

# 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

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| 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

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## 11. Appendices

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

Appendix 2 – 2016/17 Audited Annual Accounts



**Scott-Moncrieff**  
business advisers and accountants

# **City of Edinburgh Council**

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

**September 2017**



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# Key messages

## Annual accounts

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

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

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

## Wider scope

### Financial sustainability

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

### Financial management

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

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

### Governance and transparency

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

### Value for money

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

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

## Key facts

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

## Conclusion

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

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

# 1

## Introduction

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

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

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

# Introduction

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

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



Source: Code of Audit Practice, May 2016

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

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

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

## Adding value through the audit

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

# 2

## Annual accounts

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

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

# Annual accounts

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## An unqualified audit opinion on the annual accounts

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

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

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

## Good administrative processes were in place

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

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

## Overall conclusion

### An unqualified audit opinion on the annual accounts

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

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

### Good administrative processes were in place

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

## Our assessment of risks of material misstatement

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




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

### 1. Revenue recognition

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


*Noted in 2016/17 External Audit Plan*

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

### 2. Management override

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

*Noted in 2016/17 External Audit Plan*

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

*Action plan point 1*

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

### 3. Associated spend with new financial systems

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

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

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

*Noted in 2016/17 External Audit Plan*



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

### Other risk factors

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

#### School closures

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

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

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

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

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

### Significant trading operations

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

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

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

### Revised financial statement formats

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

### Loans Fund Accounting

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

### Group accounting

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

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

## Our application of materiality

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

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

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

|         | Area risk assessment<br>£million |                 |              |
|---------|----------------------------------|-----------------|--------------|
|         | High<br>(45%)                    | Medium<br>(55%) | Low<br>(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<br>£million | Actual<br>£million | Variance<br>£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.

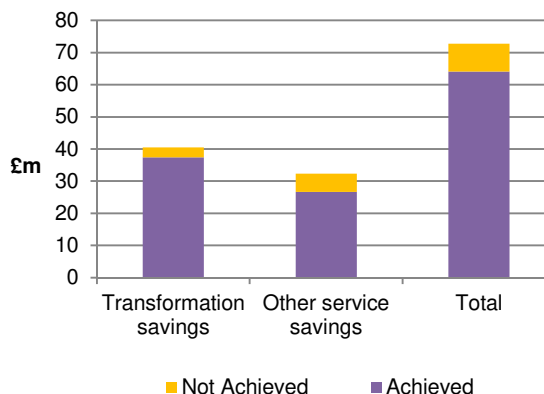
#### Audit Plan Point 3

### 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**

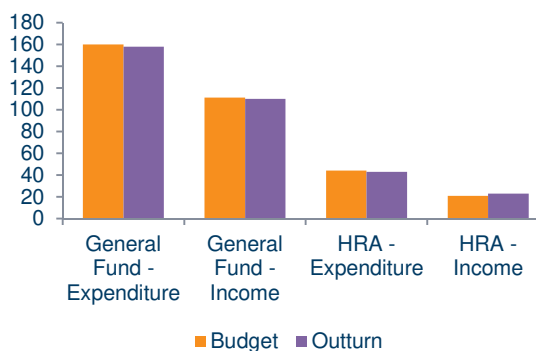


Source: 2016-17 Outturn Report

### 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**



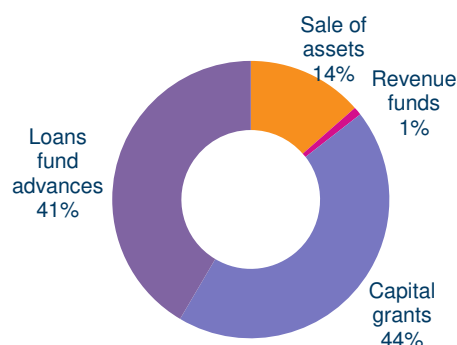
Source: Capital Outturn Report 2016/17

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

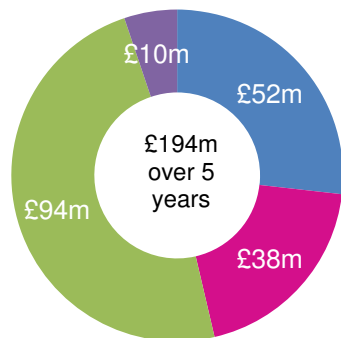
100. The Scottish Government sets out the financial settlement for councils in December each year. The council uses the settlement figures to update assumptions, and to refine budget proposals before the budget is finalised. The budget for 2017-18 was approved by the council at its meeting in February 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**



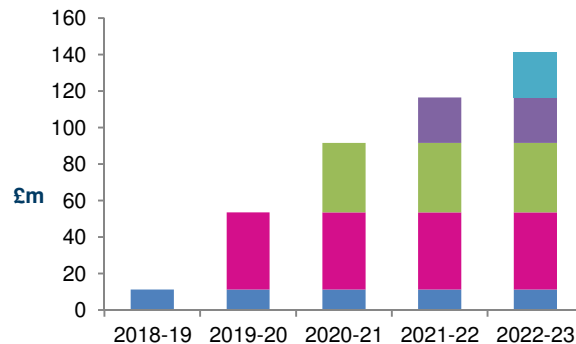
- Pay awards
- Demographic challenges
- Government funding
- City Deal/Infrastructure

**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:

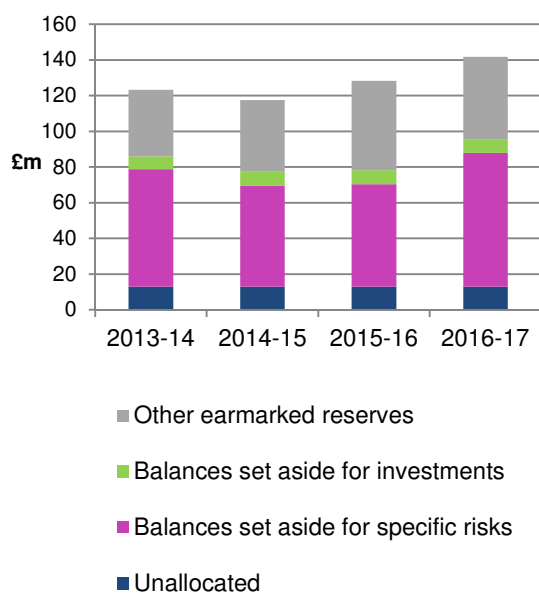
- The achievement of transformation and other savings
- Volatile demand and therefore funding to deliver the planned outcomes of the Edinburgh Integration Joint Board
- Demographic changes leading to rising service demands.

**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**

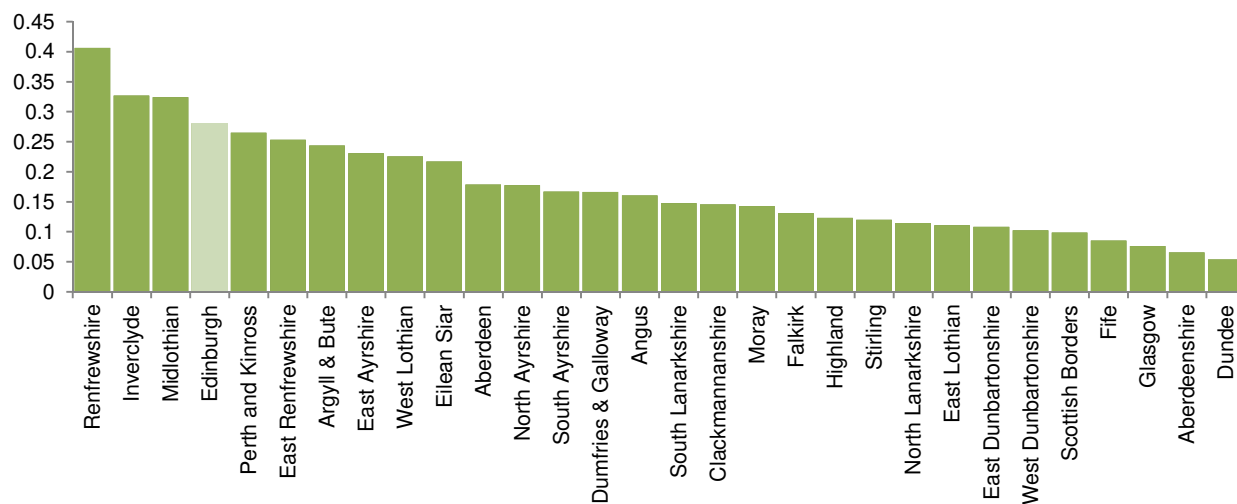
- 111.** Exhibit 11 summarises the movements on the council's usable reserves in 2016-17. We note that the City of Edinburgh council's level of usable reserves is above the mean of other local authorities in Scotland and supports our view that the council has adequate financial management arrangements 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<br>£million | 2015/16<br>£million | 2016/17<br>£million | Movement<br>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

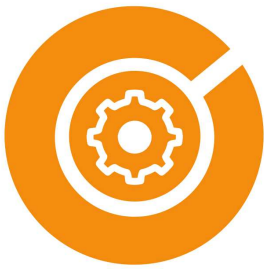
- 136.** In September 2017, the council initiated a consultation exercise to help shape the next Local Development Plan (LDP). The council's LDP provides the vision for how communities will grow and develop in the future. The consultation and key appraisals such as the impact on education, the environment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

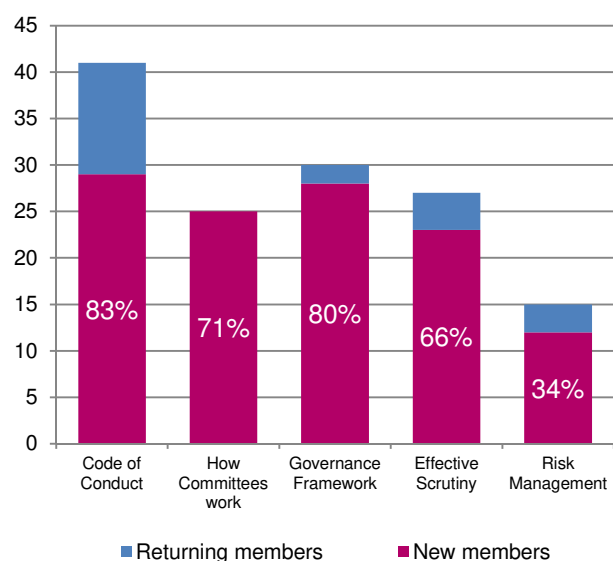
151. It is too early to conclude on the effectiveness of the revised committee arrangements. We have, however, attended and observed a number of council and committee meetings over the period August 2016 to August 2017.
152. During our observations, we noted that papers were well-prepared, allowing questions 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.

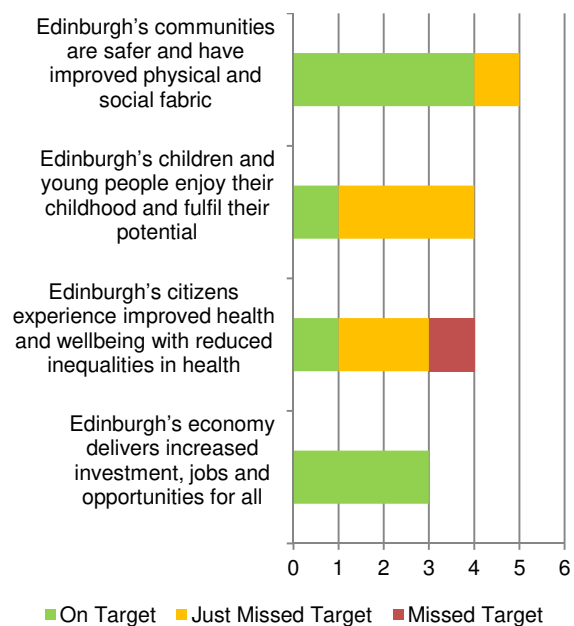
## Public Performance reporting

- 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)

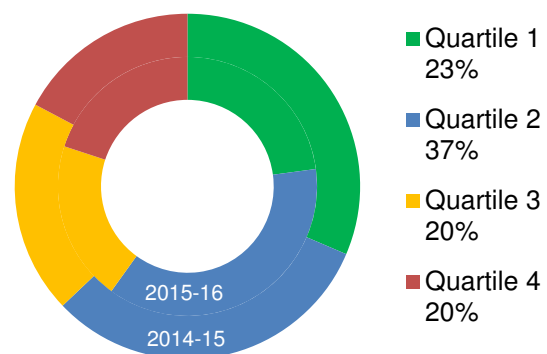
- The Percentage of adults satisfied with the refuse collection services (32nd)
- Cost of maintenance per kilometre of roads (27th)
- Accommodation that is suitable for current use (32nd).

