delivering for the city in new ways.
- 2.2 Our approach to managing people performance is a significant cultural lever to pull in securing a culture of learning and performance that will help us support our people to deliver their best and help us transform how we work in the city to make the biggest difference.
- 2.3 The business case for organisations adopting high performance working practices is a compelling one and the cost of not doing so - to staff, customers and the organisation - can be considerable. Meta-research undertaken by The Mindgym in 2011, for example, suggests that when managers play their performance management and development role effectively, performance can increase by as much as 25%. As we are now operating in a climate of reduced resources, this productivity benefit is significant and the support for staff that comes with it is necessary for our people.
- 2.4 Work commenced in summer 2015 to determine how to change our approach to managing performance in a way that would have the biggest and most positive impact on our culture and our performance as a Council.
- 2.5 In August 2015 we embarked on an exercise to understand our staff experience of performance management and identify what would need to happen to create a positive performance culture. We talked with approximately 200 staff in focus

groups, interviewed around 20 managers who it was thought were 'pockets of excellence', sought the perspective of around a dozen senior leaders and heard from around 150 staff through an online system survey, in addition to desk research and benchmarking with around half a dozen other companies.

- 2.6 What we heard from staff suggested that, while some managers were excellent in supporting their teams to perform, this was not felt to be the norm and our approach as an organisation was neither fuelling performance nor driving engagement.
- 2.7 The key frustrations we heard were that our performance management approach felt like a 'box ticking' process, felt unconnected with why people were here and didn't support people to deliver their best. The over-focus on process and compliance was felt to be compounded by the fact that supporting systems and materials were overly cumbersome, complex and difficult to engage with.
- 2.8 Staff in focus groups also found it frustrating that performance issues appeared to be tolerated, with the impact on them being that they often had to take up slack of others, albeit a minority of the workforce. Managers we interviewed described the difficulties faced when trying to tackle performance issues due to feeling unsupported by the organisation with the pressures faced when tackling issues and as a result of the policy timelines being so long in practice.
- 2.9 Additionally, we found that the focus on pay was getting in the way of positive, stretching and developmental performance conversations, we found that colleagues getting feedback was not the norm and that, not only did poor performance appear to be tolerated, it was also felt that great performance was sometimes just 'tolerated'.

### **3. Main report**

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- 3.1 In response to insight gleaned from staff and managers about what would be needed to close the gap between our current reality and our ambitions to create a culture of learning and performance, a 'Business User Group' was established in September 2015 to work with HR to co-create a new Performance Framework.
- 3.2 The thinking behind the new Performance Framework (and accompanying Performance Management Policy) has been focused on how to establish a supportive climate for performance that engages people at a human level, establishes a consistently high bar, makes it easy for our people to deliver their best performance and ultimately maximises the potential of our workforce. The focus is on supportive, developmental and, where needed, courageous conversations.
- 3.3 In addition to engagement and negotiation with our trade unions, there has been wide engagement of colleagues in the creation of the new approach and iterative developments of the new approaches have been extensively tested in a variety of Council operating environments throughout summer 2016. (See section 9 for more details).

- 3.4 As a departure from current practice, the new approach is inclusive of all colleagues of all grades. While some staff, such as teaching staff, have nationally agreed professional procedures, the principles and spirit of the new approach will apply to all.
- 3.5 The key components and changes to practice outlined in the Performance Framework and Policy are:
- 3.5.1 To support great conversations about ‘the how’ of performance, a new values map has been created to replace the Council’s complex competency framework. The map brings to life the behaviours demonstrated when colleagues are approaching their work in line with our organisational values.
  - 3.5.2 To move the focus from process and ‘box ticking’ to positive and stretching conversations about service delivery, a new approach to the annual conversation has been created to replace the ‘Performance Review and Development’ (PRD) conversation. The approach is more forward-looking, has been significantly simplified and moves away from a mathematical approach to evaluating performance to an agreement about the broad ballpark a colleague’s performance is in, with a view to prompting a development-oriented conversation.
  - 3.5.3 To increase our focus on supporting our staff to be their best and deliver their best throughout the year, a focus on year-round conversations is central to the framework. To support managers in having the most positive impact in these year-round conversations, a picture of what good looks like has been created for one-to-one and team conversations.
  - 3.5.4 Drawing on the weight of external research showing the correlation between getting regular, balanced feedback from a variety of key stakeholders (peers, customers etc.) and performance improvement, a tool to support staff and managers in seeking feedback from the people they work with is included in the framework.
  - 3.5.5 To support managers to support the minority of staff whose performance needs improvement, timeframes in the policy have changed. While the existing Managing Work Performance Policy had timeframes for improvement that could have resulted in resolution within a six month period, in practice it has been taking at least a year and sometimes up to 18 months to resolve performance issues, with negative consequences for the manager, the team and indeed the affected staff member. Due to the new focus on having clear and supportive performance conversations throughout the year, the timeframes for resolving performance issues have reduced to within six months (12 weeks initially, a possible extension of four weeks and a further short extension in exceptional circumstances). The focus is very much on supporting people to improve, and training will be provided to ensure manager capability in applying the policy fairly so as to avoid overly punitive interpretations (see 3.7).



- 3.6 In response to the feedback heard from staff and managers last year, the overall approach has been simplified and more flexibility incorporated to enable it to be successfully used in the wide variety of operating environments we have. While the whole framework is designed to be used flexibly, two key aspects of flexibility are:
- 3.6.1 To ensure flexibility in relation to operating environments, the performance cycle will be flexible for all staff, with the exception of senior managers whose performance year will remain on an April to March basis to align with the management of the organisation's performance. This ensures that different operating environments can choose a point in the year that aligns well with their service priorities and enables managers of high volumes of staff to spread out the more time-intensive conversations throughout the year.
  - 3.6.2 To ensure flexibility of process, it is intended that managers of staff without easy access to the new online forms (that will be developed as part of the new Business World launch) can use simple paper forms and would only be required to add their performance evaluation 'score' for each member of staff each year.
- 3.7 To support managers and staff to use the new approach well, an extensive engagement and development plan has been developed.
- 3.7.1 This will see all levels of senior managers (approximately 350+ people managers from the CEO down) take part in a robust two-day workshop in the January- March 2017 period, to support them in modelling the best possible practices ready for the 1 April launch. Thereafter, all other managers will receive a comparable amount of development to support them in rethinking and practising new approaches to performance conversations.
  - 3.7.2 Additionally, to support and engage staff in proactively playing their role in this, e-user guides are being developed and a road show of short workshops will run from January 2017 onwards to engage them in their role in managing their performance and development.
- 3.8 The link between pay and performance will be reviewed in 2017.

## 4. Measures of success

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- 4.1 An evaluation and embedding change plan is currently being developed that will drive our focus in measuring and adjusting the change in the coming two years and beyond.
- 4.2 Indicators of success will be agreed at the level of practice and also at the level of impact (i.e. impact on colleagues, impact on service). At the level of practice, we will return to the ten indicators that were used in the summer 2015 research phase (including, for example, determining the extent to which our people have clear, aligned and stretching goals, are getting clear, honest and frequent feedback on their progress, etc).

## **5. Financial impact**

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- 5.1 There are costs associated with the development phase of this work that are incorporated within the organisation's transformation budget but an internal delivery model is being used to minimise costs.

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

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- 6.1 Due to the links between people performance and organisational performance and change capability, the risks to the organisation's ability to successfully transform itself to be fit for purpose in a new climate are significant if this new approach is not implemented.

## **7. Equalities impact**

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- 7.1 There are no direct equalities impacts arising from this report.

## **8. Sustainability impact**

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- 8.1 There are no adverse environmental outcomes arising from this report.

## **9. Consultation and engagement**

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- 9.1 Since September 2015, HR have worked with a 'Business User Group' established to co-create the new Performance Framework and Policy. This group has been made up of a trade union representative, a senior manager representative, two manager representatives and two staff representatives.
- 9.2 In creating the new values map, furthermore, the indicators were created by interviewing a random sample of top performers in the organisation to seek to understand, 'codify' and share the great approaches they are taking. The new map was then confirmed with a sample of Wider Leadership Team members to ensure it was fit for purpose not just for today but also for the future.
- 9.3 Additionally, in spring 2016, six 'early adopter sites' were identified to test out and refine the new approaches in the draft framework to ensure that the new framework was fit for purpose and flexible enough to meet the needs of our large variety of operating environments. The feedback from early adopter sites has been used to improve the iterations of the new framework and the reception to the overall approach has been overwhelmingly positive.
- 9.4 The trade union negotiation for the new Performance Framework was successfully concluded on 14 November 2016.

## 10. Background reading/external references

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- 10.1 The report from the Mindgym meta-research from September 2011, referenced at 2.3, is available in hard copy from [Jo Guz](#).

### **Stephen Moir**

Executive Director of Resources

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## 11. Links

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**Coalition Pledges**

**Council Priorities**

**Single Outcome Agreement**

**Appendices**

Appendix 1 – Our Performance Framework: Being our best in everything we do for the people in our city

Appendix 2 – Performance Management Policy

# OUR PERFORMANCE FRAMEWORK

Being our best in everything we  
do for the people in our city

# ABOUT THIS FRAMEWORK

**WHAT IS IT?** – Having great performance conversations is a craft you develop over time. This framework is NOT designed to teach you how to have these conversations – it aims to offer a blend of templates, tools and tips to be used flexibly to suit your needs and situation. If you would like support to practice performance conversations, you can book into a [development workshop](#).

**WHAT DOES IT COVER?** – The framework is made up of the following elements:

**VALUES MAP** – A set of the best behaviours, approaches, qualities and attitudes that show HOW we are expected to approach our work. These are aligned to our core values: Customer first / Working Together / Honest & Transparent / Forward-Thinking

**ANNUAL CONVERSATION** – A chance to step back and take stock. We reflect on the year that's been and what we've accomplished and we get prepared for the year ahead and what we want to achieve.

**PERFORMANCE IMPROVEMENT CONVERSATION** – As and when issues arise, we may need a conversation about improving our performance. This is a one to one discussion to dig deeper into the reasons for a performance issue, to get clear on what the issue is and to agree a way forward together.

**ONE to ONE CHECK-IN** – Regular one to one catch ups that take place throughout the year. We talk about progress against goals and measures, your life and wellbeing, challenges you are encountering and any support and development needs you have. You'll also be able to share and receive feedback.

**FEEDBACK** – Quick and simple tools to enable real-time and regular feedback on performance from our colleagues, managers, direct reports and customers.

**TEAM CHECK-IN** – Regular team catch ups that take place throughout the year. A chance to discuss and reflect on our team priorities, goals, challenges, ideas and opportunities. It's also a chance to share our learning, discuss the wider context and celebrate our achievements.

Click  
here

for our Performance Management policy

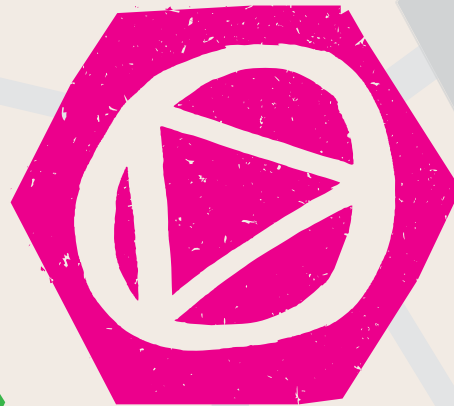
# Values Map

This VALUES MAP is a set of all the best qualities, behaviours, approaches and attitudes that show how we do things when we are at our best. Our four values make our organisation unique. They are at the heart of everything we do and the core of who we are and who we want to be. The values map will help us to celebrate what we do well, have meaningful conversations about how we can be at our best and how we might want to develop.



## HONEST and TRANSPARENT

We hold ourselves accountable to our city and act with integrity in everything we do



## FORWARD THINKING

We think ahead and approach our work creatively to continuously improve the services we offer



## PUT CUSTOMERS FIRST

We treat our customers with respect and deliver caring and responsive services



## WORK TOGETHER

We keep connected with our communities and partners and make relationships a priority, working flexibly together to achieve our goals

## At my best

I do everything with commitment and total belief in what I care for

I am consistent and deliver what I said I would efficiently and to the highest standard possible

I care and use a genuine approach to engage with customers and the people I work and interact with

When making decisions, I focus on the outcome and have the person at the heart

I am flexible and adapt my style and communication to focus on what matters to people

I am committed and see things through to the very end

I involve customers to be active partners and acknowledge that I might not always be the expert

I take the time to listen and ask questions to seek understanding

I try to make people feel at ease and comfortable by building trust and being open

## Put Customers first



We treat our customers with respect and deliver caring and responsive services

I let my mood affect how I treat others

I make little or no effort to understand things from others' point of view and ignore the voice of the customer

I make promises I cannot keep for an easier way out

I make assumptions and take a "one size fits all" approach when working with people

I focus solely on the task and process, not the people

I can be insensitive and unhelpful to customers and my style does not take into account their feelings and opinions

I behave in a way that is detrimental for my customers or has a negative impact on the Council's reputation

## Not at my best

## At my best

I engage people in a way that inspires them to be a part of it

I acknowledge the good work and achievements of the people around me

I extend trust and take time to understand people I am working with

I show people I care about them and have their backs when needed

I give importance to relationships and make time for growing them

I approach conversations with shared solutions in mind

I recognise the times when what's needed is to roll up our sleeves and pull together

I help the people I work with to stay connected to the good work we are doing together

I am genuine with people and respectful in my conversations

I give colleagues the same importance as external customers and take the time to get to know them so that we can work well together

## Working Together



We keep connected with our communities and partners and make relationships a priority, working flexibly together to achieve our goals

I don't flex my style to meet others' needs

I behave in a way that is detrimental for my colleagues and team

I have little interest and take no responsibility in getting to know people and finding out the best about them

I feel that it is easier to get the job done myself

I sometimes play power games to drive forward my own agenda and undermine the people I work with

I am not approachable and don't prioritise giving people time and space

I don't make efforts to share information about my work that is not confidential with others

I assume and have a "one size fits all" approach to working together with people

I give greater importance to my own opinions and achievements over others

I don't make efforts to understand how my work or the team work fit into the bigger picture

I pay lip service to working together – I play at listening but don't really explore different perspective and let the important things remain unsaid

## Not at my best



## At my best

I feel excited, passionate and connected with the work I do

I am curious and open to new approaches and I think creatively to make things happen

I actively play my part in making the future vision for our service and city a reality

I embrace change with enthusiasm and see it as an opportunity to make things better

I regularly take stock of what I am here to do

I encourage others to share ideas and try new things

I make sure I know the facts and what is important when planning and making decisions

If I see that something is not working or it could be improved, I take responsibility to do something about it

I embrace the "rocky road" and always look for sustainable solutions and opportunities for improvement

I take small steps to achieve the big goals

I take ownership for my own learning to continuously develop and fulfil the requirements of my role

## Forward thinking



We think ahead and approach our work creatively to continuously improve the services we offer

I dismiss fresh and new ideas and discourage people from suggesting new ways of doing things

I ignore problems, don't use my initiative and hide behind my job description

I stick to the status quo and remain focussed on problems, not solutions

I rely on established solutions, ignore feedback and don't ask or value other people's views and suggestions

I ignore the facts and evidence to justify my decisions

I take short cuts and turn a blind eye when things are getting tough

I work within my own rigid parameters

## Not at my best

## At my best

I stay true to our values and feel accountable to do the right thing even when it's really challenging to do so

I play my part in helping my team act with integrity in everything we do together

I am transparent about the work I do, how I go about it and the decision I make

I am open and honest about what I do and don't know and seek people's ideas and suggestions to find solutions

I take the time to reflect on my approach to help me stay true to the Council values and the values that are important to me

I have conversations that are clear and frank at the same time as being respectful and constructive

I have confidence in myself to make the right decisions and, if needed, say no in a constructive manner

I speak up to positively challenge others in a way that is constructive, direct and appropriate

## Honest and transparent

I might be manipulative when influencing others and leave people with the impression I want to give

I come across as defensive when service improvements are suggested and think "we've always done it this way"

When making decisions, I hold back for fear of being judged or being wrong

I talk negatively about the Council and people working within it

I waver and don't remain involved until the resolution

I am blunt and insensitive when being honest

I pass the buck when things get tough

I don't tell the whole truth about my work, my approach or the decision I make

I put off the conversations and don't tackle the tough stuff

We hold ourselves accountable to our city and act with integrity in everything we do

## Not at my best

# THE ANNUAL CONVERSATION

A conversation once a year between us and our line manager. A chance to step back and take stock. We reflect on the year that's been and what we've accomplished and we get prepared for the year ahead and what we want to achieve

## LOOKING AHEAD: SETTING THE COURSE

### WHY

What are we trying to make happen in our service area this year and why? What's the difference I want to make in this?

### WHAT

What does this mean for my contribution in the year ahead? What will I need to do? And how will I know that I've been successful? What does good look like? What will the measure of good be?

### HOW

How will I go about it? How do I want to approach my work this year in a way that I'll be most proud of? What will great look like in terms of my approach?

### MY SUPPORT AND DEVELOPMENT

What does this mean for my development and the support I need in the year ahead? Where do I want to go longer term and what support would help?

### OUTPUTS

Agreement on:

Expectations for the year ahead

What I do	How do it
My goals and/or performance measures	Our values and relevant professional standards

My development priorities/knowledge, skills, behaviour

## LOOKING BACK: REFLECTING ON MY ACHIEVEMENTS

### OUTPUTS

Agreement on:

My performance zone

What I deliver	How I go about it

Implications for my development

### MY IMPACT

So, all in all, what's the impact I had this year on our outcomes, service, and colleagues? And how does this relate to what we're trying to make happen in our service?

### MY LEARNING & STRETCH

What are my reflections on what I learnt this year? In what ways did I develop and stretch myself and the service this year? And how does that sit with the development priorities set?

### HOW I WENT ABOUT IT

What are my reflections on the approach I took this year – on the good days and the more challenging days? How does that chime with our values? And did I feel supported to bring my best?

### WHAT'S BEEN ACCOMPLISHED

What's the best of what I've achieved or accomplished this year? And how does that stack up against my goals and measures?

# ANNUAL CONVERSATION QUESTIONS BANK

Some suggested questions from both an employee and manager perspective that we can choose from to prompt a good annual conversation

PICK MIX & PERSONALISE

## LOOKING BACK

### MANAGER

When you think about the last 12 months, what do you feel really proud of?

What strengths or approaches did you use that helped you achieve that?

What have you enjoyed working on most over the year?

What is something new you learned in the past year?

What has been challenging or had you feeling out of your comfort zone?

### EMPLOYEE

What impact has my contribution made on our service area?

What you do feel my key achievements have been over the last 12 months?

In what ways do you think I could further improve?

## LOOKING FORWARD

### MANAGER

Where do you think you could focus your energies over the next 12 months that would make the biggest impact?

What goals are we looking at this year that interest you and present an opportunity to develop?

How can we be clear on what good looks like in all key areas of the role?

How do you want to stretch your skills or further grow your impact this year?

What support do you need – and from who?

### EMPLOYEE

What are some of the big priorities coming up for our team that I might contribute to and how do these relate to the bigger picture?

What are the standards we're striving for in our service?

What support and development opportunities are available to help me achieve my priorities?

# PERFORMANCE ZONES

Reflecting back on the whole year on balance, these zones give us an overall sense of how we are doing in our role in terms of what we do and how we do it



## GEM (GOING THE EXTRA MILE)

At various points throughout the year, there will be many times when we're truly going the extra mile – going above and beyond to pull together in the face of team challenges, delivering a particularly impressive quality of service or being the one who works consistently behind the scenes to

keep the show on the road against the odds. Why wait until the end of the year to recognise this? It's hoped that space can be created throughout the year to appreciate, recognise and celebrate these moments at the time.

## NEEDING SUPPORT

It might be because I'm brand new in post or, for whatever reason, I'm not yet hitting what's expected of me in my role yet and am showing the need for solid improvement in one or more key areas for my contribution to be where it needs to be in the year ahead.

### This will likely include one or more of the following:

- Struggling to achieve performance goals, measures or standards expected in my role
- Being a way off approaching my work in a way that sits well with our values or professional standards
- Avoiding helping out my colleagues where needed or showing no real desire to ensure our service meets the standards our customers should be able to expect
- Requiring a level of support or direction that wouldn't ordinarily be expected for the level and scope of the role
- Struggling to have a positive impact on my customers or service users or having a negative impact on the team

## ALMOST THERE

Whether I'm brand new to role or not, I'm a developing performer who is very close to consistently achieving what's expected of me and need just a bit more development in one or more areas to be really delivering my best in the year ahead and beyond.

### This will likely include one or more of the following:

- Sharpening up my approach in relation to a key skill, one of our values or one of the professional standards we hold as important in my area
- Doing more to ensure I balance my priorities or deliver within the expected timeframes
- Stretching myself to be more proactive in overcoming the day-to-day challenges I face in my role
- Developing the experience needed for the role or focusing on the learning that would help with the changes and developments in my area
- Focusing in on improving the impact I have with my colleagues or customers / service users or focusing on improving the relationships that are key to this role

## FULLY EFFECTIVE

I'm reliably broadly achieving what's expected of me on all fronts not just in terms of what I deliver but how I go about it, including taking responsibility for my ongoing development and supporting the team along the way.

### This will likely include:

- Broadly hitting the performance goals and/or measures expected in my role (taking in to account reasonable obstacles)
- Consistently approaching my work in a way that fits really well with our values and professional standards (taking in to account the fact that we all may have the occasional bad day)
- Reliably helping out my colleagues and offering ideas, however small, for how we can continuously improve our service
- Embracing opportunities to learn within my role and, for the most part, actively keeping focused on my ongoing personal development
- Typically having a positive impact on my customers or service users and being somebody who is a consistently positive face for the Council

# ANNUAL CONVERSATION RECORD

A form to record the key points and actions arising from the annual conversation

Name of employee	Name of manager
Employee number	Performance period

## Performance goals and/or measures

This is the place to make sure you have a clear agreed picture of what good looks like for the employee in the year ahead. This may be a set of goals / objectives or it may be a set of key performance measures.

## Personal development priorities

This is the place to make sure you have a clear agreed picture of what the priorities are for the employee's personal development in the year ahead to help the role holder to be at their best in the year ahead.

## Review of the year

Employee reflections

Manager reflections

Performance zone

# ONE-to-ONE CHECK-IN

A one-to-one catch up that take place regularly (frequency to be agreed between us and our manager) throughout the year. These might be pre-arranged meetings or just a quick touch-base. This tool suggests some topics that can be used to focus the conversations. Pick which ones feel the most important to talk about at the time

A chance to use feedback to reinforce good practice or behaviour, recognise where we have gone the extra mile or highlight where improvements are needed. Feedback and recognition should be two-way.



A conversation around what challenges, barriers & obstacles are being experienced and how these could be overcome and what support we might need to overcome them.

A conversation about us as a person. A chance to discuss how we are in general, how we are feeling, any time off we have had and anything in our personal life that might be impacting on our working life or vice versa

A conversation about our personal development needs and an opportunity to explore how we might want to expand our knowledge, skills and experience and reflect on career aspirations.

A conversation to ensure that goals are on track

A conversation around recent and up-coming task & activities

# ONE-to-ONE CHECK-IN QUESTIONS BANK [Manager questions]

Some suggested questions for managers to choose from and personalise to help to start a good one-to-one check-in conversation

## PERSONAL DEVELOPMENT

- How are you progressing against your personal development priorities? Where do you feel you would like to further grow?
- What might be one area for development that would help you to perform even better or have more impact?
- When thinking of your long term career, what is important to you?

## FEEDBACK & WHAT I DO WELL

- What is your sense of how well you are performing?
- What feedback have you sought recently and what have you learned from this?
- What makes you feel valued at work?
- Do you have any feedback for me?

## CHALLENGES & SUPPORT

- What is your biggest challenge right now?
- What approaches are you taking to address it and what have you learned in the process?
- What other approaches could you consider?
- What support could help you?

## TASK & ACTIVITIES

- What's taking up most of your time at the moment?
- How well prioritized do your various tasks feel?
- What has gone well for you recently? What is about the approach you're taking that's helped?
- What are you trying to make happen in the next month?
- Who do you need to involve in that?

## GOALS & PERFORMANCE MEASURES

- How do you feel your goals are progressing?
- What approaches are you taking to achieve your goals / the standards?
- What is getting in the way of you achieving what's needed in your role?
- Are you getting the right support from me or others? What could I do more of to have you feel supported?

## LIFE & WELLBEING

- How do you feel about your work/life balance right now? How can I help?
- What worries or concerns do you have?
- What changes could you make to improve your thinking time or "headspace"?
- What do you spend your time on that doesn't add value that you could stop doing?



