Public Document Pack

Notice of meeting and agenda

Governance, Risk and Best Value Committee

10.00 am Tuesday, 18th February, 2020

Dean of Guild Court Room - City Chambers

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

The law allows the Council to consider some issues in private. Any items under "Private Business" will not be published, although the decisions will be recorded in the minute.

Contacts

Email: lesley.birrell@edinburgh.gov.uk / martin.scott@edinburgh.gov.uk

Tel: 0131 529 4240 / 0131 529 4237

1. Order of Business

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

2. Declaration of Interests

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

3. Deputations

3.1 If any

4. Minutes

4.1	Minute of the Governance, Risk and Best Value Committee of 14 January 2020 - submitted for approval as a correct record	7 - 10

5. Outstanding Actions

5.1	Outstanding Actions - 18 February 2020	11 - 34

6. Work Programme

6.1	Governance, Risk and Best Value Work Committee Work Programme – 18 February 2020	35 - 44

7. Business Bulletin

7.1	Governance, Risk and Best Value Committee Business Bulletin - 18 February 2020	45 - 48

8. Reports

8.1	Revenue Monitoring 2019/20 - Month Eight Position- referral from the Finance and Resources Committee	49 - 66
8.2	Capital Monitoring 2019/20- Month Eight Position - referral from the Finance and Resources Committee	67 - 80

8.3	Accounts Commission: Local Government in Scotland –Financial Overview 2018/19 - referral from the Finance and Resources Committee	81 - 130
8.4	Treasury Management Mid-Term Report 2019/20 - referral from the City of Edinburgh Council	131 - 146
8.5	Internal Audit: Proposed Changes to the 2019/20 Internal Audit Annual Plan – Report by the Chief Internal Auditor	147 - 156
8.6	Annual Assurance Schedule - Chief Executive – Report by the Chief Executive	157 - 198
8.7	The EDI Group - update report - referral from the Housing, Homelessness and Fair Work Committee (Updated copy of the chart at Appendix 2 which showed the delays in the projected timeline, as per the Housing, Homelessness and Fair Work Committee decision at paragraph 2.2.2, attached for reference)	199 - 252

9. Motions

9.1 If any

Laurence Rockey

Head of Strategy and Communications

Committee Members

Councillor Joanna Mowat (Convener), Councillor Eleanor Bird, Councillor Jim Campbell, Councillor Maureen Child, Councillor Phil Doggart, Councillor Gillian Gloyer, Councillor Melanie Main, Councillor Rob Munn, Councillor Gordon Munro, Councillor Alex Staniforth and Councillor Norman Work

Information about the Governance, Risk and Best Value Committee

The Governance, Risk and Best Value Committee consists of 11 Councillors and is appointed by the City of Edinburgh Council. The Governance, Risk and Best Value Committee usually meets in the Dean of Guild Court Room in the City Chambers on the High Street in Edinburgh. There is a seated public gallery and the meeting is open to all members of the public.

Further information

If you have any questions about the agenda or meeting arrangements, please contact , Committee Services, City of Edinburgh Council, Business Centre 2.1, Waverley Court, 4 East Market Street, Edinburgh EH8 8BG, Tel 0131 529 4240 / 0131 529 4237, email lesley.birrell@edinburgh.gov.uk / martin.scott@edinburgh.gov.uk.

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

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

Webcasting of Council meetings

Please note this meeting may be filmed for live and subsequent broadcast via the Council's internet site – at the start of the meeting the Convener will confirm if all or part of the meeting is being filmed.

The Council is a Data Controller under current Data Protection legislation. We broadcast Council meetings to fulfil our public task obligation to enable members of the public to observe the democratic process. Data collected during this webcast will be retained in accordance with the Council's published policy including, but not limited to, for the purpose of keeping historical records and making those records available via the Council's internet site.

Generally the public seating areas will not be filmed. However, by entering the Council Chamber and using the public seating area, individuals may be filmed and images and sound recordings captured of them will be used and stored for web casting and training purposes and for the purpose of keeping historical records and making those records available to the public.

Any information presented by individuals to the Council at a meeting, in a deputation or otherwise, in addition to forming part of a webcast that will be held as a historical record, will also be held and used by the Council in connection with the relevant matter until that matter is decided or otherwise resolved (including any potential appeals and other connected processes). Thereafter, that information will continue to be held as part of the historical record in accordance with the paragraphs above.

If you have any queries regarding this, and, in particular, if you believe that use and/or storage of any particular information would cause, or be likely to cause, substantial damage or distress to any individual, please contact Committee Services (committee.services@edinburgh.gov.uk).

This page is intentionally left blank

Minutes

Governance, Risk and Best Value Committee

10.00am, Tuesday, 14 January 2020

Present

Councillors Mowat (Convener), Bird, Jim Campbell, Child, Doggart, Gloyer, Main, Munn, Munro, Staniforth and Work.

1. Minute

Decision

To approve the minute of the Governance, Risk and Best Value Committee of 3 December 2019 as a correct record.

2. Outstanding Actions

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

Decision

1) To agree to close the following Actions:

Action 12(2) - City of Edinburgh Council – 2018/19 Annual Audit Report to the Council and the Controller of Audit

Action 15 – Internal Audit Update Report: 1 April to 31 October 2019

2) To otherwise note the outstanding actions

(Reference – Outstanding Actions 14 January 2020, submitted.)

3. Work Programme

Decision

To note the Work Programme.

(Reference – Governance, Risk and Best Value Committee Work Programme 14 January 2020, submitted.)

4. Business Bulletin

Decision

To note the Business Bulletin.

(Reference – Governance, Risk and Best Value Committee Business Bulletin 14 January 2020, submitted.)

5. Edinburgh International Conference Centre Annual Update - referral from the Housing, Homelessness and Fair Work Committee

The Housing, Homelessness and Fair Work Committee had referred an update report from the Edinburgh International Conference Centre (EICC) on performance in the financial year 2018/19 to the Governance, Risk and Best Value Committee for information.

Decision

1) To note the report.

2) To record the Committee's thanks to the EICC.

(References – Housing, Homelessness and Fair Work Committee, 31 October 2019 (item 13); report by the Chief Executive, submitted.)

6. 2018/19 Annual Audit Report and External Audit Review of Internal Financial Controls – progress update

Committee were appraised of progress in taking forward the agreed management actions contained within the Council's Annual Audit Report and review of the internal financial control framework.

Decision

1) To note the progress made to date in addressing the management actions contained within the Annual Audit Report and review of the Council's internal control framework.

2) To note that a further update on longer-term actions would be provided to the Committee's meeting in June 2020.

(References – Governance, Risk and Best Value Committee, 3 December 2019 (item 8); report by the Chief Executive and the Executive Director of Resources, submitted.)

7. Revenue Monitoring 2019/20 – Half Year Report – referral from the Finance and Resources Committee

The Finance and Resources Committee had referred a report which set out the projected overall six-month position for the Council's 2019/20 revenue expenditure budget based on analysis of actual expenditure and income to the end of August 2019. Information was also submitted providing an analysis of underlying pressures and progress in realising savings associated with both approved and mitigating budget measures.

Decision

To note the report.

(References – Finance and Resources Committee, 6 December 2019; referral from the Finance and Resources Committee, submitted.)

8. Half Year Capital Monitoring 2019/20 Position – referral from the Finance and Resources Committee

On 6 December 2019, the Finance and Resources Committee considered a report setting out the overall position of the Council's capital budget at the half year position (based on month five data) and the projected outturn for the year.

Decision

1) To note the report.

2) To agree that details would be circulated about the impact of South Edinburgh Primary School on the accounts and the reason for the omission.

(References – Finance and Resources Committee, 6 December 2019; referral from the Finance and Resources Committee, submitted.)

9. Annual Assurance Schedule – Communities and Families

The Communities and Families Directorate Annual Assurance Schedule was submitted for scrutiny.

Decision

1) To note the Community and Families directorate annual assurance schedule.

2) To agree that an update would be provided on the Education, Children and Families Committee Business Bulletin, including a link to the full report.

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

10. Council Companies - Edinburgh Leisure Annual Report 2018/19

The annual report on Edinburgh Leisure's performance for 2018/19, prepared as a requirement of the Services and Funding Agreement, was presented.

Decision

1) To note the performance of Edinburgh Leisure during 2018/19.