**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



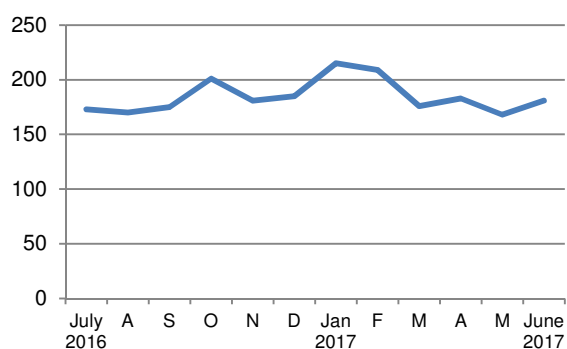
Source: Local Benchmarking Framework Annual Report

## 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<br/>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: <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>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.</p> | 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. <p><b>Responsible Officers:</b> Interim Strategy and Insight Senior Manager</p> <p><b>Completion Date:</b> March 2018</p> |
| <b>Rating</b>        |   |   |
| <b>Medium</b>        |   |   |
| <b>Paragraph ref</b> |   |   |
| 190                  |   |   |

| Action plan point    | Issue & Recommendation   | Management Comments   |
|----------------------|--|---|
| 8                    | The Council's performance in relation to delayed discharges has continued to worsen in the period to June 2017 despite a focus being given to the issue. Edinburgh has regularly had the highest number of delayed discharges of any Integration Authority in Scotland. We recommend that improving performance in this area remains a priority. | Performance is closely monitored at: <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> <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>Rating</b>        |  |   |
| <b>High</b>          |  |   |
| <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

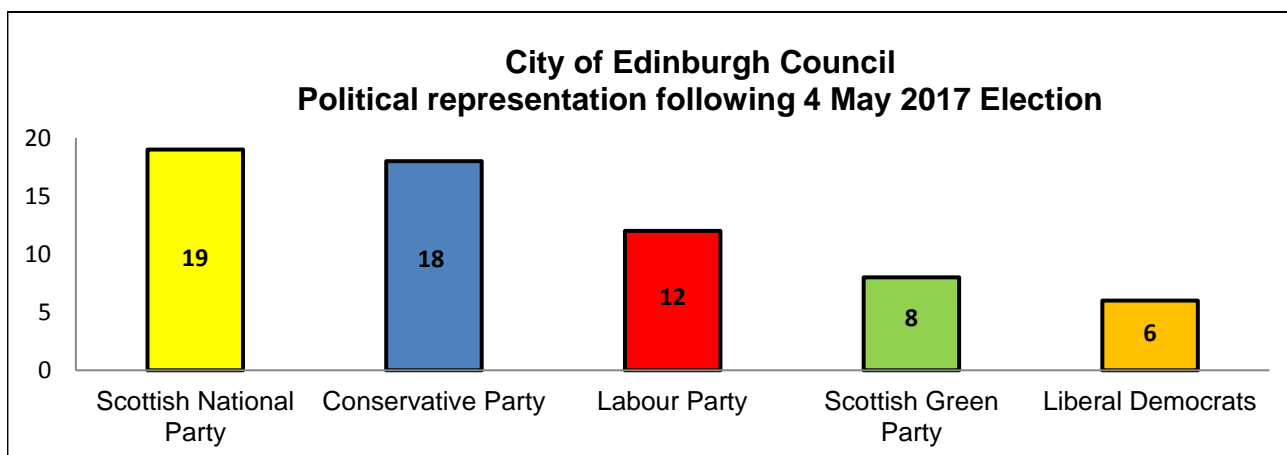
The City of Edinburgh Council was constituted under the Local Government, etc. (Scotland) Act 1994 and became the unitary local authority to Scotland's capital city in April 1996. The Council brought together most of the services delivered by the previous regional and district councils, with its primary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

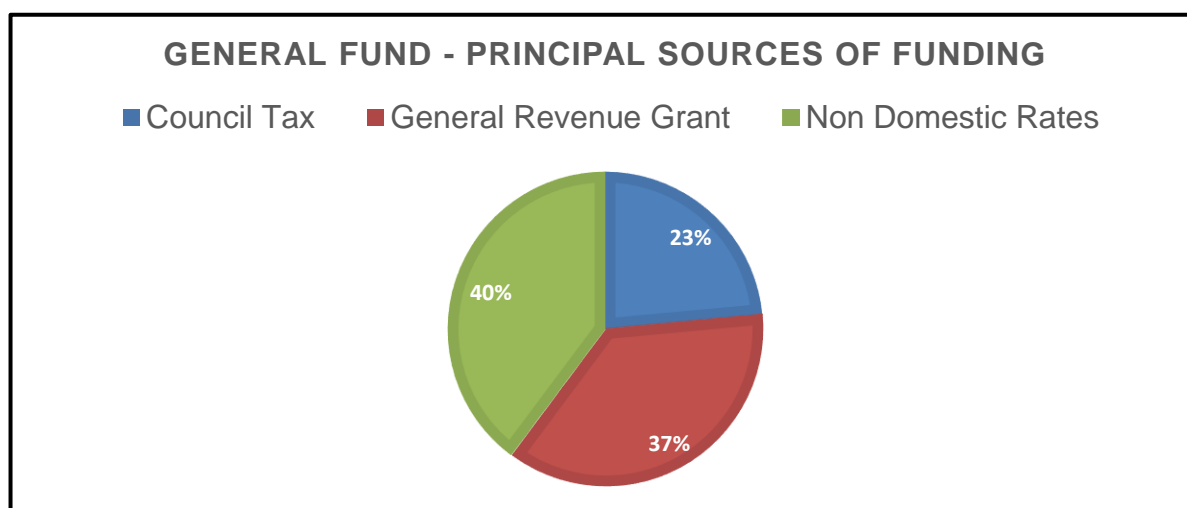
The main variances in the Council's outturn position arose in the following areas:

- 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

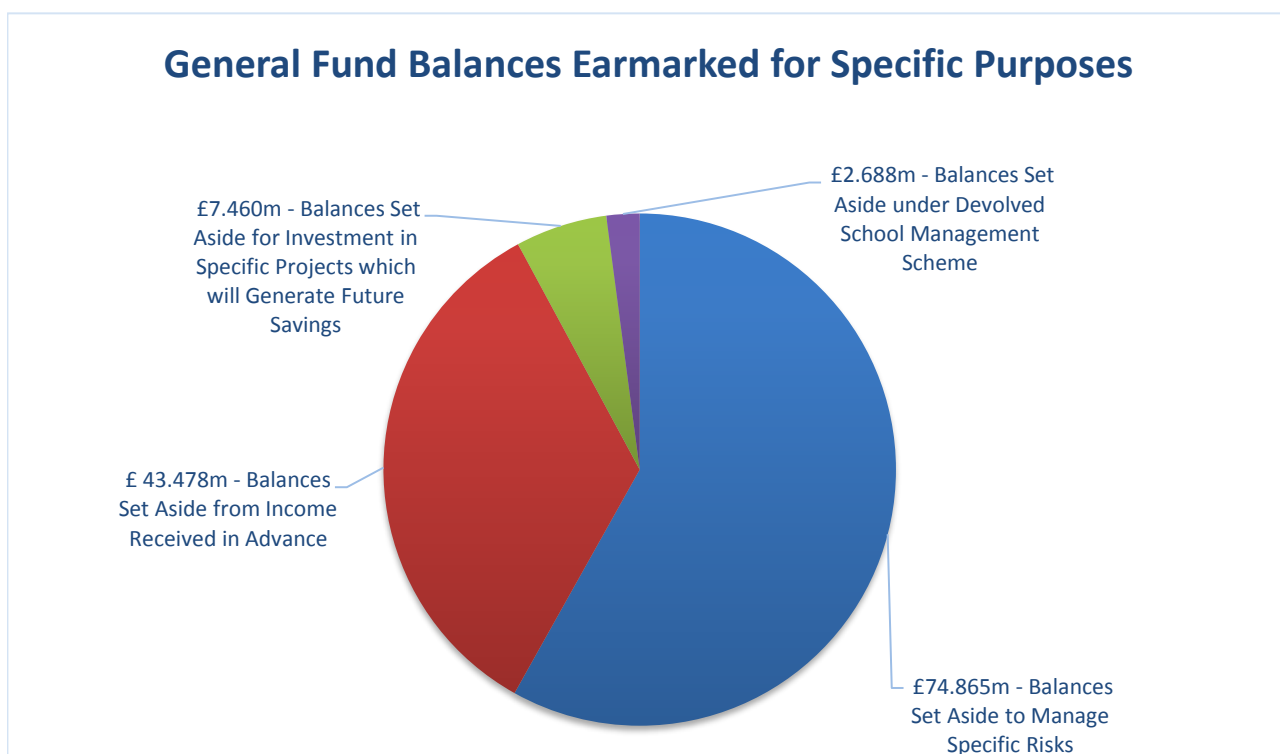
The Council's General Fund reserves comprise two elements:

- 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 Oxfangs 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.<br><br>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 (ESSH) 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<br/>Budget<br/>2016/17<br/>£000</b> | <b>Actual<br/>2016/17<br/>£000</b> | <b>(Slippage) /<br/>Acceleration<br/>£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<br/>Fund<br/>Balance<br/>£000</b>                 | <b>Housing<br/>Revenue<br/>Account<br/>Balance<br/>£000</b> | <b>Renewal<br/>and<br/>Repairs<br/>Fund<br/>£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<br/>Grants<br/>Unapplied<br/>Account<br/>£000</b> | <b>Capital<br/>Fund<br/>£000</b>                            | <b>Council's<br/>Total<br/>Usable<br/>Reserves<br/>£000</b> | <b>Group<br/>Usable<br/>Reserves<br/>£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<br/>Usable<br/>Reserves<br/>£000</b>                | <b>Council's<br/>Unusable<br/>Reserves<br/>£000</b>         | <b>Group<br/>Unusable<br/>Reserves<br/>£000</b>             | <b>Total<br/>Reserves<br/>£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<br>£000                     | Housing Revenue Account Balance<br>£000     | Renewal and Repairs Fund<br>£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<br/>£000</b> | <b>Capital Fund<br/>£000</b>                | <b>Council's Total Usable Reserves<br/>£000</b> | <b>Group Usable Reserves<br/>£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<br/>£000</b>            | <b>Council's Unusable Reserves<br/>£000</b> | <b>Group Unusable Reserves<br/>£000</b>         | <b>Total Reserves<br/>£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<br>2015/16<br>£000 |  | Notes | Gross<br>Expend.<br>£000 | Income<br>£000     | Net<br>Expend.<br>£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<br>2015/16 |   | Gross<br>Expend.                 | Income           | Net<br>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  |                                  |                  | (12,061)       |
| 108,331              | Financing and Investment Income and Exp.  |                                  |                  | 93,889         |
| (1,032,322)          | Taxation and Non-Specific Grant Income  |                                  |                  | (999,442)      |
| <u>(1,277)</u>       | <b>SURPLUS ON PROVISION OF SERVICES</b>   |                                  |                  | (10,768)       |
| 2,294                | Deficit / (Surplus) on Revaluation of<br>Non-Current Assets                       |                                  | (40,473)         |                |
| (37,286)             | Return on assets excluding amounts incl.<br>in Financing and Investment Inc / Exp |                                  | (428,706)        |                |
| (285,852)            | Changes in Financial and Demographic<br>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) /<br/>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<br>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<br>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)<br>31 March<br>2016 |  | 31 March 2017 |                  |                         |
|---------------------------------|--|---------------|------------------|-------------------------|
| £000                            |  | Notes         | £000             | £000                    |
| (1,298,249)                     | Long-Term Borrowing                          |               | (1,243,890)      |                         |
| (219,947)                       | Other Long-Term Liabilities                  |               | (207,484)        |                         |
| (9,072)                         | Deferred Tax                                 |               | (5,490)          |                         |
| (17,877)                        | Deferred Liability                           | 20.           | (22,357)         |                         |
| (3,066)                         | Liabilities in Associates and Joint Ventures |               | (9,573)          |                         |
| <u>(439,950)</u>                | Other Long-Term Liabilities (Pensions)       |               | <u>(710,582)</u> |                         |
| <u>(1,988,161)</u>              | <b>Long-Term Liabilities</b>                 |               |                  | <u>(2,199,376)</u>      |
| <u><b>2,118,242</b></u>         | <b>Net Assets</b>                            |               |                  | <u><b>1,904,185</b></u> |
| 856,303                         | Revaluation Reserve                          |               | 873,986          |                         |
| 1,376,129                       | Capital Adjustment Account                   |               | 1,403,268        |                         |
| (47,214)                        | Financial Instruments Adjustment Account     |               | (45,390)         |                         |
| 2                               | Available for Sale Financial Assets Reserve  |               | 0                |                         |
| (438,940)                       | Pensions Reserve                             |               | (705,786)        |                         |
| (14,862)                        | Employee Statutory Adjustment Account        |               | (14,121)         |                         |
| <u>108,366</u>                  | Group Unusable Reserves                      |               | <u>109,801</u>   |                         |
| <u>1,839,784</u>                | <b>Unusable Reserves</b>                     | 28.           |                  | 1,621,758               |
| 2,657                           | Capital Grants Unapplied Account             |               | 766              |                         |
| 68,793                          | Capital Fund                                 |               | 61,178           |                         |
| 38,194                          | Renewal and Repairs Fund                     |               | 50,141           |                         |
| 128,396                         | General Fund                                 |               | 141,826          |                         |
| <u>40,418</u>                   | Group Usable Reserves                        |               | <u>28,516</u>    |                         |
| <u>278,458</u>                  | <b>Usable Reserves</b>                       | 12.           |                  | <u>282,427</u>          |
| <u><b>2,118,242</b></u>         | <b>Total Reserves</b>                        |               |                  | <u><b>1,904,185</b></u> |

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

HUGH DUNN, CPFA  
Head of Finance  
28 September 2017

## BALANCE SHEET

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

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

## BALANCE SHEET

| (re-stated)<br>31 March<br>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><br><b>2015/16</b><br><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><br><b>2015/16</b><br><b>£000</b> |   | <b>Year ended 31 March 2017</b> |             |                  |
|---|---|---------------------------------|-------------|------------------|
|   |   | <b>Notes</b>                    | <b>£000</b> | <b>£000</b>      |
|   | <b>Operating Activities</b>   |                                 |             |                  |
| (1,277)   | Surplus on the Provision of Services  |                                 | (10,768)    |                  |
| (137,132)   | Adjustments to Surplus on the Provision of Services for non-cash movements  |                                 | (152,742)   |                  |
| (37,798)  | Adjustments for items included in the Surplus on the Provision of Services that are investing or Financing Activities |                                 | (35,405)    |                  |
| <u>(176,207)</u>                                    | Net cash flows from operating activities  | 29.                             |             | (198,915)        |
|   | <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