# ONE-to-ONE CHECK-IN QUESTIONS BANK [Employee questions]

Some suggested questions for employees to choose from and personalise to help to start a good one-to-one check-in conversation

## CHALLENGES & SUPPORT

- What approaches could I take to address my biggest challenge?
- How can I get support with....?
- Who can help me with...?
- Who needs support from me in the team?

## TASK & ACTIVITIES

- What do you see as being some of my recent highlights?
- What's one bit of feedback you could give me to help my development?

## FEEDBACK & WHAT I DO WELL

- What is your sense of how I am performing?
- What's your sense of the best of my strengths?
- What nudge would you give me that would help me be more effective?
- Can you give me some feedback on what you saw from me during ... piece of work?

## GOALS & PERFORMANCE MEASURES

- How do you see my goals are progressing?
- How close to hitting the measures of success do you think I am?
- Am I delivering to the standard you're looking for?

## PERSONAL DEVELOPMENT

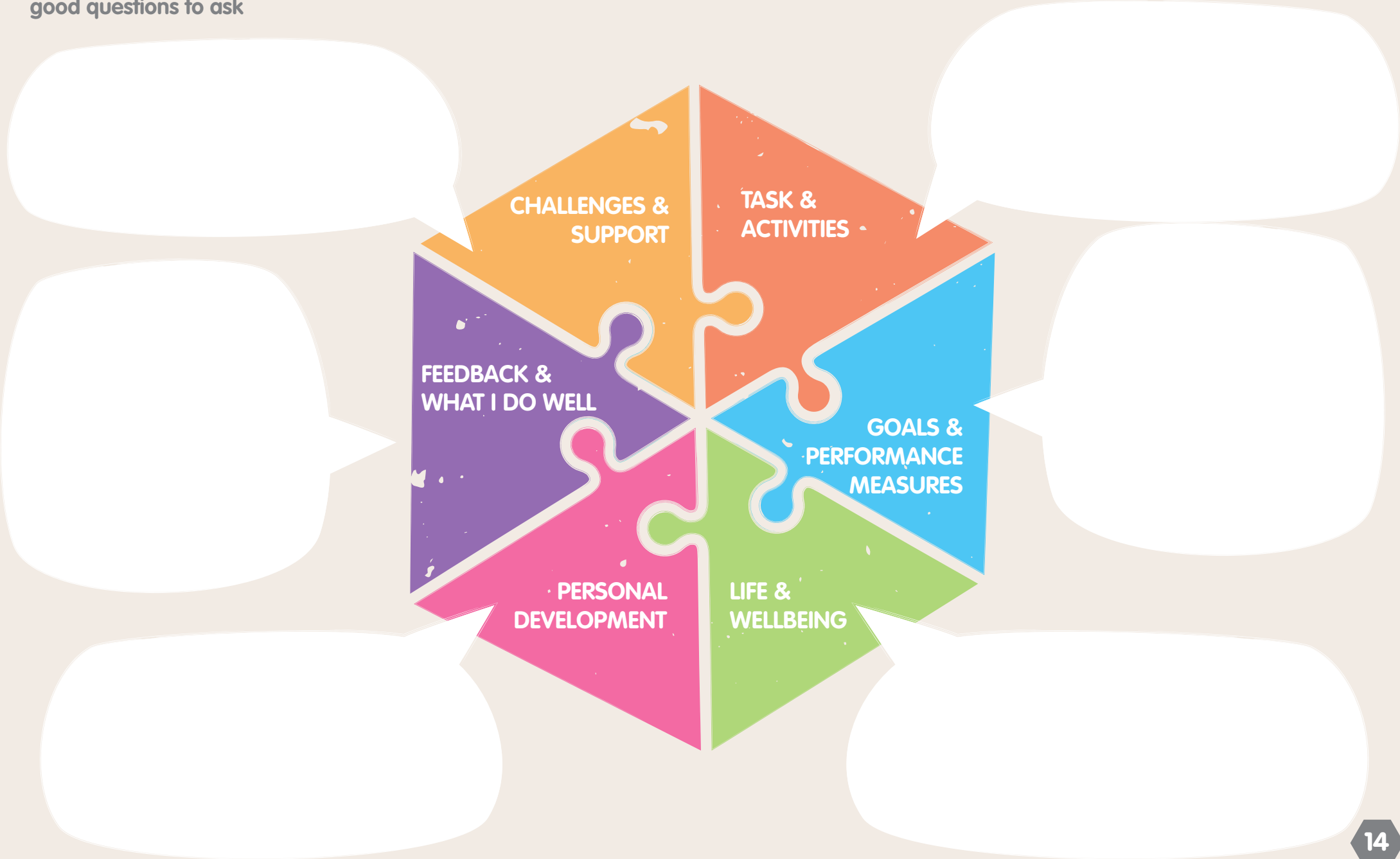
- What personal development opportunities are there that could help me with...?
- How could I learn more about....?
- Who might I be able to shadow to learn more about....?

## LIFE & WELLBEING

- How might I get the right balance between work and life in my role?
- What changes could I make to get more headspace?

# CHECK-IN PREPARATION TOOL

An optional tool for both a manager and an employee to use, if helpful, to prepare for a one-to-one check in. We could use it to jot down reminders of what we would like to talk about and/or make a note of some good questions to ask



# ONE-to-ONE CHECK-IN RECORD

A form to record the key points and actions arising from a one-to-one check in meeting

Name of employee

Name of manager

DATE

MAIN TOPICS DISCUSSED

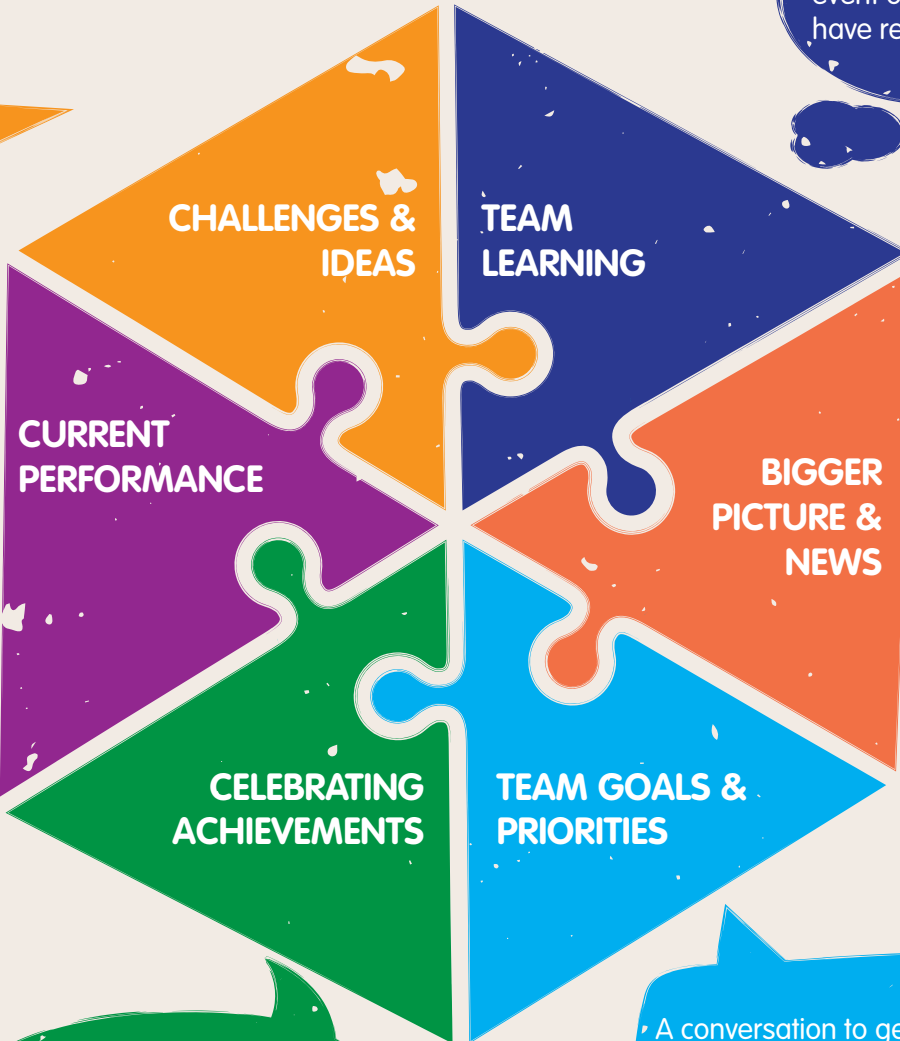
ACTIONS (Who will do what by when)

DATE	MAIN TOPICS DISCUSSED	ACTIONS (Who will do what by when)

# TEAM CHECK-IN

A regular team catch up (frequency will vary between service areas). This tool suggests some topics that can be used to focus team check-in conversations. Pick which ones feel the most important to talk about

A conversation about challenges we are facing, any team tensions and obstacles to us achieving our goals and priorities. A chance to explore solutions and ways forward together and ways of supporting each other.



A chance to share what we are learning with each other e.g. feeding back after attending an event or sharing something we have read or seen.

A conversation about our wider context – what is going on in our organisation, city or beyond that could impact our performance. What changes and news do we need to touch base on as a team?

A conversation to get a sense check about how we are currently performing.

A chance to celebrate what we are doing well as a team, where we have gone the extra mile and reflecting on our impact.

A conversation to get clear on our team goals and priorities. What does good look like?

# PERFORMANCE IMPROVEMENT CONVERSATION

As and when issues arise, we may need a conversation about resolving a performance issue. This tool suggests a way to structure a one-to-one performance improvement conversation to dig deeper into the reasons for a performance issue, to get clear on what the issue is and to agree a way forward together

## WHAT IS THE PURPOSE OF THE CONVERSATION?

State why we're here and the intent to resolve the issue.

## SHARING FEEDBACK ABOUT THE ISSUE

- Give honest and constructive feedback about the issue, with specific examples
- Describe the impact of the issue on others
- Clarity what will happen if nothing changes
- Recognise what is working well that we can build on

## EXPLORING THE REASONS BEHIND THE ISSUE

- Explore what they think about the issue
- Explore possible reasons for the issue
- Try to learn what is going on from their point of view

## WHAT CAN & WILL WE DO ABOUT IT?

Work towards a resolution to find a way forward together, being clear about what happens next and who will do what.

## TOP 3 TIPS

- Choose the time and place for the conversation carefully
- Ask open questions and listen carefully to the responses
- Keep focused on moving towards a resolution

Click here

for links to the Performance Improvement Policy and template for a Performance Improvement Plan



# PERFORMANCE IMPROVEMENT QUESTIONS BANK

Some suggested questions for managers to choose from and personalise to help explore reasons behind a performance issue and what we can do about it

## Exploring the issue

Can we talk through how you approached X piece of work?

What is the issue as you see it?

What impact can you imagine this having on others?

How engaged do you feel with your work generally?

How clear are you on the goals, standards and expectations of the role?

How supported do you feel?

How confident do you feel in your ability?

What else is happening that might be having an impact?

## Exploring what we can do about it

How do we move forward from here to get things back on track?

What is the best first step in resolving this?

What support would help you? From who?

What could I do differently to help you be at your best?

What are the next steps we're agreeing then?

Where might you need to grow your skills?

What might get in the way and how will we get past that?

# TIMELY AND REGULAR FEEDBACK AND APPRECIATION

A tool to encourage us to regularly seek feedback on our performance from our manager, colleagues, direct reports and/or customers and to remind us to show timely appreciation to others





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TRANSPARENT**

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**WORK TOGETHER**

We keep connected with our communities and partners and make relationships a priority, working flexibly together to achieve our goals

**If you want to know more about our new performance framework or if you have any questions, please contact your manager.**

We would love to hear your feedback on this framework, email us at [performance2@edinburgh.gov.uk](mailto:performance2@edinburgh.gov.uk)



# Performance Management

**Implementation date: 1 April 2017**

## Control schedule

**Approved by**  
**Approval date**  
**Senior Responsible Officer** Katy Miller  
**Author** Stewart Cassie  
**Scheduled for review**

## Version control

<b>Version</b>	<b>Date</b>	<b>Author</b>	<b>Comment</b>
0.1	15 November 2016	Stewart Cassie	Final draft for Corporate Policy & Strategy Committee

## Committee decisions affecting this policy

<b>Date</b>	<b>Committee</b>	<b>Link to report</b>	<b>Link to minute</b>
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# Performance Management

## Policy statement

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- 1.1 We believe that all our employees want to do the best possible job they can for the Council and the people in our city and that we are all responsible for the work we do and how we do it. As your employer, it is our job to provide you with the right support so we can help you be at your best
- 1.2 Being at your best applies to both **what you do** and **how you do it**. We expect our Council Values to be at the heart of the approach we all bring to our work.
- 1.3 A toolkit is available to support this policy to ensure that it is implemented as intended, with the focus on helping you to do your job to the best of your ability and supporting you to improve when you need help.

## Scope

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- 2.1 The principles of this policy apply to all our colleagues and we expect everyone to approach their work in line with our Values.
- 2.2 We recognise that there are groups of employees who have their own nationally agreed procedures for continuing professional development and managing performance. These remain in place.
- 2.3 However, nothing in those procedures exempts staff and managers from following the key principles outlined in this policy, and all staff are expected to have regular conversations with their managers, as a matter of good practice and to demonstrate the Council's Values as they go about their work.

## Key Principles

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### 3.1 Clear Expectations

We can all expect to have clarity on our role and what's expected of us. From your first weeks with the organisation onwards, you can expect to have an understanding of how your work fits in to the work we do in the city and to have clear goals, standards and measures for the part you play.

### 3.2 Support

We can all expect to be supported to perform at our best. This support includes advice, coaching, training and support for our development on the job. In return, we are all expected to do our very best and participate fully in conversations about our performance.

### 3.3 **Feedback**

We can all expect to get regular feedback on how we are doing. We will all get the chance to have regular, two-way conversations about our performance and development. Your manager will help you seek feedback from others and will regularly review your performance with you.

### 3.4 **Focus on Improvement**

The focus of this policy is on supporting you to do your job in the best way you can and identifying any additional support, tools or adjustments needed where there are any issues meeting the standards required.

### 3.5 **Focus on you**

This policy is designed to look beyond the narrow focus of how you do your job and looks at you as an individual, giving the flexibility to factor in your personal circumstances where they relate to your performance

## **Policy content**

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### 4.1 **Performance Management**

When you join us, your manager will set goals and/or measures for you and set out the wider standards of performance expected, in line with what is required in your area and with the Council's Values. Performance conversations will then happen throughout the year. There will also be a more formal annual conversation between you and your manager. The annual meeting will be your opportunity to review your progress in the year that has just passed and to get clear on the priorities and expectations for the year ahead. The date at which the annual conversation takes place will be determined by the needs of the area where you work. Senior managers will still have their annual conversation in the spring.

During the annual conversation, as well as being clear on what you are aiming to achieve and how you should go about achieving it, you will also discuss any development and support needs you might have. The aim is to ensure that you can give your best possible performance and we absolutely encourage you to ask for the help you need to achieve that. Your work goals and/or measures and your development priorities will be recorded along with the support you need.

Throughout the year, you and your manager will have the opportunity to have regular one-to-one catch-ups. The frequency will depend on what works well for you and your manager. During these conversations, you will be able to discuss progress against your goals and/or measures, your health and wellbeing, any challenges you are encountering, along with support and development needs you might have. You will also be able to share and receive feedback on your performance.

At the end of the performance management cycle, you should arrange the next annual conversation to look back and review your performance for the year and provide an opportunity for reflection, feedback and recognition before planning for the year ahead once again. The 'looking back' part of the annual conversation will build on all the catch-up conversations you have had throughout the year so there should be no surprises. You and your manager will agree a performance rating that reflects what you have accomplished during the year and how you have approached it.

Occasionally you might feel that you are not going to be able to meet the standard of performance for the job or some goals and/or measures that were agreed. If you feel that, you should speak to your manager and let them know why you think you will not achieve what's expected of you and discuss what help you need. Your manager will listen to what you say and will give you the help you need where they can. It is your responsibility to make sure that you ask for help and take responsibility for meeting the necessary standards.

In some cases, your manager might feel that you are not performing to the required standard, in which case they will bring this up as part of normal day-to-day management. Additional support should be discussed as part of everyday performance management. If you feel you need additional support, make sure that you ask for it. Your manager will be supportive in this. They will also be specific about expected improvements.

Managers will always want to understand why you might not be performing as well as expected and will try to understand your point of view, as well as giving you clear and honest feedback. Our aim is always to find out how we can help you achieve the required standards and expectations and to agree a way of resolving any issues and getting back on track. Your manager and yourself will agree how your performance can be improved and how often to meet in order to monitor your improvement until you are back performing at your best.

## **4.2 Performance Improvement**

We understand that under-performance cannot always be improved by everyday performance management and further intervention is sometimes needed. If you have been given help but your manager feels that you are continuing to underperform, then they will set up a meeting with you to put a formal performance improvement plan in place. You can be represented at this meeting by a trade union representative or accompanied by a work colleague.

However, we must stress that being asked to attend a formal meeting about your performance should not come as a surprise to you. Your manager will have been discussing your performance with you throughout the year. Any areas where your performance could improve will have been brought to your attention

before any formal action is considered and your manager will have supported you to try to improve your performance on an informal basis, through normal day-to-day management at the time. We see formal performance improvement as the last stage of a concerted effort to help you achieve the desired level of performance, backed by evidence of the support you've received.

The meeting will be a structured conversation between you and your manager about putting in place a formal plan to resolve the performance issues. Your manager will set out where you have not met the expected standards, with the evidence they've got from the conversations you had through the year. It's important that both you and your manager share feedback on any issues that are affecting your performance and that you discuss the impact they are having on your ability to do your work. It is important that you speak up about any factors impacting on your ability to perform so that your manager can consider any reasonable adjustments or whether your performance would be better dealt with under another Council policy.

By the end of the meeting, your manager will set out the improvement in your performance that they expect to see. They will confirm that this represents a formal warning about your performance. This means that if there is no improvement in your performance, then this could result in your dismissal. Your manager will also tell your head of service that your performance is being managed using a performance improvement plan.

We must emphasise that your manager will want to help you improve your performance and will want you to succeed. Equally, it's important that you see this as an opportunity to show that you can perform well in your job.

#### **4.3 Confirming the Improvement Needed**

After the meeting to discuss the performance improvement plan, your manager will send you a completed performance improvement plan and a letter confirming that you are under performance improvement measures. In this letter, they will confirm that you have 12 working weeks to improve. They will also set out how often you will meet to monitor your improvement and the actions you are expected to take to show your improvement. The letter will also confirm your formal warning and note that if you do not improve your performance, then this could result in your dismissal.

#### **4.4 Reviewing progress**

While your performance is under review, you and your manager will meet regularly to review your progress and, where required, adjust any development support you need to help. We would expect this to be at least weekly, in order for both you and manager to see if your performance is improving and to give feedback on progress made.

#### **4.5 Improvement Achieved**

At the end of the review period, your manager will meet with you to discuss the outcome of the improvement period. You can be represented at this meeting by a trade union representative or accompanied by a work colleague. If you have achieved the improvement needed, then no further action will be taken and everyday performance management will continue. Your written warning will still be live for 9 months. If there is another drop in performance during this period, your manager will meet with you to discuss the situation. If the dip in performance means that further formal performance improvement support is put in place for you, then you will also be given a final written warning.

#### **4.6 No Improvement**

If you have not met the required standard of performance at the end of the improvement period, then your manager will meet with you to discuss the situation. You can be represented at this meeting by a trade union representative or accompanied by a work colleague.

The meeting will be a structured conversation between you and your manager about putting in place a formal plan to resolve the performance issues. Your manager will set out where you have not met the expected standards, with the evidence they've got from the conversations you had through the year. It's important that both you and your manager share feedback on any issues that are affecting your performance and that you discuss the impact they are having on your ability to do your work. It is important that you speak up about any factors impacting on your ability to perform so that your manager can consider any reasonable adjustments or whether your performance would be better dealt with under another Council policy.

By the end of the meeting, your manager will set out the improvement in your performance that they expect to see. You will then be given a final warning and a further 4 working weeks to try to improve your performance levels. This means that if there is no improvement in your performance, then this could result in your dismissal. The warning will be live for one year. Your manager will also tell your head of service that your performance is being managed using a performance improvement plan.

#### **4.7 Final Performance Improvement Meeting**

If you do not reach the standard of performance needed for your job in the final 4 working week period, then your manager will meet with you to confirm this and arrange for a final meeting to be chaired by your head of service (or a senior manager in your area with the authority to dismiss). You can be represented by

a trade union representative or accompanied by a work colleague to both the meeting with your manager and the meeting with your head of service.

At the final performance improvement meeting, the chairperson will review your performance improvement plan, consider the performance level you have been able to achieve, the support you received, your own feedback on what has prevented you achieving the standards required and feedback from your manager. You will be given the opportunity to share your thoughts on the situation.

At the end of the meeting, the chairperson will confirm what action is to be taken. This will be either dismissal, action short of dismissal, redeployment or, in exceptional circumstances, a further period of review of up to 4 working weeks. This will only be considered if you have been able to demonstrate that you can achieve the required standard within that time.

The chairperson will send you a letter confirming the decision.

#### **4.8 Appeals**

If you are dismissed or action short of dismissal is taken, you can appeal that decision by following the standard appeal process, which will be set out in your confirmation letter.

You cannot appeal any other outcome of the final meeting.

### **Implementation**

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- 5.1 To support an effective implementation in line with the principles of this policy, a comprehensive period of development for staff and managers will commence in January 2017, ahead of implementation in April 2017.

### **Roles and responsibilities**

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- 6.1 We will make sure that our approach to performance helps you be at your best at work. We will support your manager, so that they feel confident in providing you with the tools you need to do your job as well as the support and information you need. If you cannot meet the requirements of your job, your line manager will provide you with the support to help you reach the expected standards.
- 6.2 We are all individually responsible for managing our performance and engaging in conversations about it. You are responsible for the quality of your work and for putting in the effort needed to do the job to the standard required. You need to be clear on what it is you are being asked to do at work and what you need to do to achieve your goals and/or measures. You will need to work with your

manager to agree how you are going to achieve your goals and/or measures and when you need to achieve them by. If you need help, tell your manager and make it clear what support you think you need to be able to do your job.

- 6.3 Your manager will make sure that you understand what you are expected to do in your job and that you know how to do it well. They will agree a set of goals and/or measures for you to achieve each year, starting from when you first join the Council. They will give you the support you need to achieve these by having regular conversations with you about your work throughout the year and by providing you with the time and development you need to do the best you can.
- 6.4 Your manager will have received appropriate performance management training to ensure that the performance management framework is adopted and applied consistently and fairly across the organisation.
- 6.5 Your manager's performance will be evaluated each year on how effectively they support their people to perform and how they manage the performance of their area.

## **Related documents**

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- 7.1 This policy forms part of the overall performance framework, a copy of which is attached.

## **Equalities impact**

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- 8.1 For details of the completed Record of Equality and Rights Impact Assessment (ERIA) form, contact the named author of the policy.

## **Sustainability impact**

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- 9.1 It has been assessed that this policy will have no environmental impact.

## **Risk assessment**

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- 10.1 The revised policy is fully compliant with legislative requirements and good employment practice.

## **Review**

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- 11.1 This document is a local collective agreement between the Council and the recognised Trade Unions. We will make every effort to ensure that this policy is maintained as a local collective agreement, with changes made by agreement. If we cannot agree, either party can end the local collective agreement by giving four months notice in writing. In such circumstances, the terms of the local agreement will cease to apply to existing and future employees
- 11.2 We will review this policy regularly to ensure that it continues to support the performance of our colleagues.



# Governance, Risk and Best Value Committee

10.00am, Tuesday 26 September 2017

## Revenue Monitoring 2016/17 – Outturn Report - referral from the Finance and Resources Committee

Item number	7.9
Report number	
Wards	All

### Executive summary

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On 5 September the Finance and Resources Committee considered a report on the provisional 2016/17 revenue outturn position for the Council based on the unaudited financial statements. The report has been referred to the Governance, Risk and Best Value Committee for consideration as part of its work-plan.