2) To agree that the full accounts should be submitted to the Governance, Risk and Best Value Committee and that the Convener would liaise with the Convener of the Culture and Communities Committee regarding the reporting timeline.

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

Declaration of Interests

Councillor Staniforth declared a non-financial interest in this item as a director of Edinburgh Leisure, left the room and took no part in the discussion.

11. Place Directorate – Internal Audit Action Update – referral from the Transport and Environment Committee

An update was provided following Internal Audit's annual opinion for the City of Edinburgh Council for the financial year ended 31 March 2019 and the outcomes of Internal Audits completed at the end of the 2018/19 Internal Audit Plan which had either a Council-wide finding and were applicable to all Directorates or were specific to the Place Directorate.

Decision

1) To note the report.

2) To agree that a note would be circulated providing an update on implementation dates.

(References – Transport and Environment Committee, 5 December 2019; report by the Executive Director of Place, submitted.)

Outstanding Actions

Governance, Risk and Best Value Committee

18 February 2020

No	Date	Report Title	Action	Action Owner	Expected completion date	Actual completion date	Comments
1	01/08/2017	Governance, Risk and Best Value Work Programme – 1 August 2017	To note an investigation report on retention of case records would be reported to the appropriate committee and a timescale for this would be provided as soon as possible.	Executive Director for Communities and Families	March 2020 ~~December 2019~~ ~~November 2019~~ ~~August 2019~~ ~~April 2019~~		**November 2019** An update was circulated on 6 November 2019. **October 2019** A team has now been established to review the historic population of files to identify any that could potentially have been merged with incorrect file retention dates applied. Internal Audit will review the scope and

No	Date	Report Title	Action	Action Owner	Expected completion date	Actual completion date	Comments
							approach being applied to this review in October to confirm that it is appropriately designed to ensure that any merged files are identified and reviewed. A final report detailing the outcomes of this work together with Internal Audit recommendations in relation to the review process applied to files prior to their destruction will be presented to the Governance Risk and Best Value Committee in December 2019. **May 2019**

Page 12

No	Date	Report Title	Action	Action Owner	Expected completion date	Actual completion date	Comments
							Strategy and Comms are preparing a paper which will include the outcomes of the audit findings – this will be reported to the Corporate Policy and Strategy Committee and referred thereafter to GRBV. **<u>Update</u>** The internal auditor's investigation is still ongoing therefore it may take a few months before an update is provided. The Executive Director for Communities and Families will

No	Date	Report Title	Action	Action Owner	Expected completion date	Actual completion date	Comments
							provide an update once the Chief Internal Auditor's investigation is concluded. The final audit report would be referred from the Policy and Sustainability Committee to GRBV.
2	26/09/2017	Principles to Govern the Working Relationships between the City of Edinburgh Council Governance, Risk and Best Value Committee and the Edinburgh Integrated Joint Board Audit and Risk Committee	To accept the high-level principles subject to further information on how elected members could best engage with the process.	Chief Internal Auditor	May 2020 ~~September 2019~~ ~~January 2019~~ ~~November 2017~~		**September 2019** Please note that a briefing note by the Chief Internal Auditor has been circulated to members separately.
3	31/07/18	Expansion of Early Learning and Childcare	To ask the Chief Executive to submit a	Executive Director for	March 2020		**December 2019**

Page 14

No	Date	Report Title	Action	Action Owner	Expected completion date	Actual completion date	Comments
		from 600 – 1140 hours by 2020. Audit Scotland Report and Risks	report to the Edinburgh Partnership on workforce planning.	Communities and Families	~~December 2019~~ ~~October 2019~~ ~~June 2019~~		An update was provided to members on 12.12.19. To note a report is due to be submitted to Education, Children and Families Committee in March 2020 **September 2019** The Edinburgh Partnership will consider this report on 18 September 2019, in order to allow it to be considered by the Education, Children and Families Committee on 8 October 2019.

Page 16

No	Date	Report Title	Action	Action Owner	Expected completion date	Actual completion date	Comments
							May 2019 The report was submitted to the Education, Children and Families Committee in March 2019 and it will be submitted to the Edinburgh Partnership in October 2019. **October 2018** A report is scheduled to go to the Education, Children and Families Committee in March 2019 and will be reported to the Edinburgh Partnership thereafter.

No	Date	Report Title	Action	Action Owner	Expected completion date	Actual completion date	Comments
4	28/08/18	Committee Reporting	To request a report by the end of 2019 to monitor the impact of the steps taken to improve the process.	Chief Executive	May 2020 ~~February 2020~~ ~~December 2019~~		Report scheduled for GRBV Committee in May 2020
5	04.06.19	Welfare Reform Annual Report	To agree that the Convener would write to the Convener of the Corporate Policy and Strategy Committee recommending that he write to the UK Government requesting assistance to mitigate the impact of welfare reform, and that details, including any responses, would be provided in the Committee's Business Bulletin.	Convener	December 2019 ~~August 2019~~		**February 2020 Update –** Information included in the business bulletin for this meeting **December 2019 Update** - Convener has written to the Convener of the Policy and Sustainability Committee. Details including any responses will be provided in the Committee's Business Bulletin at

Page 17

No	Date	Report Title	Action	Action Owner	Expected completion date	Actual completion date	Comments
							a future meeting.
6	04.06.19	Accounts Commission – Local Government in Scotland: Challenges and Performance 2019 – referral from the Finance and Resources Committee	1) To request a briefing note clarifying the data in Exhibit 4 of the report on the percentage of young people in poverty. 2) To agree that the Convener would write to the Convener of the Finance and Resources Committee to recommend that he write to the Scottish Government conveying the Committee's concerns at the lack of government funding, and that details, including any responses, would be provided in the	Chief Executive Convener	August 2019 December 2019		**1) Closed -** Update provided in the Business Bulletin for Committee on 12 September 2019. **2) Recommended for closure** **February 2020 Update –** Information included in the business bulletin **December 2019 Update** - Convener has written to the Convener of the Finance and Resources Committee. Details including any responses will be included in the

No	Date	Report Title	Action	Action Owner	Expected completion date	Actual completion date	Comments
			Committee's Business Bulletin.				Committee's Business Bulletin at a future meeting.
7	13.08.19	Internal Audit Annual Opinion for the year ended 31 March 2019	To request that the Chief Executive, Executive Directors and Chief Officer of the Edinburgh Health and Social Care Partnership, supported by the Chief Internal Auditor, report to the relevant Executive Committee at the earliest opportunity and the subsequent GRBV Committee setting out clear plans to ensure the closure of all historic and overdue internal audit management actions to enable an improvement to the overall Internal Audit Opinion for 2019/20 and to refer all	Chief Executive Executive Directors Chief Officer, EHSCP Chief Internal Auditor	December 2019		**Recommended for closure** **Place Directorate Update - December 2019:** An update was considered at the Transport and Environment Committee on 5 December and will be referred to Planning, Policy & Sustainability to consider the outstanding / over actions which relate to their Committee. This report was considered at GRBV on 14

Page 19

No	Date	Report Title	Action	Action Owner	Expected completion date	Actual completion date	Comments
			audits with a red finding to the next meeting of the appropriate Executive Committee for their consideration and that action plans would be reported back to GRBV.				January 2020 **Resources Update:** Resources Directorate – Internal Audit Action Update was considered at GRBV on 29 October 2019. **Resources Update** A report on items pertaining to the Resources Directorate has been submitted for the October meeting of Finance & Resources Committee and is to be referred to the following meeting of this Committee.