### 1.18 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.<br>Chargeable to<br>the General<br>Fund and HRA<br>Balances<br>£000 | Adjustments<br>£000 | Net<br>Expenditure in<br>the CIES<br>£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.<br>Chargeable to<br>the General<br>Fund and HRA |                     | Net<br>Expenditure in<br>the CIES |
|--|---|---------------------|-----------------------------------|
|  | Balances<br>£000  | Adjustments<br>£000 |                                   |
| Communities and Families<br>Place  | 399,003   | 17,625              | 416,628                           |
| Housing Revenue Account  | 146,237   | 92,137              | 238,374                           |
| Health and Social Care<br>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<br>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<br/>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<br>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<br>Capital<br>Purposes<br>£000 | Net Change<br>for Pensions<br>Adjusts.<br>£000 | Other<br>Differences<br>£000 | Total<br>Statutory<br>Adjusts.<br>£000 |
|---|---|--|------------------------------|--|
| Communities and Families<br>Place   | 4,478                                       | 1,363  | 2,135                        | 7,976                                  |
| Housing Revenue Account   | 71,318                                      | 1,052  | (1,147)                      | 71,223                                 |
| Health and Social Care<br>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<br>investment properties and changes in their<br>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<br/>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<br>Statutory<br>Adjusts.<br>b/fwd<br>£000 | Presentation<br>Adjusts.<br>£000 | Use of<br>Reserves<br>£000 | Total<br>Adjusts.<br>£000 |
|---|---|----------------------------------|----------------------------|---------------------------|
| Communities and Families Place  | 7,976   | (108)                            | 1,976                      | 9,844                     |
| Housing Revenue Account   | 71,223  | 35                               | 634                        | 71,892                    |
| Health and Social Care Resources  | (15,873)  | 0                                | (11,886)                   | (27,759)                  |
| Chief Executive   | (317)   | 0                                | 1,438                      | 1,121                     |
| Safer and Stronger Communities  | 41,683  | (16,468)                         | (2,855)                    | 22,360                    |
|   | 1,455   | 0                                | (837)                      | 618                       |
|   | 129   | 0                                | 6                          | 135                       |
| <b>Net Cost of Services</b>   | <b>106,276</b>                                  | <b>(16,541)</b>                  | <b>(11,524)</b>            | <b>78,211</b>             |
| <b>Other income and expenditure</b>   |   |                                  |                            |                           |
| Other non-service specific costs  | 1,996   | (218)                            | (3,124)                    | (1,346)                   |
| Net deficit on trading activities   | 0   | 191                              | 0                          | 191                       |
| Net income and changes in relation to investment properties and changes in their fair value | 779   | (1,379)                          | 0                          | (600)                     |
| Interest and investment income  | (52)  | 0                                | (65)                       | (117)                     |
| Interest payable and similar charges  | (41,644)  | 17,947                           | 0                          | (23,697)                  |
| Net pension interest cost   | 15,476  | 0                                | 0                          | 15,476                    |
| Gains on disposal of assets   | (12,061)  | 0                                | 0                          | (12,061)                  |
| Use of reserves   | 0   | 0                                | (7,284)                    | (7,284)                   |
| Capital grants and contributions  | (58,483)  | 0                                | 0                          | (58,483)                  |
| <b>(Surplus) or deficit on the provision of services</b>                                    | <b>12,287</b>                                   | <b>0</b>                         | <b>(21,997)</b>            | <b>(9,710)</b>            |

Notes -

Presentational adjustments relate primarily to the presentation of interest payments on finance leases (*including PPP schemes*), trading operations and income and expenditure on investment properties for decision making purposes.

## NOTES TO THE FINANCIAL STATEMENTS

### 2. Expenditure and Funding Analysis - Council - continued

#### 2.1 Adjustments from the General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts

| <b>2015/16 Comparative Data</b>   | <b>Adjusts. For<br/>Capital<br/>Purposes<br/>£000</b> | <b>Net Change<br/>for Pensions<br/>Adjusts.<br/>£000</b> | <b>Other<br/>Differences<br/>£000</b> | <b>Total<br/>Statutory<br/>Adjusts.<br/>£000</b> |
|---|---|--|---------------------------------------|--|
| Communities and Families Place  | 39,839  | 3,310  | (3,920)                               | 39,229   |
| Housing Revenue Account   | 89,603  | 3,783  | (948)                                 | 92,438   |
| Health and Social Care Resources  | (22,968)  | 348  | (565)                                 | (23,185)   |
|   | 8,186   | 2,998  | (583)                                 | 10,601   |
|   | 1,693   | 1,233  | (323)                                 | 2,603  |
| <b>Net Cost of Services</b>   | <b>116,353</b>  | <b>11,672</b>  | <b>(6,339)</b>                        | <b>121,686</b>                                   |
| <b>Other income and expenditure</b>   |   |  |                                       |  |
| Other non-service specific costs  | 3,194   | (8)  | (24)                                  | 3,162  |
| Net income and changes in relation to investment properties and changes in their fair value | 0   | 0  | (1,146)                               | (1,146)  |
| Interest and investment income  | (98)  | 0  | 0                                     | (98)   |
| Interest payable and similar charges  | (38,642)  | 0  | (1,440)                               | (40,082)   |
| Net pension interest cost   | 0   | 23,445   | 0                                     | 23,445   |
| Gains on disposal of assets   | (35,947)  | 0  | 0                                     | (35,947)   |
| Capital grants and contributions  | (70,533)  | 0  | 0                                     | (70,533)   |
| <b>(Surplus) or deficit on the provision of services</b>                                    | <b>(25,673)</b>                                       | <b>35,109</b>  | <b>(8,949)</b>                        | <b>487</b>                                       |

Notes -

Adjustments for capital purposes include the replacement of depreciation and impairment costs with repayment of borrowing to the Loans Fund.

Net changes for pensions adjustment relates to the adjustment made for the removal of IAS19 Employee Benefits pension related expenditure and income with the pension contributions.

Other differences include reversal of the value of entitlement to accrued leave, the revaluation of investment properties and the timing differences for premiums and discounts associated with borrowing within the Loans Fund.

## NOTES TO THE FINANCIAL STATEMENTS

### 2. Expenditure and Funding Analysis - Council - continued

#### 2.1 Adjustments from the General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts

| 2015/16 Comparative Data  | Total<br>Statutory<br>Adjusts.<br>£000 | Presentation<br>Adjusts.<br>£000 | Use of<br>Reserves<br>£000 | Total<br>Adjusts.<br>£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 Account | Health and Social Care |
|---|--------------------------|------------------|-------------------------|------------------------|
|   | £000                     | Place £000       | £000                    | £000                   |
| <b>Expenditure</b>                        |                          |                  |                         |                        |
| Employee expenses                         | 263,027                  | 124,875          | 14,102                  | 104,128                |
| Other service expenses                    | 140,435                  | 268,518          | 38,527                  | 180,888                |
| Support service recharges                 | 0                        | 804              | 8,698                   | 0                      |
| Depreciation, amortisation and impairment | 0                        | 52               | 0                       | 0                      |
| Interest payments                         | 18,238                   | 0                | 19,509                  | 0                      |
| Debt repayments ( <i>HRA only</i> )       | 0                        | 0                | 27,329                  | 0                      |
| <b>Total Expenditure</b>                  | <b>421,700</b>           | <b>394,249</b>   | <b>108,165</b>          | <b>285,016</b>         |
| <b>Income</b>                             |                          |                  |                         |                        |
| Revenues from external customers          | (7,776)                  | (195,400)        | (104,892)               | (20,169)               |
| Income from recharges for services        | 0                        | (6,173)          | (274)                   | (20)                   |
| Government grants and other contribs.     | (14,921)                 | (46,439)         | (2,901)                 | (57,345)               |
| Interest and investment income            | 0                        | 0                | (98)                    | 0                      |
| <b>Total Income</b>                       | <b>(22,697)</b>          | <b>(248,012)</b> | <b>(108,165)</b>        | <b>(77,534)</b>        |
| <b>Net Cost of Services</b>               | <b>399,003</b>           | <b>146,237</b>   | <b>0</b>                | <b>207,482</b>         |

| 2015/16 Comparative Data                  | Lothian Valuation |                  |                  |
|---|-------------------|------------------|------------------|
|   | Resources £000    | Joint Board £000 | Total £000       |
| <b>Expenditure</b>                        |                   |                  |                  |
| Employee expenses                         | 42,032            | 0                | 548,164          |
| Other service expenses                    | 74,134            | 3,744            | 706,246          |
| Support service recharges                 | 0                 | 0                | 9,502            |
| Depreciation, amortisation and impairment | 0                 | 0                | 52               |
| Interest payments                         | 0                 | 0                | 37,747           |
| Debt repayments ( <i>HRA only</i> )       | 0                 | 0                | 27,329           |
| <b>Total Expenditure</b>                  | <b>116,166</b>    | <b>3,744</b>     | <b>1,329,040</b> |
| <b>Income</b>                             |                   |                  |                  |
| Revenues from external customers          | (12,701)          | 0                | (340,938)        |
| Income from recharges for services        | (7,818)           | 0                | (14,285)         |
| Government grants and other contribs.     | (15,837)          | 0                | (137,443)        |
| Interest and investment income            | 0                 | 0                | (98)             |
| <b>Total Income</b>                       | <b>(36,356)</b>   | <b>0</b>         | <b>(492,764)</b> |
| <b>Net Cost of Services</b>               | <b>79,810</b>     | <b>3,744</b>     | <b>836,276</b>   |

| 2015/16 Comparative Data                      | Associates and Joint Ventures |               |                  |
|---|-------------------------------|---------------|------------------|
|   | Subsidiaries £000             | Ventures £000 | Group Total £000 |
| <b>Expenditure</b>                            |                               |               |                  |
| Employee expenses                             | 91,797                        | 0             | 639,961          |
| Other service expenses                        | 47,588                        | 0             | 753,834          |
| Support service recharges                     | 0                             | 0             | 9,502            |
| Depreciation, amortisation and impairment     | 9,731                         | 0             | 9,783            |
| Interest payments                             | 0                             | 0             | 37,747           |
| Debt repayments ( <i>HRA only</i> )           | 0                             | 0             | 27,329           |
| Net expend from Associates and Joint Ventures | 0                             | 2,780         | 2,780            |
| <b>Total Expenditure</b>                      | <b>149,116</b>                | <b>2,780</b>  | <b>1,480,936</b> |
| <b>Income</b>                                 |                               |               |                  |
| Revenues from external customers              | (156,684)                     | 0             | (497,622)        |
| Income from recharges for services            | 0                             | 0             | (14,285)         |
| Government grants and other contribs.         | 0                             | 0             | (137,443)        |
| Interest and investment income                | 0                             | 0             | (98)             |
| Net income from Associates and Joint Ventures | 0                             | (30)          | (30)             |
| <b>Total Income</b>                           | <b>(156,684)</b>              | <b>(30)</b>   | <b>(649,478)</b> |
| <b>Net Cost of Services</b>                   | <b>(7,568)</b>                | <b>2,750</b>  | <b>831,458</b>   |

## NOTES TO THE FINANCIAL STATEMENTS

### 3. Expenditure and Income Analysed by Nature Group

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

|  | 2016/17                   | 2015/16                   |
|--|---------------------------|---------------------------|
|  | £000                      | £000                      |
| <b>Expenditure</b>   |                           |                           |
| Employee expenses  | 645,753                   | 673,200                   |
| Other service expenses   | 913,714                   | 930,217                   |
| Support service recharges  | 8,513                     | 9,502                     |
| Depreciation, amortisation and impairment                        | 161,288                   | 185,613                   |
| Interest payments  | 197,097                   | 201,215                   |
| Net Interest in the profit/loss of associates and joint ventures | 273                       | 2,750                     |
| <b>Total Expenditure</b>   | <b><u>1,926,638</u></b>   | <b><u>2,002,497</u></b>   |
| <b>Income</b>  |                           |                           |
| Fees, charges and other service income                           | (663,512)                 | (702,588)                 |
| Gain on the disposal of assets                                   | (12,009)                  | (35,950)                  |
| Interest and investment income                                   | (104,133)                 | (88,902)                  |
| Income from Council Tax and Non-Domestic Rates                   | (596,040)                 | (606,745)                 |
| Government grants and other contributions                        | (515,690)                 | (502,816)                 |
| Recognised capital income  | (58,483)                  | (70,533)                  |
| <b>Total Income</b>  | <b><u>(1,949,867)</u></b> | <b><u>(2,007,534)</u></b> |
| <b>Surplus on the Provision of Services</b>                      | <b><u>(23,229)</u></b>    | <b><u>(5,037)</u></b>     |

#### Council

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

|  | 2016/17                   | 2015/16                   |
|--|---------------------------|---------------------------|
|  | £000                      | £000                      |
| <b>Expenditure</b>                             |                           |                           |
| Employee expenses                              | 553,218                   | 583,516                   |
| Other service expenses                         | 854,878                   | 877,891                   |
| Support service recharges                      | 8,513                     | 9,502                     |
| Depreciation, amortisation and impairment      | 152,079                   | 175,896                   |
| Interest payments                              | 182,465                   | 187,151                   |
| <b>Total Expenditure</b>                       | <b><u>1,751,153</u></b>   | <b><u>1,833,956</u></b>   |
| <b>Income</b>                                  |                           |                           |
| Fees, charges and other service income         | (518,955)                 | (573,064)                 |
| Gain on the disposal of assets                 | (12,061)                  | (35,947)                  |
| Interest and investment income                 | (88,766)                  | (73,288)                  |
| Income from Council Tax and Non-Domestic Rates | (596,040)                 | (606,745)                 |
| Government grants and other contributions      | (487,616)                 | (475,656)                 |
| Recognised capital income                      | (58,483)                  | (70,533)                  |
| <b>Total Income</b>                            | <b><u>(1,761,921)</u></b> | <b><u>(1,835,233)</u></b> |
| <b>Surplus on the Provision of Services</b>    | <b><u>(10,768)</u></b>    | <b><u>(1,277)</u></b>     |

## NOTES TO THE FINANCIAL STATEMENTS

### 4. Accounting Standards that have been Issued but not yet adopted

The Code requires the disclosure of information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. This applies to the adoption of the following new or amended standards within the 2017/18 Code:

The Code requires implementation from 1 April 2017 and there is therefore no impact on the 2016/17 financial statements.