# Terms of Referral

## Revenue Monitoring 2016/17 – Outturn Report

### Terms of referral

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- 1.1 The Council's statement of accounts for 2016/17 was passed to the external auditor by the statutory deadline of 30 June 2017. The unaudited financial statements were published on the Council website by 30 June 2017 and made available for public inspection from 3 July 2017 for 15 working days, in accordance with relevant regulations.
- 1.2 For 2016/17, the unaudited outturn position showed an overall underspend of £1.058m, which equated to 0.11% of the Council's total net expenditure.
- 1.3 The Finance and Resources Committee agreed:
  - 1.3.1 To note the contents of the report and the provisional revenue underspend of £1.058 million for the year ended 31 March 2017 and that these monies had been set aside within the Council's Priorities Fund.
  - 1.3.2 To note the contributions in 2016/17 to and from the General Fund as detailed in the report and refer the report to Council for ratification for use of funds.
  - 1.3.3 To note the Housing Revenue Account was balanced after making a contribution of £11.9m to the Renewal and Repairs Fund.
  - 1.3.4 To note that a report on the Common Good Fund was also considered by the Finance and Resourced Committee on 5 September 2017.
  - 1.3.5 To refer the report to the Governance, Risk and Best Value Committee as part of its workplan.
- 1.4 The Committee is also asked to note that any reference in the Executive Director's report to the "Strategic Acquisition Fund" (e.g. paragraph 3.8) should have referred to the "City Strategic Investment Fund".

### For Decision/Action

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- 2.1 The Finance and Resources Committee has referred the report to the City of Edinburgh Council on 21 September 2017 for ratification for use of funds.

## Background reading / external references

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Finance and Resources Committee 5 September 2017.

### **Laurence Rockey**

Head of Strategy and Insight

Contact: Louise Williamson, Assistant Committee Clerk

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## Links

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### **Appendices**

Appendix 1 - report by the Executive Director of Resources

# Finance and Resources Committee

10.00am, Tuesday, 5 September 2017

## Revenue Monitoring 2016/17 – outturn report

Item number  
Report number  
Executive/routine  
Wards

### Executive summary

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The report sets out the provisional 2016/17 revenue outturn position for the Council based on the unaudited financial statements. The statement of accounts shows an overall underspend of £1.058m.

## Revenue Monitoring 2016/17 – outturn report

### 1. Recommendations

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- 1.1 Members of the Finance and Resources Committee are asked to:
  - 1.1.1 note the contents of this report and the provisional revenue underspend of £1.058m for the year ended 31 March 2017 and that these monies have been set aside within the Council Priorities Fund;
  - 1.1.2 note the contributions in 2016/17 to and from the General Fund as detailed in the report and refer to Council for ratification for use of funds;
  - 1.1.3 note the Housing Revenue Account was balanced after making a contribution of £11.9m to the Renewal and Repairs Fund;
  - 1.1.4 note the Common Good Annual Performance Report will be considered elsewhere on the agenda; and
  - 1.1.5 refer this report to the Governance, Risk and Best Value Committee as part of its workplan.

### 2. Background

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- 2.1 The Council's statement of accounts for 2016/17 was passed to the external auditor by the statutory deadline of 30 June. This report sets out the provisional outturn position for the revenue budget as detailed within the unaudited statement.
- 2.2 The unaudited financial statements were published on the Council website by 30 June 2017 and made available for public inspection from 3 July 2017 for 15 working days, in accordance with relevant regulations.

### 3. Main report

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- 3.1 The unaudited outturn position for 2016/17 shows an overall underspend of £1.058m, equating to 0.11% of the Council's total net expenditure. The table below outlines the constituent elements of this variance, with additional details provided in Appendices 1 and 2. Executive Committees will receive outturn commentaries for their areas of responsibility, along with the period 3 monitoring reports.

	<b>Outturn Variance</b>
<b>Service Variance</b>	<b>£000</b>
Communities and Families	(875)
Place	1,708
Resources	(1,166)
Health and Social Care	1,140
Chief Executive	(136)
Safer and Stronger Communities	(124)
<b>Service Variances</b>	<b>547</b>
Additional funding	(1,140)
<b>Total Service Variances</b>	<b>(593)</b>
<b>Corporate Variances</b>	
Early Release Costs	1,610
Net Cost of Benefits	(307)
Other non-service specific costs	482
Interest and investment income	(750)
Loan Charges	(883)
Contribution to Earmarked Funds	3,000
Council Tax / CTRS	(3,617)
<b>Total Corporate Variances</b>	<b>(465)</b>
<b>In-year (surplus)</b>	<b>(1,058)</b>

- 3.2 There was an overspend within service areas of £0.547m. Additional funding of £1.140m was approved to support Health and Social Care at the Finance and Resources Committee on 19 January 2017, resulting in an adjusted service underspend of £0.593m. Within this amount, four of the six main service areas returned underspends against their approved budgets.
- 3.3 The net underspend of £1.058m has initially been set aside within the Council Priorities Fund, for the purposes of closing the 2016/17 accounts. Members are therefore asked to refer set-aside of the underspend within the Council Priorities Fund to Council for approval.
- 3.4 Service variances are outlined in more detail in Appendix 2.

#### **Other variances**

- 3.5 In addition to the service-specific position summarised above, the overall outturn reflected a number of other variances, the main elements of which are summarised below:

##### *Early Release Costs (centrally funded)*

Costs relating to staff early release under the Transformation programme in 2016/17 were met, as planned, through central funding, amounting to £15.610m against a budget of £14m, resulting in an overspend of £1.610m however this

was within the planned overall provision. The costs include those for staff leaving during the financial year and any pre-approved exits even if the leaving date is in a subsequent period, in accordance with IAS 19 and will therefore differ to costs shown in the monthly dashboards reported to this Committee. The costs were funded using the planned budgets, non-service specific surplus incomes and underspends.

The table below summarises voluntary severance and pension strain costs relating to the release of staff as part of the Transformation programme during the year to enable approved savings to be delivered.

<b>Service</b>	<b>Total £000</b>	<b>Number of staff</b>
Communities and Families Place Resources	1,396	72
Chief Executive	1,261	72
Safer and Stronger Communities	1,902	78
Non-service specific	668	24
	998	41
	9,385	62
<b>Sub-Total</b>	<b>15,610</b>	<b>349</b>
Health and Social Care	2,428	116
<b>Total</b>	<b><u>18,038</u></b>	<b><u>465</u></b>
<b>Pension Strain Costs</b>	<b>7,789</b>	

The costs incurred within Health and Social Care were reported as part of the services outturn position, in order to account for all costs within the Edinburgh Integration Joint Board on a consistent basis.

Recurring savings of £38.1m will be realised as a result of these and prior year staffing reductions and the overall payback period of 14 months is in line with planning assumptions.

#### *Council Tax Reduction Scheme*

The majority of funding for this scheme is included within the Local Government Finance Settlement. The entirely demand-led nature of this scheme exposes the Council to risks, however the sums paid out in 2016/17 were £2.951m lower than the level of budgetary provision. The underspend, along with favourable Council Tax income, enabled £3m to be set aside in earmarked reserves, including £2m to address welfare reform-related pressures in 2017/18.

### *Loan Charges*

There was an overall favourable variance of £0.883m, largely attributable to the Council's ongoing strategy not to undertake external borrowing to finance capital investment.

### *Council Tax*

Increased property numbers and lower than budgeted levels of exemptions and discounts contributed to a favourable overall variance of £0.666m.

### **Approved budget savings delivery**

- 3.6 The final outturn position for 2016/17 indicates that 88% of approved savings by value were delivered, with non-delivery primarily as a result of shortfalls in Health and Social Care and a small number of other savings, including Tram advertising income and non-receipt of dividend from EDI Limited. The shortfall in delivery of savings was offset by a variety of one-off mitigating management actions throughout the year, including vacancy management, acceleration of saving proposals and controlling discretionary expenditure.

### **Housing Revenue Account (HRA)**

- 3.7 The HRA achieved a balanced position for 2016/17 after making a contribution of £11.886m to the Renewal and Repairs Fund, which represents sums set aside for the provision of new affordable homes through the 21st Century Homes programme and as a contingency to manage the impact of welfare reform.

### **Reserves**

- 3.8 Details of the opening and closing amounts in the General Fund, including earmarked balances are shown in Appendix 3. The unallocated General Fund balance remained unchanged at £13.025m, while there was a net increase in reserves held for specific purposes by £13.430m. The main elements of this movement were:

#### Net contributions to Reserves

**Council Tax Discount Fund** - £2.64m - monies set aside as a result of reducing Council Tax second home and long-term empty property discounts from 50% to 10% as permitted in statute. Use of the fund is prescribed by the Scottish Government and is restricted to supporting the development of affordable housing. These funds are allocated in the Council's approved house-building plan to deliver at least 16,000 new affordable homes by the Council and its not-for-profit housing association partners over the next ten years.

**Balances set aside for specific investment** - £13.09m – various additional contributions for specific projects received prior to and during 2016/17 that were set aside in year, including for welfare reform, funds for additional works arising from the programme of inspection undertaken in light of the PPP1 schools emergency and the transformational programme, including ICT.



**Council Priorities Fund** – the increase of £2.97m primarily comprised a combination of (i) approved funding of £1.70m to support future priorities and (ii) the additional revenue surplus of £1.058m outlined at paragraph 3.3, together resulting in a year-end balance of £4.102m. The revenue monitoring report elsewhere on today’s agenda proposes use of the 2016/17 underspend in mitigating current-year pressures, with up to £1.127m also previously earmarked to support the further development of the City Region Deal.

#### Contributions from Reserves

**Unspent Grants** – net reduction of £2.88m – the balance represents monies received as income in advance of expenditure that is expected to be incurred in 2017/18.

**Strategic Acquisition Fund** - £1.28m – drawdown of funds in respect of capital investment at Sighthill Industrial Units, as approved by Council on 28 May 2015.

**National Performance Centre for Sport** - £2m – fully drawn down funds set aside to contribute to funding of the Oriam sports complex.

#### **Common Good**

- 3.9 During 2016/17, the Council generated two capital receipts for the Common Good. 6-8 Market Street and land at St James Quarter were sold with a total receipt of £0.225m, which was credited to the Common Good Fund. Further details are included in the report elsewhere on today’s agenda.
- 3.10 In 2015/16, £2m of the Common Good Fund was earmarked to fund a property maintenance programme. To date £0.110m has been utilised to fund Scott Monument lighting works, with the remaining £1.890m being retained for planned property maintenance.

## **4. Measures of success**

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- 4.1 The Council has a statutory duty to set a balanced budget each year and the Financial Regulations further set out the Directors’ responsibilities in maintaining expenditure within approved levels. This has in overall terms been achieved for the tenth successive year and has allowed the level of unallocated reserves to be maintained in accordance with the Council’s reserves strategy whilst also forming a solid basis from which to deliver subsequent years’ savings requirements.

## **5. Financial impact**

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- 5.1 There is no additional financial impact arising from the report’s contents but a range of pressures and the corresponding ways in which they were managed during the year is set out.

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

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- 6.1 Risk-based monitoring, including regular tracking of the delivery of approved savings and active management of risks and pressures, forms a key element of effective financial management. This, in turn, serves as a vital aspect of the Council's wider governance framework.

## 7. Equalities impact

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- 7.1 There are no direct equalities impact implications arising from this report.

## 8. Sustainability impact

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- 8.1 There is no direct relevance of the report's contents to impacts on carbon, adaptation to climate change and sustainable development.

## 9. Consultation and engagement

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- 9.1 There is no direct relevance to the report's contents.

## 10. Background reading/external references

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[Revenue monitoring 2016-17 - month nine position](#) – Finance and Resources Committee, 19 January 2017

[Unaudited annual accounts 2016-17](#) - Report to Council, 29 June 2017

### **Stephen S. Moir**

Executive Director of Resources

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## 11. Appendices

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Appendix 1 - Unaudited outturn statement, 2016/17

Appendix 2 - Service outturn commentaries

Appendix 3 - General Fund – movements in usable reserves

## THE CITY OF EDINBURGH COUNCIL

## UNAUDITED OUTTURN STATEMENT 2016-17

Service	Adjusted Budget £000	Outturn £000	Outturn Variance £000
Communities and Families	342,682	341,807	-875
Place	66,679	68,387	1,708
Resources	132,027	130,861	-1,166
Health and Social Care	186,698	187,838	1,140
Chief Executive	41,438	41,302	-136
Safer and Stronger Communities	25,610	25,486	-124
Lothian Valuation Joint Board	3,744	3,744	0
<b>General Fund Services</b>	<b>798,878</b>	<b>799,425</b>	<b>547</b>
<b>Additional contribution to Health and Social Care</b>	<b>1,140</b>	<b>0</b>	<b>-1,140</b>
<b>General Fund Services</b>	<b>800,018</b>	<b>799,425</b>	<b>-593</b>
<b>Other income and expenditure</b>			
Early Release Costs	14,000	15,610	1,610
Net Cost of Benefits	-62	-369	-307
Other non-service specific costs	14,833	15,315	482
Interest and investment income	-8,802	-9,552	-750
Loan Charges	113,071	112,188	-883
Contribution to Repairs and Renewals	60	60	0
Contribution from Capital Fund	-2,120	-2,120	0
Contribution to Earmarked Funds	6,345	9,345	3,000
Income from council tax	-244,131	-244,797	-666
- Council Tax Reduction Scheme	26,357	23,406	-2,951
Revenue support grant	-344,919	-344,919	0
Distribution from NDRI pool	-374,650	-374,650	0
<b>In-year Surplus</b>	<b>0</b>	<b>-1,058</b>	<b>-1,058</b>

**Communities and Families**

Communities and Families returned an underspend of £0.875m against budget for 2016/17, which represents 0.25% of the net budget.

A number of unfunded budget pressures were managed by Communities and Families during 2016/17, the most significant of which included:

- additional out of council residential care and secure unit provision;
- home to school transport and general transport recharges;
- schools and lifelong learning review, delayed implementation.

Management actions and service underspends related to vacancy control and some service demand reductions in specific areas enabled the service to mitigate these pressures and deliver an underspend of £0.875m.

**Place**

Place returned an overspend against budget of £1.708m, representing 2.6% of the net budget. There were a number of significant pressures primarily in the Environment division amounting to £5.7m, including the closure of Mortonhall Crematorium for a significant part of the financial year. These pressures were partly offset by management actions and underspends in service areas including Transport and Planning and Housing and Regulatory Services and by the use of £1.75m of service reserves, however the loss of income from Mortonhall was unable to be contained.

**Resources**

Resources achieved an underspend of £1.166m for 2016/17, being 0.88% of the service net budget.

The underspend was primarily derived from Property and Facilities Management, through project slippage on the Asset Management Strategy (AMS) project and staff vacancies. Funds have been set aside in reserves to manage the delays in implementing the AMS savings.

The service had small underspends in Customer and HR service areas offset in part by an overspend in Legal, Risk and Compliance.

**Health and Social Care**

Health and Social Care overspent by £1.140m in 2016/17, representing 0.61% of the annual net service budget.

Additional one-off funding of £1.140m was approved by the Finance and Resources Committee in January 2017, to assist with mitigating the overspend. Health and Social Care were able to report an overall balanced budget after application of this funding.

The principal overspends were in employee costs linked to delays in implementation of organisational reviews, and purchasing, particularly demand-led Individual Service Fund and Direct Payments.

**Chief Executive**

The Chief Executive services achieved an underspend of £0.136m in 2016/17, mainly from staffing, which represents 0.33% of the net service annual budget.

**Safer and Stronger Communities**

Safer and Stronger Communities returned an overall underspend of £0.124m, representing 0.48% of its annual net budget.

In-year pressures totalling £4.5m, mainly affecting Community Justice and Homelessness and Housing Support services, were contained through a combination of management actions in both of these areas and acceleration of savings in Regulation and Professional Governance.

**General Fund - movement in usable reserves**

**Appendix 3**

	<b>Balance at 31.3.16</b>		<b>Balance at 31.3.17</b>	
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Unallocated General Fund		13.025		13.025
<u>Balances set aside to manage future risks</u>				
Balances set aside for specific investment	12.565		25.659	
Council Priorities fund	1.129		4.102	
Contingency funding, workforce management	18.075		18.094	
Dilapidations fund	12.094		12.343	
Insurance fund	<u>13.539</u>		<u>14.667</u>	
		57.402		74.865
<u>Balances set aside from income received in advance</u>				
Licensing and registration income	1.393		3.092	
Lothian Buses	5.704		3.795	
Other minor funds	0.240		0.237	
PPP monies	1.729		2.155	
Recycling monies	1.371		1.160	
National Performance Centre for sport	1.996		0.000	
Council Tax discount fund	21.596		24.234	
Unspent grants	5.814		2.934	
Strategic Acquisition Fund	<u>7.458</u>		<u>6.180</u>	
		47.301		43.787
<u>Balances set aside for investment in specific projects which will generate future savings</u>				
IT transformation	3.133		2.047	
Energy efficiency	0.847		0.098	
Salix / Energy efficiency Fund	0.000		1.324	
Spend to save	<u>3.884</u>		<u>3.992</u>	
		7.864		7.461
Devolved School Management		2.804		2.688
<b>Total General Fund</b>		<b><u><u>128.396</u></u></b>		<b><u><u>141.826</u></u></b>

# Governance, Risk and Best Value Committee

10.00am, Tuesday 26 September 2017

## Capital Monitoring 2016/17 - Outturn and Receipts - referral from the Finance and Resources Committee

Item number	7.10
Report number	
Wards	All

### Executive summary

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On 5 September 2017 the Finance and Resources Committee considered a report that presented the final outturn on the Council's Capital Programme for 2016/17 which included details of capital receipts and slippage/acceleration on projects within the Capital Investment Programme. The report has been referred the Governance, Risk and Best Value Committee for consideration as part of its work-plan

# Terms of Referral

## Capital Monitoring 2016/17 – Outturn and Receipts

### Terms of referral

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- 1.1 The final General Fund outturn showed that in 2016/17, the Council required an advance from the Loans Fund of £48.324m. This funded capital investment of £157.977m after receipt of grants of £79.037m and capital income, net of transfer to the Capital Fund, of £30.616m. This position was subject to the external audit process which will be completed in September 2017.
- 1.2 The final Housing Revenue Account (HRA) capital investment programme showed that in 2016/17, the HRA required a prudential borrowing advance from the Loans Fund of £20.365m. This funded capital investment of £43.627m after the receipt of grants of £2.015m and other capital income of £21.247m.
- 1.3 The final outturn position reported £1.745m slippage on gross expenditure on projects, compared to an estimated acceleration of £0.632m at month nine. Net capital receipts and grant income were less than the budgeted level by £6.437m.
- 1.4 The Finance and Resources Committee agreed:
  - 1.4.1 To note the 2016/17 final unaudited capital positions on the General Fund and Housing Revenue Account (HRA).
  - 1.4.2 To approve the revised Capital Investment Programme for 2017-2022.
  - 1.4.3 To refer the report to the Governance, Risk and Best Value Committee as part of its workplan.

### For Decision/Action

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- 2.1 The Finance and Resources Committee has referred the report to the Governance, Risk and Best Value Committee on 26 September 2017 for consideration as part of its work-plan.



## Background reading / external references

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Finance and Resources Committee 5 September 2017.

### **Laurence Rockey**

Head of Strategy and Insight

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## Links

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### **Appendices**

Appendix 1 - report by the Executive Director of Resources

# Finance and Resources Committee

10.00am, Tuesday, 5 September 2017

## Capital Monitoring 2016/17 – Outturn and Receipts

Item number

Report number

Executive/routine

Wards

### Executive summary

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The final General Fund outturn shows that in 2016/17, the Council required an advance from the Loans Fund of £48.324m. This funded capital investment of £157.977m after receipt of grants of £79.037m and capital income, net of transfer to the Capital Fund, of £30.616m. This position is subject to the external audit process which will be completed in September 2017.

The current approved Capital Investment Programme (CIP) 2017-2022 projects an approximately balanced over/under programming position over the five-year period.

The final Housing Revenue Account (HRA) capital investment programme shows that in 2016/17, the HRA required a prudential borrowing advance from the Loans Fund of £20.365m. This funded capital investment of £43.627m after the receipt of grants of £2.015m and other capital income of £21.247m.

### Links

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Coalition pledges

Council outcomes

Single Outcome Agreement

## Capital Monitoring 2016/17 – Outturn and Receipts

### 1. Recommendations

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- 1.1 Members of the Finance and Resources Committee are requested to:
- 1.1.1 Note the 2016/17 final unaudited capital positions on the General Fund and Housing Revenue Account (HRA);
  - 1.1.2 Approve the revised Capital Investment Programme for 2017-2022; and
  - 1.1.3 Refer the report to the Governance, Risk and Best Value Committee as part of its work-plan.

### 2. Background

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- 2.1 This report presents the final outturn on the Council's Capital Programme for 2016/17, including details of capital receipts and slippage / acceleration on projects within the Capital Investment Programme.

### 3. Main report

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- 3.1 The outturn position is detailed in Appendix 1 and summarised in the table below.

	<b>Final Outturn Variance</b>	<b>Outturn Variance at Month Nine</b>	<b>Movement from Month Nine</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
Net (slippage) / acceleration in gross expenditure	(1,745)	632	(2,377)
Net (surplus) / deficit in capital receipts and grant income	6,437	10,167	(3,730)
Net (slippage) / acceleration in Capital receipts income transferred to Capital Fund	(5,159)	(5,559)	400
<b>Net increase / (decrease) in borrowing requirement</b>	<b>(467)</b>	<b>5,240</b>	<b>(5,707)</b>

- 3.2 As presented in the table at 3.1 above, the final outturn reports £1.745m slippage on gross expenditure on projects, compared to an estimated acceleration of £0.632m at month nine. Net capital receipts and grant income were less than the budgeted level by £6.437m.
- 3.3 As reported at month nine, the receipt from the sale of King's Stables Road has slipped into 2017/18 and the budgeted transfer of £5.559m to the Capital Fund has also been included in the revised Capital Investment Programme for 2017/18.
- 3.4 Committee agreed on 3 November 2016 and 23 March 2017 to transfer several sites held on the General Fund to the HRA for housing development. At the end of 2016/17, land at the former Dumbryden Primary School and first tranche of sites were transferred from the General Fund to the HRA in 2016/17 and the revenue generating non-Housing assets were transferred from the HRA to the General Fund. The reduction in capital receipts is mitigated by the resultant debt transfer of £3.522m between the two funds.
- 3.5 The net effect of the variances presented in table 3.1 above, is a decrease of £0.467m in the amount that the Council requires to borrow corporately to support its capital programme relative to budget assumptions.
- 3.6 Explanations for significant slippage and accelerations in year are included in Appendix 2. Where applicable, variances on individual projects have been categorised and summarised to provide further analysis of the net slippage position.
- 3.7 The 2016/17 budget was realigned in respect of the changes in the delivery expectations of projects reported at the month 9 position and the impact included in the Capital Investment Programme 2017-2022 approved by Council in February 2017.
- 3.8 The slippage position is, in the main, a result of the procurement approach being altered on the early years' improvement project, delays in the delivery of the replacement Boroughmuir High School and delays around securing traffic management for road asset management projects. The slippage in spend against budget of the Water of Leith Phase 2 project is now expected to result in an underspend on the final delivery of the project which is reported within the three-month report elsewhere on this agenda.
- 3.9 Slippage on the above projects was largely offset by an acceleration in the Asset Management Works programme by £6.424m.
- 3.10 The net slippage on gross expenditure represents a 1.09% variance against the revised budget which has decreased compared to a 6.59% variance in the 2015/16 outturn position. This low budget variance demonstrates the continuing success of the centralised capital monitoring team in tackling optimism bias within the programme along with promoting delivery.

- 3.11 Members should note that in any given year, variance against budget will occur due to delays or unforeseen circumstances outwith the control of the Council. The impact of this type of slippage has been minimised this year due to acceleration or better than anticipated progress elsewhere in this programme. However, the ability to minimise in future years is dependent on how 'shovel-ready' projects are to allow for acceleration in any given year.
- 3.12 The General Fund outturn shows that, in 2016/17, the Council required to draw down advances from the Loans Fund of £48.324m. This position is subject to the external audit process which will be completed in September 2017.

#### **Capital receipts/grant income**

- 3.13 A detailed list of capital receipts, including those ring-fenced for specific projects is shown in Appendix 3.
- 3.14 A total of £12.362m receipts income was generated from asset sales in 2016/17 compared to a budget of £24.579m. This deficit reflects receipts which are now expected to settle later than originally expected and the transfer to the HRA of General Fund sites. Members should however note that the transfer of the sites to the HRA generated a debt transfer and as such reduced the overall capital financing requirement of the General Fund.