Page 20

No	Date	Report Title	Action	Action Owner	Expected completion date	Actual completion date	Comments
							EHSCP Update: Report went to GRBV on 3 December on historic actions.
8	13.08.19	Annual Update on Council Transport Arms-Length Companies	To agree that the report to Policy and Sustainability Committee later this year would provide additional clarity regarding the reporting arrangements for ALEOs to the Council and governance schematics and this should be referred back to GRBV Committee.	Chief Executive	February 2020 ~~November 2019~~		**December 2019 Update** Report will be on the agenda for the Policy and Sustainability Committee on 25 February 2020.
9	13.08.19	Marketing Edinburgh Annual Update	To agree that details would be provided about the amount of income generated by Film	Executive Director of Place	February 2020 ~~January 2020~~		**Update February 2020:** A report on filming

Page 22

No	Date	Report Title	Action	Action Owner	Expected completion date	Actual completion date	Comments
			Edinburgh for the Council.				in Edinburgh will be considered by Policy & Sustainability Committee on 25 February 2020. This includes details of the income recovered by the Council. This report will also be shared with Governance Risk and Best Value.
10	17.09.19	Outstanding Actions – Procedure for Oversight of Annual Assurance Statements	To request that an update be provided in the Committee's Business Bulletin on the procedure for Committee oversight of the annual assurance statements.	Chief Executive	February 2020 ~~January 2020~~ ~~December 2019~~		**Update February 2020:** Update on Business Bulletin for February Committee meeting **Update January 2020:** Democracy,

No	Date	Report Title	Action	Action Owner	Expected completion date	Actual completion date	Comments
							Governance & Resilience Senior Manager will provide a verbal update at the meeting.
11	17.09.19	Work Programme – Management of Sheltered Housing	1) To request a report on the management of sheltered housing under Items for Scrutiny.	Chief Officer, Edinburgh Health and Social Care Partnership	October 2019		**1. CLOSED**. 1. Report submitted to Committee on 29 October 2019. New action opened (see 17 below)
		Work Programme – Member/Officer Protocol	2) To add the review of the Member/ Officer Protocol to the workplan with timescales for submission and to agree that a workshop for members would be held prior to	Chief Executive	March 2020 ~~January 2020~~		2. Action added to the Work Programme. **December 2019** Workshop with members held on 29 October 2019. A joint workshop will be arranged

No	Date	Report Title	Action	Action Owner	Expected completion date	Actual completion date	Comments
			submission to the Committee.				with officers and members early 2020 (following the General Election).
12	17.09.19	City of Edinburgh Council – 2018/19 Annual Audit Report to the Council and the Controller of Audit	1) To request that an update report be submitted in January 2020 on progress with the action plan. 2) To agree that the Convener would write to the Convener of the Policy and Sustainability Committee to request details of the Committee's planned	Chief Executive & Executive Director of Resources Convener	January 2020		**1) Recommended for closure** Report was on the agenda for the January meeting **Resources Update** A report is on the agenda for the January meeting of Committee. **2) Closed** **December 2019 Update** - Convener has written to the Convener of the

Page 24

No	Date	Report Title	Action	Action Owner	Expected completion date	Actual completion date	Comments
			scrutiny activities and when reports were expected.				Policy and Sustainability Committee on this issue.
13	29.10.19	Quarterly Status Update – Digital Services Programme	1) To note the quarterly update. 2) To request that a further report be brought back to Committee in six months on the Customer Digital Enablement programme once the new CRM had bedded in focussing on the benefits realisation and evaluation of the project.	Executive Director of Resources	April 2020		
14	29.10.19	City of Edinburgh Council – Sheltered Housing	1) To note the report and the work ongoing to maintain and	Chief Officer, EHSCP	October 2020		

No	Date	Report Title	Action	Action Owner	Expected completion date	Actual completion date	Comments
			improve services for residents of sheltered housing and strengthen resident involvement. 2) To request that a further update be presented to the Integration Joint Board, as the parent reporting body for the Health and Social Care Partnership, in one year focussing specifically on key improvements to address social isolation and communication with residents with a request that the report is thereafter referred to this				

No	Date	Report Title	Action	Action Owner	Expected completion date	Actual completion date	Comments
			Committee for its consideration.				
15	03.12.19	Historic and Outstanding Internal Audits – Health and Social Care	1) To ask for an update in the Business Bulletin for the next meeting on new management actions on overdue internal audit items and whether they were on track to achieve their implementation dates. 2) To circulate the briefing note on the relationships between the IJB, NHS Lothian and the Council previously prepared by the Democracy,	Chief Officer, Edinburgh Health and Social Care Partnership Chief Executive	January 2020 March 2020		**1) Recommended for closure** **1) Update January 2020:** **Update provided on Business Bulletin of 14 January 2020** **2) January 2020:** Governance Relationship between the Council and the EIJB report circulated on 08.01.20

Page 27

Page 28

No	Date	Report Title	Action	Action Owner	Expected completion date	Actual completion date	Comments
			Governance & Resilience Senior Manager to members; the briefing note to be expanded to include: • Clarification of the scrutiny process for projects instructed by the IJB but delivered by the Council and its officers • Confirmation of where the key controls sit in relation to the delivery of the health and social services delegated from the IJB. 3) To agree that an update be	 Chief	 March 2020		Democracy, Governance & Resilience Senior Manager will provide a verbal update at the January meeting.

Page 29

No	Date	Report Title	Action	Action Owner	Expected completion date	Actual completion date	Comments
			provided in the Business Bulletin for the next meeting of this Committee setting out when the information on the relationship between the IJB and the Council will be coming forward.	Executive			
16	03.12.19	[Corporate Leadership Team Risk Register]()	Convener to write to the Convener of Policy and Sustainability Committee requesting information on what is set out in that Committee's work plan to fulfil its duties in terms of scrutiny of those services delegated to the Integration Joint Board including scrutiny of internal controls, performance, quality	Convener	February 2020		**Recommended for closure** **February 2020 Update –** Response has been received from the Convener of Policy and Sustainability **Update January 2020:** Committee agreed

No	Date	Report Title	Action	Action Owner	Expected completion date	Actual completion date	Comments
			and compliance with the law.				on 14 January 2020 that this action would remain open until response was received. Convener wrote to the Convener of Policy and Sustainability on 4 December 2019.
17	03.12.19	[Annual Assurance Schedule - Place Directorate]()	1) To request a report back setting out what operational governance is in place to ensure that projects are delivered. 2) Information to be provided to all Elected Members	Executive Director of Place Executive Director of Place	March 2020 March 2020		

No	Date	Report Title	Action	Action Owner	Expected completion date	Actual completion date	Comments
			on the new city wide and locality team structures together with contact details of designated Senior Responsible Officers for major and local projects.				
18	03.12.19	Whistleblowing Investigation Report – Report by the Chief Officer, Edinburgh Health and Social Care Partnership – B agenda	To request a Business Bulletin update to this Committee at the appropriate time on the protocols and safeguards in place to assist staff decision making on evacuation procedures.	Chief Officer, Edinburgh Health and Social Care Partnership	March 2020		
19	14.01.20	Half Year Capital Monitoring 2019/20 Position - referral from the Finance and Resources Committee	Details would be circulated about the impact of South Edinburgh Primary School on the accounts	Executive Director of Resources	January 2020		**Recommended for closure** Information sent on 21 January 2020

No	Date	Report Title	Action	Action Owner	Expected completion date	Actual completion date	Comments
			and the reason for the omission.				
20	14.01.20	Annual Assurance Schedule - Communities and Families	To agree that an update would be provided on the Education, Children and Families Committee Business Bulletin, including a link to the full report.	Executive Director for Communities and Families	March 2020		An update will be in the Business Bulletin for the next Education, Children and Families Committee Committee on 3 March so
21	14.01.20	Council Companies - Edinburgh Leisure Annual Report 2018/19	To agree that the full accounts should be submitted to Committee and that the Convener would liaise with the Convener of the Culture and Communities Committee regarding the reporting timeline.	Executive Director for Communities and Families	March 2020		
22	14.01.20	Place Directorate – Internal Audit Action Update - referral from the Transport and Environment Committee	That a note would be circulated providing an update on implementation dates.	Executive Director of Place	February 2020		This information will be circulated in advance of Committee on 18 February 2020.