There are no new standards issued that require to be disclosed in the 2016/17 financial statements.

### 5. Judgements Made in Applying Accounting Policies

In applying the accounting policies set out in Note 1 to the Financial Statements, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The most significant judgements made in these Financial Statements are detailed below:

#### 5.1 Provision of School Buildings

The Council is deemed to control the services provided under the Public Private Partnership agreements (PPP1 and PPP2) and the Design, Build, Finance and Maintain (DBFM) for James Gillespie's High School, for the provision of school buildings, maintenance and other facilities with Edinburgh Schools Partnership (PPP1), Axiom Education Limited (PPP2) and Hub South East Scotland (JGHS).

The accounting policies for public private partnerships have been applied to these arrangements and the schools (valued at net book value of £562.171m at 31 March 2017) are recognised as Property, Plant and Equipment on the Council's Balance Sheet.

#### 5.2 Group Membership

The Council has an interest in a number of subsidiary and associate companies and trusts. Full details of these interests are shown in note 9 to the Financial Statements. The most significant of these companies in terms of the size of trading operations and other factors are included in the Group Accounts.

### 6. Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

The Financial Statements contain estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

## NOTES TO THE FINANCIAL STATEMENTS

### 6. Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

The following table details uncertainties on assumptions and estimates, and outlines the potential effect if actual results differ from the assumptions made.

| Item                          | Uncertainty   | Effect if Actual Results Differ from Assumptions  |
|-------------------------------|---|---|
| Property, Plant and Equipment | Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. A reduction in spending on repairs and maintenance would bring into doubt the useful lives assigned to the assets.  | If the useful life of assets is reduced, depreciation increases and the carrying value of the assets falls.<br><br>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.<br><br>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.<br><br>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)<br/>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<br/>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<br>31.03.17<br>£000 | 31.03.16<br>£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<br>£000 | Housing Revenue Account Balance<br>£000 | Capital Receipts Reserve<br>£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<br>in<br>Unusable<br>Reserves<br>£000 |
|---|---|-------------------------|--|
|   | Capital<br>Grants<br>Unapplied<br>Account<br>£000 | Capital<br>Fund<br>£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<br>Fund<br>Balance<br>£000 | Housing<br>Revenue<br>Account<br>Balance<br>£000 | Capital<br>Receipts<br>Reserve<br>£000 |
| <b>2015/16 Comparative Data</b>   |                                    |  |  |
| <b>Adjustments primarily involving the Capital Adjustment Account</b>   |                                    |  |  |
| <b>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement (CIES)</b>   |                                    |  |  |
| Charges for depreciation and impairment of non-current assets   | 154,075                            | 23,285   | 0                                      |
| Movements in the market value of investment properties  | (1,146)                            | 0  | 0                                      |
| Amortisation of intangible assets   | 1,289                              | 0  | 0                                      |
| Capital grants and contributions applied  | (63,094)                           | (7,439)  | 0                                      |
| Capital funded from revenue   | (215)                              | 0  | 0                                      |
| Revenue expenditure funded from capital under statute   | 38,846                             | 0  | 0                                      |
| <b>Insertion of items not debited or credited to the CIES</b>   |                                    |  |  |
| Statutory provision for the financing of capital investment   | (58,829)                           | (27,328)   | 0                                      |
| Capital expenditure charged against General Fund and HRA balances   | (38,846)                           | 0  | 0                                      |
| <b>Adjustments primarily involving the Capital Grant Unapplied Account</b>  |                                    |  |  |
| Application of grants to capital financing transferred to the Capital Adjustment Account  | 0                                  | 0  | 0                                      |
| <b>Adjustments primarily involving the Capital Receipts Reserve</b>   |                                    |  |  |
| Net loss / (gain) on sale of property, plant and equipment and assets held for sale   | (33,700)                           | (2,247)  | 120,492                                |
| Use of the Capital Receipts Reserve to finance new capital expenditure  | 0                                  | 0  | (120,492)                              |
| <b>Adjustments primarily involving the Financial Instruments Adjustment Account</b>   |                                    |  |  |
| Amount by which finance costs charged are different from finance costs chargeable in the year in accordance with statutory requirements                   | (1,440)                            | (488)  | 0                                      |
| <b>Adjustments primarily involving the Pensions Reserve</b>   |                                    |  |  |
| Reversal of items relating to retirement benefits debited or credited to the CIES   | 104,720                            | 2,676  | 0                                      |
| Employer's pension contributions and direct payments to pensioners payable in the year  | (70,594)                           | (1,693)  | 0                                      |
| <b>Adjustments primarily involving the Employee Statutory Adjustment Account</b>  |                                    |  |  |
| Amount by which officer remuneration charges to the CIES are different from remuneration chargeable in the year in accordance with statutory requirements | (5,798)                            | (78)   | 0                                      |
| <b>Total Adjustments</b>  | 25,268                             | (13,312)   | 0                                      |

## NOTES TO THE FINANCIAL STATEMENTS

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

| 2015/16 Comparative Data  | Usable Reserves                                   |                         | Movement<br>in<br>Unusable<br>Reserves<br>£000 |
|---|---|-------------------------|--|
|   | Capital<br>Grants<br>Unapplied<br>Account<br>£000 | Capital<br>Fund<br>£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)<br>Balance<br>at<br>01.04.16<br>£000 | Net<br>Transfers<br>Out<br>2016/17<br>£000 | Net<br>Transfers<br>In<br>2016/17<br>£000 | Balance<br>at<br>31.03.17<br>£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)<br>Balance<br>at<br>01.04.15<br>£000 | Net<br>Transfers<br>Out<br>2015/16<br>£000 | Net<br>Transfers<br>In<br>2015/16<br>£000 | (re-stated)<br>Balance<br>at<br>31.03.16<br>£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<br>at<br>01.04.16<br>£000 | Transfers<br>Out<br>2016/17<br>£000 | Transfers<br>In<br>2016/17<br>£000 | Balance<br>at<br>31.03.17<br>£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<br>at<br>01.04.15<br>£000 | Inter-Fund<br>Transfer<br>2015/16<br>£000 | Transfers<br>Out<br>2015/16<br>£000 | Transfers<br>In<br>2015/16<br>£000 | Balance<br>at<br>31.03.16<br>£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<br>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<br>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<br/>Fund<br/>£000</b>                 | <b>HRA<br/>Balance<br/>£000</b>  | <b>Renewal<br/>/ Repairs<br/>Fund<br/>£000</b> | <b>Capital<br/>Receipts<br/>Reserve<br/>£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<br/>Grants<br/>Unapplied<br/>£000</b> | <b>Capital<br/>Fund<br/>£000</b> | <b>Group<br/>Usable<br/>Reserves<br/>£000</b>  | <b>Total<br/>£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<br/>Fund<br/>£000</b>                 | <b>HRA<br/>Balance<br/>£000</b>  | <b>Renewal<br/>/ Repairs<br/>Fund<br/>£000</b> | <b>Capital<br/>Receipts<br/>Reserve<br/>£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<br>Grants<br>Unapplied<br>£000 | Capital<br>Fund<br>£000 | Group<br>Usable<br>Reserves<br>£000 | Total<br>£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<br>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<br>2015/16 |                 |
|---|-----------------|-----------------|----------------------|-----------------|
|   | Group<br>£000   | Council<br>£000 | Group<br>£000        | Council<br>£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<br>2015/16 |                 |
|--|---------------|-----------------|----------------------|-----------------|
|  | Group<br>£000 | Council<br>£000 | Group<br>£000        | Council<br>£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<br>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<br>£000    | Council<br>£000  | Group<br>£000      | Council<br>£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<br>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<br>Completion<br>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<br>Dwellings<br>£000 | Other<br>Land and<br>Buildings<br>£000 | Vehicles,<br>Plant,<br>Furniture<br>and<br>Equipment<br>£000 | Infrastructure<br>Assets<br>£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)<br>recognised in the Revaluation<br>Reserve    | (455)                        | 22,765                                 | 0  | 0                                |
| Revaluation decreases<br>recognised in the Surplus on the<br>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<br>held for sale                                   | 0                            | 3,065                                  | 0  | 0                                |
| Other movements in cost or<br>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<br/>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<br>Revaluation Reserve                          | 209                          | 9,646                                  | 0  | 0                                |
| Depreciation written out to the<br>Surplus on the Provision of<br>Services         | 0                            | 7,516                                  | 15   | 0                                |
| Derecognition - disposals  | 774                          | 5                                      | 3,311  | 0                                |
| Derecognition - other  | 0                            | 0                                      | 0  | 0                                |
| Impairment losses recognised in<br>the Surplus on the Provision of<br>Services     | 0                            | 0                                      | 0  | 0                                |
| Other movements in cost or<br>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<br>Assets<br>£000 | Surplus<br>Assets<br>£000 | Assets<br>Under<br>Construction<br>£000 | Total<br>Property<br>Plant and<br>Equipment<br>£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)<br>recognised in the Revaluation<br>Reserve    | 0                           | 0                         | 0                                       | 22,310  |
| Revaluation decreases<br>recognised in the Surplus on the<br>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<br>held for sale                                   | 0                           | 0                         | 0                                       | 3,065   |
| Other movements in cost or<br>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<br/>Impairment</b>                                 |                             |                           |   |   |
| At 1 April 2016  | 0                           | 0                         | 0                                       | (784,739)   |
| Depreciation charge  | 0                           | 0                         | 0                                       | (146,643)   |
| Depreciation charge written out to<br>Revaluation Reserve                          | 0                           | 0                         | 0                                       | 9,855   |
| Depreciation written out to the<br>Surplus on the Provision of<br>Services         | 0                           | 0                         | 0                                       | 7,531   |
| Derecognition - disposals  | 0                           | 0                         | 0                                       | 4,090   |
| Derecognition - other  | 0                           | 0                         | 0                                       | 0   |
| Impairment losses recognised in<br>the Surplus on the Provision of<br>Services     | 0                           | 0                         | 0                                       | 0   |
| Other movements in cost or<br>valuation  | 0                           | 0                         | 0                                       | (21)  |
| At 31 March 2017   | <u>0</u>                    | <u>0</u>                  | <u>0</u>                                | <u>(909,927)</u>                                    |
| <b>Net book value</b>  |                             |                           |   |   |
| At 31 March 2017   | <u>14,562</u>               | <u>2,421</u>              | <u>38,927</u>                           | <u>3,820,254</u>                                    |
| At 31 March 2016   | <u>12,964</u>               | <u>2,420</u>              | <u>89,688</u>                           | <u>3,799,558</u>                                    |