#### **Housing Revenue Account (HRA)**

- 3.15 As can be seen in Appendix 4, the HRA outturn position reports gross expenditure of £43.627m compared to projected expenditure of £39.808m at month nine.
- 3.16 The slippage in the programme reported at month nine was largely as the result of a below average uptake from tenants in the kitchen and bathrooms programme. The heating replacement programme was accelerated in line with the agreed strategy to reduce the overall underspend.
- 3.17 Capital receipts and grant income of £23.262m were received, which is £1.988m in excess of the budget of £21.274m (£24.119m forecast at month nine). The acceleration of HRA capital receipts is mainly due to a spike in Council house sales prior to the abolition of Right to Buy in August 2016.
- 3.18 The HRA required a prudential borrowing advance from the Loans Fund of £20.365m. This borrowing funded capital investment of £43.627m after the receipt of grants of £2.015m and other capital income of £21.247m.
- 3.19 In addition, the General Fund transferred debt to the HRA of £3.522m in respect of the difference in the net value of sites between the Funds noted in 3.4 above.

### **Revised Capital Investment Programme 2017-2022**

- 3.20 The Capital Investment Programme (CIP) approved by Council in February 2017 was based on an interim budget which included net slippage and acceleration at month nine.
- 3.21 The remainder of slippage and acceleration since the month nine position has been carried forward in the capital programme. The revised CIP for 2017-2022, including actual net slippage from 2016/17 is shown in Appendix 5.
- 3.22 The CIP has been realigned and re-phased to ensure that individual project cash flows reflect the most up to date projections. The centralised capital monitoring team within Finance has worked closely with project managers to ensure that optimism bias has been avoided where possible. Project managers have been asked to consider risk issues such as adverse weather or other uncontrollable factors that can impact on delivery and to build this into budgeted cash flows.
- 3.23 Where block budgets exist, project managers have been asked to phase budgets according to the stage of individual projects within the block.

### **Capital Budget Framework 2017-2022 update**

- 3.24 Council approved the five-year capital programme for the period 2017-2022 in February 2017. At a general level, the ability to commit additional investment over and above that included in the current programme remains difficult due to:
- Reductions in the level of General Capital Grant;
  - The large number of capital receipts underpinning the existing capital programme or earmarked to supplement planned repairs and maintenance through use of the Capital Fund and providing funding towards future LDP Infrastructure requirements;
  - The on-going lack of sustainable “headroom” within the revenue budget to support, on a recurring basis, the additional loans charge expenditure linked to additional borrowing.
- 3.25 As part of the 2017-2022 CIP, Executive Directors identified their respective top three priorities, highlighting unfunded pressures totalling around £126m.
- 3.26 The Scottish Government announced one-off additional General Capital grant of £9.208m and Council approved the addition of the following new projects to the programme utilising a package of this additional grant, unallocated funding from future years and the Capital Fund:
- |                                      |          |
|--------------------------------------|----------|
| • North Bridge Major Refurbishment   | £12.000m |
| • New South Edinburgh Primary School | £12.737m |
| • Meadowbank Sports Centre           | £ 7.900m |
| • Dumbryden Care Home                | £ 1.597m |
| • Rising School Rolls                | £ 7.774m |

- Parks and Green Space £ 0.850m
- Open Libraries solution £ 0.350m

- 3.27 The level of General Capital Grant funding in 2017/18 at £53.708m is an increase from the 2016/17 level of £41.6m.
- 3.28 As no firm allocations have been advised by the Scottish Government beyond this, an estimate of each year's General Capital Grant Settlement has been factored in for the periods 2018/19 to 2021/22 base on a prudent estimate of the possible Scotland-wide funding and adjusting for a deferred £10.264m allocation from 2016/17 which is assumed to be received in 2019/20.
- 3.29 Current indications suggest that the next Scottish Government Finance Settlement will be announced in late November or early December 2017.
- 3.30 Any confirmed changes in grant funding will be considered by Members, taking cognisance of capital priorities as part of the 2018/19 budget framework process.

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

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- 4.1 Completion of capital projects as budgeted for in the revised 2017/18 capital programme.
- 4.2 Identifying slippage at the earliest opportunity and accelerating projects where possible to ensure best use of available resources.

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

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- 5.1 The final General Fund outturn shows that in 2016/17, the Council required an advance from the Loans Fund of £48.324m which funded capital investment of £157.977m after receipt of capital income and grants of £109.653m. This level of borrowing was £0.467m less than budgeted.
- 5.2 The final HRA capital outturn shows that in 2016/17, the HRA required prudential borrowing of £20.365m which funded capital investment of £43.627m after receipt of capital income and grants of £23.262m. This level of borrowing was £2.665m less than budgeted.

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

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- 6.1 Significant budget virements have complied with relevant financial rules and regulations.
- 6.2 Capital monitoring and budget setting processes adopted ensure effective stewardship of resources. The processes applied aim to ensure projects are

delivered on time and budget whilst fulfilling the financial criteria of value for money.

6.3 Monitoring of major capital projects including risk assessment is carried out by the Council's Strategy and Insight service.

6.4 The nature of capital projects means that there is an inherent risk of delays or unforeseen circumstances outwith the control of the Council.

## **7. Equalities impact**

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7.1 The Council's capital expenditure contributes to the delivery of the public sector equality duty to advance equality of opportunity and foster good relations e.g. enhancement works related to the Disability Discrimination Act, works on Communities and Families establishments and capital expenditure on Council housing stock.

## **8. Sustainability impact**

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8.1 The impacts of the projects set out within the appendices of this report in relation to the three elements of the Climate Change (Scotland) Act 2009 Public Bodies Duties have been considered, and the outcomes are summarised below. Relevant Council sustainable development policies have been taken into account.

8.2 The proposals in this report will help achieve a sustainable Edinburgh because they are ensuring funding for key strategic projects that will enhance facilities and infrastructure in the city. A carbon impact assessment shall be carried out on each new project to achieve the most sustainable outcome for the city in each case.

8.3 The proposals in this report will increase the city's resilience to climate change impacts because they are securing funding for flood prevention projects.

## **9. Consultation and engagement**

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9.1 Consultation on the capital budget will be undertaken as part of the budget process.

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

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[Capital investment programme-plan 2017-18 to 2025-26 - referral from the Finance and Resources Committee](#), The City of Edinburgh Council, 9 February 2017



[Capital Monitoring 2016/17 - Nine Month Position](#), Finance and Resources Committee, 19 January 2017

## **Stephen S. Moir**

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## **11. Appendices**

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Appendix 1 – Capital Monitoring 2016/17 – Final Position – General Fund

Appendix 2 – Slippage and Acceleration on Capital Projects 2016/17

Appendix 3 – Capital Receipts Schedule 2016/17

Appendix 4 – Capital Monitoring 2017/18 – Final Position – HRA

Appendix 5 – Revised Capital Investment Programme 2017-2022

## Capital Monitoring 2016/17

### General Fund Summary

#### Outturn Position - Unaudited

Expenditure	Revised Budget	Adjusts	Total Budget	Outturn 16/17	Variance	
	£000	£000	£000	£000	£000	%
Communities and Families	45,781	523	46,304	41,816	(4,488)	-9.69%
Resources - Asset Management Works	10,936	1,548	12,484	18,908	6,424	51.46%
Edinburgh IJB	4,167	330	4,497	4,527	30	0.67%
Place	83,759	11,840	95,599	90,704	(4,895)	-5.12%
Chief Executive	15,789	(14,951)	838	838	-	0.00%
Council Wide / Corporate Projects	-	-	-	1,184	1,184	
General slippage across programme	-	-	-	-	-	
<b>Total Gross Expenditure</b>	<b>160,432</b>	<b>(710)</b>	<b>159,722</b>	<b>157,977</b>	<b>(1,745)</b>	<b>-1.09%</b>

#### Capital Income

<i>Capital Receipts</i>						
General Services	19,634	-	19,634	12,148	(7,486)	-38.13%
Less General asset sales for property rationalisation savings	-	-	-	-	-	
Capital Receipts in lieu of prudential borrowing	-	-	-	-	-	
Ringfenced Asset Sales	4,895	50	4,945	214	(4,731)	-95.67%
Ringfenced Asset Sales to be provided as part of carry forward	-	-	-	-	-	
Less additional receipt income to capital fund	(5,559)	-	(5,559)	(400)	5,159	-92.80%
Less Fees Relating to Receipts	-	-	-	-	-	n/a
Asset Sales to reduce Corporate borrowing	-	-	-	-	-	n/a
Less Fees Relating to Receipts	-	-	-	(126)	(126)	
<i>Total Capital Receipts from Asset Sales</i>	<i>18,970</i>	<i>50</i>	<i>19,020</i>	<i>11,836</i>	<i>(7,184)</i>	<i>-37.77%</i>
Developer and other Contributions	7,468	3,501	10,969	16,875	5,906	0.00%
Capital Grants Unapplied Account drawdown	808	1,097	1,905	1,905	0	0.00%
<b>Total Capital Receipts</b>	<b>27,246</b>	<b>4,648</b>	<b>31,894</b>	<b>30,616</b>	<b>(1,278)</b>	<b>-4.01%</b>
<i>Grants</i>						
Scottish Government General Capital Grant	41,626	-	41,626	41,626	-	0.00%
Cycling, Walking and Safer Streets	540	-	540	540	-	0.00%
Management Development Funding	29,248	7,623	36,871	36,871	-	0.00%
<b>Total Grants</b>	<b>71,414</b>	<b>7,623</b>	<b>79,037</b>	<b>79,037</b>	<b>-</b>	<b>0.00%</b>
<b>Total Capital Income</b>	<b>98,660</b>	<b>12,271</b>	<b>110,931</b>	<b>109,653</b>	<b>(1,278)</b>	<b>-1.15%</b>

<b>Balance to be funded through borrowing</b>	<b>61,772</b>	<b>(12,981)</b>	<b>48,791</b>	<b>48,324</b>	<b>(467)</b>	<b>-0.96%</b>
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**CAPITAL MONITORING 2016/2017 - Outturn  
Slippage and Acceleration on Projects**

Slippage on projects is shown as a negative value, while acceleration or overspends are shown as positive values.

**Key to variance category**

<i>Type</i>	<i>Explanation</i>
1. Slippage due to unforeseen delays	Slippage that has occurred due to unforeseen circumstances or delays that for the most part, are out with the Council's control.
2. Slippage due to optimistic budget	Slippage that has occurred due to optimism bias when budget was set. Issues include projecting spend on block budgets when a programme of works has not been considered or designed, not applying a discount factor for adverse weather / risk issues, providing for too much contingency and predicting an optimistic works timetable.
3. Slippage due to timing of payments	Slippage that has occurred where a project is on time and schedule but is as a result of the timing of cash flows.
4. Acceleration on a project	Represents accelerated spend on a project i.e. due to better than anticipated progress.

Note that a project will exhibit an element of all of the above but the overriding reason has been considered when applying a variance category.

	<b>Outturn £000</b>	<b>Period 9 £000</b>	<b>Movement between periods £000</b>	<b>Explanations for Significant Slippage / Acceleration</b>	<b>Variance Category</b>
<b><u>Communities and Families</u></b>					
Early learning and childcare estate improvements	-3,279	-1,223	-2,056	Due to tender submission stage taking longer than originally envisaged.	2
Duncan Place improvement	-284	-212	-72	Delay in contract start due to requirement for value engineering exercise to bring project in line with available budget.	1
Boroughmuir High School	-1,686	-4,302	2,616	Delay in starting contract due to issues with concrete levels	1
James Gillespie's HS	-453	0	-453	Remaining budget available to fund future Wave 3 projects	2
Rising School Rolls	45	327	-282	Furniture, fixture and equipment for Rising school rolls 4 programme will require to be funded from future years budgets	4
Portobello High School	200	879	-679	Settlement of final account made in 2016-2017 and not 2017-2018 as originally envisaged	4
St John's Primary School	350	228	122	External fees for producing stage 1 report incurred in 2016-2017 rather 2017-2018 as originally envisaged	4
Meadowbank New sports Centre	353	0	353	Initial fees to be offset against future year budgets	4
Fees relating to the cost of sale of assets	85	83	2	Acceleration of spend to be met from future receipts.	4
Net (slippage) / acceleration on various projects	181	6	175		4
<b>Total Communities and Families</b>	<b><u>-4,488</u></b>	<b><u>-4,214</u></b>	<b><u>-274</u></b>		
<b><u>Resources - Asset Management Works</u></b>					
Acceleration across the Asset Management Works programme	6,424	4,907	1,517	This represents better than anticipated progress on projects and acceleration of future projects across the asset management works programme.	4
<b>Total Resources - Asset Management Works</b>	<b><u>6,424</u></b>	<b><u>4,907</u></b>	<b><u>1,517</u></b>		

	Outturn £000	Period 9 £000	Movement between periods £000	Explanations for Significant Slippage / Acceleration	Variance Category
<b><u>Edinburgh Integrated Joint Board</u></b>					
Net (slippage) / acceleration on various projects	30	44	-14		4
<b>Total Edinburgh Integrated Joint Board</b>	<b>30</b>	<b>44</b>	<b>-14</b>		
<b><u>Place</u></b>					
Depot Review	0	1,800	-1,800	Budget phasing was realigned in approved CIP in Jan 17	4
Calton Hill redevelopment	-61	629	-690	Acceleration of Council contribution to facilitate the cashflow of the project	3
Fleet Vehicle Purchase	0	-751	751	Budget phasing was realigned in approved CIP in Jan 17	3
Road Asset Management	-2,713	-661	-2,052	Two carriageway schemes postponed due to gas works and delays around ensuring traffic management in projects in the same local vicinity and issues around progressing works in areas where utility providers are carrying out infrastructure investment	1
Street Lighting and Traffic Signals	-165	-638	473	Transformation process resulted in loss of staff to deliver the programme. Delays anticipated at Period 9 were largely caught up.	1
Rose Street - Public Realm	0	-282	282	Budget phasing was realigned in approved CIP in Jan 17	4
Leith Walk Constitution Street	0	-236	236	Budget phasing was realigned in approved CIP in Jan 17	4
Water of Leith - Phase 2	-1,855	0	-1,855	Projected underspend on the project noted in the main report	2
Net (slippage) / acceleration on various projects	-101	34	-135		2
<b>Total Place</b>	<b>-4,895</b>	<b>-105</b>	<b>-4,790</b>		
<b><u>Council Wide / Corporate Projects</u></b>					
EICC	816	0	816	Residual expenditure from the sale of the Atria in March 2016 which were met from the receipt received	4
Wi-Fi Voucher scheme	368	0	368	Scottish Government funded scheme, offset by income	4
<b>Total Council Wide / Corporate Projects</b>	<b>1,184</b>	<b>0</b>	<b>1,184</b>		
<b>Total for all Services</b>	<b>-1,745</b>	<b>632</b>	<b>-2,377</b>		
<b>Summary of Variance Category</b>					
1	Slippage due to unforeseen delays	-4,848	-5,813	965	
2	Slippage due to optimistic budget	-5,688	-1,189	-4,499	
3	Slippage due to timing of payments	-61	-122	61	
4	Acceleration on a project	8,852	7,756	1,096	
		<b>-1,745</b>	<b>632</b>	<b>-2,377</b>	

**CAPITAL MONITORING 2016/17****General Fund - Land and Property Asset Sales**

<b>Asset sales</b>	<b>£000</b>	<b>£000</b>
6-8 Market Street	542	
38 (1F1) Cockburn Street	165	
Oxgangs Path	690	
Slateford Rd	26	
South Gyle Wynd, former St Aug/Forrester HS - 3rd stage payment	3,530	
11 Loaning Road	79	
Site C, Potterrow	2,300	
Land at St James	719	
22 McLeod St - final of two stage payment	199	
63 Pennywell Road	122	
Cowgate/Victoria St	3,475	
Land at Newcraighall	175	
Containerisation Sales	141	
Various vehicle sales	81	
Various minor land disposals	118	
	<hr/>	
<b>Total Land and Property Asset Sales</b>		<hr/> <hr/> 12,362

**CAPITAL MONITORING 2016/17**

**Housing Revenue Account Summary**

**Outturn Position - Unaudited**

	Revised Budget £000	Outturn £000	Variance	
			£000	%
Gross Expenditure	44,304	43,627	-677	-1.53%
Total Gross Expenditure	44,304	43,627	-677	-1.53%

<b>Capital Income</b>				
Capital Receipts	-4,153	-15,560	-11,407	274.67%
Developer and Other Contributions	-11,847	-5,687	6,160	-52.00%
Specific Capital Grant	-5,274	-2,015	3,259	-61.79%
Total Capital Income	-21,274	-23,262	3,259	-15.32%

<b>Borrowing</b>				
Borrowing	23,030	20,365	-2,665	-11.57%
Total Borrowing	23,030	20,365	-2,665	-11.57%

**REVISED  
CAPITAL INVESTMENT  
PROGRAMME 2017-2022**  
(Incorporating full-year slippage from 2016/17)

**REVISED CAPITAL INVESTMENT PROGRAMME 2017-2022****SUMMARY OF EXPENDITURE AND FUNDING - GENERAL SERVICES**

2017-2022	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	Total £000
<b>Expenditure</b>	<b>153,346</b>	<b>124,985</b>	<b>121,360</b>	<b>101,762</b>	<b>41,000</b>	<b>542,453</b>
<b>Funding</b>						
<b>Capital receipts</b>						
General asset sales	18,936	1,038	6,318	3,000	3,000	32,292
Less additional receipt income tfr to capital fund	(5,559)	-	-	-	-	(5,559)
Asset sales to reduce corporate borrowing	1,890	-	-	-	-	1,890
Ring-fenced asset sales	3,470	8,395	3,000	-	-	14,865
Capital Fund drawdown	-	15,439	4,561	-	-	20,000
Developers and other contributions	745	40	585	-	-	1,370
Capital Grants Unapplied account	9	-	-	-	-	9
Total receipts	19,491	24,912	14,464	3,000	3,000	64,867
<b>Grants</b>						
Specific Capital Grant	34,962	-	-	-	-	34,962
General Capital Grant	53,708	44,500	48,264	38,000	38,000	222,472
Total Grants	88,670	44,500	48,264	38,000	38,000	257,434
<b>Borrowing</b>						
Support brought forward	17,515	-	-	-	-	17,515
Prudential framework						
- Through council tax	-	-	-	-	-	-
- Departmentally supported	21,889	63,278	51,468	60,762	-	197,397
Total borrowing	39,404	63,278	51,468	60,762	-	214,912
Over / (under)-programming	5,781	(7,705)	7,164	-	-	5,240
<b>Total Funding</b>	<b>153,346</b>	<b>124,985</b>	<b>121,360</b>	<b>101,762</b>	<b>41,000</b>	<b>542,453</b>

Grant funding from 2018/19 onwards is based on prudent estimates



**REVISED CAPITAL INVESTMENT PROGRAMME 2017-2022**

<b><u>SUMMARY OF EXPENDITURE</u></b>	<b>Revised Budget 2017/18</b>	<b>Revised Budget 2018/19</b>	<b>Revised Budget 2019/20</b>	<b>Revised Budget 2020/21</b>	<b>Revised Budget 2021/22</b>	<b>Total Budget 2017- 2022</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>General Services</b>						
Communities and Families	36,118	28,895	17,850	2,485	165	<b>85,513</b>
Edinburgh Integration Joint Board	302	2,069	1,528	-	-	<b>3,899</b>
Place	90,571	86,315	76,622	85,277	19,835	<b>358,620</b>
Resources - Other	15,470	-	-	-	-	<b>15,470</b>
Resources - Asset Management Works						
- Communities and Families	8,138	4,917	6,616	-	-	<b>19,671</b>
- Edinburgh Integration Joint Board	97	-	25	-	-	<b>122</b>
- Place	1,618	1,295	265	-	-	<b>3,178</b>
- Resources - Corporate Property	1,032	1,494	1,596	-	-	<b>4,122</b>
- Not yet allocated to projects	-	-	16,858	14,000	14,000	<b>44,858</b>
Unallocated - indicative 5 year plan	-	-	-	-	7,000	<b>7,000</b>
<b>Total General Services</b>	<b>153,346</b>	<b>124,985</b>	<b>121,360</b>	<b>101,762</b>	<b>41,000</b>	<b>542,453</b>

## REVISED CAPITAL INVESTMENT PROGRAMME 2017-2022

<b><u>COMMUNITIES AND FAMILIES</u></b>	<b>Revised Budget 2017/18</b>	<b>Revised Budget 2018-19</b>	<b>Revised Budget 2019-20</b>	<b>Revised Budget 2020-21</b>	<b>Revised Budget 2021-22</b>	<b>Total Budget 2017-2022</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Early years</b>						
Early learning and childcare	-	-	-	-	-	-
Longstone PS nursery	803	50	-	-	-	853
Granton early years Centre	1,390	70	-	-	-	1,460
Davidson's Mains PS nursery	1,161	53	-	-	-	1,214
Corstorphine PS nursery	597	45	-	-	-	642
Ferryhill PS Nursery	966	50	-	-	-	1,016
Tynecastle PS Nursery	689	-	-	-	-	689
Blackhall NS	15	-	-	-	-	15
Early years contingency	5,095	-	-	-	-	5,095
Fox Covert nursery	4	-	-	-	-	4
<b>Early years total</b>	<b>10,720</b>	<b>268</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>10,988</b>
<b>Primary schools</b>						
Upgrade kitchens - free school meals initiative	44	-	-	-	-	44
Cramond PS FSM Kitchen	31	-	-	-	-	31
East Craigs PS FSM Kitchen	26	-	-	-	-	26
Sciennes PS FSM Kitchen	28	-	-	-	-	28
Towerbank PS FSM Kitchen	18	-	-	-	-	18
Waterfront	19	-	-	-	-	19
New South Edinburgh Primary	530	1,274	8,613	2,320	-	12,737
<b>Primary schools total</b>	<b>696</b>	<b>1,274</b>	<b>8,613</b>	<b>2,320</b>	<b>-</b>	<b>12,903</b>
<b>Secondary schools</b>						
Liberton high school replacement gym	69	-	-	-	-	69
Replacement Queensferry high school	400	5,184	-	-	-	5,584
New high school for Craigmillar	618	-	-	-	-	618
<b>Secondary schools total</b>	<b>1,087</b>	<b>5,184</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>6,271</b>
<b>Community centres</b>						
Duncan Place	1,511	45	-	-	-	1,556
<b>Community centres total</b>	<b>1,511</b>	<b>45</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,556</b>
<b>Children's services</b>						
Heather Vale Young person Centre	53	-	-	-	-	53
Oxgangs New YPC	91	200	-	-	-	291
<b>Children's services total</b>	<b>144</b>	<b>200</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>344</b>
<b>Other projects</b>						
Gaelic PS Playground	25	-	-	-	-	25
Kirkliston primary school - development works	238	40	-	-	-	278
WHHLC underpass	1	-	-	-	-	1
<b>Other projects total</b>	<b>264</b>	<b>40</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>304</b>
<b>Capital investment new Nurseries and Gym</b>						
Blackhall new gym	1	-	-	-	-	1
Duddingston nursery	1	-	-	-	-	1
Wardie nursery	1	-	-	-	-	1
<b>Capital investment new Nurseries and Gym Total</b>	<b>3</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3</b>
<b>Rising School Rolls</b>						
Rising school rolls general	-	-	1,206	-	-	1,206
Wardie PS RSR3	13	-	-	-	-	13
Gilmerton PS RSR	9	-	-	-	-	9

<b>COMMUNITIES AND FAMILIES</b>	<b>Revised Budget 2017/18</b>	<b>Revised Budget 2018-19</b>	<b>Revised Budget 2019-20</b>	<b>Revised Budget 2020-21</b>	<b>Revised Budget 2021-22</b>	<b>Total Budget 2017-2022</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
James Gillespies PS RSR3	21	-	-	-	-	21
Pentland PS RSR	9	-	-	-	-	9
Ratho PS RSR	30	-	-	-	-	30
Clermiston PS RSR	9	-	-	-	-	9
East Craigs PS RSR 4	7	-	-	-	-	7
Ferryhill PS RSR 4	80	-	-	-	-	80
Fox Covert PS RSR 4	7	-	-	-	-	7
St Mary's RC PS RSR 4	16	-	-	-	-	16
Roseburn PS RSR4	50	-	-	-	-	50
Liberton PS RSR5	1,411	-	-	-	-	1,411
Corstorphine HS RSR5	454	-	-	-	-	454
Bruntsfield PS RSR5	54	-	-	-	-	54
Rising School Rolls Phase 5 Gen	350	7,513	-	-	-	7,863
<b>Rising School Rolls Total</b>	<b>2,520</b>	<b>7,513</b>	<b>1,206</b>	<b>-</b>	<b>-</b>	<b>11,239</b>
<b>Wave three school projects</b>						
Boroughmuir high school replacement	5,671	1,400	-	-	-	7,071
James Gillespies campus	52	-	-	-	-	52
Portobello high school replacement	1,159	-	-	-	-	1,159
St Crispin's special school replacement	1,097	107	5,167	-	-	6,371
St John's new wave 3 School	6,000	5,806	171	-	-	11,977
New park former Portobello HS	-	1,000	-	-	-	1,000
Wave three inflation contingency	-	2,913	-	-	-	2,913
<b>Wave three school projects total</b>	<b>13,979</b>	<b>11,226</b>	<b>5,338</b>	<b>-</b>	<b>-</b>	<b>30,543</b>
<b>Libraries</b>						
Library Capital	350	-	-	-	-	350
Peoples Network	40	-	-	-	-	40
Self service terminals	16	-	-	-	-	16
Drum Brae Library	6	-	-	-	-	6
George IV Bridge Library-enhancement works	365	-	-	-	-	365
<b>Libraries total</b>	<b>777</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>777</b>
<b>Sports</b>						
Queensferry Recreation project	8	-	-	-	-	8
Edinburgh Leisure	165	165	165	165	165	825
Meggetland 3G Pitch	13	-	-	-	-	13
New Meadowbank Sports Centre	2,039	2,980	2,528	-	-	7,547
Hunter Hall cycle hub and pitch	1,067	-	-	-	-	1,067
<b>Sports total</b>	<b>3,292</b>	<b>3,145</b>	<b>2,693</b>	<b>165</b>	<b>165</b>	<b>9,460</b>
<b>Community safety</b>						
CCTV Capital	1,125	-	-	-	-	1,125
<b>Community safety total</b>	<b>1,125</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,125</b>
<b>Total Communities and Families</b>	<b>36,118</b>	<b>28,895</b>	<b>17,850</b>	<b>2,485</b>	<b>165</b>	<b>85,513</b>