This page is intentionally left blank

Work Programme

Governance, Risk and Best Value Committee – 18 February 2020

	Title / description	Sub section	Purpose/Reason	Category or type	Lead officer	Stakeholder	Progress updates	Expected date
1	Internal Audit: Overdue Recommendations and Late Management Responses	Quarterly report	Paper outlines previous issues with follow up of internal audit recommendations, and an overview of the revised process within internal audit to follow up recommendations, including the role of CLG and the Committee	Internal Audit	Chief Internal Auditor	Council Wide	Quarterly	March 2020 June 2020 September 2020 December 2020
2	Internal Audit Quarterly Activity Report	Quarterly report	Review of quarterly IA activity with focus on high and medium risk findings to allow committee to challenge and request to see further detail on findings or to question relevant officers about findings	Internal Audit	Chief Internal Auditor	Council Wide	Quarterly	March 2020 June 2020 September 2020 December 2020

Agenda Item 6.1

EDINBVRGH THE CITY OF EDINBURGH COUNCIL

3	IA Annual Report for the Year	Annual report	Review of annual IA activity with overall IA opinion on governance framework of the Council for consideration and challenge by Committee	Internal Audit	Chief Internal Auditor	Council Wide	Annually	August 2020
4	IA Audit Plan for the year	Annual report	Presentation of Risk Based Internal Audit Plan for approval by Committee	Internal Audit	Chief Internal Auditor	Council Wide	Annually	March 2020
5	Accounts Commission	Annual report	Local Government in Scotland: Financial Overview	External Audit	Executive Director of Resources	Council Wide	Annually	February 2020
6	Accounts Commission	Annual report	Local Government in Scotland: Performance and Challenges	External Audit	Executive Director of Resources	Council Wide	Annually	June 2020
7	Annual Audit Plan	Scott Moncrieff	Annual audit plan	External Audit	Executive Director of Resources	Council Wide	Annually	March 2020
8	Annual ISA 260 Audit Report	Scott Moncrieff	Annual Audit Report	External Audit	Executive Director of Resources	Council Wide	Annually	September 2020
9	External Audit Review of Internal Financial Controls	Scott Moncrieff	Interim audit report on Council wide internal financial control framework	External Audit	Executive Director of Resources	Council Wide	Annually	September 2020

10	IT Audit Report	Scott Moncrieff	Scope agreed during annual external audit planning cycle	External Audit	Executive Director of Resources	Council Wide	Annually	October 2019, as part of the quarterly Status of the ICT Programme Update
11	Internal Audit Charter	Annual Report	Annual Audit Charter	Internal Audit	Executive Director of Resources	Council Wide	Annually	March 2020
Section B – Scrutiny Items								
12	Change Portfolio		To ensure major projects undertaken by the Council were being adequately project managed	Major Project	Chief Executive	All	Six-monthly	June 2020 December 2020
13	Welfare Reform	Review	Update reports to be referred annually by Corporate Policy and Strategy Committee	Scrutiny	Executive Director of Resources	Council Wide	Annual	June 2020
14	Review of CLT Risk Scrutiny	Risk	Quarterly review of CLT's scrutiny of risk	Risk Management	Chief Executive	Council Wide	Quarterly	March 2020 June 2020 September 2020 December 2020
15	Whistleblowing Quarterly Report		Quarterly Report	Scrutiny	Chief Executive	Internal	Quarterly	March 2020 June 2020 September 2020 December 2020
16	Workforce Control	Staff	Annual report	Scrutiny	Executive Director of Resources	Council Wide	Annual	June 2020

17	Committee Decisions	Democracy	Annual report	Scrutiny	Chief Executive	Governance, Risk and Best Value Committee	Annual	December 2020 Re-examine after improved information tracking.
18	Monitoring of Council Policies	Democracy	Annual report	Scrutiny	Chief Executive	Council Wide	Annual	Spring 2020
19	Revenue Monitoring	Review	Progress reports	Scrutiny	Executive Director of Resources	Council Wide	Quarterly	February 2020 June 2020 September 2020 February 2021
20	Capital Monitoring	Review	Progress reports	Scrutiny	Executive Director of Resources	Council Wide	Quarterly	February 2020 June 2020 September 2020 February 2021
21	Revenue Outturn	Review	Progress reports	Scrutiny	Executive Director of Resources	Council Wide	Annual	August 2020
22	Capital Outturn and Receipts	Review	Progress reports	Scrutiny	Executive Director of Resources	Council Wide	Annual	August 2020
23	Treasury – Strategy report	Review	Progress reports	Scrutiny	Executive Director of Resources	Council Wide	Annual	March 2020
24	Treasury – Annual report	Review	Progress reports	Scrutiny	Executive Director of Resources	Council Wide	Annual	September 2020
25	Treasury – Mid-term report	Review	Progress reports	Scrutiny	Executive Director of Resources	Council Wide	Annual	February 2020

26	Quarterly Status Update - Digital Service Programme	Review	Progress Reports	Scrutiny	Executive Director of Resources	Council Wide	Quarterly	March 2020 June 2020

27	Annual Assurance Schedules	Review	Progress Report	Scrutiny	All Directorates	Council	Annual	February 2020 (Chief Executive) August 2020 (EIJB) October 2020 (Resources) December 2020 (Place) January 2021 (Communities and Families)
28	Review of the Member/Officer Protocol	Review	Including timescales for submission	Scrutiny	Chief Executive	Council Wide	Flexible	May 2020
29	Management of Sheltered Housing	Review	Further report requested focusing on social isolation and communication with residents.	Scrutiny	Chief Officer, Edinburgh Health and Social Care Partnership	EHSCP	Flexible	October 2020

Section C – Council Companies								
30	Capital Theatres	Review	Progress Report	Scrutiny	Executive Director of Place	Council Wide	Annual	December 2020
31	Edinburgh Leisure	Review	Progress Report	Scrutiny	Executive Director for Communities and Families	Council Wide	Annual	January 2021
32	Capital City Partnership	Review	Progress Report	Scrutiny	Executive Director of Place	Council Wide	Annual	May 2020
33	Transport for Edinburgh	Review	Progress Report	Scrutiny	Executive Director of Place	Council Wide	Annual	August 2020
34	Lothian Buses	Review	Progress Report	Scrutiny	Executive Director of Place	Council Wide	Annual	August 2020
35	Edinburgh Trams	Review	Progress Report	Scrutiny	Executive Director of Place	Council Wide	Annual	August 2020
36	Edinburgh International Conference Centre	Review	Progress Report	Scrutiny	Executive Director of Resources	Council Wide	Annual	December 2020
37	Marketing Edinburgh	Review	Progress Report	Scrutiny	Chief Executive	Council Wide	Annual	August 2020

GRBV Upcoming Reports

Appendix 1

Report Title	Type	Flexible/Not Flexible
March 2020		
Internal Audit Findings and Late Management Responses	Scrutiny	Flexible
Internal Audit Quarterly Update	Scrutiny	Flexible
Internal Audit Plan for the 2020/21 Year	Scrutiny	Flexible
Internal Audit Charter	Scrutiny	Flexible
CLT Risk Register	Scrutiny	Flexible
Treasury Strategy – referral from City of Edinburgh Council	Scrutiny	Flexible
Edinburgh Leisure Reporting of Accounts	Scrutiny	Flexible
Whistleblowing Quarterly Report	Scrutiny	Flexible

Report Title	Type	Flexible/Not Flexible
Whistleblowing Quarterly Report (B Agenda)	Scrutiny	Flexible
Place Governance and major projects	Scrutiny	Flexible
Review of Member officer Protocol	Scrutiny	Flexible
Quarterly Status of ICT and Digital Services Programme	Scrutiny	Flexible
Gas safety update- B agenda	Scrutiny	Flexible
May 2020		
Capital City Partnership - Progress Update	Scrutiny	Flexible
Committee Reporting	Scrutiny	Flexible
Principles to govern the working relationship between the City of Edinburgh Council Governance, Risk and Best Value Committee and the Edinburgh Integrated Joint Board Audit and Risk Committee	Scrutiny	Flexible

This page is intentionally left blank

Agenda Item 7.1

Business bulletin

Governance, Risk and Best Value Committee

10.00am, Tuesday, 18 February 2020

Dean of Guild Courtroom, City Chambers, High Street, Edinburgh

EDINBVRGH
THE CITY OF EDINBURGH COUNCIL

Governance, Risk and Best Value Committee

Convener:	Members:	Contact:
Councillor Joanna Mowat 	Councillor Joanna Mowat (Convener) Councillor Eleanor Bird Councillor Jim Campbell Councillor Maureen Child Councillor Phil Doggart Councillor Gillian Gloyer Councillor Melanie Main Councillor Rob Munn Councillor Gordon Munro Councillor Alex Staniforth Councillor Norman Work	Lesley Birrell Committee Officer 0131 529 4240 Martin Scott Assistant Committee Officer 0131 529 4237