## NOTES TO THE FINANCIAL STATEMENTS

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

#### 16.4 Movements on Balances - Group Accounts 2015/16 Comparative Data

|  | Council<br>Dwellings<br>£000 | Other<br>Land and<br>Buildings<br>£000 | Vehicles,<br>Plant,<br>Furniture<br>and<br>Equipment<br>£000 | Infrastructure<br>Assets<br>£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)<br>recognised in the Revaluation<br>Reserve    | (1,931)                      | (24,783)                               | 0  | 0                                |
| Revaluation decreases<br>recognised in the Surplus on the<br>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<br>held for sale                                   | (52)                         | (20,069)                               | 0  | 0                                |
| Other movements in cost or<br>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<br/>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<br>Revaluation Reserve                          | 211                          | 26,224                                 | 0  | 0                                |
| Depreciation written out to the<br>Surplus on the Provision of<br>Services         | 216                          | 11,667                                 | 0  | 0                                |
| Derecognition - disposals  | 228                          | 6,698                                  | 7,377  | 0                                |
| Derecognition - other  | 0                            | 0                                      | 455  | 0                                |
| Impairment losses recognised in<br>the Surplus on the Provision of<br>Services     | 0                            | 0                                      | (49)   | 0                                |
| Other movements in cost or<br>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<br>Assets<br>£000 | Surplus<br>Assets<br>£000 | Assets<br>Under<br>Construction<br>£000 | Total<br>Property<br>Plant and<br>Equipment<br>£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)<br>recognised in the Revaluation<br>Reserve    | 0                           | 2,553                     | 0                                       | (24,161)  |
| Revaluation decreases<br>recognised in the Surplus on the<br>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<br>held for sale                                   | 0                           | (10,105)                  | 0                                       | (30,226)  |
| Other movements in cost or<br>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<br/>Impairment</b>                                 |                             |                           |   |   |
| At 1 April 2015  | 0                           | (10)                      | 0                                       | (687,759)   |
| Depreciation charge  | 0                           | (41)                      | 0                                       | (150,719)   |
| Depreciation charge written out to<br>Revaluation Reserve                          | 0                           | 0                         | 0                                       | 26,435  |
| Depreciation written out to the<br>Surplus on the Provision of<br>Services         | 0                           | 0                         | 0                                       | 11,883  |
| Derecognition - disposals  | 0                           | 16                        | 0                                       | 14,319  |
| Derecognition - other  | 0                           | 0                         | 0                                       | 455   |
| Impairment losses recognised in<br>the Surplus on the Provision of<br>Services     | 0                           | 0                         | 0                                       | (49)  |
| Other movements in cost or<br>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<br>Dwellings<br>£000 | Other<br>Land and<br>Buildings<br>£000 | Vehicles,<br>Plant,<br>Furniture<br>and<br>Equipment<br>£000 | Infrastructure<br>Assets<br>£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)<br>recognised in the Revaluation<br>Reserve    | (455)                        | 22,765                                 | 0  | 0                                |
| Revaluation decreases<br>recognised in the Surplus on the<br>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<br>held for sale                                   | 0                            | 3,065                                  | 0  | 0                                |
| Other movements in cost or<br>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<br/>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<br>Revaluation Reserve                          | 209                          | 9,646                                  | 0  | 0                                |
| Depreciation written out to the<br>Surplus on the Provision of<br>Services         | 0                            | 7,516                                  | 15   | 0                                |
| Derecognition - disposals  | 774                          | 5                                      | 0  | 0                                |
| Derecognition - other  | 0                            | 0                                      | 0  | 0                                |
| Impairment losses recognised in the<br>Surplus on the Provision of<br>Services     | 0                            | 0                                      | 0  | 0                                |
| Other movements in cost or<br>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<br/>Assets<br/>£000</b> | <b>Surplus<br/>Assets<br/>£000</b> | <b>Assets<br/>Under<br/>Construction<br/>£000</b> | <b>Total<br/>Property<br/>Plant and<br/>Equipment<br/>£000</b> | <b>PPP<br/>Assets<br/>£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 /<br>(decreases) recognised in<br>the Revaluation Reserve       | 0                                    | 0                                  | 0   | <b>22,310</b>  | 6,951                          |
| Revaluation decreases<br>recognised in<br>the Surplus on the<br>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) /<br>from held for sale                                      | 0                                    | 0                                  | 0   | <b>3,065</b>   | 0                              |
| Other movements in cost<br>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<br/>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<br>out to Revaluation Reserve                             | 0                                    | 0                                  | 0   | <b>9,855</b>   | 2,720                          |
| Depreciation written out to<br>the Surplus on the<br>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<br>recognised in the Surplus<br>on the Provision of Services        | 0                                    | 0                                  | 0   | <b>0</b>   | 0                              |
| Other movements in cost<br>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<br/>Dwellings<br/>£000</b> | <b>Other<br/>Land and<br/>Buildings<br/>£000</b> | <b>Vehicles,<br/>Plant,<br/>Furniture<br/>and<br/>Equipment<br/>£000</b> | <b>Infrastructure<br/>Assets<br/>£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)<br>recognised in the Revaluation<br>Reserve    | (1,931)                               | (30,869)   | 0  | 0   |
| Revaluation decreases<br>recognised in the Surplus on the<br>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<br>held for sale                                   | (52)                                  | (20,069)   | 0  | 0   |
| Other movements in cost or<br>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<br/>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<br>Revaluation Reserve                          | 211                                   | 26,847   | 0  | 0   |
| Depreciation written out to the<br>Surplus on the Provision of<br>Services         | 216                                   | 11,667   | 0  | 0   |
| Derecognition - disposals  | 228                                   | 6,547  | 0  | 0   |
| Derecognition - other  | 0                                     | 0  | 455  | 0   |
| Impairment losses recognised in<br>the Surplus on the Provision of<br>Services     | 0                                     | 0  | (49)   | 0   |
| Other movements in cost or<br>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<br>Assets<br>£000 | Surplus<br>Assets<br>£000 | Total<br>Assets<br>Under<br>Construction<br>£000 | Total<br>Property<br>Plant and<br>Equipment<br>£000 | PPP<br>Assets<br>£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 /<br>(decreases) recognised in<br>the Revaluation Reserve       | 0                           | 2,553                     | 0  | (30,247)  | 3,062                 |
| Revaluation decreases<br>recognised in<br>the Surplus on the<br>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) /<br>from held for sale                                      | 0                           | (10,105)                  | 0  | (30,226)  | 0                     |
| Other movements in cost<br>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<br/>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<br>out to Revaluation Reserve                             | 0                           | 0                         | 0  | 27,058  | 5,498                 |
| Depreciation written out to<br>the Surplus on the<br>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<br>in the Surplus on the<br>Provision of Services        | 0                           | 0                         | 0  | (49)  | 0                     |
| Other movements in cost<br>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<br/>£000</b> | <b>Other Land and Buildings<br/>£000</b> | <b>Vehicles, Plant, Furniture and Equipment<br/>£000</b> | <b>Infrastructure Assets<br/>£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<br/>£000</b> | <b>Surplus Assets<br/>£000</b> | <b>Assets Under Construction<br/>£000</b> | <b>Total<br/>£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<br>£000  | Council<br>£000 | Group<br>£000  | Council<br>£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<br>£000 | Council<br>£000 | Group<br>£000 | Council<br>£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<br/>and<br/>Statues<br/>£000</b> | <b>Civic<br/>Regalia<br/>and<br/>Artefacts<br/>£000</b> | <b>Archival<br/>Collections<br/>£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'<br/>Special<br/>Collections<br/>£000</b> | <b>Museum<br/>and<br/>Gallery<br/>Collections<br/>£000</b> | <b>Total<br/>Heritage<br/>Assets<br/>£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<br/>and<br/>Statues<br/>£000</b>          | <b>Civic<br/>Regalia<br/>and<br/>Artefacts<br/>£000</b>    | <b>Archival<br/>Collections<br/>£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<br>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'<br/>Special<br/>Collections<br/>£000</b> | <b>Museum<br/>and<br/>Gallery<br/>Collections<br/>£000</b> | <b>Total<br/>Heritage<br/>Assets<br/>£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<br>Surplus on the Provision of Services | 0  | 0  | 1   |
| At 31 March 2016  | <u>1,975</u>   | <u>19,643</u>  | <u>31,116</u>                                 |
| <b>Accumulated Impairment</b>   |  |  |   |
| At 1 April 2015   | <u>0</u>   | <u>0</u>   | <u>0</u>                                      |
| At 31 March 2016  | <u>0</u>   | <u>0</u>   | <u>0</u>                                      |
| <b>Net book value</b>   |  |  |   |
| At 31 March 2016  | <u>1,975</u>   | <u>19,643</u>  | <u>31,116</u>                                 |
| At 31 March 2015  | <u>1,975</u>   | <u>19,643</u>  | <u>31,075</u>                                 |

#### 19.2 Details of Heritage Assets

- Monuments and Statues are valued on a historic basis and valuations are carried out under the direction of the Council's Operational Estate Manager.
- Civic Regalia and artefacts include items such as the Lord Provost's Badge and Chain of Office and the Rosebery Jewel. The value of these assets is based on an insurance purposes valuation carried out in 1998.
- Archival collections include historical records which relate to the history of Edinburgh and its surrounding areas. The value of these assets is based on a current insurance purposes valuation based on restoration costs only. This valuation has not changed since 2008/09.

## NOTES TO THE FINANCIAL STATEMENTS

### 19. Heritage Assets - continued

#### 19.2 Details of Heritage Assets - continued

- Libraries special collections include items such as rare book collections and pictures in Calotype. The value of these assets is based on an insurance purposes valuation carried out in 2007 with a minor proportions valuation being updated in 2014.
- Museums and Gallery collections include various collections held at a number of museums across Edinburgh. They include items held within the Social History, Applied Art, Writers Museum, Childhood, City Art Centre and Picture Loan Scheme. The value of these assets is based on insurance purposes valuations carried out in 2003 along with a minor proportions valuation being updated in 2014. A small minority of the assets are based on insurance purposes valuations carried out in 1996.
- The valuations for heritage assets have all been carried out internally and although they are from earlier periods, they are considered the most appropriate and relevant. Carrying out valuations for the majority of collections held is very costly and time consuming so it is not practicable to obtain recent valuations at a cost which is commensurate with the benefits to users of the financial statements. The carrying amounts of these heritage assets will be reviewed with sufficient regularity in the future to ensure they are brought up to date and remain appropriate.
- It has not been practical or possible to split out all heritage assets belonging to common good, charities or trusts. Therefore, the Council's balance sheet may hold this element of heritage assets that belong to other entities.
- The Council has three private vehicle registration plates which meet the definition of intangible heritage assets. These have not been recognised on the balance sheet due to lack of information on cost or current value. They are limited registration numbers that rarely become available for sale and therefore no relevant or appropriate current value can be placed on these.

### 20. Financial Instruments

#### 20.1 Categories of Financial Instruments

The following categories of financial instrument are carried on the Council's Balance Sheet

|  | Long-Term   |             | Current  |          | Re-stated |
|--|-------------|-------------|----------|----------|-----------|
|  | 31.03.17    | 31.03.16    | 31.03.17 | 31.03.16 |           |
|  | £000        | £000        | £000     | £000     | £000      |
| <b>Investments</b>                       |             |             |          |          |           |
| Loans and receivables                    | 0           | 0           | 172,542  | 128,378  |           |
| Available for sale                       | 0           | 0           | 967      | 64,311   |           |
| Unquoted equity investment at cost       | 23,436      | 23,474      | 0        | 0        |           |
| Total investments                        | 23,436      | 23,474      | 173,509  | 192,689  |           |
| <b>Debtors</b>                           |             |             |          |          |           |
| Loans and receivables                    | 5,665       | 5,538       | 28,293   | 29,978   |           |
| Total debtors                            | 5,665       | 5,538       | 28,293   | 29,978   |           |
| <b>Borrowings</b>                        |             |             |          |          |           |
| Financial liabilities (principal amount) | (1,245,546) | (1,299,901) | (54,355) | (51,983) |           |
| Accrued interest                         | 0           | 0           | (16,019) | (17,513) |           |
| Cost of amortisation                     | (9,044)     | (8,988)     | 30       | 35       |           |
| Total borrowings                         | (1,254,590) | (1,308,889) | (70,344) | (69,461) |           |

The Council's policy of investing in Treasury Bills with the intention of holding to maturity remains unchanged, despite the reclassification of Financial Instruments per Note 20.5.

## NOTES TO THE FINANCIAL STATEMENTS

### 20. Financial Instruments - continued

#### 20.1 Categories of Financial Instruments - continued

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

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

Other deferred liabilities relate to income received in advance, which is required to be put on interest bearing deposit.

Further detail on the finance lease and PPP liabilities can be seen in notes 40 and 41.

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

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

|   | <b>Financial Liabilities:<br/>Measured at<br/>Amortised<br/>Cost<br/>£000</b> | <b>Financial Assets:<br/>Loans<br/>and<br/>Receivables<br/>£000</b> | <b>Available<br/>for<br/>Sale<br/>£000</b> | <b>Unquoted<br/>Equity at<br/>Amortised<br/>Cost<br/>£000</b> | <b>Total<br/>£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<br>£000 | Fair Value<br>£000 | Carrying Amount<br>£000 | Fair Value<br>£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<br>£000 | Fair Value<br>£000 | Carrying Amount<br>£000 | Fair Value<br>£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<br>£000 | Council<br>£000 | Group<br>£000 | Council<br>£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<br>£000 | Council<br>£000 | Group<br>£000 | Council<br>£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<br>£000    | Council<br>£000  | Group<br>£000    | Council<br>£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<br>£000  | Council<br>£000 | Group<br>£000  | Council<br>£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<br>2015/16 |                 |
|--|---------------|-----------------|----------------------|-----------------|
|  | Group<br>£000 | Council<br>£000 | Group<br>£000        | Council<br>£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<br>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<br>£000 | Council<br>£000 | Group<br>£000 | Council<br>£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<br>£000 | Council<br>£000 | Group<br>£000 | Council<br>£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<br>£000 | Council<br>£000 | Group<br>£000 | Council<br>£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<br>£000 | Council<br>£000 | Group<br>£000 | Council<br>£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<br>£000    | Council<br>£000  | Group<br>£000    | Council<br>£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<br/>£000</b>                            | <b>Equal Pay<br/>Claims<br/>£000</b> | <b>Council Tax<br/>Discounts<br/>£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<br/>Benefit<br/>Subsidy<br/>£000</b>  | <b>Insurance<br/>Claims<br/>£000</b> | <b>Other<br/>Provisions<br/>£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<br/>Council<br/>Provisions<br/>£000</b> | <b>Group<br/>Provisions<br/>£000</b> | <b>Total<br/>Provisions<br/>£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<br>2017<br>£000 | 31 March<br>2016<br>£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<br>£000 | 2015/16<br>£000 |
|--|-----------------|-----------------|
| Balance at 1 April   | 856,303         | 905,886         |
| Upward revaluation of assets   | 47,395          | 49,068          |
| Downward revaluation of assets and<br>impairment losses not charged to the Surplus<br>on the Provision of Services | (6,922)         | (51,362)        |
| Surplus on revaluation of non-current assets<br>not posted to the Surplus on the Provision of<br>Service           | 40,473          | (2,294)         |
| Difference between fair value depreciation<br>and historical cost depreciation                                     | (18,868)        | (18,860)        |
| Accumulated gains on assets sold   | (3,922)         | (28,429)        |
| Amount written off to the capital adjustment<br>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<br>£000         | Re-stated<br>2015/16<br>£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<br>£000 | 2015/16<br>£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<br>£000 | 2015/16<br>£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<br>2017<br>£000 | 31 March<br>2016<br>£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<br>£000    | Council<br>£000  | Group<br>£000    | Council<br>£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<br>£000 | Council<br>£000 | Group<br>£000 | Council<br>£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<br>£000         | Council<br>£000       | Group<br>£000         | Council<br>£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<br>£000        | Council<br>£000      | Group<br>£000        | Council<br>£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<br>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<br/>£000</b>               | <b>2015/16<br/>£000</b>               | <b>2016/17<br/>£000</b>                     | <b>2015/16<br/>£000</b>                     |
|-----------------------------------|---------------------------------------|---------------------------------------|---|---|
|                                   | Transport<br>for<br>Edinburgh<br>Ltd. | Transport<br>for<br>Edinburgh<br>Ltd. | Spartan<br>Community<br>Football<br>Academy | Spartan<br>Community<br>Football<br>Academy |
| Opening Balance                   | 861                                   | 824                                   | 52  | 51  |
| New Loans                         | 0                                     | 0                                     | 0   | 0   |
| Increase in the Discounted Amount | 38                                    | 37                                    | 5   | 4   |
| Fair Value Adjustment             | 0                                     | 0                                     | 0   | 0   |
| Loan Repayment                    | <u>0</u>                              | <u>0</u>                              | <u>(3)</u>                                  | <u>(3)</u>                                  |
| Balance Carried Forward           | <u>899</u>                            | <u>861</u>                            | <u>54</u>                                   | <u>52</u>                                   |
| Nominal Value Carried Forward     | <u>1,000</u>                          | <u>1,000</u>                          | <u>102</u>                                  | <u>105</u>                                  |

Adjustments have been made under the requirements of IAS 39 Financial Instruments: Recognition and Measurement, as required by the Code.