**REVISED CAPITAL INVESTMENT PROGRAMME 2017-2022**

<b>EDINBURGH INTEGRATION JOINT BOARD</b>	<b>Revised Budget 2017/18</b>	<b>Revised Budget 2018-19</b>	<b>Revised Budget 2019-20</b>	<b>Revised Budget 2020-21</b>	<b>Revised Budget 2021-22</b>	<b>Total Budget 2017-2022</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Care homes</b>						
New care home - Drumbrae	-	2,069	1,528	-	-	3,597
Royston care Home	278	-	-	-	-	278
<b>Care homes total</b>	<b>278</b>	<b>2,069</b>	<b>1,528</b>	<b>-</b>	<b>-</b>	<b>3,875</b>
<b>Other projects</b>						
Oxgangs day centre	18	-	-	-	-	18
Ravenglass Hostel	(65)	-	-	-	-	(65)
Specialist HOP Equipment	-	-	-	-	-	-
Telecare	63	-	-	-	-	63
Wester Hailes Living Centre Underpass	8	-	-	-	-	8
<b>Other projects total</b>	<b>24</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>24</b>
<b>Total Edinburgh Integration Joint Board</b>	<b>302</b>	<b>2,069</b>	<b>1,528</b>	<b>-</b>	<b>-</b>	<b>3,899</b>

## REVISED CAPITAL INVESTMENT PROGRAMME 2017-2022

<u>PLACE</u>	Revised Budget 2017/18	Revised Budget 2018-19	Revised Budget 2019-20	Revised Budget 2020-21	Revised Budget 2021-22	Total Budget 2017-2022
	£000	£000	£000	£000	£000	£000
<b>Environment</b>						
<u>Waste services</u>						
Containers - household waste	(151)	-	-	-	-	(151)
Zero Waste: Millerhill - Capital contribution	-	-	28,000	-	-	28,000
<b>Waste services total</b>	<b>(151)</b>	<b>-</b>	<b>28,000</b>	<b>-</b>	<b>-</b>	<b>27,849</b>
<u>Parks and green spaces</u>						
HLF - Saughton Park	1,317	-	-	-	-	1,317
Severe Weather Projects	10	-	-	-	-	10
Parks - Cammo	679	-	-	-	-	679
Parks - General Budget	3	-	-	-	-	3
Waterfront Green Space	230	-	-	-	-	230
Salvesen Steps	620	-	-	-	-	620
Fair A Far Weir	435	-	-	-	-	435
Niddrieburn Footbridge	113	-	-	-	-	113
<b>Parks and green spaces total</b>	<b>3,407</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,407</b>
<u>Depot review</u>						
The Causey project	30	-	-	-	-	30
Bankhead depot	5,000	-	10,600	-	-	15,600
Russell road depot	80	-	1,963	-	-	2,043
Seafield depot - Phase 1	200	-	-	-	-	200
Seafield depot - Phase 2	2,500	-	763	-	-	3,263
<b>Depot review total</b>	<b>7,810</b>	<b>-</b>	<b>13,326</b>	<b>-</b>	<b>-</b>	<b>21,136</b>
<u>Fleet</u>						
Vehicle Purchase	751	-	-	-	-	751
<b>Fleet total</b>	<b>751</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>751</b>
<u>Cemeteries and crematorium</u>						
Mortonhall Crematorium - mercury abatement	(181)	-	-	-	-	(181)
Mortonhall - cremator replacement	22	-	-	-	-	22
Mortonhall Memorialisation	240	-	-	-	-	240
<b>Cemeteries and crematorium total</b>	<b>81</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>81</b>
<b>Environment Total</b>	<b>11,898</b>	<b>-</b>	<b>41,326</b>	<b>-</b>	<b>-</b>	<b>53,224</b>
<b>Housing and regeneration</b>						
Stair Lighting	545	-	-	-	-	545
Travelling People's site	14	-	-	-	-	14
Home owners adaptation grants	1,133	1,000	1,000	1,000	1,000	5,133
Commuted Sums (S75)	159	-	-	-	-	159
National Housing Trust 3	6,470	32,208	4,718	4,042	-	47,438
Broomhouse Community Hub	802	-	-	-	-	802
SfC Capital Asset Management	167	-	-	-	-	167
Development Funding Grant	29,115	-	-	-	-	29,115
<b>Housing and regeneration Total</b>	<b>38,405</b>	<b>33,208</b>	<b>5,718</b>	<b>5,042</b>	<b>1,000</b>	<b>83,373</b>
<b>Transport and Planning</b>						
<u>Roads, structures and flood prevention</u>						
Flood prevention [block]	-	-	-	-	-	-
North Bridge major refurbishment	934	7,494	3,572	-	-	12,000
Burnshot Bridge	1,100	400	-	-	-	1,500

## REVISED CAPITAL INVESTMENT PROGRAMME 2017-2022

<u>PLACE</u>	Revised Budget 2017/18	Revised Budget 2018-19	Revised Budget 2019-20	Revised Budget 2020-21	Revised Budget 2021-22	Total Budget 2017-2022
	£000	£000	£000	£000	£000	£000
Water of Leith - phase 1	334	-	-	-	-	334
Water of Leith - phase 2	8,568	3,409	-	-	-	11,977
Bridge strengthening	152	882	-	-	-	1,034
Roads, structures and flood prevention total	11,088	12,185	3,572	-	-	26,845
<i>Roads asset management plan</i>						
Bus stop investment	177	-	-	-	-	177
Right first time carriageway and footway works	1,199	-	-	-	-	1,199
Carriageway / footway works [block]	11,974	17,489	12,771	12,771	13,585	68,589
Roads asset management plan total	13,350	17,489	12,771	12,771	13,585	69,965
<i>Street lighting and traffic signals</i>						
Traffic signals (renewal)	973	29	-	-	-	1,002
Street lighting	1,590	3,249	1,500	1,500	1,500	9,339
Street lighting - City wide LED replacement prog	2,401	14,865	7,171	-	-	24,437
Street lighting and traffic signals total	4,964	18,143	8,671	1,500	1,500	34,778
<i>Roads and network</i>						
UTMC and parking guidance	122	-	-	-	-	122
St Andrew Square public realm	16	430	-	-	-	446
Link to Royal Infirmary (NBR Bridge)	1	-	-	-	-	1
Lower Granton Road realignment	-	-	-	-	-	-
Transport asset management	-	1,000	1,000	1,000	1,000	4,000
Roads and network total	139	1,430	1,000	1,000	1,000	4,569
<i>Policy and planning</i>						
Road safety	420	-	-	-	-	420
20mph speed limiting [block]	237	-	-	-	-	237
Walking projects [block]	406	-	-	-	-	406
Bus Tram integration	58	-	-	-	-	58
Frederick Street - Hanover Street	59	-	-	-	-	59
Tram Land Acquisitions	-	-	-	-	-	-
Edinburgh Gateway Tram Stop	-	-	-	-	-	-
Cycle projects [block]	1,829	-	-	-	-	1,829
St Andrew Square bus station	226	-	-	-	-	226
Bus priority schemes / bus shelters	372	-	-	-	-	372
Electric vehicles	26	-	-	-	-	26
Design of future projects	1,061	-	-	-	-	1,061
Bustracker- RTI extension	(47)	-	-	-	-	(47)
Bus - priority at signals SVD	109	-	-	-	-	109
Cycling, Walking and Safer Streets	683	-	-	-	-	683
Developer Contributions	214	-	-	-	-	214
Sighthill Signalised Junction	-	-	-	-	-	-
B924 pedestrian crossing	-	-	-	-	-	-
Road safety, cycling and public transport	-	1,750	1,750	1,750	1,750	7,000
Policy and planning total	5,653	1,750	1,750	1,750	1,750	12,653
<i>Transport - City Centre</i>						
Waverley Bridge / Market Street	-	-	-	-	-	-
West end public realm	-	-	-	-	-	-
Rose Street - public realm	14	490	-	-	-	504
Leith Walk Constitution Street	2,505	-	-	-	-	2,505
Transport - City Centre total	2,519	490	-	-	-	3,009

## REVISED CAPITAL INVESTMENT PROGRAMME 2017-2022

<u>PLACE</u>	Revised Budget 2017/18	Revised Budget 2018-19	Revised Budget 2019-20	Revised Budget 2020-21	Revised Budget 2021-22	Total Budget 2017-2022
	£000	£000	£000	£000	£000	£000
<u>South East locality</u>						
City Centre NP	5	232	67	68	-	372
South Central NP	128	68	68	67	-	331
Liberton - Gilmerton NP	(8)	68	68	68	-	196
NH Roads ward 10	12	-	-	-	-	12
NH Roads ward 11	-	80	-	-	-	80
NH Roads ward 15	11	-	-	-	-	11
NH Roads ward 16	21	-	-	-	-	21
South East locality total	169	448	203	203	-	1,023
<u>North East locality</u>						
Leith NP	193	168	68	67	-	496
Craighentiny - Duddingston NP	29	118	68	68	-	283
Portobello - Craigmillar NP	54	168	68	68	-	358
NH Roads ward 12	-	100	-	-	-	100
NH Roads ward 13	-	51	-	-	-	51
NH Roads ward 14	74	-	-	-	-	74
NH Roads ward 17	50	-	-	-	-	50
North East locality total	400	605	204	203	-	1,412
<u>North West locality</u>						
Almond NP	6	127	68	68	-	269
Western Edinburgh NP	139	168	67	68	-	442
Forth NP	(30)	68	68	68	-	174
Inverleith NP	84	68	68	68	-	288
NH Roads ward 3	1	-	-	-	-	1
NH Roads ward 4	17	-	-	-	-	17
NH Roads ward 5	52	-	-	-	-	52
NH Roads ward 6	1	-	-	-	-	1
North West locality total	270	431	271	272	-	1,244
<u>South West locality</u>						
South West NP	83	68	68	68	-	287
Pentlands NP	9	68	68	68	-	213
NH Roads ward 2	42	-	-	-	-	42
NH Roads ward 7	-	-	-	-	-	-
NH Roads ward 8	5	-	-	-	-	5
NH Road ward 9	-	-	-	-	-	-
South West locality total	139	136	136	136	-	547
<u>Transport other</u>						
Tram Lifecycle Replacement	-	-	1,000	1,000	1,000	3,000
Transport other total	-	-	1,000	1,000	1,000	3,000
<b>Transport and other infrastructure total</b>	<b>38,691</b>	<b>53,107</b>	<b>29,578</b>	<b>18,835</b>	<b>18,835</b>	<b>159,045</b>
<u>Museums and Arts</u>						
Calton Hill redevelopment	361	-	-	-	-	361
Usher Hall - Phase 2	(270)	-	-	-	-	(270)
Custom House Acquisition	(18)	-	-	-	-	(18)
Customs house external fabric improvements	50	-	-	-	-	50
Museum of Childhood Redevelopment	9	-	-	-	-	9
Assembly Rooms - Theatre Strategy	166	-	-	-	-	166

**REVISED CAPITAL INVESTMENT PROGRAMME 2017-2022**

<b>PLACE</b>	<b>Revised Budget 2017/18</b>	<b>Revised Budget 2018-19</b>	<b>Revised Budget 2019-20</b>	<b>Revised Budget 2020-21</b>	<b>Revised Budget 2021-22</b>	<b>Total Budget 2017-2022</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Nicholson St - Acq of Solum	1,037	-	-	-	-	1,037
<b>Museums and Arts Total</b>	<b>1,335</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,335</b>
<b>Strategic support</b>						
St James redevelopment	-	-	-	61,400	-	61,400
City dressing programme	156	-	-	-	-	156
<b>Strategic support total</b>	<b>156</b>	<b>-</b>	<b>-</b>	<b>61,400</b>	<b>-</b>	<b>61,556</b>
Place - contingency	86	-	-	-	-	86
<b>Total Place</b>	<b>90,571</b>	<b>86,315</b>	<b>76,622</b>	<b>85,277</b>	<b>19,835</b>	<b>358,619</b>



**REVISED CAPITAL INVESTMENT PROGRAMME 2017-2022**

<b>RESOURCES - OTHER</b>	<b>Revised Budget 2017/18</b>	<b>Revised Budget 2018-19</b>	<b>Revised Budget 2019-20</b>	<b>Revised Budget 2020-21</b>	<b>Revised Budget 2021-22</b>	<b>Total Budget 2017-2022</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>ICT function</b>						
ICT transformational change investment	-	-	-	-	-	-
ICT contract asset purchase	14,211	-	-	-	-	14,211
CRM Solution	509	-	-	-	-	509
CATs ICT capital investment	-	-	-	-	-	-
<b>ICT function total</b>	<b>14,720</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>14,720</b>
<b>Corporate Property</b>						
Leith Walk Community Hub	750	-	-	-	-	750
<b>Corporate Property Total</b>	<b>750</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>750</b>
<b>Total Resources - Other</b>	<b>15,470</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>15,470</b>

**REVISED CAPITAL INVESTMENT PROGRAMME 2017-2022**

<b>RESOURCES - ASSET MANAGEMENT WORKS</b>	<b>Revised Budget 2017/18</b>	<b>Revised Budget 2018-19</b>	<b>Revised Budget 2019-20</b>	<b>Revised Budget 2020-21</b>	<b>Revised Budget 2021-22</b>	<b>Total Budget 2017-2022</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Communities and Families</b>						
Boilers	303	58	700	-	-	1,061
Early Years property	2	-	-	-	-	2
External fabric	115	23	-	-	-	138
Fabric enhancement	2,040	803	119	-	-	2,962
Fabric upgrade	42	-	-	-	-	42
Fire safety	400	600	600	-	-	1,600
Internal fabric enhancements	1	-	44	-	-	45
Internal fabric improvements	48	-	-	-	-	48
M&E upgrade	2,454	2,908	1,853	-	-	7,215
Roof and rainwater	167	-	1,095	-	-	1,262
Stonework	402	25	401	-	-	828
Water quality	955	400	400	-	-	1,755
Water quality upgrade	-	12	-	-	-	12
Windows and doors	1,209	88	1,404	-	-	2,701
<b>Communities and Families total</b>	<b>8,138</b>	<b>4,917</b>	<b>6,616</b>	<b>-</b>	<b>-</b>	<b>19,671</b>
<b>Edinburgh Integration Joint Board</b>						
Fabric enhancement	4	-	-	-	-	4
M&E upgrade	93	-	25	-	-	118
<b>Edinburgh Integration Joint Board total</b>	<b>97</b>	<b>-</b>	<b>25</b>	<b>-</b>	<b>-</b>	<b>122</b>
<b>Place</b>						
External fabric	211	80	-	-	-	291
Fabric enhancement	107	15	-	-	-	122
Fabric upgrade	220	550	-	-	-	770
Fire safety	131	170	165	-	-	466
Internal fabric enhancements	-	79	55	-	-	134
M&E upgrade	97	324	-	-	-	421
Parks infrastructure	260	-	-	-	-	260
Roof and rainwater	35	-	-	-	-	35
Roofing / rainwater goods	3	25	45	-	-	73
Water quality improvements	4	-	-	-	-	4
Windows and doors	550	52	-	-	-	602
<b>Place total</b>	<b>1,618</b>	<b>1,295</b>	<b>265</b>	<b>-</b>	<b>-</b>	<b>3,178</b>
<b>Resources - Corporate Property</b>						
Boilers	100	-	-	-	-	100
Energy management	-	-	500	-	-	500
External fabric	-	119	35	-	-	154
Fire upgrade	120	50	75	-	-	245
Internal fabric enhancement	41	-	117	-	-	158
M&E upgrade	230	907	610	-	-	1,747
Roofing / rainwater goods	-	322	203	-	-	525
Stonework / masonry	11	56	-	-	-	67
Water quality upgrade	180	-	-	-	-	180
Windows and doors	350	40	56	-	-	446
<b>Resources - Corporate Property total</b>	<b>1,032</b>	<b>1,494</b>	<b>1,596</b>	<b>-</b>	<b>-</b>	<b>4,122</b>
<b>Funding not yet allocated to projects</b>	<b>-</b>	<b>-</b>	<b>16,858</b>	<b>14,000</b>	<b>14,000</b>	<b>44,858</b>
<b>Total Asset Management Works</b>	<b>10,885</b>	<b>7,706</b>	<b>25,360</b>	<b>14,000</b>	<b>14,000</b>	<b>71,951</b>

# Governance, Risk and Best Value Committee

10.00am, Tuesday 26 September 2017

## Treasury Management – Annual Report 2016/17 - referral from the City of Edinburgh Council

Item number	7.11
Report number	
Wards	All

### Executive summary

The City of Edinburgh Council on 21 September 2017 considered a report on Treasury Management activity in 2016/17. The report is referred to the Governance, Risk and Best Value Committee for scrutiny.

# Terms of Referral

## Treasury Management – Annual Report 2016/17

### Terms of referral

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- 1.1 The City of Edinburgh Council on 21 September 2017 considered a report on Treasury Management activity in 2016/17.
- 1.2 The City of Edinburgh Council agreed:
  - 1) To approve the Treasury Management Annual Report 2016/17.
  - 2) To refer the report by the Executive Director of Resources to the Governance, Risk and Best Value Committee for scrutiny.

### For Decision/Action

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- 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

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Minute of the City of Edinburgh Council 21 September 2017

#### Laurence Rockey

Head of Strategy and Insight

Contact: Louise Williamson, Assistant Committee Clerk

E-mail: [louise.p.williamson@edinburgh.gov.uk](mailto:louise.p.williamson@edinburgh.gov.uk) | Tel: 0131 529 4264

### Links

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**Appendices**      Appendix 1 – report by the Executive Director of Resources

# The City of Edinburgh Council

10.00am, Thursday 21 September 2017

## Treasury Management: Annual Report 2016/17 - referral from the Finance and Resources Committee

Item number

Report number

Wards

All

### Executive summary

---

On 5 September 2017 the Finance and Resources Committee considered a report on Treasury Management Activity in 2016/17. The report has been referred to the City of Edinburgh Council for approval and its subsequent referral to the Governance, Risk and Best Value Committee for its scrutiny.

# Terms of Referral

## Treasury Management: Annual Report 2016/17

### Terms of referral

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- 1.1 The Council had adopted the CIPFA Code of Practice on Treasury Management in the Public Sector, and under the code, the Annual Report on Treasury Management had to be submitted to the Council after the end of each financial year. A separate mid-term report would also be produced during the financial year.
- 1.2 In the Strategy set in March 2016 the Council stated that there would be no borrowing completed during the financial year and capital expenditure would be funded temporarily from investments. The overall approach generated significant short-term savings in Loans Charges for the Council and formed part of a successful and sustainable long term borrowing strategy.
- 1.3 The Finance and Resources Committee agreed:
  - 1.3.1 To note the Annual Report on Treasury Management for 2016/17.
  - 1.3.2 To refer the report to Council for approval and its subsequent referral by Council to the Governance, Risk and Best Value Committee for scrutiny.

### For Decision/Action

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- 2.1 The Finance and Resources Committee has referred the report to the City of Edinburgh Council on 21 September 2017 for approval and its subsequent referral by Council to the Governance, Risk and Best Value Committee for its scrutiny.

### Background reading / external references

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Finance and Resources Committee 5 September 2017.

### Laurence Rockey

Head of Strategy and Insight

Contact: Louise Williamson, Assistant Committee Clerk

E-mail: [louise.p.williamson@edinburgh.gov.uk](mailto:louise.p.williamson@edinburgh.gov.uk) | Tel: 0131 529 4264

## Links

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### Appendices

Appendix 1 - report by the Executive Director of Resources

# Finance and Resources Committee

10.00am, Thursday, 5 September 2017

## Treasury Management: Annual Report 2016/17

Item number  
Report number  
Executive/routine  
Wards

### Executive Summary

---

The purpose of this report is to give an update on Treasury Management activity in 2016/17.

As a part of the Strategy set in March 2016 the Council stated there would be no borrowing completed during the financial year and capital expenditure would be funded temporarily from investments. This overall approach generated significant short-term savings in Loans Charges for the Council and forms part of a successful and sustainable long term borrowing strategy.

The investment return for 2016/17 continued to show out-performance against the Fund's benchmark, although low in absolute terms, while maintaining the security of the investments.



## Treasury Management: Annual Report 2016/17

### 1. Recommendations

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- 1.1 It is recommended that the Committee:
- 1.1.1 Notes the Annual Report on Treasury Management for 2016/17; and
  - 1.1.2 Refers the report to Council for approval and subsequent referral by Council to the Governance, Risk and Best Value Committee for their scrutiny.

### 2. Background

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- 2.1 The Council has adopted the CIPFA Code of Practice on Treasury Management in the Public Sector, and under the code, an Annual Report on Treasury Management has to be submitted to the Council after the end of each financial year. A separate mid-term report will also be produced during the financial year.

### 3. Main report

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#### 3.1 Key Points

- 3.1.1 The key points in this report are that:
- For the third year in a row, the Council's capital repayments were greater than its new capital expenditure funded by borrowing, so the Council's need to borrow reduced by £9.3m during the year;
  - £52m of Public Works Loan Board and £1m market debt naturally matured during the year and was not replaced, reducing overall borrowing costs to the Council;
  - the Council continued its successful long-term strategy of funding capital expenditure from a reduction in temporary investments and was £92.9m under-borrowed at the year-end;
  - the Council has not borrowed Public Works Loan Board or market debt since December 2012; and,
  - the average interest rate on the Cash Fund for the year was 0.40%, which continued to outperform the benchmark, which was 0.20% for the year.

## 3.2 Prudential Indicators

### 3.2.1 (a) Prudential Indicator 1 - Estimate of Capital Expenditure

This gives a breakdown of the actual capital expenditure incurred during 2016/17.

	2015/16 Actual £'000	2016/17 Original £'000	2016/17 Revised £'000	2016/17 Actual £'000
Children & Families	48,181	0	0	0
Corporate Governance	7,407	0	0	0
Economic Development	42	0	0	0
Health & Social Care	5,680	0	0	0
Services for Communities	77,149	0	0	0
SfC Asset Management Programme	14,516	0	0	0
Other Capital Projects	3,014	0	0	0
Chief Executive	0	17,291	15,789	1,184
City Strategy and Economy	0	508	397	838
Communities and Families	0	50,436	45,781	41,816
Edinburgh Integration Joint Board	0	4,229	4,167	4,527
Place	0	98,896	83,362	90,704
Resources – Asset Management Works	0	24,044	10,936	18,908
<b>Total General Services</b>	<b>155,989</b>	<b>195,404</b>	<b>160,432</b>	<b>157,977</b>
Housing Revenue Account	35,626	48,508	44,334	43,627
<b>Total</b>	<b>191,615</b>	<b>243,912</b>	<b>204,766</b>	<b>201,604</b>

**Table 1 – Capital Expenditure 2016/17**

The capital programme is re-phased annually once the unaudited out-turn of the previous year is known. The original estimates above reflect the budget position as at January 2016, with the revised figures representing the projected position reported to the Finance and Resources Committee in August 2016 following the re-phasing of the programme.