Recent news	Background
Assurance Schedules The Council requires that Executive Directors complete certificates of assurance that looks at the effectiveness of the controls within their directorate. An example of a control is the Council's process for checking that our staff have the right to work in the UK. Assurance schedules are an integral component of the Council's scrutiny of its governance and outline whether the controls are being implemented within the directorate. These assurance schedules then support the writing of the Council's Annual Governance Statement which is a part of the annual accounts. Each directorate's assurance schedule is considered by the Governance, Risk and Best Value Committee as part of their scrutiny of the Council's governance. Assurance schedules are not though currently routinely referred to the relevant executive committee (for example the Communities and Families directorate schedule does not automatically go to the Education, Children and Families Committee).	Contact: Gavin King Democracy, Governance and Resilience Senior Manager 0131 529 4239

Consideration of the governance of the Council and how directorates contribute to this is within the remit of the Governance, Risk and Best Value Committee. Each assurance schedule may though include actions that executive committees would want to scrutinise. As there is not always an easily definable committee for each directorate, (Place for instance could be considered by a number of executive committees) and there is already a significant workload for each executive committee; it is proposed that directors discuss the schedules with the relevant conveners and vice-conveners and are referred on when felt necessary. The Governance, Risk and Best Value Committee may also determine a referral to an executive committee should take place if there are actions necessary to be addressed.	
Governance Risk and Best Value Committee agreed, at its meeting of 4 June 2019, that the Convener would write to the Convener of the Corporate Policy and Strategy Committee recommending that they write to the UK Government requesting assistance to mitigate the impact of welfare reform, and that details, including any responses, would be provided in the Committee's Business Bulletin. The Convener of the Governance Risk and Best Value Committee wrote to the Convener of the Policy and Sustainability Committee on 24 October 2019. The Convenor of the Policy and Sustainability Committee then wrote to the Secretary of State for Work and Pensions in the UK on 6 February 2020. To date, no response from the Secretary of State for Work and Pensions in the UK has been received.	Contact: Robert Pollock, Service and Policy Adviser to Governance Risk and Best Value Committee Telephone: (0131) 529 4862.
Governance Risk and Best Value Committee agreed, at its meeting of 4 June 2019, that the Convener would write to the Convener of the Finance and Resources Committee to recommend that they write to the Scottish Government conveying the Committee's concerns at the lack of government funding, and that details, including any responses, would be provided in the Committee's Business Bulletin. The Convenor of Finance and Resources Committee formally responded to the Convenor of GRBV on 7 February	Contact: Robert Pollock Service and Policy Adviser to Governance Risk and Best Value Committee Telephone: (0131) 529 4862.

2020. The Convenor of Finance and Resources provided copies of relevant correspondence as requested. Action 6 (2) is therefore recommended for closure at the Governance Risk and Best Value Committee on 18 February 2020.	
Governance Risk and Best Value Committee agreed, at its meeting of 2 December 2019, that the Convener would write to the Convener of Policy and Sustainability Committee requesting information on what is set out in that Committee's work plan to fulfil its duties in terms of scrutiny of those services delegated to the Integration Joint Board including scrutiny of internal controls, performance, quality and compliance with the law. The Convenor of the Policy and Sustainability Committee formally responded to the Convenor of Governance Risk and Best Value 6 February 2020 outlining his response relating to IJB scrutiny. Action 16 is therefore recommended for closure at the Governance Risk and Best Value Committee on 18 February 2020.	Contact: Robert Pollock Service and Policy Adviser to Governance Risk and Best Value Committee Telephone: (0131) 529 4862.
Marketing Edinburgh An update on Marketing Edinburgh was presented to Housing, Homelessness and Fair Work Committee on 20 January 2020 for noting.	

Forthcoming activities:

Governance, Risk and Best Value Committee

10.00am, Tuesday, 18 February 2020

Revenue Monitoring 2019/20 - Month Eight Position – referral from the Finance and Resources Committee

Executive/routine	
Wards	**All**
Council Commitments	

1. For Decision/Action

1.1 The Finance and Resources Committee has referred a report on the Revenue Monitoring 2019/20 - Month Eight Position to the Governance, Risk and Best Value Committee for consideration as part of its work programme.

Laurence Rockey

Head of Strategy and Communications

Contact: Rachel Gentleman, Committee Services

Email: rachel.gentleman@edinburgh.gov.uk | Tel: 0131 529 4107

EDINBVRGH
THE CITY OF EDINBURGH COUNCIL

Referral Report

Revenue Monitoring 2019/20 - Month Eight Position

2. Terms of Referral

2.1 On 23 January 2020, the Finance and Resources Committee considered a report setting out the projected Council-wide revenue budget position for the year based on analysis of period eight data, building on the earlier in-year forecasts reported to the Finance and Resources Committee.

2.2 The Finance and Resources Committee agreed:

2.2.1 To note that a balanced overall position continued to be projected for the year.

2.2.2 To note, nonetheless, that Executive Directors and the Chief Officer of the Edinburgh Integration Joint Board would continue to monitor robustly and control proactively expenditure pressures for the remainder of the year.

2.2.3 To note the balanced projected position on the Housing Revenue Account after making planned contributions towards housing investment.

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

2.2.5 To agree that to circulate the presentation given to the Elected Members ICT and Digital Sounding Board to Committee members.

3. Background Reading/ External References

Minute of the Finance and Resources Committee of 23 January 2020

4. Appendices

Appendix 1 – report by the Executive Director of Resources

Finance and Resources Committee

10.00am, Thursday, 23 January 2020

Revenue Monitoring 2019/20 – month eight position

Executive/routine	**Executive**
Wards	**All**
Council Commitments	

1. Recommendations

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

1.1.1 note that a balanced overall position continues to be projected for the year;

1.1.2 note, nonetheless, that Executive Directors and the Chief Officer of the Edinburgh Integration Joint Board (EIJB) will continue to monitor robustly and control proactively expenditure pressures for the remainder of the year;

1.1.3 note the balanced projected position on the Housing Revenue Account (HRA) after making planned contributions towards housing investment; and

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

Stephen S. Moir
Executive Director of Resources

Contact: Hugh Dunn, Head of Finance,
Finance Division, Resources Directorate
E-mail: hugh.dunn@edinburgh.gov.uk | Tel: 0131 469 3150

Report

Revenue Monitoring 2019/20 – month eight position

2. Executive Summary

2.1 The report sets out the projected Council-wide revenue budget position for the year based on analysis of period eight data, building on the earlier in-year forecasts reported to the Finance and Resources Committee. A balanced overall position continues to be projected, albeit this is heavily reliant upon significant one-off, non-Directorate specific savings and additional savings and/or income already assumed for future years. As a result, the wider need for Directorate expenditure to be contained within approved levels remains critical to the sustainability and integrity of the budget framework.

3. Background

3.1 On 6 December 2019, members of the Finance and Resources Committee considered the half-year revenue monitoring forecast. This report noted the extent of progress within Directorates in delivering both service-specific and Council-wide efficiency savings and management of underlying service pressures within service areas. The report also updated members on progress in addressing the residual budget gap for the Edinburgh Integration Joint Board (EIJB).

3.2 Taking account of the net impact of projected savings delivery, management of residual pressures and a number of corporate, primarily one-off mitigations, a projected balanced overall position was indicated. It was emphasised, however, that this position was subject to on-going management of service pressures and risks for the remainder of the year. In addition, the implications of a significant service overspend in 2019/20 (at that stage £14.2m) for future years would need to be considered as part of the 2020/23 budget process.

4. Main report

4.1 Executive Directors and the Chief Officer of the EIJB, along with their senior management teams, are continuing to work towards delivery of the four main objectives initially set out in the report to the Finance and Resources Committee on 7 March 2019, namely:

(i) Development of robust implementation plans for the specific savings actions totalling £29.2m which were approved for delivery in 2019/20;

(ii) Development of detailed and specific proposals to address the £9.5m efficiency savings target which was also approved as part of the 2019/20 budget;

(iii) Identification of mitigating actions to address residual pressures across the Communities and Families, Place and Resources Directorates; and

(iv) Agreement, through the EIJB, of specific plans to address its estimated budget gap in 2019/20.

4.2 Addressing each of the above areas in full is required to allow the Council to plan, with reasonable confidence, to maintain expenditure within approved levels in 2019/20. In acknowledging that there is a degree of delivery risk for each aspect, however, elected members, the Chief Executive and Executive Directors, including the Chief Officer of the EIJB, will continue to have to make difficult choices in both this and subsequent years to secure financial sustainability.