The Transport for Edinburgh loan relates to two £500,000 loans to Transport for Edinburgh Ltd. to provide a loan facility to Tramco for its general working capital purposes and funding its business and activities.

The Spartans loan relates to the lease of an area of ground lying immediately to the west of Ainslie Park Leisure Centre, Pilton Drive, Edinburgh. The original outstanding payment was £120,000, with £3,000 to be paid on or before 31 March each year for ten consecutive years from 31 March 2012 and £9,000 to be paid for ten consecutive years on or before 31 March from 31 March 2022.

## NOTES TO THE FINANCIAL STATEMENTS

### 34. Financial Support and Guarantees - continued

#### 34.2 Shared Equity Scheme / Scheme of Assistance

In 2010/11, the Council approved a shared equity scheme to help buyers purchase homes from PARC. The Council provided assistance to sixteen purchasers, at a cost of £0.484m. No further assistance has been provided since 2012/13.

The monies are required to be repaid to the Council either on sale of the property or after twenty years, whichever occurs earlier.

Purchasers have the option to pay interest annually or accumulate charges on the same terms as the original equity. Sums due to the Council, including accrued interest, where owners have opted to defer interest, are included in long-term debtors.

The assisted purchase scheme was an initiative administered on behalf of the Council to allow home owners to enter into a lifetime mortgage agreement to finance repairs to their properties. Forty loans were made between 2007 and 2012, with an original loan principal value of £0.762m. These sums are included in long-term debtors.

The loans are repayable on sale of the property or on the death of the home owner. The amount repayable is a minimum of the original loan principal and a maximum of the original loan as a percentage of the property value on signing the agreement, as applied to the value on redeeming the loan.

#### 34.3 National Housing Trust

The National Housing Trust (NHT) is a housing initiative developed by the Scottish Government, in partnership with the Scottish Futures Trust (SFT) and local authorities. The aim is to deliver new homes for mid-market rent while at the same time stimulating the housing market. The scheme is underwritten by the Scottish Government, by way of a guarantee against the borrowing and associated interest costs. The Council works with the Scottish Government and SFT to procure private developers to build homes for mid-market rent and enter into joint ventures with the Council, by way of Limited Liability Partnerships through the NHT initiative.

Phase 1 and 2 of NHT are now complete and have delivered 518 new homes.

Phase 3 of NHT has been approved and will deliver up to 368 mid-market rent homes across three separate sites by December 2020. All NHT Phase 3 projects are now in contract and construction has commenced. The total required budget for NHT3 is £50.121m for three projects which will deliver up to 368 new affordable homes. Fruitmarket is the first NHT 3 project which is due to complete with investment totalling £9.153m. £2.683m of expenditure was incurred in 2016/17 and the remaining balance of £6.470m spent in 2017/18.

The Council has advanced the following sums through the NHT scheme:

| Developer            | Development Site               | Phase | Total<br>No. of<br>Units | 2016/17<br>£000 | Prior<br>Years<br>£000 | Total<br>£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<br/>£000</b> | <b>2015/16<br/>£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<br>£000       | 2015/16<br>£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><u>3,744</u></b>   | <b><u>3,744</u></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><u>(313)</u></b>   | <b><u>(340)</u></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><u>9</u></b>       | <b><u>36</u></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><u>(3,883)</u></b> | <b><u>(4,366)</u></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><u>14,024</u></b>  | <b><u>24,687</u></b>  |

## NOTES TO THE FINANCIAL STATEMENTS

### 38. Related Parties - continued

#### 38.3 Related Parties - Indebtedness

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

|   | <b>2016/17</b> | <b>2015/16</b> |
|---|----------------|----------------|
|   | <b>£000</b>    | <b>£000</b>    |
| CEC Holdings Limited (including all subsidiaries) | (535)          | (442)          |
| Edinburgh Military Tattoo                         | (11)           | 52             |
| Hubco   | (273)          | (310)          |
| Lothian and Borders Criminal Justice Authority    | 237            | 227            |
| Scottish Fire and Rescue Service                  | 674            | 676            |
| Lothian Valuation Joint Board                     | (1,512)        | (1,302)        |
| NHS Bodies  | 14,158         | 1,411          |
| Pension Funds                                     | (499)          | (1,981)        |
| Scottish Government                               | 620            | 14,006         |
| Scottish Water                                    | 70             | 70             |
| SESTRAN   | (84)           | 613            |
| SUSTRANS  | 1,246          | 872            |
| Audit Scotland                                    | 374            | 465            |
|   | <b>14,465</b>  | <b>14,357</b>  |
| <b>• Other Indebtedness</b>                       |                |                |
| HM Revenue and Customs - VAT                      | 9,170          | 8,089          |
| HM Revenue and Customs - PAYE and NI              | (9,041)        | (9,035)        |
|   | <b>129</b>     | <b>(946)</b>   |

## NOTES TO THE FINANCIAL STATEMENTS

### 39. Capital Expenditure and Capital Financing

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

|   | 2016/17  |                  | Re-stated<br>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<br>(see note 34.3) | 13,093   |                  | 1,498                |                  |
| Revenue expenditure funded from capital<br>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<br>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<br>£000       | Council<br>£000     | Group<br>£000       | Council<br>£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<br>£000       | Council<br>£000     | Group<br>£000       | Council<br>£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<br>£000       | Council<br>£000     | Group<br>£000       | Council<br>£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<br>£000 | Council<br>£000 | Group<br>£000 | Council<br>£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<br>£000 | 2015/16<br>£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<br/>for<br/>Services<br/>£000</b> | <b>Reimburse.<br/>of Capital<br/>Expenditure<br/>£000</b> | <b>Interest<br/>£000</b> | <b>Total<br/>£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<br/>£000</b> | <b>2015/16<br/>£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<br>Period | £000           | Inflationary<br>Uplift |
|----------------------------|----------------|------------------------|
| 2017/18                    | 0              | 2.50%                  |
| 2018/19 - 2021/22          | 23,984         | 2.50%                  |
| 2022/23 - 2026/27          | 35,430         | 2.50%                  |
| 2027/28 - 2031/32          | 37,379         | 2.50%                  |
| 2032/33 - 2036/37          | 39,584         | 2.50%                  |
| 2037/38 - 2041/42          | 42,079         | 2.50%                  |
| 2042/43                    | 8,743          | 2.50%                  |
|                            | <u>187,199</u> |                        |

#### 41.7 Other Rolling Contracts

The Council has entered into a number of rolling contracts to provide services, which are mainly care orientated through 'Supporting People'. The annual value of these contracts is £18.442m.

### 42. Pension schemes accounted for as defined contribution schemes

The Scottish Teachers' Superannuation Scheme is an unfunded scheme administered by the Scottish Public Pensions Agency. The scheme is excluded from the accounting requirements of IAS 19 as it is a national scheme which does not allow for the identification of pension liabilities consistently and reliably between participating authorities. The accounts, therefore, only include the payments made by the Council to the scheme in year and do not reflect the estimated pension assets or liabilities of the scheme. The exception to this are payments in relation to unfunded pension enhancements for members of the scheme as they are administered through the Local Government Pension Scheme and are taken into consideration in accounting for pension costs under IAS 19.

|  | 2016/17 |       | 2015/16 |       |
|--|---------|-------|---------|-------|
|  | £000    | %     | £000    | %     |
| Amount paid to Scottish Government in respect of teachers' pension costs | 21,315  |       | 19,715  |       |
| As a percentage of teachers' pensionable pay                             |         | 17.20 |         | 17.20 |
| Amount paid in respect of added years                                    | 0       |       | 0       |       |
| As a percentage of teachers' pensionable pay                             |         | 0.00  |         | 0.00  |
| Capitalised value of discretionary awards entered into prior to 2015/16  | 19,765  |       | 19,296  |       |

At 31 March 2017, creditors include £2.763m (2015/16 £2.731m) in respect of teachers' superannuation.

### 43. Defined Pension Schemes

#### 43.1 Participation in Pension Scheme

The Council makes contributions towards the cost of post-employment benefits. Although these benefits will not be payable until employees retire, the Council has a commitment to make payment for those benefits and to disclose them at the time that employees earn their future entitlement.

Employees other than teachers are eligible to join the Local Government Pension Scheme. The pension costs charged to Services in respect of these employees have been calculated under IAS 19 - Employee Benefits.

In terms of this scheme, in 2016/17 the Council paid an employer's contribution of £52.689m (2015/16 £55.446m) into the Lothian Pension Fund, representing 21.3% (2015/16 21.3%) of pensionable pay. Contribution rates are determined by the Fund's Actuary based on triennial actuarial valuations of the pension fund. The data is based on the latest available valuations as at March 2014.

## NOTES TO THE FINANCIAL STATEMENTS

### 43. Defined Pension Schemes - continued

#### 43.1 Participation in Pension Scheme - continued

The Fund's Actuary is unable to provide an analysis of IAS19 pension costs by individual service. The charge in the Comprehensive Income and Expenditure Statement applied against each service included in 'Cost of Services' reflects an apportionment of costs in line with the actual cash payments made by the Council to Lothian Pension Fund.

#### 43.2 Transactions Relating to Post-Employment Benefits

The cost of pension benefits, as assessed by the Fund's Actuary and reflected within 'Cost of Services', differed from the cash payment to the Fund charged against Council Tax. The following summarises the entries reflected within the Comprehensive Income and Expenditure Statement in respect of accounting for pensions under IAS19. The amount by which pension costs calculated in accordance with IAS19 are different from the contributions due under the pension scheme regulations is included in the Movement in Reserves Statement.

|  | 2016/17      |                 | 2015/16         |                  |
|--|--------------|-----------------|-----------------|------------------|
|  | £000         | £000            | £000            | £000             |
| <b>Comprehensive Income and Expenditure Statement</b>  |              |                 |                 |                  |
| <i>Cost of services:</i>   |              |                 |                 |                  |
| Service cost, comprising:  |              |                 |                 |                  |
| Current service costs  | 66,394       |                 | 82,023          |                  |
| Past service costs   | 7,029        |                 | 2,087           |                  |
| Effect of Settlements  | <u>0</u>     |                 | <u>(159)</u>    |                  |
|  |              | 73,423          |                 | 83,951           |
| <i>Financing and investment income:</i>  |              |                 |                 |                  |
| Net interest expense   |              | <u>15,476</u>   |                 | <u>23,445</u>    |
| <b>Total post employee benefit charged to the surplus on the provision of services</b>   |              | 88,899          |                 | 107,396          |
| <i>Other post-employment benefits charges to the Comprehensive Income / Expenditure Statement</i>                                  |              |                 |                 |                  |
| Re-measurement of the net defined liability, comprising:   |              |                 |                 |                  |
| Return on plan assets, excluding the amount incl. in the net interest expense above.   | (428,706)    |                 | (37,286)        |                  |
| Actuarial (gains) and losses arising on changes in financial assumptions   | 669,702      |                 | (253,389)       |                  |
| Other experience   | <u>3,215</u> |                 | <u>(32,463)</u> |                  |
|  |              | <u>244,211</u>  |                 | <u>(323,138)</u> |
| <b>Total post-employment benefits charged to the Comprehensive Income / Expenditure Statement</b>                                  |              | <u>333,110</u>  |                 | <u>(215,742)</u> |
| <b>Movement in Reserves Statement</b>  |              |                 |                 |                  |
| Reversal of net charges made to the surplus on the provision of services for post-employment benefits in accordance with the Code. |              | <u>(88,899)</u> |                 | <u>(107,396)</u> |
| <b>Actual amount charged against the General Fund Balance for pensions in the year:</b>  |              |                 |                 |                  |
| Employer's contributions payable to the scheme   |              | 60,457          |                 | 66,297           |
| Contributions in respect of unfunded benefits  |              | <u>5,807</u>    |                 | <u>5,990</u>     |
|  |              | <u>66,264</u>   |                 | <u>72,287</u>    |

## NOTES TO THE FINANCIAL STATEMENTS

### 43. Defined Pension Schemes - continued

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

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

|   | <b>2016/17</b>          | <b>2015/16</b>          |
|---|-------------------------|-------------------------|
|   | <b>£000</b>             | <b>£000</b>             |
| Fair value of employer assets                         | 2,747,964               | 2,247,877               |
| Present value of funded liabilities                   | (3,368,139)             | (2,605,380)             |
| Present value of unfunded liabilities                 | <u>(85,611)</u>         | <u>(81,437)</u>         |
| Net liability arising from defined benefit obligation | <u><u>(705,786)</u></u> | <u><u>(438,940)</u></u> |