The following table shows how the £201.6m of capital expenditure incurred in 2016/17 was funded:

	Gen Services £'000	HRA £'000	CEC Total £'000	Police £'000	Fire £'000	Total £'000
Net Cap Adv (01/04/16)	1,048,613	357,602	1,406,215	16,151	2,052	1,424,417
Gross Cap Ex	157,977	43,627	201,604	0	0	201,604
Cap Income	109,653	23,262	132,915	0	0	132,915
Net Cap Ex	48,324	20,365	68,689	0	0	68,689
Debt transfer	-3,552	3,552	0	0	0	0
Capital Repaid	-58,454	-16,585	-75,039	-1,953	-1,009	-78,001
Net Cap Adv (01/04/17)	1,034,931	364,934	1,399,865	14,198	1,043	1,415,106

**Table 2 – Source of Funding for Capital Expenditure 2016/17**

The CEC Total column shows expenditure of £201.6m being partly funded by capital grants and capital receipts, leaving £68.7m to be funded by borrowing. However, the Council repaid principal of £75.0m for previous capital advances, giving a net reduction in the need to borrow of £6.3m. In addition, previous capital advances of £3.0m were repaid on behalf of the former Police and Fire joint boards, giving a total reduction in the need to borrow of £9.3m.

**(b) Indicator 2 - Ratio of Financing Costs to Net Revenue Stream**

This gives an indication of the cost of the Council's debt relative to its income.

	<b>2015/16 Actual %</b>	<b>2016/17 Estimate %</b>	<b>2016/17 Revised %</b>	<b>2016/17 Actual %</b>
General Services	11.51	12.00	12.00	11.63
Housing Revenue Account	37.31	36.64	35.38	35.21

**Table 3 – Ratio of Financing Costs to Net Revenue Stream**

The General Services ratio remained fairly static compared to last year, with the reduction in the HRA ratio being due to voluntary contributions made towards outstanding capital advances.

**(c) Indicator 3 - Capital Financing Requirement (CFR)**

This shows the Council underlying need to borrow / take on other forms of Capital funding.

	<b>2015/16 Actual £'000</b>	<b>2016/17 Original £'000</b>	<b>2016/17 Revised £'000</b>	<b>2016/17 Actual £'000</b>
General Services (incl. finance leases)	1,275,213	1,297,933	1,267,088	1,250,818
Housing Revenue Account	357,602	377,947	364,047	364,934
<b>Total</b>	<b>1,632,815</b>	<b>1,675,880</b>	<b>1,631,135</b>	<b>1,615,752</b>

**Table 4 – Capital Financing Requirement**

The reduction in the out-turn is mainly due to the reduction in General Services underlying need to borrow as for the third year in a row, repayments for previous capital advances were greater than new capital advances.

In preparing Tables 4 and 5, all finance lease liabilities have been included for both current and prior year figures as required by the new Borrowing Regulations in Scotland, rather than other long term liabilities as defined by CIPFA's Prudential Code.

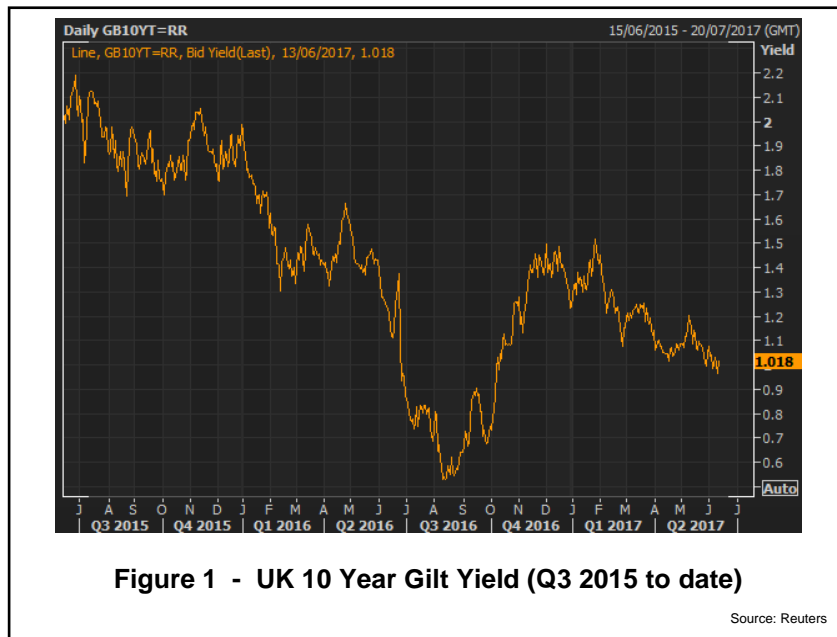
	<b>2015/16 Actual £'000</b>	<b>2016/17 Actual £'000</b>
General Services Capital Advances	1,048,613	1,034,931
HRA Capital Advances	357,602	364,934
<b>Total CEC Borrowing CFR</b>	<b>1,406,215</b>	<b>1,399,865</b>
Other Finance Lease Liabilities	226,600	215,887
<b>Total CEC Debt CFR</b>	<b>1,632,815</b>	<b>1,615,752</b>

**Table 5 – Split of Capital Financing Requirement**

3.2.2 The Council operated within both the Authorised Limit and the Operational Boundary at all times during the year and there were no breaches of the Council's Treasury Management Policy.

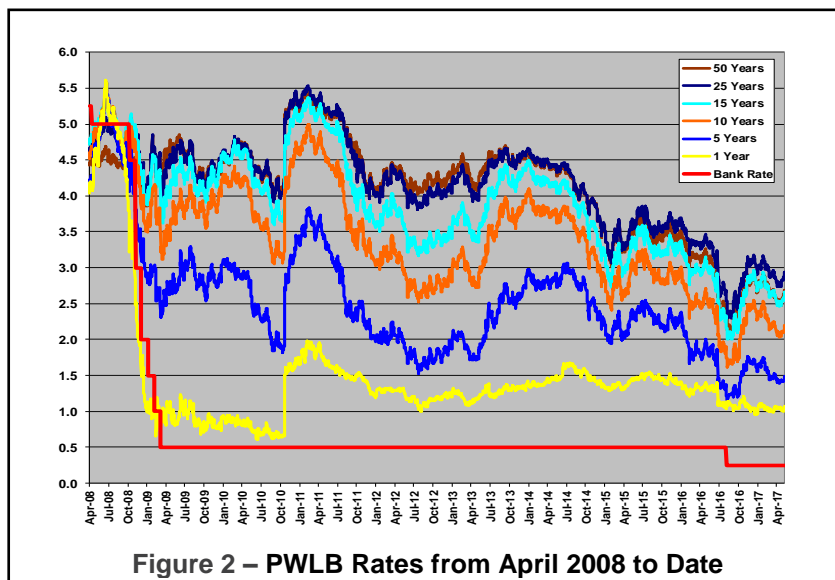
### 3.3 Borrowing Overview

3.3.1 UK gilt yields fell dramatically after the result of the EU referendum in June 2016. They then recovered and finished the calendar year around the same as pre-referendum levels. Since the turn of the year they have lost some momentum and remain low. As can be seen in Figure 1 below, after the announcement of the snap General Election in April, yields rose and then fell as each poll emerged predicting a tighter outcome. With the result of the snap General Election being a hung parliament there remains market uncertainty and yields remain very low.



3.3.2 The UK economy is challenging. Rising inflation and contracting real wages will give pressure to household spending and quarter one GDP was just 0.2%. The inconclusive election result left the UK economy more uncertain. The result left the Conservative party without the anticipated majority leaving it to form a “confidence and supply” agreement with Northern Ireland’s Democratic Unionist Party.

3.3.3 Figure 2 shows PWLB borrowing rates since 2008. This shows the drop in rates immediately after the result of the EU referendum. The one year borrowing rate has stayed relatively static since with the longer years recovering some of the fall.



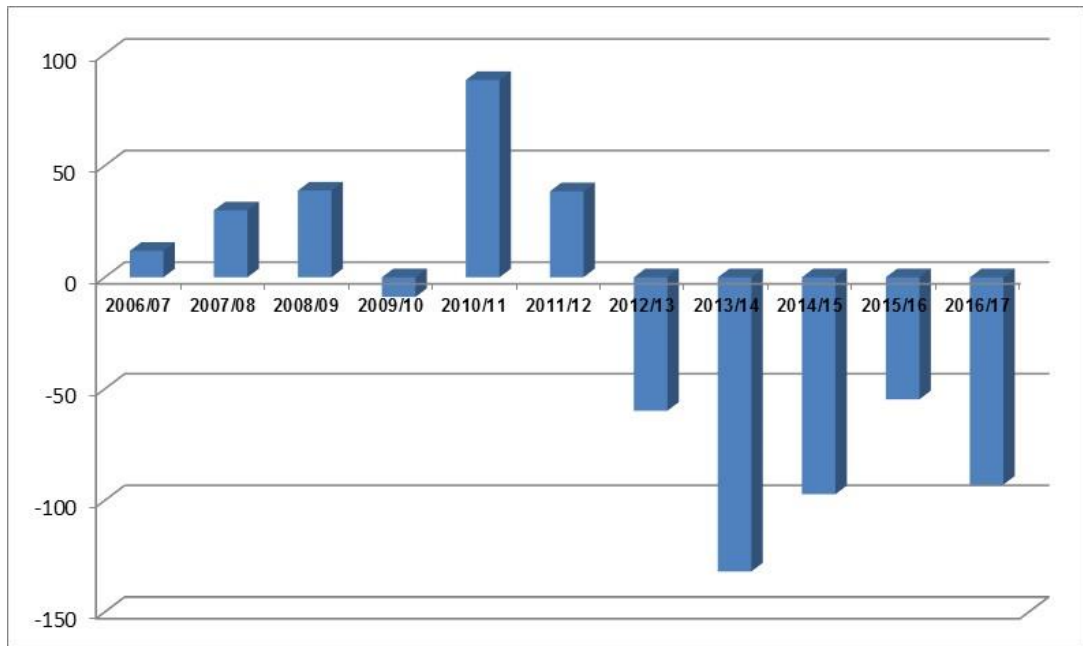
3.3.4 The strategy for 2016/17 approved in March 2016 was to continue to fund capital expenditure in the short term by reducing the level of temporary investments. Other than a small amount of interest free loans taken in 2015 there has been no borrowing completed since December 2012. However, as detailed in Table 2, the total underlying need to borrow fell by £9.3m during the year. Table 6 below summarises the outstanding debt portfolio during the year.

Type of Loan	Balance	Borrowing	Borrowing	Balance
	01.04.2016	Raised	Repaid	31.03.2017
	£m	£m	£m	£m
PWLB - fixed	1,072.846	0.000	-50.68	1,022.166
PWLB - variable	0.000	0.000	0.000	0.000
Salix Finance Ltd	2.138	0.000	-0.303	1.835
Market	276.900	0.000	-1.000	275.900
Temp	17.86	13.350	-8.863	22.347
	<u>1,369.744</u>	<u>13.350</u>	<u>-60.846</u>	<u>1,322.248</u>
Capital Advances	<u>1,424.418</u>			<u>1,415.106</u>
Under-borrowed	<u>54.674</u>		Under-borrowed	<u>92.858</u>

**Table 6 – Outstanding Debt Portfolio 2016/17**

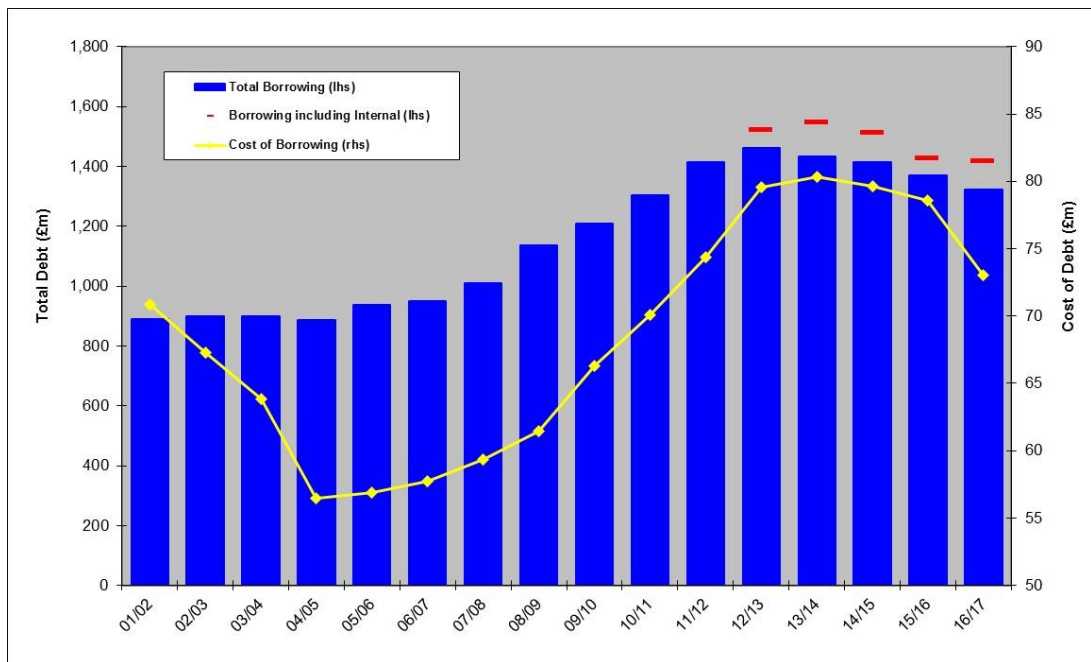
3.3.5 £50.68m of PWLB and £1m of Market debt naturally matured during the year, and this was not replaced. The Council’s borrowing therefore fell by £47.5m over the year.

3.3.6 The net capital advances fell by £9.3m. The Council’s under-borrowed position therefore increased from £55m to £93m. Figure 3 below shows how much the Council has been over or under borrowed at financial year end since 2006/07.



**Figure 3 - Over / Under Borrowed position at year end**

3.3.7 2016/17 was the third year in a row that the repayment of previous capital advances were greater than new capital advances funding by borrowing, reducing the Council’s underlying need to borrow. This, and the underborrowing strategy to not replace maturing debt, has meant that over the last four years the Council’s external debt has fallen by £138m. Figure 4 below shows the Council’s total borrowing and cost of the borrowing.



**Figure 4 - Value and Cost of the Council’s Borrowing**

3.3.8 The total interest cost in servicing the Council's debt fell from £78.6m to £73.0m. This is the result of a combination of the lower underlying need to borrow, some high interest rate debt from the 90s maturing and the strategy to temporarily fund capital expenditure by reducing investment balances.

### 3.4 Investment Out-turn 2016/17

3.4.1 The Council's money is invested via the Treasury Cash Fund. The Cash Fund encompasses a number of organisations, including Lothian Pension Fund. Interest is accrued on a monthly basis and performance is evaluated against a benchmark, which is 7-day LIBID.

3.4.2 Figure 5 below shows the investment performance since April 2011.

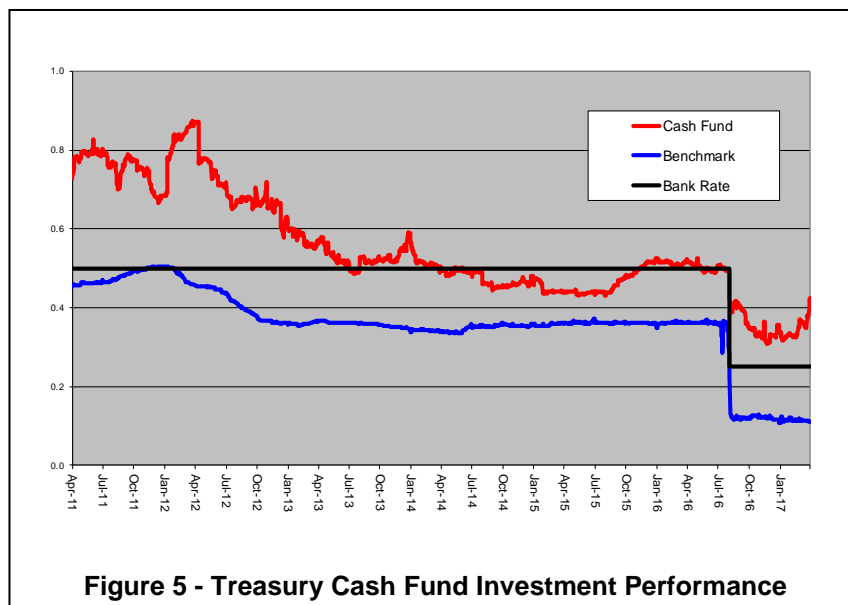
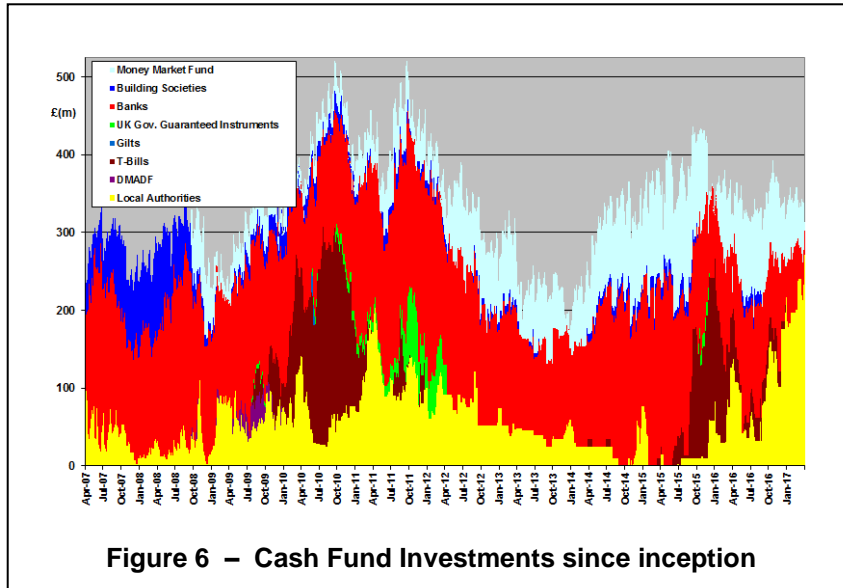


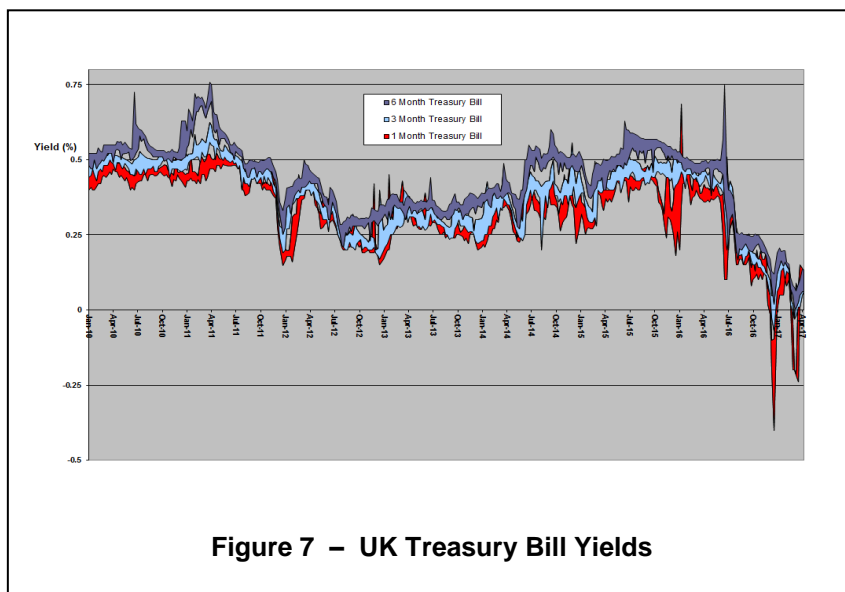
Figure 5 - Treasury Cash Fund Investment Performance

3.4.3 The average interest rate on the Fund for the year was 0.40%, which continued to outperform the benchmark which was 0.20% for the year. The Fund generated income of just under £870k for the financial year to CEC.

3.4.4 The emphasis remained on security during the financial year with the return of the principal sum being the main concern. With the Strategy being around the security of the investments, Cash Fund money invested with banking institutions was held mostly on call or on short term fixed deposit. Figure 6 below shows the distribution of the Cash Fund investments since April 2007

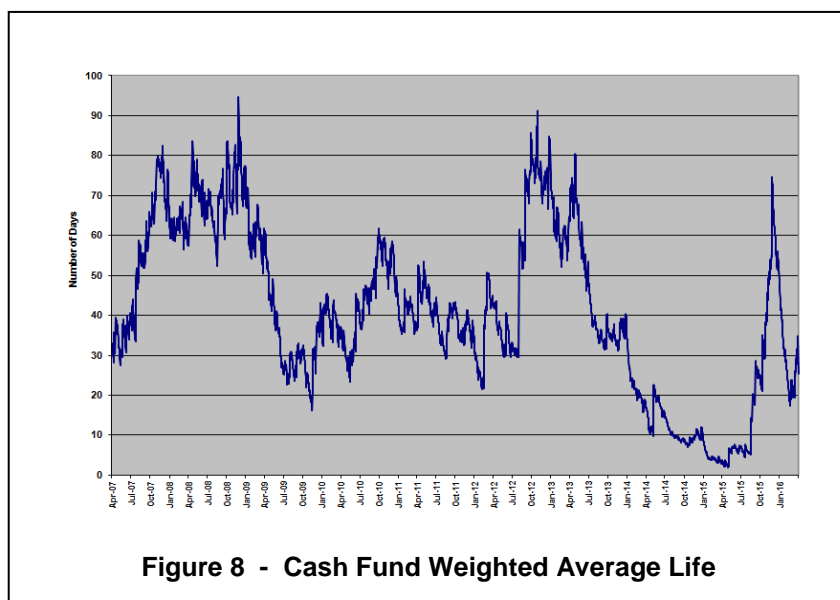


3.4.5 As can be seen in Figure 7 the rates on offer on Treasury Bills decreased substantially during the year. Rates being achieved with Local Authority deposits have remained low during the year. However, there were seasonal opportunities in December and at the end of the financial year which the Council was able to take advantage of this albeit the investments were only relatively short duration. At the end of the financial year the Council had over £216m on deposit with other Local Authorities.



3.4.6 The Cash Fund’s Investment Strategy continued to be based around the security of the investments. Figure 8 below shows the weighted average life (WAL) of the Cash Fund since inception.





**Figure 8 - Cash Fund Weighted Average Life**

3.4.7 The Fund's weighted average life – i.e. the average time to maturity of the Cash Fund investments – was 51 days at the end of the financial year. The WAL increased towards the end of the financial year due to fixed deposits being agreed with Local Authorities at attractive rates of interest.

### 3.5 Other Issues

3.5.1 There are two other issues which have progressed since they were previously reported to Elected Members.

3.5.2 Firstly, the Financial Conduct Authority (FCA) undertook a consultation on the implementation of the EU's Markets in Financial Instruments Directive (MiFID) II earlier this year. The consultation included the FCA's intention to reclassify local authorities as Retail Investors. The FCA has now issued their policy document following the consultation which has confirmed the default client classification of local authorities as Retail. It also outlines the criteria to be met for a local authority to opt up to Professional Classification. It is the intention of the authority to seek to opt up to Professional Investor status and further work will be undertaken over the next few months to ensure that the Council can demonstrate it meets the requirements for opting up.

3.5.3 Also as previously reported, the Chartered Institute of Public Finance Accountants (CIPFA) issued a consultation earlier in the year on both the Treasury Management Code of Practice and the Prudential Code. Although no issues on the consultation were raised by the Council's Elected Members, a response was submitted. It seems likely that there will be some significant changes to the Codes, particularly the Prudential Code, in relation to commercial activities undertaken by Councils. There will be a further consultation on the new drafts of the Codes during Q3 2017.

### **3.6 Conclusions**

- 3.6.1 The Strategy set in March 2016 the Council stated there would be no borrowing completed during the financial year and capital expenditure would be funded temporarily from investments rather than borrowing.
- 3.6.2 The investment return for 2016/17 continued to show out-performance against the Fund's benchmark, although low in absolute terms, while maintaining the security of the investments.

## **4. Measures of success**

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- 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**

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- 5.1 The Council continues to manage its debt portfolio so as to minimise the medium term cost of funding its capital projects.
- 5.2 The Treasury Cash Fund has generated significant additional income for the Council.

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

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- 6.1 The Council complies with the relevant CIPFA code of practice whilst undertaking Treasury Management activities. The significant financial risks associated with Treasury Management activities have been successfully managed during 2016/17.

## **7. Equalities impact**

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

## **8. Sustainability impact**

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

## **9. Consultation and engagement**

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- 9.1 None.

## 10. Background reading/external references

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10.1 None.