Development of savings implementation plans – specific savings

4.3 Progress in developing implementation plans for all specific savings approved for delivery in 2019/20 is regularly reviewed by the Corporate Leadership Team (CLT) Change Board. To facilitate delivery of the more challenging approved savings measures, members will be aware of Council's previous ratification of a non-recurring £1m contribution to supplement existing project management capacity. A progress update with regard to recruitment, associated costs and key milestones and deliverables for each of the workstreams supported by these additional resources is provided in Appendix 1.

4.4 Review of the corresponding implementation plans and resulting financial impacts for these savings continues to show positive progress, with 92% of savings by value currently assessed, on the basis of confirmed or planned actions, as green or amber as set out in Appendix 2. This position is largely unchanged from that set out in the half-year report. Given the comparatively late stage of the financial year, however, maximising delivery against those savings currently assessed as amber and mitigating, as fully as is practicable, those assessed as red is likely to be vital in achieving a balanced position by the year-end.

Efficiencies-related savings

4.5 The update to the Committee's meeting on 15 August 2019 set out the measures by which it was planned to meet the approved in-year efficiencies target of £9.5m. The current status of these savings (showing a slight improvement from the half-year report) is summarised in Appendix 3. Based on this assessment and the equivalent assessment for the Workforce Management and Change Management saving included in Appendix 2, a total of £3.493m of Council-wide savings (most materially those in respect of lean business process review, intelligent automation and income generation) are assessed to be at significant risk of non-delivery and thus reflected accordingly in the overall outturn projection, with other potential shortfalls incorporated, as appropriate, in service projected outturns. In addition to the immediate issue of identifying relevant mitigating measures in the current year, establishing an achievable level of savings in these areas in future years will be crucial to the longer-term integrity of the budget framework.

Residual pressures

4.6 Based on detailed analysis of the 2018/19 directorate outturns, the report to the Committee's meeting on 15 August 2019 set out gross pressures across Communities and Families, Place and Resources totalling £19.6m. Some £19.0m of corresponding mitigating actions were identified at that time, progress against which continues to be actively tracked. The Directorate-specific projections outlined later in this report reflect an assumption that 90% of these measures are on track for delivery, with the attendant detail shown in Appendix 4. As with the directorate-specific measures above, the prompt taking of appropriate remedial action in respect of those assessed as amber or red will be crucial both in achieving a balanced overall outturn for 2019/20 and establishing solid foundations for the delivery of subsequent years' savings.

Directorate-specific forecasts

Communities and Families – projected overspend of £4.7m

4.7 The Executive Director of Communities and Families is projecting net budget pressures of £4.7m for 2019/20, a slight deterioration from the position reported at the half-year, as a result of increasing costs in several demand-led areas of service. To date, projected unfunded gross budget pressures of £13.3m have been assessed[1]. The main areas affected are temporary accommodation, home-to-school transport, rising school rolls, secure services, community access to schools and the delivery of approved operational efficiencies. Corresponding management actions of £8.6m, offsetting a significant element of the pressure, has now been identified, leaving a net residual budget pressure of £4.7m.

4.8 While 96% of the Directorate's approved savings are assessed to be on track for delivery, the Executive Director of Communities and Families is fully committed to making all efforts to identify mitigations to reduce the residual pressures and to identify and implement management actions required to address these. This will include vacancy control measures, a review of reserves, identification of income generation opportunities, an examination of the scope to stop or reduce planned levels of expenditure, and the identification of any spend-to-save opportunities.

[1] The Directorate commentaries reflect both pressures, mitigating actions in respect of which were identified in the earlier August report, and those that may have emerged since that time.

Place – projected overspend of £4.990m

4.9 As of period six, the Executive Director of Place is projecting the potential for a year-end overspend of up to £4.990m. This forecast, representing an improvement of £0.625m since the half-year report, reflects a combination of:

(i) brought-forward (and as-yet unmitigated) underlying pressures within, in particular, the Transport, Parks and Waste and Cleansing functions;

(ii) anticipated delays, or shortfalls, in delivery against a number of the service-specific measures approved as part of the budget motion (as shown in Appendix 2);

(iii) extended temporary cessation of elements of environmental testing; and

(iv) a need to identify specific plans to address elements of the Directorate's in-year efficiency target of £2.8m (Appendix 3).

4.10 The Place Senior Management and Divisional Management Teams are continuing work to address the financial challenge faced by the Directorate. Of £19.9m of savings requiring to be delivered in the year, some 91% are now assessed as either green or amber. A budget management strategy, underpinned by a robust mid-year review, is also being implemented, with a series of additional measures instructed by the Executive Director to reduce the level of overspend further.

Resources – projected overspend of £0.631m

4.11 As outlined in a separate, more detailed report elsewhere on today's agenda, the Resources Directorate is currently projecting a year-end budget pressure of £0.631m for 2019/20, an improvement of £0.039m from the position reported to the Committee on 6 December 2019. The Directorate will continue to progress identification of savings measures to offset this budget pressure, including a recruitment freeze in non-frontline teams and a ban on the use of agency workers, with a view to containing outturn expenditure within approved levels. Attainment of this position remains subject to ongoing action to deliver all approved savings, together with active management of risks and pressures.

Chief Executive's Service – projected balanced position

4.12 As of period eight, the Chief Executive's Service continues to report a projected balanced position for the year.

Edinburgh Integration Joint Board (EIJB) – projected balanced position

4.13 Following a series of earlier financial reports during the year, a further progress update was considered by the EIJB on 10 December 2019. This report set out the potential for a balanced overall position for the year to be achieved based on a combination of:

- an updated assessment of the NHS Lothian financial position;
- additional savings delivered through the savings and recovery programme;
- use of existing EIJB reserves; and

- one-off savings resulting from longer-than-anticipated roll-out of a number of initiatives, including community support investment and Carers' Act implementation.

4.14 As with the Council's own directly-provided services, attainment of this position is subject to a number of assumptions, including savings delivery and management of demand-led pressures. These assumptions will therefore continue to be closely monitored over the remainder of the year.

4.15 It is acknowledged that such use of one-off measures does not form the basis of longer-term financial sustainability and the Chief Officer of the EIJB, supported by the management team and other key stakeholders, has therefore initiated work on future years' financial planning.

4.16 The EIJB Chief Financial Officer has previously reported a significant funding gap on payments to accompany the direction which has been issued to the Council in 2019/20. Funding to address this estimated gap of £8.1m has now been identified and members of the EIJB have approved the direction of funding to address in full the residual funding gap, based on the anticipated final outturn.

Non-Directorate budgets

4.17 As noted in the half-year report, a number of primarily non-recurring savings totalling £13.814m to offset pressures in Directorates have previously been identified as follows:

(i) **loan charges** (£2.555m) – comprising a combination of £1m of savings against core budget provision and £1.555m of savings, the majority of which are one-off in nature, linked to the Inverse LOBO restructuring undertaken earlier in the year;

(ii) **inflationary and pay-related provisions** (£1.5m) following confirmation of applicable contractual uplifts and employee pay awards and associated Scottish Government funding;

(iii) **Carbon Reduction Commitment (CRC) energy efficiency scheme** (£0.5m) - reduction in overall liabilities following ending of the scheme in April 2019;

(iv) **Business Rates Incentivisation Scheme (BRIS)** (£0.387m) – payment received in respect of the 2017/18 financial year following the completion of the Scotland-wide audit process;

(v) **Council Tax** (£1m) – additional income linked to increase in overall tax base and sustained increases in collection levels; and

(vi) **Contributions from reserves** (£7.872m), comprising a combination of:

(a) **Council Priorities Fund (CPF)** - £6.372m, including £0.786m of transitional support for efficiencies workstream. The assumed call on the CPF has reduced slightly in view of the improvement in the Directorate-specific position; and

(b) **Welfare Reform** - £1.5m from sums set aside in respect of previous year's in-year Council Tax Reduction Scheme underspend.

European Social Fund grant claims

4.18 In May 2019, following the identification of a number of shortcomings in the supporting audit-related arrangements put in place by the Scottish Government as managing authority, the European Commission suspended grant claim payments to current and some previously-approved, local authority-led European Social Fund (ESF) projects. The effect of this suspension was to prevent payment of both claims already submitted and expenditure incurred as part of on-going projects.