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

|  | <b>2016/17</b>          | <b>2015/16</b>          |
|--|-------------------------|-------------------------|
|  | <b>£000</b>             | <b>£000</b>             |
| Opening fair value of scheme assets  | 2,247,877               | 2,144,897               |
| Effect of settlements  | 0                       | (1,917)                 |
| Interest income  | 78,498                  | 68,568                  |
| Re-measurement gain / (loss):  |                         |                         |
| Return on plan assets, excluding the amount included in the net interest expense | 428,706                 | 37,286                  |
| Contributions from employer  | 60,457                  | 66,297                  |
| Contributions from employees into the scheme                                     | 13,845                  | 16,502                  |
| Contributions in respect of unfunded benefits                                    | 5,807                   | 5,990                   |
| Benefits paid  | (81,419)                | (83,756)                |
| Unfunded benefits paid   | <u>(5,807)</u>          | <u>(5,990)</u>          |
| Closing fair value of scheme assets  | <u><u>2,747,964</u></u> | <u><u>2,247,877</u></u> |

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

|  | <b>2016/17</b>            | <b>2015/16</b>            |
|--|---------------------------|---------------------------|
|  | <b>£000</b>               | <b>£000</b>               |
| Present value of funded liabilities          | (2,605,380)               | (2,782,482)               |
| Present value of unfunded liabilities        | <u>(81,437)</u>           | <u>(89,384)</u>           |
| Opening balance at 1 April                   | (2,686,817)               | (2,871,866)               |
| Current service cost                         | (66,394)                  | (82,023)                  |
| Interest cost                                | (93,974)                  | (92,013)                  |
| Contributions from employees into the scheme | (13,845)                  | (16,502)                  |
| Re-measurement gain / (loss):                |                           |                           |
| Change in financial assumptions              | (669,702)                 | 253,389                   |
| Change in demographic assumptions            | 0                         | 0                         |
| Other experience                             | (3,215)                   | 32,463                    |
| Past service cost                            | (7,029)                   | (2,087)                   |
| Effects of settlements                       | 0                         | 2,076                     |
| Benefits paid                                | 81,419                    | 83,756                    |
| Unfunded benefits paid                       | <u>5,807</u>              | <u>5,990</u>              |
| Closing balance at 31 March                  | <u><u>(3,453,750)</u></u> | <u><u>(2,686,817)</u></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<br>£000         | %          | 2015/16<br>£000         | %          |
|--|-------------------------|------------|-------------------------|------------|
| Consumer *                                 | 412,549                 | 15         | 342,338                 | 15         |
| Manufacturing *                            | 416,581                 | 15         | 265,121                 | 12         |
| Energy and Utilities *                     | 203,906                 | 8          | 178,558                 | 8          |
| Financial Institutions *                   | 191,883                 | 7          | 190,391                 | 8          |
| Health and Care *                          | 161,077                 | 6          | 149,425                 | 7          |
| Information technology *                   | 136,000                 | 5          | 134,677                 | 6          |
| Other *                                    | <u>189,359</u>          | 7          | <u>128,664</u>          | 6          |
| Sub-total Equity Securities                | <u>1,711,355</u>        |            | <u>1,389,174</u>        |            |
| Debt Securities:                           |                         |            |                         |            |
| UK Government *                            | 275,933                 | 10         | 144,656                 | 6          |
| Other *                                    | <u>5,710</u>            | 0          | <u>56,864</u>           | 3          |
| Sub-total Debt Securities                  | <u>281,643</u>          |            | <u>201,520</u>          |            |
| Private Equity                             |                         |            |                         |            |
| All *                                      | 31,954                  | 1          | 25,228                  | 1          |
| All  | <u>56,808</u>           | 2          | <u>73,078</u>           | 3          |
| Sub-total Private Equity                   | <u>88,762</u>           |            | <u>98,306</u>           |            |
| Real Estate:                               |                         |            |                         |            |
| UK Property                                | <u>185,409</u>          | 7          | <u>192,281</u>          | 9          |
| Sub-total Real Estate                      | <u>185,409</u>          |            | <u>192,281</u>          |            |
| Investment Funds and Unit Trusts:          |                         |            |                         |            |
| Bonds *                                    | 6,153                   | 0          | 6,032                   | 0          |
| Bonds                                      | 34,601                  | 1          | 12,180                  | 1          |
| Commodities *                              | 8,058                   | 0          | 6,235                   | 0          |
| Infrastructure *                           | 17,459                  | 1          | 12,509                  | 1          |
| Infrastructure                             | 228,444                 | 8          | 136,998                 | 6          |
| Other                                      | <u>58,621</u>           | 2          | <u>53,855</u>           | 2          |
| Sub-total Investment Funds and Unit Trusts | <u>353,336</u>          |            | <u>227,809</u>          |            |
| Derivatives:                               |                         |            |                         |            |
| Foreign Exchange *                         | <u>0</u>                | 0          | <u>(130)</u>            | 0          |
| Sub-total Derivatives                      | <u>0</u>                |            | <u>(130)</u>            |            |
| Cash and Cash Equivalents                  |                         |            |                         |            |
| All *                                      | <u>127,459</u>          | 5          | <u>138,917</u>          | 6          |
| Sub-total Cash and Cash Equivalents        | <u>127,459</u>          |            | <u>138,917</u>          |            |
| Total Fair Value of Employer Assets        | <u><u>2,747,964</u></u> | <u>100</u> | <u><u>2,247,877</u></u> | <u>100</u> |

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

## NOTES TO THE FINANCIAL STATEMENTS

### 43. Defined Pension Schemes - continued

#### 43.6 Basis for Estimating Assets and Liabilities

Hymans Robertson, the independent actuaries to Lothian Pension Fund, have advised that the financial assumptions used to calculate the components of the pension expense for the year ended 31 March 2017 were those from the beginning of the year (i.e. 31 March 2016) and have not been changed during the year. The main assumptions in the calculations are:

#### Investment returns

|  |        |
|--|--------|
| Actual return for period from 1 April 2016 to 31 December 2016 | 17.10% |
| Estimated return for period from 1 April 2016 to 31 March 2017 | 22.60% |

#### Average future life expectancies at age 65:

|                    |        | 31.03.17   | 31.03.16   |
|--------------------|--------|------------|------------|
| Current pensioners | male   | 22.1 years | 22.1 years |
| Current pensioners | female | 23.7 years | 23.7 years |
| Future pensioners  | male   | 24.2 years | 24.2 years |
| Future pensioners  | female | 26.3 years | 26.3 years |

| Period ended          | 31.03.17 | 31.03.16 |
|-----------------------|----------|----------|
| Pension increase rate | 2.4%     | 2.2%     |
| Salary Increase rate  | 4.4%     | 4.2%     |
| Discount rate         | 2.6%     | 3.5%     |

Estimation of defined benefit obligations is sensitive to the actuarial assumptions set out above. In order to quantify the impact of a change in the financial assumptions used, the Actuary has calculated and compared the value of the scheme liabilities as at 31 March 2017 on varying bases. The approach taken by the Actuary is consistent with that adopted to derive the IAS19 figures.

For example, to quantify the uncertainty around life expectancy, the Actuary has calculated the difference in cost to the Employer of a one year increase in life expectancy. For sensitivity purposes, this is assumed to be an increase in the cost of benefits of broadly 3-5%. In practice the actual cost of a one year increase in life expectancy will depend on the structure of the revised assumption and changes in some of the assumptions may be interrelated.

| Change in assumptions at 31 March 2017     | Approximate % Increase to Employer | Approximate Monetary Amount £000 |
|--|------------------------------------|----------------------------------|
| 0.5% decrease in Real Discount Rate        | 11%                                | 364,274                          |
| 0.5% increase in the Salary Increase Rate  | 3%                                 | 118,190                          |
| 0.5% increase in the Pension Increase Rate | 7%                                 | 235,414                          |

#### 43.7 Impact on the Council's Cash Flows

The objectives of the scheme are to keep employers' contributions at as constant a rate as possible. The Council has agreed a contribution stability mechanism with the scheme's actuary until 31 March 2018. Thereafter, for the next actuarial valuation period of three years, rates could vary from this rate by a maximum increase of 0.5% or a maximum decrease of (0.5%) per annum.

## NOTES TO THE FINANCIAL STATEMENTS

### 43. Defined Pension Schemes - continued

#### 43.8 Information about the defined benefit obligation

|                   | Liability Split |       | Weighted<br>Average<br>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<br>Pension<br>Reserve<br>£000 | 2015/16<br>Pension<br>Reserve<br>£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<br>£000 | Obligations<br>£000 | Net (liability) / asset<br>£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<br/>and<br/>Poors<br/>Rating</b> | <b>Principal<br/>Outstanding<br/>31.03.17<br/>£000</b> | <b>Carry<br/>Value<br/>31.03.17<br/>£000</b> | <b>Fair<br/>Value<br/>31.03.17<br/>£000</b> | <b>Carry<br/>Value<br/>31.03.16<br/>£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.

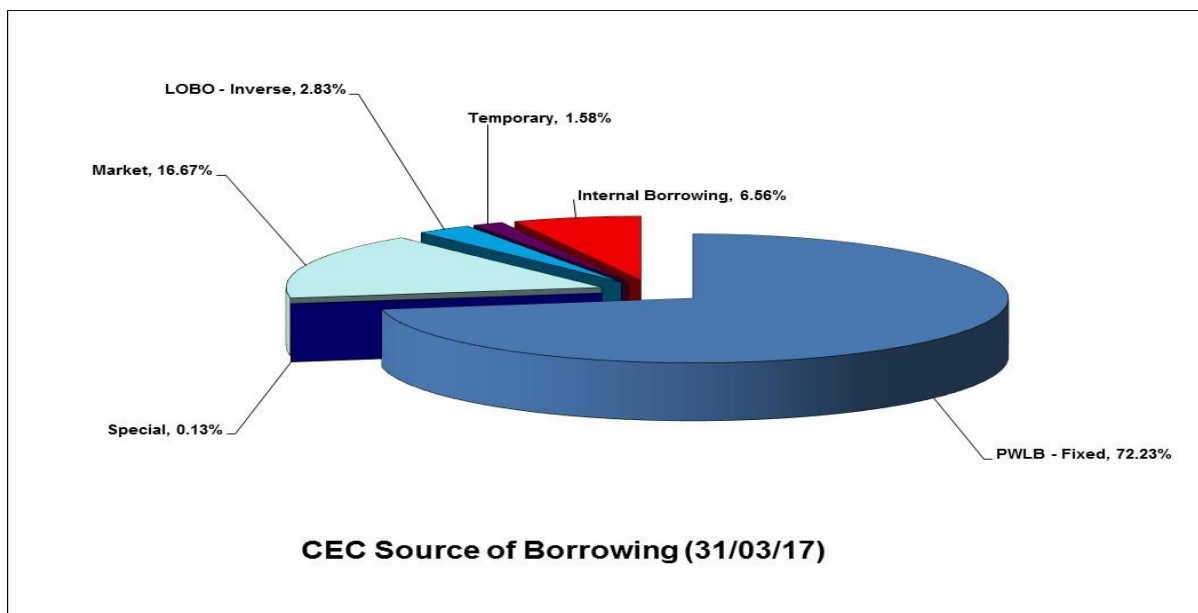
## NOTES TO THE FINANCIAL STATEMENTS

### 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.

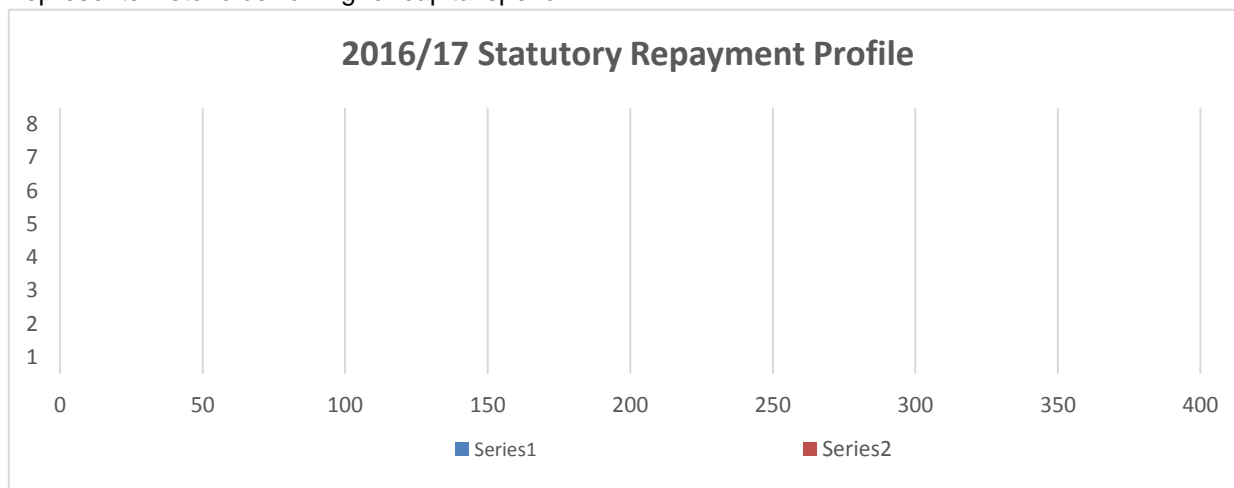
##### Foreign exchange risk

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<br/>Charity<br/>Registration<br/>Number</b> | <b>Market Value<br/>31.03.17<br/>£000</b> | <b>Market Value<br/>31.03.16<br/>£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<br/>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

| <b>Movement in Reserves Statement</b>                    | <b>2015/16<br/>Statements<br/>£000</b> | <b>Asset<br/>Sales<br/>£000</b> | <b>CEC<br/>Holdings<br/>£000</b> | <b>2015/16<br/>Re-stated<br/>£000</b> |
|--|--|---------------------------------|----------------------------------|---------------------------------------|
| <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.