### **Stephen S. Moir**

Executive Director of Resources

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## 11. Appendices

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Appendix 1 - PWLB, MARKET, SALIX DEBT PORTFOLIO

## Appendix 1 – PWLB, MARKET, SALIX DEBT PORTFOLIO

### PWLB

Start Date	Loan Type	Maturity Date	Principal Outstanding	Interest Rate	Annual Interest
				%	£
02/12/2011	M	02/06/2017	5,000,000.00	2.28	114,000.00
27/03/1992	M	25/09/2017	10,000,000.00	10.625	1,062,500.00
09/10/2008	M	09/10/2017	5,000,000.00	4.39	219,500.00
03/04/1992	M	25/03/2018	30,000,000.00	10.875	3,262,500.00
23/04/2009	M	23/04/2018	15,000,000.00	3.24	486,000.00
17/09/1992	M	15/05/2018	8,496,500.00	9.75	828,408.75
09/06/2009	M	09/06/2018	5,000,000.00	3.75	187,500.00
17/09/1993	M	15/11/2018	5,000,000.00	7.875	393,750.00
23/03/1994	M	15/11/2018	5,000,000.00	8	400,000.00
14/03/1994	M	11/03/2019	2,997,451.21	7.625	228,555.65
18/10/1993	M	25/03/2019	5,000,000.00	7.875	393,750.00
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
23/04/2009	M	23/04/2019	5,000,000.00	3.38	169,000.00
12/11/2008	A	12/11/2019	1,583,825.88	3.96	77,256.58
23/03/1994	M	15/11/2019	5,000,000.00	8	400,000.00
07/12/1994	M	15/11/2019	10,000,000.00	8.625	862,500.00
01/12/2008	A	01/12/2019	1,566,340.12	3.65	70,501.07
01/12/2009	M	01/12/2019	5,000,000.00	3.77	188,500.00
14/12/2009	M	14/12/2019	10,000,000.00	3.91	391,000.00
15/02/1995	M	25/03/2020	5,000,000.00	8.625	431,250.00
21/04/2009	M	21/04/2020	10,000,000.00	3.54	354,000.00
12/05/2009	M	12/05/2020	10,000,000.00	3.96	396,000.00
21/10/1994	M	15/05/2020	5,000,000.00	8.625	431,250.00
07/12/1994	M	15/05/2020	5,000,000.00	8.625	431,250.00
21/11/2011	M	21/05/2020	15,000,000.00	2.94	441,000.00
16/08/1995	M	03/08/2020	2,997,451.21	8.375	251,036.54
09/12/1994	M	15/11/2020	5,000,000.00	8.625	431,250.00
10/05/2010	A	10/05/2021	2,250,909.52	3.09	80,227.02
21/10/1994	M	15/05/2021	10,000,000.00	8.625	862,500.00
10/03/1995	M	15/05/2021	11,900,000.00	8.75	1,041,250.00
12/06/1995	M	15/05/2021	10,000,000.00	8	800,000.00
02/06/2010	M	02/06/2021	5,000,000.00	3.89	194,500.00
16/08/1994	M	03/08/2021	2,997,451.21	8.5	254,783.35
28/04/1994	M	25/09/2021	5,000,000.00	8.125	406,250.00
23/04/2009	M	23/04/2022	5,000,000.00	3.76	188,000.00
12/06/1995	M	15/05/2022	10,200,000.00	8	816,000.00
14/06/2010	M	14/06/2022	10,000,000.00	3.95	395,000.00
31/03/1995	M	25/09/2022	6,206,000.00	8.625	535,267.50
16/02/1995	M	03/02/2023	2,997,451.21	8.625	258,530.17
24/04/1995	M	25/03/2023	10,000,000.00	8.5	850,000.00
05/12/1995	M	15/05/2023	5,200,000.00	8	416,000.00

**PWLB cont**

Start Date	Loan Type	Maturity Date	Principal Outstanding	Interest Rate %	Annual Interest £
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
08/05/1996	M	25/09/2023	10,000,000.00	8.375	837,500.00
13/10/2009	M	13/10/2023	5,000,000.00	3.87	193,500.00
05/12/1995	M	15/11/2023	10,000,000.00	8	800,000.00
10/05/2010	M	10/05/2024	10,000,000.00	4.32	432,000.00
28/09/1995	M	28/09/2024	2,895,506.10	8.25	238,879.25
14/05/2012	M	14/11/2024	10,000,000.00	3.36	336,000.00
14/12/2009	A	14/12/2024	6,002,174.17	3.66	237,165.61
17/10/1996	M	25/03/2025	10,000,000.00	7.875	787,500.00
10/05/2010	M	10/05/2025	5,000,000.00	4.37	218,500.00
16/11/2012	M	16/05/2025	20,000,000.00	2.88	576,000.00
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
01/12/2009	A	01/12/2025	9,482,868.43	3.64	369,162.00
21/12/1995	M	21/12/2025	2,397,960.97	7.875	188,839.43
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
29/08/1997	M	15/11/2026	5,000,000.00	7	350,000.00
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
13/12/2012	M	13/06/2027	20,000,000.00	3.18	636,000.00
12/03/1998	M	15/11/2027	8,677,693.00	5.875	509,814.46
06/09/2010	M	06/09/2028	10,000,000.00	3.85	385,000.00
14/07/2011	M	14/07/2029	10,000,000.00	4.9	490,000.00
14/07/1950	E	03/03/2030	3,286.13	3	104.27
14/07/2011	M	14/07/2030	10,000,000.00	4.93	493,000.00
15/06/1951	E	15/05/2031	3,398.21	3	107.22
06/09/2010	M	06/09/2031	20,000,000.00	3.95	790,000.00
15/12/2011	M	15/06/2032	10,000,000.00	3.98	398,000.00
15/09/2011	M	15/09/2036	10,000,000.00	4.47	447,000.00
22/09/2011	M	22/09/2036	10,000,000.00	4.49	449,000.00
10/12/2007	M	10/12/2037	10,000,000.00	4.49	449,000.00
08/09/2011	M	08/09/2038	10,000,000.00	4.67	467,000.00
15/09/2011	M	15/09/2039	10,000,000.00	4.52	452,000.00
06/10/2011	M	06/10/2043	20,000,000.00	4.35	870,000.00
09/08/2011	M	09/02/2046	20,000,000.00	4.8	960,000.00
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

**PWLB cont**

Start Date	Loan Type	Maturity Date	Principal Outstanding	Interest Rate %	Annual Interest £
19/05/2006	M	19/11/2046	10,000,000.00	4.25	425,000.00
07/01/2008	M	07/01/2048	5,000,000.00	4.4	220,000.00
27/01/2006	M	27/07/2051	1,250,000.00	3.7	46,250.00
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
08/03/2007	M	08/09/2052	5,000,000.00	4.25	212,500.00
30/05/2007	V	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
15/08/2008	M	15/02/2058	5,000,000.00	4.39	219,500.00
02/12/2011	M	02/12/2061	5,000,000.00	3.98	199,000.00
			<b>1,022,166,264.56</b>		<b>55,440,591.05</b>

**Market Debt (non LOBO)**

Start Date	Loan Type	Maturity Date	Principal Outstanding	Interest Rate %	Annual Interest £
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
			<b>63,500,000.00</b>		<b>3,080,750.00</b>

**Market Debt  
(LOBO)**

Start Date	Loan Term	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	7.751	387,550.00
26/02/2010	M	26/02/2060	10,000,000.00	7.751	775,100.00
25/02/2011	M	25/02/2060	15,000,000.00	7.781	1,167,150.00
25/02/2011	M	25/02/2060	10,000,000.00	7.781	778,100.00
			<b>212,400,000.00</b>		<b>11,448,400.00</b>

**SALIX INTEREST FREE**

Start Date	Loan Type	Maturity Date	Principal Outstanding	Interest Rate %	Annual Interest £
07/01/2015	E	01/09/2021	355,307.13	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
			<b>1,834,910.02</b>		<b>0.00</b>

# Governance, Risk and Best Value Committee

10.00am, Tuesday 26 September 2017

## Revenue Monitoring 2017-18 - Month Three Position - referral from the Finance and Resources Committee

Item number	7.12
Report number	
Wards	All

### Executive summary

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On 5 September 2017 the Finance and Resources Committee considered a report that set out the projected overall position for the Council's revenue expenditure budget for 2017/18 based on analysis of period three data. The report has been referred to the Governance, Risk and Best Value Committee for consideration as part of its work programme.



# Terms of Referral

## Revenue Monitoring 2017/18 – Month Three Position

### Terms of referral

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- 1.1 The on-going analysis of the revenue position was undertaken in line with agreed, risk-based principles, with any material changes reported in the intervening periods as required. A complementary schedule of meetings, aligned to the Council's revised Committee structure, had also been developed at which more detailed, service-specific comments would be considered.
- 1.2 As of period three, the Council was projecting a significant overall overspend of £5.0m after taking account of available funding, projected delivery of approved savings, use of reserves and management of service risks and pressures. This overall variance comprised projected overspends in Health and Social Care, Safer and Stronger Communities and Place, offset primarily by net savings in, and contributions from, corporate areas.
- 1.3 The Finance and Resources Committee agreed:
  - 1.3.1 To note the significant projected overspend position for the year.
  - 1.3.2 To note the proposal to apply, subject to the outcome of the external audit process and ratification by Council, the 2016/17 in-year underspend and sums previously earmarked in respect of welfare reform-related changes to address pressures in 2017/18, together supporting the process of longer-term service redesign.
  - 1.3.3 To instruct the Executive Director of Place, Chief Officer of the Edinburgh Health and Social Care Partnership and Head of Safer and Stronger Communities to identify, as a matter of urgency, proposed remedial measures to address the projected overspends in their respective areas.
  - 1.3.4 To note that those Executive Directors whose Directorates were projecting a balanced or underspend position would be asked to identify opportunities for additional savings in their respective areas.
  - 1.3.5 To note that, in light of the above, a further update would be included in the mid-year review to be considered at the Committee's next meeting on 28 September 2017.
  - 1.3.6 To note the balanced position projected on the Housing Revenue Account.

- 1.3.7 To refer the report to the Governance, Risk and Best Value Committee for consideration as part of its work programme.
- 1.3.8 To agree that a further report be submitted on 7 November 2017 regarding proposed savings arising from the integration of services.

## For Decision/Action

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- 2.1 The Finance and Resources Committee has referred the report to the Governance, Risk and Best Value Committee on 26 September 2017 for consideration as part of its work-programme.

## Background reading / external references

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Finance and Resources Committee 5 September 2017.

### Laurence Rockey

Head of Strategy and Insight

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## Links

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### Appendices

Appendix 1 - report by the Executive Director of Resources

# Finance and Resources Committee

10.00am, Tuesday, 5 September 2017

## Revenue Monitoring 2017/18 – month three position

Item number  
Report number  
Executive/routine  
Wards

### Executive summary

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As of period three, the Council is projecting a significant overall overspend of £5.0m, after taking account of available funding, projected delivery of approved savings, use of reserves and management of service risks and pressures. This overall variance comprises projected overspends in Health and Social Care, Safer and Stronger Communities and Place (together totalling £11.1m), offset primarily by net savings in, or contributions from, corporate areas of £6.1m.

Members are asked to recommend that the Chief Officer of the Edinburgh Health and Social Care Partnership, Executive Director of Place and Head of Safer and Stronger Communities identify potential options to mitigate the projected levels of overspend as a matter of urgency and report on progress to the Committee's next meeting on 28 September.

## Revenue Monitoring 2017/18 – month three position

### 1. Recommendations

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- 1.1 Members of the Finance and Resources Committee are asked to:
- 1.1.1 note the significant projected overspend position for the year;
  - 1.1.2 note the proposal to apply, subject to the outcome of the external audit process and ratification by Council, the 2016/17 in-year underspend and sums previously earmarked in respect of welfare reform-related changes to address pressures in 2017/18, together supporting the process of longer-term service redesign;
  - 1.1.3 instruct the Executive Director of Place, Chief Officer of the Edinburgh Health and Social Care Partnership and Head of Safer and Stronger Communities to identify, as a matter of urgency, proposed remedial measures to address the projected overspends in their respective areas;
  - 1.1.4 note that those Executive Directors whose Directorates are projecting a balanced or underspend position will be asked to identify opportunities for additional savings in their respective areas;
  - 1.1.5 note that, in light of the above, a further update will be included in the mid-year review to be considered at the Committee's next meeting on 28 September;
  - 1.1.6 note the balanced position projected on the Housing Revenue Account (HRA) after making a £13.5m planned contribution towards housing investment; and
  - 1.1.7 refer this report to the Governance, Risk and Best Value Committee as part of its work programme.

### 2. Background

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- 2.1 This report sets out the projected overall position for the Council's revenue expenditure budget for 2017/18 based on analysis of period three data.

### 3. Main report

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- 3.1 This report represents the first of the quarterly revenue monitoring reports for 2017/18. On-going analysis of the revenue position is undertaken in line with agreed, risk-based principles, with any material changes reported in the intervening periods as required.

- 3.2 A complementary schedule of meetings, aligned to the Council's revised Committee structure, has also been developed at which more detailed, service-specific commentaries will be considered.

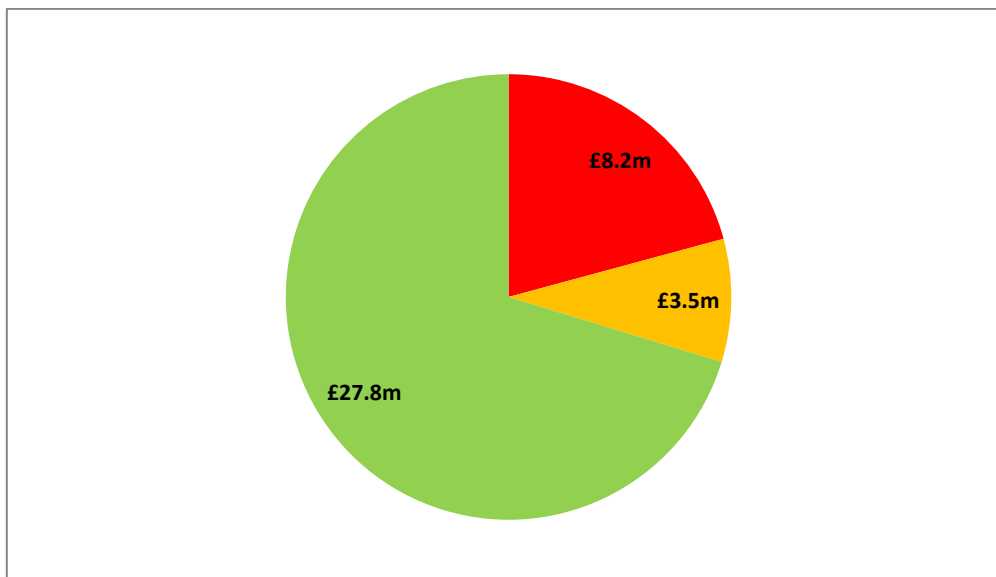
### **Overall position**

- 3.3 As of period three, the Council is projecting a significant overall overspend of £5.0m, after taking account of available funding, projected delivery of approved savings, use of reserves and management of service risks and pressures. This overall variance comprises projected overspends in Health and Social Care, Safer and Stronger Communities and Place (together totalling £11.1m), offset primarily by net savings in, and contributions from, corporate areas of £6.1m. A high-level service analysis, aligned to the Council's revised operating structure, is included as Appendix 1.
- 3.4 While the remaining service areas are anticipated to maintain expenditure within budgeted levels, relevant Executive Directors have nonetheless identified a number of challenges to attainment of this position and delivery of approved savings and service pressures will therefore require sustained proactive management throughout the remainder of the year.
- 3.5 As enshrined within the Council's Financial Regulations, Executive Directors are responsible for ensuring that expenditure remains within the budgeted level and that the savings expected from approved efficiency and other measures are delivered. Members are therefore asked to recommend that the Chief Officer of the Edinburgh Health and Social Care Partnership, Executive Director of Place and Head of Safer and Stronger Communities identify potential options to bring expenditure back in line with budgeted levels as a matter of urgency. Those Executive Directors whose Directorates are projecting a balanced or underspend position have further been asked to identify opportunities for additional savings in their respective areas.
- 3.6 Due to the seriousness of the overall position, while the Period 5-based report is not scheduled to be presented to the Finance and Resources Committee until 7 November, a progress update will be provided as part of the mid-year review scheduled for consideration at the Committee's next meeting on 28 September.

## Savings delivery

- 3.7 The approved budget for 2017/18 was predicated on the delivery of £39.5m of service-specific and corporate savings. As of July, the overall RAG assessment of these savings indicates that, on the basis of actions planned or already undertaken, some 79% are on target to be delivered in full as shown in the chart below.

### RAG assessment of approved budget savings, 2017/18 – July 2017



- 3.8 The majority of the red-assessed savings are those of a transformational or demand-led nature within Health and Social Care, with most of the remainder representing savings within the Place Directorate linked to the Roads and Waste Services transformation plans.
- 3.9 Amber-assessed savings represent, in the main, those where interim or one-off funding solutions have been identified pending development of sustainable means of delivering the savings concerned.
- 3.10 The net effect of any risk of shortfall in delivery is reflected in the overall position as assessed by service areas in the following sections. Executive Directors also continue to manage a range of risks and pressures, the most material of which, alongside any identified mitigating actions, are also noted below.

### Service-specific budgets - Communities and Families

- 3.11 As of period three, subject to on-going work reviewing the delivery of approved savings and effectiveness of planned mitigating actions, the Executive Director of Communities and Families is forecasting a balanced overall position for the year. This position is, however, dependent in particular upon management of a number of demand-led service pressures, including increased use of out-of-Council area placements linked to accommodating a number of Unaccompanied Asylum-Seeking Children (UASC) within the city.

## **Health and Social Care**

- 3.12 The month three outturn forecast reflects significant demand-led pressures within Health and Social Care and currently shows a gross overspend of £9.35m. This forecast position takes account of the delivery of £3.9m of savings associated with the organisational review but includes £6.03m of slippage on planned transformation-related purchasing savings.
- 3.13 Work is being progressed to achieve the approved savings by means of agreed business cases for those proposals focused on asset-based assessment, support planning and brokerage and telecare. Work has also begun to identify further opportunities, both centrally and through locality management, for schemes that include: targeted reviews to reduce cost of care packages; business process redesign; and tackling delays across the system. Any in-year savings generated through these initiatives will be applied against the gross overspend.
- 3.14 The Chief Finance Officer of the Edinburgh Integration Joint Board (EIJB) will recommend to the Board the release of £2.25m of recurring funding from the Social Care Fund to recognise ongoing demography-driven demand and other pressures within the care at home purchasing budget. Subject to EIJB approval, this will reduce the level of overspend to £7.1m. A range of further measures, including additional controls on agency spend through adoption of generic job roles and more effective staff rostering, is also being investigated.

## **Place**

- 3.15 In addition to the £7.3m of newly-approved savings for delivery in 2017/18, mitigating actions require to be identified to address a number of carried-forward or in-year budget pressures affecting, in particular, the Waste and Roads Services functions.
- 3.16 As of period three, the Executive Director of Place has identified potential mitigations (including those in respect of approved savings delivery) to address the majority of these pressures, albeit additional work is required to develop a number of these proposals fully. Work is continuing to identify potential options to address the remaining £1m shortfall, including examining opportunities to accelerate those early proposals developed as part of the 2018/19 budget development process. Work is also underway to develop the supporting detail of the improvement plans for Roads and Waste Services with a view to offsetting in-year pressures and re-attaining financial sustainability in these areas over the medium term.

## **Resources**

- 3.17 Based on analysis of the period three position, the Resources Directorate is - projecting an overall underspend of £0.5m, reflecting acceleration of an element of savings initially planned for delivery in 2018/19. A small number of savings

shortfalls are being mitigated by one-off measures pending the development of sustainable measures to be implemented from 2018/19.

### **Chief Executive (excluding Safer and Stronger Communities)**

- 3.18 A balanced overall position is being forecast, with all approved savings on track for full delivery in 2017/18.

### **Safer and Stronger Communities**

- 3.19 Significant service pressures are being faced as a result of temporary accommodation management fees being removed from Housing Benefit eligibility with effect from April 2017, combined with changes to the benefits cap which also impact on Housing Benefit income. These pressures are being exacerbated by increasing demand for both Bed and Breakfast and Short-Term Let accommodation as a result of longer average lengths of stay and a shortage of available “move-on” accommodation.
- 3.20 The total projected unfunded budget pressure is currently £8.6m which is partially offset by mitigations totalling £5.1m, resulting in a net residual unfunded budget pressure of £3.5m.
- 3.21 The Head of Safer and Stronger Communities remains fully committed to making all efforts to identify mitigations to reduce the pressure. There is, however, limited scope to achieve this, given the size of the pressure relative to the net budget available. A balanced budget position is not therefore expected to be deliverable by the end of 2017/18.

### **Corporate budgets**

- 3.22 A review of the size of the Council Tax base, taking into account property numbers and bands, reviews of Single Person Discount entitlement and recent years’ collection rates, points to an increase in projected Council Tax income in 2017/18 of £2m.
- 3.23 Based on an analysis of anticipated in-year capital spend and continuation of the policy of no new external borrowings, loans charge savings of £1m relative to budgeted levels are also anticipated.

### **2016/17 outturn**

- 3.24 Subject to the outcome of the external audit process, the Council’s General Fund outturn for 2016/17 showed an overall underspend of £1.058m. It is proposed, assuming ratification by Council, for this sum, currently uncommitted, to be made available to offset in-year pressures.
- 3.25 In view of the in-year underspend in respect of demand-led Council Tax Reduction Scheme expenditure in 2016/17, a provision of £2m was made as part of closing the 2016/17 accounts to provide transitional funding to support longer-term wider service redesign given further welfare reform-related changes due for implementation in 2017/18 and 2018/19. Subject to savings realised



through measures set out in the preceding sections, it is proposed to release this provision in 2017/18, thus mitigating the overall level of overspend.

## **Other areas**

### **Local Government election**

- 3.26 The Council's approved budget for 2017/18 included £1m in respect of conducting the Local Government election held on 5 May. Analysis of the outturn has confirmed that actual expenditure was maintained within this level.

### **2017/18 employee pay award**

- 3.27 Following acceptance by the three representative trade unions, agreement has been reached on the 2017/18 pay award for the Scottish Joint Council (SJC) for Local Government Employees and Chief Officials. The agreed settlement will see a flat-rate increase of £350 (applied pro-rata where applicable), effective from 1 April 2017, paid to all staff whose basic remuneration is no higher than £35,000 and 1% for those above this level. In order to maintain parity with the wider employee pay award, the Scottish Local Government Living Wage will also increase from £8.33 to £8.51 per hour from this time. Over the non-teaching Local Government workforce as a whole, the agreement equates to an average increase of about 1.55%.
- 3.28 While the level of settlement is slightly above that assumed in the budget framework, the resulting additional expenditure has been met within the overall inflationary provision. The actual level of pay award has also been reflected in the employee cost baseline for the 2018/19 budget. The equivalent position for the teachers' award will be confirmed once discussions have concluded.

### **Housing Revenue Account**

- 3.29 A balanced position is forecast after making a required £13.5m contribution to fund future delivery of the affordable housing strategy as set out in the HRA business plan, subject to repairs and maintenance expenditure outturning in line with budget.

## **4. Measures of success**

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

## **5. Financial impact**

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- 5.1 The report's contents point to a potential in-year overspend, highlighting the importance of prompt action to bring expenditure back in line with approved levels.

- 5.2 The Council's Financial Regulations set out Executive Directors' responsibilities in respect of financial management, including regular consideration of their service budgets.

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

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

## **7. Equalities impact**

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

## **8. Sustainability impact**

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

## **9. Consultation and engagement**

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- 9.1 The Corporate Leadership Team (CLT) has formally reviewed and discussed the month 3 position and year-end projection. As a consequence, the Chief Executive has tasked Executive Directors with identifying mitigating actions to address in-year pressures and to review opportunities for additional savings proposals.

- 9.2 There is no external consultation and engagement arising directly from this report, although the Council's budget continues to be subject to a process of regular consultation and engagement.

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

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- 10.1 Service monitoring statements for period three.