4.19 The two specific programmes in receipt of current ESF support within Edinburgh are a locality-based employability service delivered by the Community Renewal Trust and *All in Edinburgh*, provided by Enable, for those with a disability or long-term health condition. It is estimated that some £4.35m of funding support paid out by the Council in either the current or previous years is affected, with £1m of further commitments made across the remaining terms of the projects concerned. Previous years' accounts have assumed full subsequent reimbursement by the Scottish Government of sums incurred by the Council.

4.20 Discussions between the Scottish Government and European Commission are continuing with a view to addressing in full the issues identified to allow retrospective and continuing payments to resume. To this end, the Scottish Government has confirmed that payment will now be made without delay in respect of all verified claims. There remains a risk, however, that agreement to full reimbursement will not be secured, with a consequent impact on the 2019/20 outturn position. On behalf of all affected councils, COSLA has therefore requested that the Scottish Government underwrite any shortfall should such agreement not be reached. Members of the Committee will be kept apprised of subsequent progress.

Overall projected position for 2019/20

4.21 Taking into account the various minor changes set out in the preceding sections of this report, a balanced overall position continues to be forecast as set out in Appendix 5. Attainment of this position is subject to on-going management of service pressures and risks for the remainder of the year. The implications of a £13.8m service overspend in 2019/20 for future years will, however, need to be considered as part of the 2020/23 budget process.

Housing Revenue Account (HRA)

4.22 As of month eight, the HRA is on track to generate the overall budgeted contribution to planned investment in existing and new homes. This assumes a series of ambitious savings and performance improvements required under the umbrella of the Housing Services Improvement Plan will be achieved in the second half of the year. To facilitate appropriate officer and member scrutiny, a Housing Services Improvement Plan Board has been set up in addition to the regular reporting to Housing Homelessness and Fair Work Committee.

5. Next Steps

5.1 Executive Directors and the Chief Officer of the EIJB are required to continue to manage pressures and secure planned savings delivery over the remainder of the year.

6. Financial impact

6.1 The report acutely emphasises the importance of proactive management of pressures and delivery of approved savings.

7. Stakeholder/Community Impact

7.1 There is no direct relevance to the report's contents. In considering measures to secure the Council's wider financial sustainability, however, members may wish to consider both activities' respective contributions to the key outcomes of the Change Strategy and public engagement feedback on the Council's relative priorities.

8. Background reading/external references

8.1 Finance Update, Edinburgh Integration Joint Board, 10 December 2019

8.2 Revenue Monitoring 2019/20 – half-year report, Finance and Resources Committee, 6 December 2019

8.3 Council Change Strategy: Planning for Change and Delivering Services 2019-23, Finance and Resources Committee, 10 October 2019

8.4 Capital Budget Strategy 2020-2030, Finance and Resources Committee, 10 October 2019

8.5 Revenue Monitoring 2019/20 – period three report, Finance and Resources Committee, 15 August 2019

8.6 Revenue Budget Framework 2019/24 – progress update, Finance and Resources Committee, 23 May 2019

8.7 Coalition Budget Motion, City of Edinburgh Council, 21 February 2019

8.8 Feedback on the Change Strategy and Budget Proposals, 2018 and 2019, The City of Edinburgh Council, 21 February 2019

8.9 Council Change Strategy: Planning for Change and Delivering Services 2019-2023, Finance and Resources Committee, 1 February 2019

8.10 Council Change Strategy – Risks and Reserves 2019-2023, Finance and Resources Committee, 1 February 2019

9. Appendices

Appendix 1 – Additional programme management support progress update

Appendix 2 - 2019/20 approved savings – current Finance RAG assessment

Appendix 3 – Efficiencies workstream, 2019/20 – current Finance RAG assessment

Appendix 4 – Pressure-mitigating measures, 2019/20 – current Finance RAG assessment

Appendix 5 – 2019/20 Revenue Budget – Projected Expenditure Analysis

Project Management Fund

Project and SRO	FTE Allocated	Business Case Opportunity	Financial Benefits	Non-Financial Benefits
Your Total Reward Katy Miller	3 FTE	Your Total Reward will review current Local Government Employee pay, terms and conditions and benefits. The project will meet our commitment to consolidate the Scottish Local Government Living Wage into base pay and seek to progress positively base pay and financial well-being for our lowest-paid employees. The project will also restore the pay differential for Grades 1, 2 and 3. The change proposals will remove complexity around pay and terms and conditions and drive a better organisational culture by introducing a simplified reward framework that promotes the right behaviours and supports effective service design/delivery.	The project and business case is not predicated on delivering financial benefits	• Harmonisation and simplification of terms and conditions for different employee groups. • Consolidation of Scottish Local Government Living Wage, which is a COSLA commitment made as part of nationally-agreed pay. • Streamlined service delivery and increased flexibility and reduced gender pay gap, mitigating risks in relation to ad-hoc local custom and practice. • Moving our reward framework forward to support becoming a modern and efficient organisation.
Operational Efficiencies Programme Stephen Moir on behalf of CLT	1 FTE	Planned to meet the approved in-year efficiencies of target of £9.5m. Work is continuing to identify further potential opportunities, including consideration of Lean and Automation as noted below.	Projections of £6.5m	The operational efficiencies programme is primarily focussed on financial savings delivery. However, the broader improvement impact of the Lean and Automation activity, for example, will lead to streamlined processes and the faster delivery of outcomes for citizens and colleagues.
Lean and Automation Nicola Harvey	9 FTE (6 recruited)	Part of the Efficiencies Programme. The Business Case approved in March 2019 outlined an opportunity for significant savings across the Council. Further opportunities have been identified and are in the process of validation across the Lean and Automation Pipeline.	Projected savings of £0.078m in 19/20 with a pipeline of £0.458m in 20/21 now validated and c. £0.4m still to be validated.	• Lean and efficient processes • Processes and business rules documented • Enables culture of continuous improvement • Data quality increase • Improved processing quality and accuracy • Provides additional capacity to teams • Creates new jobs and skills in the council • Enhanced MI and tracking of performance data

Project Management Fund

Project & SRO	FTE Allocated	Business Case Opportunity	Financial Benefit	Non-Financial Benefits
Asset Management : Service Design Peter Watton	3 FTE	The Business Case approved in March 2019 outlined an opportunity for £0.250m in 2019/20	Savings delivered in 2019/20 through the release of Bonnington Resource Centre and Westfield House	• Services designed around the needs of communities and citizens, not assets • Improved access to services and co-location efficiencies. • Services more responsive to local needs/better service outcomes • Improved Council reputation and relationship with community • Efficiencies in FM and reduced carbon footprint • More sustainable and economically viable service design model
Fleet Review Gareth Barwell	1 FTE	Full Business Case reviewed by Change Board in September outlined the delivery approach for £0.500m for 19/20.	£0.500m of savings targeted in 2019/20	• Reduced emissions • Improved driving standards and behaviours • Greater fleet utilisation
Depots and Yards Gareth Barwell	2 FTE	The Business Case approved in March 2019 outlined an opportunity for £0.500m savings in 2020/21. Activity to reduce from 19 to 6 sites, 3 of which will provide fit-for-purpose Depot Hubs (Seafield, Bankhead and new South East Depot).	Depots Review currently targeting £0.500m savings in 2020/21	• Improved and enhanced depots estate • Increased housing supply facilitated by exiting depot sites • Increased supply of small industrial units at depot sites unsuitable for housing • Investment in the Council depots estate, bringing improved reliability of frontline services supported by efficient depots • Reduced size of the estate and accelerating economic development opportunities in tandem • Improved working conditions for staff.