| 2015/16   |   | 2016/17  |           |
|-----------|---|----------|-----------|
| £000      | EXPENDITURE   | £000     | £000      |
| 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<br>(as included in the Council's Comprehensive Income<br>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<br>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<br>Council's Comprehensive Income and Expenditure<br>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<br>£000 |  | 2016/17<br>£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<br>£000         |  | 2016/17<br>£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<br>£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<br>Good<br>Fund<br>£000 | Property<br>Maintenance<br>Fund<br>£000 | Capital<br>Adjust.<br>Account<br>£000 | Reval.<br>Reserve<br>£000 | Total<br>Reserves<br>£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<br>Good<br>Fund<br>£000 | Property<br>Maintenance<br>Fund<br>£000 | FFF<br>Earmarked<br>Fund<br>£000 | Capital<br>Adjust.<br>Account<br>£000 | Reval.<br>Reserve<br>£000 | Total<br>Reserves<br>£000 |
|---|--------------------------------|---|----------------------------------|---------------------------------------|---------------------------|---------------------------|
| <b>2015/16 Comparative Data</b>   |                                |   |                                  |                                       |                           |                           |
| Balance at 31 March 2015  | <u>1,654</u>                   | <u>0</u>                                | <u>1,182</u>                     | <u>(22)</u>                           | <u>21,860</u>             | <u>24,674</u>             |
| Movement in reserves during 2015/16                                       |                                |   |                                  |                                       |                           |                           |
| Surplus on the provision of services                                      | (538)                          | 0                                       | 0                                | 0                                     | 0                         | (538)                     |
| Revaluation Reserve   | <u>0</u>                       | <u>0</u>                                | <u>0</u>                         | <u>0</u>                              | <u>134</u>                | <u>134</u>                |
| <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   | <u>(818)</u>                   | <u>2,000</u>                            | <u>(1,182)</u>                   | <u>0</u>                              | <u>0</u>                  | <u>0</u>                  |
| Increase / (decrease) in year   | <u>(1,356)</u>                 | <u>2,000</u>                            | <u>(1,182)</u>                   | <u>0</u>                              | <u>134</u>                | <u>(404)</u>              |
| <b>Balance at 31 March 2016</b>   | <u>298</u>                     | <u>2,000</u>                            | <u>0</u>                         | <u>(22)</u>                           | <u>21,994</u>             | <u>24,270</u>             |

## COMMON GOOD FUND - COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

| 2015/16<br>£000 |  | 2016/17<br>£000 | £000         |
|-----------------|--|-----------------|--------------|
|                 | <b>EXPENDITURE</b>                                       |                 |              |
| 38              | Common Good Fund   | <u>130</u>      |              |
| 38              | <b>TOTAL EXPENDITURE</b>                                 |                 | 130          |
|                 | <b>INCOME</b>  |                 |              |
| 0               | <b>TOTAL INCOME</b>                                      | <u>0</u>        |              |
| 38              | <b>COST OF SERVICES</b>                                  |                 | <u>130</u>   |
| 511             | (Gain) / Loss on disposal of Fixed Assets                | (225)           |              |
| (11)            | Interest and investment income                           | <u>(9)</u>      |              |
| 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>      |                 | <u>(104)</u> |

## COMMON GOOD FUND - BALANCE SHEET

| 31 March<br>2016<br>£000 |                                      | 31 March 2017<br>£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<br>Assets<br>£000 | Total<br>Property,<br>Plant and<br>Equipment<br>£000 | Heritage<br>Assets<br>£000 |
|--|-----------------------------|--|----------------------------|
| <b>Cost or Valuation</b>   |                             |  |                            |
| At 1 April 2016  | 21,892                      | 21,892   | 103                        |
| Revaluation increases / (decreases) recognised in the<br>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<br>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,<br>Fees and<br>Allowances<br>£ | Taxable<br>Expenses<br>£ | Non-Cash<br>Expenses<br>/ Benefits-<br>-in-kind<br>£ | Total<br>Remun.<br>2016/17<br>£ | Total<br>Remun.<br>2015/16<br>£ |
|---|--|--------------------------|--|---------------------------------|---------------------------------|
| <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<br>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<br>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<br>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<br>£            | 2015/16<br>£            |
|------------------------------|-------------------------|-------------------------|
| 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,<br>Fees and<br>Allowances<br>£ | Compensation<br>for Loss of<br>Office<br>£ | Total<br>Remun.<br>2016/17<br>£ | (re-stated)                     |
|---|--|--|---------------------------------|---------------------------------|
|   |  |  |                                 | Total<br>Remun.<br>2015/16<br>£ |
| <b>Council's Senior Officers</b>  |  |  |                                 |                                 |
| A. Kerr, Chief Executive ( <i>from 27.07.15</i> )<br>( <i>full year equivalent</i> )  | 165,810                                | 0  | 165,810                         | 111,652                         |
|   |  |  |                                 | 164,168                         |
| S. Bruce, Chief Executive ( <i>until 31.08.15</i> )<br>( <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> )<br>( <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> )<br>( <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> )<br>( <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> )<br>( <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> )<br>( <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> )<br>( <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> )<br>( <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> )<br>( <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,<br>Fees and<br>Allowances<br>£ | Compensation<br>for Loss of<br>Office<br>£ | Total<br>Remun.<br>2016/17<br>£ | Total<br>Remun.<br>2015/16<br>£ |
|--|--|--|---------------------------------|---------------------------------|
| <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,<br>Fees and<br>Allowances | Bonus          | Other<br>Benefits | Compensation<br>for Loss of<br>Office | Total<br>Remun.<br>2016/17 | Total<br>Remun.<br>2015/16 |
|---|-----------------------------------|----------------|-------------------|---------------------------------------|----------------------------|----------------------------|
|   | £                                 | £              | £                 | £                                     | £                          | £                          |
| <b>Council's Subsidiary Companies</b>   |                                   |                |                   |                                       |                            |                            |
| E. Adair, Operations and Finance<br>Director, EDI Group   | 104,412                           | 0              | 1,253             | 0                                     | 105,665                    | 105,744                    |
| H. Rissmann, Chief Executive, EICC<br>(until 31.03.15)<br>(full year equivalent)                            | n/a                               | n/a            | n/a               | n/a                                   | n/a                        | 51,665<br>170,191          |
| M. Dallas, Chief Executive, EICC  | 135,584                           | 27,316         | 0                 | 0                                     | 162,900                    | 158,470                    |
| J. Donnelly, Chief Executive, Marketing<br>Edinburgh Ltd (Note 2)   | 122,960                           | 0              | 0                 | 0                                     | 122,960                    | 116,600                    |
| J. Rafferty, Chief Executive, Capital City<br>Partnership (until 1 December 2016)<br>(full year equivalent) | 49,016<br>73,524                  | 0              | 0                 | 70,908                                | 119,924                    | 72,795                     |
| R. Hunter, Chief Executive, Capital City<br>Partnership (from 21 November 2016)<br>(full year equivalent)   | 20,204                            | 0              | 0                 | 0                                     | 20,204<br>48,490           | n/a                        |
| <u>LPFE Limited</u>   |                                   |                |                   |                                       |                            |                            |
| C. Scott, Chief Executive Officer (from<br>01.05.16)<br>(full year equivalent)                              | 92,000                            | 0              | 0                 | 0                                     | 92,000                     | 78,384<br>85,236           |
| <u>Transport for Edinburgh</u>  |                                   |                |                   |                                       |                            |                            |
| G. Lowder, Chief Executive (from<br>07.01.16)<br>(full year equivalent)                                     | 138,983                           | 14,180         | 684               | 0                                     | 153,847<br>156,664         | n/a                        |
| <u>Lothian Buses Ltd.</u>   |                                   |                |                   |                                       |                            |                            |
| I. Craig, Managing Director (until<br>31.01.16)<br>(full year equivalent)                                   | 16,546                            | 0              | 14,579            | 88,998                                | 120,123<br>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<br>31.01.17)   | 154,804                           | 46,441         | 3,858             | 150,000                               | 355,103                    | 203,507                    |
| N. Strachan, Finance Director (until<br>31.01.17)   | 154,804                           | 46,441         | 2,368             | 150,000                               | 353,613                    | 201,926                    |
| R. Hall, Managing Director (from<br>01.05.16)<br>(full year equivalent)                                     | 110,188                           | 33,000         | 0                 | 0                                     | 143,188<br>214,500         | n/a                        |
| <u>Edinburgh Trams Ltd.</u>   |                                   |                |                   |                                       |                            |                            |
| T. Norris, Director and General Manager<br>(until 26.06.15)<br>(full year equivalent)                       | n/a                               | n/a            | n/a               | n/a                                   | n/a<br>n/a                 | 43,474<br>80,705           |
| L. Harrison, General Manager (from<br>01.02.16)<br>(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<br>£000                          | 2015/16<br>£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<br>31.03.17<br>£ | For year to<br>31.03.16<br>£ |                          | As at<br>31.03.17<br>£000 | Difference<br>from<br>31.03.16<br>£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<br>31.03.17<br>£ | For year to<br>31.03.16<br>£ |                          | As at<br>31.03.17<br>£000 | Difference<br>from<br>31.03.16<br>£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<br>31.03.17<br>£ | For year to<br>31.03.16<br>£ |                          | As at<br>31.03.17<br>£000 | Difference<br>from<br>31.03.16<br>£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<br>31.03.17<br>£ | For year to<br>31.03.16<br>£ |                          | As at<br>31.03.17<br>£000 | Difference<br>from<br>31.03.16<br>£000 |
| P. Lawrence, Executive Director of Place ( <i>from 30.11.15</i> )  | 31,716                       | 10,604                       | Pension<br>Lump Sum      | n/a<br>n/a                | n/a<br>n/a                             |
| J. Bury, Acting Director Services for Communities ( <i>from 08.05.14 until 18.10.15</i> )                              | n/a                          | 14,419                       | Pension<br>Lump Sum      | n/a<br>n/a                | n/a<br>n/a                             |
| G. Ward, Director Economic Development ( <i>until 30.11.15</i> )   | n/a                          | 16,979                       | Pension<br>Lump Sum      | n/a<br>n/a                | n/a<br>n/a                             |
| M. Miller, Head of Safer and Stronger Communities and Chief Social Work  | 21,781                       | 21,666                       | Pension<br>Lump Sum      | 42<br>82                  | 3<br>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<br>Lump Sum      | 68<br>143                 | 21<br>42                               |
| M. Boyle, Head of Older People and Disability Service ( <i>until 31.01.16</i> )  | n/a                          | 55,481                       | Pension<br>Lump Sum      | n/a<br>n/a                | n/a<br>n/a                             |
| G. Crosby, Senior Manager Disabilities ( <i>until 31.01.16</i> )   | n/a                          | 13,960                       | Pension<br>Lump Sum      | n/a<br>n/a                | n/a<br>n/a                             |
| P. Campbell, Senior Manager Older People ( <i>until 31.01.16</i> )   | n/a                          | 45,989                       | Pension<br>Lump Sum      | n/a<br>n/a                | n/a<br>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<br>31.03.17<br>£ | For year to<br>31.03.16<br>£ |                          | As at<br>31.03.17<br>£000 | Difference<br>from<br>31.03.16<br>£000 |
| E. Adair, Operations and Finance Director, EDI Group         | 20,535                       | 20,237                       | Pension<br>Lump Sum      | 27<br>41                  | 2<br>0                                 |
| H. Rissmann, Chief Executive, EICC ( <i>until 31.03.15</i> ) | n/a                          | 5,203                        | Pension<br>Lump Sum      | n/a<br>n/a                | n/a<br>n/a                             |

# REMUNERATION REPORT

## Pension Benefits - continued

### Council's Subsidiary Companies - continued

|  | In-year pension contribs.    |                              | Accrued Pension Benefits |                           |  |
|--|------------------------------|------------------------------|--------------------------|---------------------------|--|
|  | For year to<br>31.03.17<br>£ | For year to<br>31.03.16<br>£ |                          | As at<br>31.03.17<br>£000 | Difference<br>from<br>31.03.16<br>£000 |
| M. Dallas, Chief Executive, EICC                                     | 17,821                       | 16,836                       | Pension<br>Lump Sum      | n/a<br>n/a                | n/a<br>n/a                             |
| <u>Lothian Buses Ltd.</u>  |                              |                              |                          |                           |  |
| I. Craig, Managing Director  | 3,789                        | 40,075                       | Pension<br>Lump Sum      | n/a<br>n/a                | n/a<br>n/a                             |
| W. Campbell, Operations Director                                     | n/a                          | 33,128                       | Pension<br>Lump Sum      | n/a<br>n/a                | n/a<br>n/a                             |
| W. Devlin, Engineering Director                                      | 75,587                       | 33,128                       | Pension<br>Lump Sum      | 49<br>83                  | 3<br>0                                 |
| N. Strachan, Finance Director  | 210,249                      | 33,128                       | Pension<br>Lump Sum      | 44<br>70                  | 3<br>0                                 |
| R. Hall, Managing Director   | 6,875                        | n/a                          | Pension<br>Lump Sum      | n/a<br>n/a                | n/a<br>n/a                             |
| <u>Edinburgh Trams Ltd.</u>  |                              |                              |                          |                           |  |
| T. Norris, Director and General<br>Manager ( <i>until 26.06.15</i> ) | n/a                          | 3,614                        | Pension<br>Lump Sum      | n/a<br>n/a                | n/a<br>n/a                             |
| L. Harrison, General Manager ( <i>from<br/>01.02.16</i> )            | 8,225                        | n/a                          | Pension<br>Lump Sum      | n/a<br>n/a                | n/a<br>n/a                             |
| <u>Capital City Partnership</u>                                      |                              |                              |                          |                           |  |
| J. Rafferty, Chief Executive ( <i>until<br/>01.12.16</i> )           | 9,558                        | 14,073                       | Pension<br>Lump Sum      | 32<br>67                  | 2<br>1                                 |
| <u>LPFE Limited</u>  |                              |                              |                          |                           |  |
| C. Scott, Chief Executive Officer                                    | 19,596                       | 16,069                       | Pension<br>Lump Sum      | 17<br>12                  | 3<br>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