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Executive Director of Resources

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## **11. Appendices**

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Appendix 1 – Service analysis, Period 3

Appendix 2 – 2017/18 budget savings RAG assessment – savings assessed as red in part or in full

REVENUE MONITORING 2017-18

PERIOD 3 REPORT

SERVICE ANALYSIS

Account	Revised Budget £000	Budget to Date £000	Actual to Date £000	Variance to Date		Projected Outturn £000	Projected Variance	
				£000	%		£000	%
Communities and Families	341,812	85,453	85,453	0	0.0%	341,812	0	0.0%
Place	64,070	16,018	18,153	2,136	13.3%	65,070	1,000	1.6%
Resources	165,619	39,080	37,576	(1,504)	(3.8%)	165,119	(500)	(0.3%)
Health and Social Care	184,201	41,445	43,207	1,762	4.3%	191,301	7,100	3.9%
Chief Executive	11,086	3,221	3,168	(53)	(1.6%)	11,086	0	0.0%
Safer and Stronger Communities	25,715	6,429	6,902	473	7.4%	29,215	3,500	13.6%
Valuation Joint Board Requisition	3,741	935	935	0	0.0%	3,741	0	0.0%
<b>General Fund Services Subtotal</b>	<b>796,244</b>	<b>192,581</b>	<b>195,394</b>	<b>2,814</b>	<b>1.5%</b>	<b>807,344</b>	<b>11,100</b>	<b>1.4%</b>
<b>Other income and expenditure</b>								
Net Cost of Benefits	(62)	(16)	51	67	n/a	(62)	0	0.0%
Early Release Costs	1,010	253	857	605	0%	1,010	0	0.0%
Other non-service specific costs	24,611	6,153	3,218	(2,935)	0%	24,611	0	0.0%
Interest and investment income	(8,811)	(2,203)	0	2,203	0%	(8,811)	0	0.0%
Loan Charges	114,442	28,611	0	(28,611)	0%	113,442	(1,000)	-0.9%
Contributions to Earmarked Funds	6,292	1,573	0	(1,573)	0%	4,292	(2,000)	-31.8%
Income from Council Tax	(266,342)	(66,586)	(66,586)	0	0%	(268,342)	(2,000)	-0.8%
- Council tax reduction scheme	23,277	5,819	5,819	0	0%	23,277	0	0.0%
Revenue support grant	(335,598)	(83,900)	(83,900)	0	0%	(335,598)	0	0.0%
Distribution from NDRI pool	(355,063)	(88,766)	(88,766)	0	0%	(355,063)	0	0.0%
Return of 2016/17 surplus from Council Priorities Fund	0	0	0	0	0%	(1,058)	(1,058)	n/a
<b>In-year Deficit / (Surplus)</b>	<b>0</b>					<b>5,042</b>	<b>5,042</b>	<b>n/a</b>

BUDGET SAVINGS RAG ASSESSMENT, JULY 2017 - APPROVED PROPOSALS WITH ANY ELEMENT CURRENTLY ASSESSED AS RED

			RAG Status (insert relevant element of saving under each heading. These amounts should be shown net of any assumed mitigating action)				
Savings description	Service area	Approved level of saving, 2017/18 (£000)	Red	Amber	Green	Basis of current status, including brief details of confirmed or planned mitigating actions	Planned actions and associated timescales for delivery of savings
Edinburgh Connect	Communities and Families	142	30	0	112	The Council and the NHS are jointly reviewing the Connect service and as part of the review, one-year only additional funding of £30K has been agreed.	Savings will be delivered in full from April 2018.
Review of support staff within all Special Schools	Communities and Families	292	50	0	242	The majority of savings have been delivered and the actions to ensure full-year savings next year will be in place by December. The £50K shortfall has been covered from one-off savings in another area.	
Review allowances within family-based care	Communities and Families	158	73	25	60	£60K relates to kinship care and is achieved. The £98K relating to adoptions allowances is expected to be delivered over four years through existing adopters moving onto a new rate band. The temporary shortfall in savings will be covered from other mitigating actions.	
<b>Total, Communities and Families</b>			<b>153</b>				

Savings description	Service area	Approved level of saving, 2017/18 (£000)	Red	Amber	Green	Basis of current status, including brief details of confirmed or planned mitigating actions	Planned actions and associated timescales for delivery of savings
Reablement 1	Health and Social Care	630	630	0	0	Business cases for savings yet to be finalised and actioned	Work is currently being progressed to achieve the approved savings via agreed business cases for proposals focussed on asset-based assessment, support planning & brokerage, telecare, etc. Work has also begun to identify further opportunities, both centrally and through locality management for schemes that include: targeted reviews to reduce cost of care packages; business process redesign and; tackling delays across the system.
Telecare	Health and Social Care	960	960	0	0	Business cases for savings yet to be finalised and actioned	
Review Team	Health and Social Care	300	300	0	0	Business cases for savings yet to be finalised and actioned	
Support planning and brokerage	Health and Social Care	2,880	2,880	0	0	Business cases for savings yet to be finalised and actioned	
Review of financial allocation system	Health and Social Care	750	750	0	0	Business cases for savings yet to be finalised and actioned	
Reablement 2	Health and Social Care	510	510	0	0	Business cases for savings yet to be finalised and actioned	
<b>Total Health and Social Care</b>			<b>6,030</b>				
Place	Environment	2,030	2,030			At this stage, all Environment-related savings are assessed as "red" pending continuing work on improvement plans for Roads and Waste Services.	
<b>Total Place</b>			<b>2,030</b>	<b>0</b>	<b>0</b>		
<b>Total all areas</b>			<b>8,213</b>				

# Governance, Risk and Best Value Committee

10.00am, Tuesday 26 September 2017

## Capital Monitoring 2017-18 – Three-Month Position - referral from the Finance and Resources Committee

Item number	7.13
Report number	
Wards	All

### Executive summary

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On 5 September 2017 the Finance and Resources Committee considered a report that set out the overall position of the Council's capital budget at the three month stage and the projected outturn for the year. The report has been referred to the Governance, Risk and Best Value Committee for consideration as part of its work-plan

# Terms of Referral

## Capital Monitoring 2017-18 – Three Month Position

### Terms of referral

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- 1.1 The Capital Monitoring month three position showed that the Council was projected to require to borrow £40,843m and would be in receipt of grants and capital income amounting to £104.169m. Together this would fund projected capital investment of £145.012m. The level of borrowing requirement was projected to be £5.098m lower than the revised budget as a result of anticipated slippage in the delivery of the capital investment programme partly offset by delayed receipts from asset sales.
- 1.2 The HRA capital investment programme was expected to be delivered in line with the revised budget with a projected borrowing requirement of £42.992m and would be in receipt of grants and capital income amounting to £35.012m. Together this would fund projected capital investment of £78.004m
- 1.3 The Finance and Resources Committee agreed:
  - 1.3.1 To note the projected capital outturn positions on the General Fund and HRA at month three.
  - 1.3.2 To note the prudential indicators at month three.
  - 1.3.3 To refer the report to the Governance, Risk and Best Value Committee as part of its workplan.

### For Decision/Action

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- 2.1 The Finance and Resources Committee has referred the report to the Governance, Risk and Best Value Committee on 26 September 2017 for consideration as part of its work-plan.



## Background reading / external references

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Finance and Resources Committee 5 September 2017.

### **Laurence Rockey**

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## Links

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### **Appendices**

Appendix 1 - report by the Executive Director of Resources

# Finance and Resources Committee

10.00am, Tuesday 5 September 2017

## Capital Monitoring 2017/18 – Three-month position

Item number

Report number

Executive/routine

Wards

### Executive summary

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The month three position shows that the Council is projected to require to borrow £40.843m and will be in receipt of grants and capital income amounting to £104.169m. Together this will fund projected capital investment of £145,.012m. The level of borrowing requirement is projected to be £5.098m lower than the revised budget as a result of anticipated slippage in the delivery of the capital investment programme partly offset by delayed receipts from asset sales.

The HRA capital investment programme is expected to be delivered in line with the revised budget with a projected borrowing requirement of £42.992m and will be in receipt of grants and capital income amounting to £35.012m. Together this will fund projected capital investment of £78.004m.

## Capital Monitoring 2017/18 – Three Month Position

### Recommendations

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- 1.1 Members of the Finance and Resources Committee are requested to:
  - 1.1.1 Note the projected capital outturn positions on the General Fund and HRA at month three;
  - 1.1.2 Note the prudential indicators at month three; and
  - 1.1.3 Refer the report to the Governance, Risk and Best Value Committee as part of its work-plan.

### Background

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- 2.1 This report sets out the overall position of the Council's capital budget at the three month stage and the projected outturn for the year.

### Main report

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- 3.1 The month three budget position is based on the revised 2017-2022 Capital Investment Programme incorporating slippage / acceleration from 2016/17 (the detail of which can be seen in Appendix 7 of the Capital Monitoring 2016/17 – Outturn and Receipts report which is elsewhere on the agenda).
- 3.2 The position at month three can be seen in Appendix 1, which shows expenditure on the Capital Investment programme of £145.012m funded by grants and other capital income of £104.169m and borrowing requirement of £40.843m.
- 3.3 The Water of Leith Phase 2 flood prevention project is expected to be completed in 2017/18 with forecast expenditure £4.5m under the budget provision. Officers proposals will be brought to Members for approval to transfer the resources available from this underspend to other capital expenditure priorities (see paragraph 3.8).
- 3.4 Members should note that in any given year, variance against budget will occur due to delays or unforeseen circumstances outwith the control of the Council. Whilst known variances to the delivery of the programme advised by Executive Directors have been incorporated into the revised Programme referred to in 3.1, an assumption of further slippage in the Programme of 2.5% of the revised budget, amounting to £3.834m has been made at this early stage in the financial year. This general provision and specific project variances will be kept under review throughout the remainder of the year and amended as appropriate.

### **Capital receipts/grant income**

- 3.5 Projected capital receipts from the sale of surplus assets of £15.7m are lower than budget by £3.236m for 2017/18 as a result of changes in anticipated settlement dates for receipts which are now expected to be received in 2018/19.
- 3.6 Members should also be aware that the value and timing of capital receipts can be impacted by a number of factors including abnormal costs arising from survey results and offers contingent on planning approvals. Any further revisions to the receipts programme will be reported within future capital monitoring reports.
- 3.7 An overall balanced net underspend position of £5.098m is projected currently reflecting up to date re-phasing and realignment of the revised capital programme 2017-2022.

### **Impact in Future Years**

- 3.8 As members may be aware from the briefing paper that the North Bridge refurbishment project is currently estimated to be under funded by £5.262m. The existing budget provision of £12m has been accelerated in line with the feasibility report and cost estimate provided. The shortfall in the project funding of £4.411m in 2019/20 and £0.851m in 2020/21 will require to be considered as part of the budget setting process.
- 3.9 There may be a shortfall in the anticipated capital receipt from the sale of the current Boroughmuir High School as the result of the rejection of planning permission for the development proposed by the prospective purchaser. The receipt has been earmarked towards funding for the replacement Boroughmuir High School, Duncan Place nursery and the new South Edinburgh Primary School. Any shortfall in the funding for these projects will require to be considered as part of the budget setting process.

### **Prudential Indicators**

- 3.10 In considering its programme for capital investment, Members are 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 Council; and
  - Practicality, e.g. achievability of the forward plan.
- 3.11 The Prudential Indicator monitoring attached in Appendix 2 provides information for six indicators.
- 3.12 Indicator 1 shows the actual capital expenditure that was incurred in 2016/17, the previously approved capital programme and the forecast capital expenditure to be incurred for the current and future years. The difference between 2017/18 estimates and forecast is due to rephasing of the capital programme and project slippage in 2016/17.

- 3.13 Indicator 2 shows the estimates of the ratio of financing costs to net revenue streams for the Council and the HRA for the actual for 2016/17 and current and future years. Figures for 2018/19 onwards are indicative as the Council has not set a General Services or HRA budget for these years. The figures for General Services are based on the current long term financial plan. HRA figures are based on the business plan which was reported to Finance and Resources Committee on 19 January 2017.
- 3.14 Indicator 3 shows the Capital Financing Requirement. 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 is 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.
- 3.15 Indicator 4 shows the Authorised Limit for External Debt. 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.
- 3.16 Indicator 5 shows the 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 delegate authority to the 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.

- 3.17 Indicator 6 shows the impact on Council Tax and House rents from changes to the capital investment programme since it was previously reported. 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.

### **Housing Revenue Account (HRA)**

- 3.18 The Housing Revenue Account is forecasting to spend in line with its revised budget. The full HRA capital investment budget position is shown in Appendix 3. At month three, the forecast is gross expenditure of £78.004m, capital receipts and grant income of £35.012m and prudential borrowing of £42.992m.

## **Measures of success**

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- 4.1 Completion of capital projects as budgeted for in the revised 2017/18 capital programme.
- 4.2 Identifying slippage at the earliest opportunity and accelerating projects where possible to ensure best use of available resources.

## **Financial impact**

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- 5.1 The projected 2017/18 general fund outturn outlines capital borrowing of £40.843m. The overall loan charges associated with this borrowing over a 20-year period would be a principal amount of £40.843m, interest of £26.588m, resulting in a total cost of £67.431m based on a loans fund interest rate of 5.1%. The loan charges will be interest only in the first year, at a cost of £1.051m, followed by an annual cost of £3.493m for 20 years.
- 5.2 The projected 2017/18 HRA outturn outlines capital borrowing of £42.992m. The overall loan charges associated with this borrowing over a 20-year period would be a principal amount of £42.992m, interest of £27.987m, resulting in a total cost of £70.979m based on a loans fund rate of 5.1%. The loan charges will be interest only in the first year, at a cost of £1.119m followed by an annual cost of £3.493m for 20 years.
- 5.3 The borrowing required is carried out in line with the Council's approved Treasury Management Strategy.
- 5.4 The loan charge costs outlined above will be met from this year's general fund and HRA revenue budgets for loan charges.

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

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- 6.1 Significant budget virements have complied with relevant financial rules and regulations.

- 6.2 Capital monitoring and budget setting processes adopted ensure effective stewardship of resources. The processes applied aim to ensure projects are delivered on time and budget whilst fulfilling the financial criteria of value for money.
- 6.3 Monitoring of major capital projects including risk assessment is carried out by the Council's Strategy and Insight service.
- 6.4 The nature of capital projects means that there is an inherent risk of delays or unforeseen circumstances outwith the control of the Council.

## **Equalities impact**

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- 7.1 The Council's capital expenditure contributes to the delivery of the public sector equality duty to advance equality of opportunity and foster good relations e.g. enhancement works related to the Disability Discrimination Act, works on Children and Families establishments and capital expenditure on Council housing stock.

## **Sustainability impact**

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- 8.1 The impacts of the projects set out within the appendices of this report in relation to the three elements of the Climate Change (Scotland) Act 2009 Public Bodies Duties have been considered, and the outcomes are summarised below. Relevant Council sustainable development policies have been taken into account.
- 8.2 The proposals in this report will help achieve a sustainable Edinburgh because they are ensuring funding for key strategic projects that will enhance facilities and infrastructure in the city. A carbon impact assessment shall be carried out on each new project to achieve the most sustainable outcome for the city in each case.
- 8.3 The proposals in this report will increase the city's resilience to climate change impacts because they are securing funding for flood prevention projects.

## **Consultation and engagement**

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- 9.1 Consultation on the capital budget was undertaken as part of the budget process.

## Background reading/external references

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[Capital investment programme plan 2017-18 to 2025-26](#) - City of Edinburgh Council, 9 February 2017

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## 11. Appendices

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Appendix 1 - Capital Monitoring 2017/18 – General Fund

Appendix 2 - Prudential Indicators 2017/17

Appendix 3 - Capital Monitoring 2017/18 - HRA



## Capital Monitoring 2017/18

## General Fund Summary

## Period 3

	Approved Budget £000	Adjusts £000	Revised Budget £000	Actual to Date £000	Projected Outturn £000	Projected Variance £000 %	
<b>Expenditure</b>							
Communities and Families	33,368	2,750	36,118	5,329	36,118	-	0.00%
Edinburgh IJB	134	168	302	71	302	-	0.00%
Place	127,259	(36,688)	90,571	7,760	86,071	(4,500)	0.00%
Resources - Asset Management Works	11,132	(247)	10,885	2,239	10,885	-	0.00%
Resources - Other	-	15,470	15,470	191	15,470	-	0.00%
General slippage across programme			-		(3,834)	(3,834)	n/a
<b>Total Gross Expenditure</b>	<b>171,893</b>	<b>(18,547)</b>	<b>153,346</b>	<b>15,590</b>	<b>145,012</b>	<b>(8,334)</b>	<b>-5.43%</b>
<b>Income</b>							
<i>Capital Receipts</i>							
General Services	18,936	-	18,936	742	15,700	(3,236)	-17.09%
Ringfenced Asset Sales	7,880	(4,410)	3,470	118	3,470	-	0.00%
Less additional receipt income to capital fund	(5,559)	-	(5,559)	-	(5,559)	-	0.00%
Asset Sales to reduce Corporate borrowing	1,406	484	1,890		1,890	-	0.00%
Less Fees Relating to General Receipts	-	-	-		-	-	n/a
<i>Total Capital Receipts from Asset Sales</i>	<i>22,663</i>	<i>(3,926)</i>	<i>18,737</i>	<i>860</i>	<i>15,501</i>	<i>(3,236)</i>	<i>-17.27%</i>
Developer and other Contributions	174	571	745	(945)	662	-	0.00%
Capital Grants Unapplied Account drawdown	-	9	9	-	9	-	0.00%
<i>Total Capital Receipts</i>	<i>22,837</i>	<i>(3,346)</i>	<i>19,491</i>	<i>(85)</i>	<i>16,172</i>	<i>(3,236)</i>	<i>-16.60%</i>
<i>Grants</i>							
Scottish Government General Capital Grant	53,708	-	53,708	13,427	53,708	-	0.00%
Cycling, Walking and Safer Streets	683	-	683	171	683	-	0.00%
Management Development Funding	29,115	-	29,115	7,279	29,115	-	0.00%
Early Years and Childcare - Expansion	-	2,504	2,504	-	2,504	-	0.00%
Other Specific Government Grants	-	2,660	2,660	-	1,987	-	0.00%
<i>Total Grants</i>	<i>83,506</i>	<i>5,164</i>	<i>88,670</i>	<i>20,877</i>	<i>87,997</i>	<i>-</i>	<i>0.00%</i>
<b>Total Capital Income</b>	<b>106,343</b>	<b>1,818</b>	<b>108,161</b>	<b>20,792</b>	<b>104,169</b>	<b>(3,236)</b>	<b>-2.99%</b>
<b>Balance to be funded through borrowing</b>	<b>65,550</b>	<b>(20,365)</b>	<b>45,185</b>		<b>40,843</b>	<b>(5,098)</b>	<b>-11.28%</b>

Appendix 2

**PRUDENTIAL INDICATORS 2017/18 - Period 3**

**Indicator 1 - Estimate of Capital Expenditure**

	2016/17	2017/18	2017/18	2018/19	2018/19	2019/20	2019/20	2020/21	2020/21	2021/22	2021/22
	Actual	Estimate	Forecast	Estimate	Forecast	Estimate	Forecast	Estimate	Forecast	Estimate	Forecast
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Council Wide / Corporate Projects	1,184	0	0	0	0	0	0	0	0	0	0
Unallocated funding - indicative 5 year plan 2019/20	0	0	0	0	0	0	0	0	0	7,000	7,000
Chief Executive	838	0	0	0	0	0	0	0	0	0	0
Communities and Families	41,816	33,368	36,118	23,404	28,895	17,850	17,850	2,485	2,485	165	165
Edinburgh Integration Joint Board	4,527	134	302	69	2,069	1,528	1,528	0	0	0	0
Place	90,704	127,259	86,071	33,554	86,315	77,398	76,622	24,535	85,277	20,285	19,835
Resources	0	0	15,470	0	0	0	0	0	0	0	0
Resources - Asset Management Works	18,908	11,132	10,885	7,229	7,706	27,107	25,360	14,000	14,000	14,000	14,000
General slippage across programme (2.5%)	0	0	-3,834	0	3,834	0	0	0	0	0	0
Total General Services	157,977	171,893	145,012	64,256	128,819	123,883	121,360	41,020	101,762	41,450	41,000
Housing Revenue Account	43,627	79,459	79,459	100,933	100,933	97,414	97,414	105,849	105,849	147,388	147,388
Total	201,604	251,352	224,471	165,189	229,752	221,297	218,774	146,869	207,611	188,838	188,388

The 'estimate' figures relate to those reported in the prudential indicators as part of the budget approved in February 2017. Differences between these and the 'forecast' figures relate to further realignment and rephasing that has taken place as part of the revised budget process.

**Indicator 2 - Ratio of Financing Costs to Net Revenue Stream**

	2016/17	2017/18	2017/18	2018/19	2019/20	2020/21	2021/22
	Actual	Estimate	Forecast	Estimate	Estimate	Estimate	Estimate
	%	%	%	%	%	%	%
General Services	11.63	11.53	11.96	11.72	11.61	11.41	N/A
Housing Revenue Account	35.21	37.61	36.33	39.58	42.28	44.79	46.76

Forecast and estimates include the financing cost relating to the Tram (phase 1) project.

Figures for 2018/19 onwards are indicative as neither the Council nor HRA has set a budget for these years. The figures for General Services are based on the current long term financial plan that ends in 2020/21. HRA figures are based on the current business plan.

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**Indicator 3 - Capital Financing Requirement**

	2016/17 Actual £000	2017/18 Estimate £000	2017/18 Forecast £000	2018/19 Estimate £000	2018/19 Forecast £000	2019/20 Estimate £000	2019/20 Forecast £000	2020/21 Estimate £000	2020/21 Forecast £000	2021/22 Estimate £000	2021/22 Forecast £000
General Services (including finance leases)	1,250,818	1,272,527	1,222,218	1,210,923	1,213,964	1,202,508	1,208,834	1,134,855	1,201,943	1,061,110	1,128,198
Housing Revenue Account	364,934	398,199	391,106	435,864	428,771	486,728	479,635	523,509	516,416	583,289	576,196
<b>Total</b>	<b>1,615,752</b>	<b>1,670,726</b>	<b>1,613,324</b>	<b>1,646,787</b>	<b>1,642,735</b>	<b>1,689,236</b>	<b>1,688,469</b>	<b>1,658,364</b>	<b>1,718,359</b>	<b>1,644,399</b>	<b>1,704,394</b>

Forecasts include the capital financing requirement relating to PPP assets and Trams (Phase 1) project

**Indicator 4 - Authorised Limit for External Debt**

	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m
Borrowing	1,970	1,960	1,990	1,900	1,800
Credit Arrangements	220	200	200	230	220
<b>Total</b>	<b>2,190</b>	<b>2,160</b>	<b>2,190</b>	<b>2,130</b>	<b>2,020</b>

Other Long-Term Liabilities includes finance lease repayments for PPP assets

**Indicator 5 - Operational Boundary for External Debt**

	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m
Borrowing	1,580	1,570	1,610	1,600	1,590
Other Long-Term Liabilities	220	200	200	230	220
<b>Total</b>	<b>1,800</b>	<b>1,770</b>	<b>1,810</b>	<b>1,830</b>	<b>1,810</b>

Other Long-Term Liabilities includes finance lease repayments for PPP assets

Appendix 2

**Indicator 6 - Impact on Council Tax and House Rents**

	<b>2017/18</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2021/22</b>
	<b>Estimate</b>	<b>Forecast</b>	<b>Estimate</b>	<b>Forecast</b>	<b>Estimate</b>	<b>Forecast</b>	<b>Estimate</b>	<b>Forecast</b>	<b>Estimate</b>	<b>Forecast</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
for the band "D" Council Tax	9.17	-0.05	13.68	2.58	18.02	8.92	N/A	8.46	N/A	N/A
for the average weekly housing rents	-0.68	0.23	-0.50	1.17	0.55	2.62	3.50	3.60	N/A	5.78

In calculating the incremental impact of capital investment decisions on the band "D" Council Tax, investment decisions relating to National Housing Trust Phases and the St James GAM have been omitted. As agreed with the Scottish Government, the borrowing and associated interest costs related to this expenditure are directly rechargeable to developers 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.

The changes between the forecast and the original estimate reflect the realignment of the Capital Investment Programme reported to Finance and Resources Committee in August 2017.

## Appendix 3

**CAPITAL MONITORING 2017/18****Housing Revenue Account Summary****Period 3**

	Revised Budget £000	Actual to Date £000	Projected Outturn £000	Projected Variance	
				£000	%
Gross Expenditure	78,004	8,360	78,004	0	0.0%
Total Gross Expenditure	78,004	8,360	78,004	0	0.0%

<b>Income</b>					
Capital Receipts	-11,400	-766	-11,400	0	0.0%
Developers and Other Contributions	-16,537	-120	-16,537	0	0.0%
Specific Capital Grant	-7,075	-2,119	-7,075	0	0.0%
Total Income	-35,012	-3,005	-35,012	0	0.0%

<b>Borrowing</b>					
Borrowing	42,992		42,992	0	0.0%
Total	42,992		42,992	0	0.0%