2019/20 Service-Specific Savings - RAG assessment as of period eight

Appendix 2

Service	Saving title	Total £000	Green £000	Amber £000	Red £000	Change to RAG since Period 6 position
Communities and Families	Police funding	522	522	0	0	
Communities and Families	Efficiencies in the delivery of accommodated children's services	510	405	0	105	
Communities and Families	Edinburgh Leisure (Year 1 - Pay uplift)	350	350	0	0	
Communities and Families	Enabling Educational Efficiencies – Third Party Grants (2018/19 additional spend)	250	250	0	0	
Communities and Families	Library service - reduce book fund	200	200	0	0	
Communities and Families	Support for Learning Management	200	200	0	0	
Communities and Families	Invest in Revenue Collection Officers	175	175	0	0	
Communities and Families	NHS commissioned services	100	100	0	0	
Communities and Families	ASN adaptations to mainstream schools	100	100	0	0	
Communities and Families	Carers' Act Funding	75	75	0	0	
Communities and Families	Heritage language	42	42	0	0	
Communities and Families	Invest to reduce temporary accommodation voids rates	90	0	90	0	
Communities and Families	Adoption of Scottish Government Framework for electricity and gas	30	0	30	0	
Chief Executive's Services	Reduce capacity in Strategy and Communications	200	200	0	0	
Chief Executive's Services	Funding the Edinburgh Partnership and Third Sector Interface	40	40	0	0	
Council-wide	Loans charges	5,000	5,000	0	0	
Council-wide	Council Tax	3,000	3,000	0	0	
Council-wide	EDI	1,047	1,047	0	0	
Council-wide	Discretionary income	176	176	0	0	
Council-wide	Contract Optimisation	100	100	0	0	
Council-wide	Workforce Modernisation and Change Management	500	0	0	500	
Place	Economic Development	1,200	1,200	0	0	
Place	Discretionary income	824	618	206	0	
Place	Parking - increase charges by average of 4.5% per annum over four years	800	600	200	0	
Place	Commercialism and Income Maximisation - Statutory Consents	825	730	95	0	
Place	Capitalisation of Road Maintenance Budget	500	500	0	0	
Place	Tourism and Marketing Reform	300	300	0	0	
Place	Improved Approach to Street and Environmental Enforcement	750	250	350	150	
Place	Roads (2018/19 additional spend)	250	250	0	0	
Place	Fleet Review	500	300	200	0	
Place	Commercialism and Income Maximisation - Culture	150	150	0	0	
Place	Localities Phase Two	300	100	100	100	
Place	Commercialism and Income Maximisation - Pre-planning Applications	100	100	0	0	
Place	Cultural grants	52	52	0	0	
Place	Re-provision of public conveniences	250	40	210	0	
Place	Commercialism and Income Maximisation - Parks and Greenspaces	150	20	65	65	
Place	Area-Based Regeneration	250	125	125	0	
Place	Parking Action Plan Phase 2	369	100	100	169	
Place	Commercialism and Income Maximisation - Full Cost Recovery	200	100	100	0	
Place	Joint Procurement of Waste Contracts	325	0	162	163	
Place	Transport Reform	500	0	500	0	
Place	New Ways of Working - Public Safety and Business Continuity	130	85	45	0	
Place	Clean and Green (2018/19 additional spend)	250	40	210	0	£0.040m Amber to Green

Service	Saving title	Total £000	Green £000	Amber £000	Red £000	Change to RAG since Period 6 position
Resources	ICT Partnership – Contract Optimisation	1,200	1,200	0	0	
Resources	Business support services review	1,000	1,000	0	0	
Resources	Property Maintenance Programme (2018/19 additional spend)	850	850	0	0	
Resources	Property and FM: Management and Investment Estate Savings	515	515	0	0	
Resources	Increasing Income from Castle Terrace Car Park	500	500	0	0	
Resources	ICT Solutions Organisational Review	450	450	0	0	
Resources	Corporate Learning and Development – Budget Reduction	250	250	0	0	
Resources	Emergency Service Provision for Edinburgh Shared Repairs Service	218	218	0	0	
Resources	Reduction in Executive Director of Resources budget	126	126	0	0	
Resources	Monitoring Officer (MO) – Budget Reduction	107	76	31	0	
Resources	Asset Management Strategy and Service Reprovisioning	250	89	0	161	
Resources	Additional advertising income	470	70	0	400	
Resources	ICT/CGI Partnership Arrangements	50	50	0	0	
Resources	Print and Mail Strategy	90	15	75	0	
Resources	Investment portfolio rationalisation	415	0	0	415	
Resources	Non Domestic Rates Appeals	800	800	0	0	
Resources	Upfront Payments	200	0	200	0	
	All approved service-specific savings	**29,173**	**23,851**	**3,094**	**2,228**	
			81.8%	10.6%	7.6%	

2019/20 Efficiency savings -RAG assessment as of period eight

Appendix 3

Service	Title	Total £000	Green £000	Amber £000	Red £000	Change to RAG since Period 6 position
Communities and Families	Workforce Control	350	350	0	0	
Communities and Families	Management Savings	640	240	0	400	
Communities and Families	Workforce Control	700	0	200	500	
Chief Executive's Service	Workforce Control	46	46	0	0	
Council-wide	Council Priorities Fund	786	786	0	0	
Council-wide	Operational Efficiencies - Reduction in Senior Management	500	257	243	0	
Council-wide	Operational Efficiencies - Procurement	100	100	0	0	
Council-wide	Operational Efficiencies - Lean Business Processes	1,250	0	350	900	
Council-wide	Operational Efficiencies - Intelligent Automation	500	0	300	200	
Council-wide	Operational Efficiencies - Income Generation	1,000	0	0	1,000	
Place	Place Development - Efficiencies	730	250	480	0	
Place	Reduction in Discretionary Expenditure	650	650	0	0	£0.470m Amber/Red to Green
Place	Workforce Control - Reduction in Agency and Overtime	900	0	450	450	
Place	Place Management - Efficiencies	530	112	282	136	
Resources	Customer and Digital Services - Efficiencies	656	656	0	0	£0.362m Amber to Green
Resources	Workforce Control	162	162	0	0	
	All efficiencies	**9,500**	**3,609**	**2,305**	**3,586**	
			38.0%	24.3%	37.7%	

2019/20 Pressure-mitigating savings - RAG assessment as of period eight

Appendix 4

Service	Saving title	Total £000	Green £000	Amber £000	Red £000	Change to RAG since Period 6 position
Communities and Families	Early Years	750	750	0	0	
Communities and Families	Home to School Transport	700	700	0	0	
Communities and Families	Homelessness - Additional Housing Benefit	600	600	0	0	
Communities and Families	Community Access to Schools	600	250	0	350	
Communities and Families	Additional Income (C&F)	120	120	0	0	
Communities and Families	Homelessness - Reduction in use of Bed and Breakfast	1,000	0	0	1,000	
Council-wide	Corporate budgets	3,000	3,000	0	0	
Council-wide	Demography	2,000	2,000	0	0	
Council-wide	Scottish Government teachers' pension funding	500	500	0	0	
Place	Millerhill Operations (Place)	1,800	1,800	0	0	
Place	Reduction in Budget Pressures (Place)	1,000	1,000	0	0	
Place	Transport Review	1,200	870	250	80	
Place	Realise Full Year Impact of Previously Approved Savings (Place)	1,200	700	350	150	
Place	Service Containment of Increment Costs (Place)	1,200	900	300	0	£0.200m Amber/Red to Green
Place	Planning Appeals	300	300	0	0	
Place	Localities and Communities Investment Funding	130	130	0	0	
Place	Contract Efficiencies (Place)	600	400	100	100	
Place	Operational Efficiencies - Senior Management Review (Place)	100	50	50	0	£0.050m Amber to Green
Place	Implement Service Reforms (Place)	200	0	100	100	
Place	Value for Money Audits (Place)	300	0	150	150	
Place	Pentland Hills Operations (Place)	100	50	50	0	
Resources	Re-Profile of Expenditure	500	500	0	0	
Resources	Rates Appeals	1,134	1,134	0	0	
	All pressure-mitigating savings	**19,034**	**15,754**	**1,350**	**1,930**	
			82.8%	7.1%	10.1%	

2019/20 Revenue Budget - Projected Expenditure Analysis
Period 8

Appendix 5

	Revised Budget	Period Budget	Period Actual	Period Variance	Projected Outturn	Outturn Variance	Percentage Variance
Directorate / Division	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	
Chief Executive's Service	8,963	4,482	4,411	(71)	8,963	0	0.0
Communities and Families	418,972	209,500	212,200	2,700	423,672	4,700	1.1
Health and Social Care	217,835	117,994	120,621	2,627	217,835	0	0.0
Place	44,938	22,469	27,252	4,783	49,928	4,990	11.1
Resources	163,330	96,232	85,763	(10,469)	163,961	631	0.4
Lothian Valuation Joint Board	3,678	1,839	1,839	0	3,678	0	0.0
Council-wide savings (Lean, Intelligent Automation, Income Generation and Senior Management)	(3,850)	(1,604)	(262)	1,342	(357)	3,493	(90.7)
Directorate / Division total	**853,867**	**450,911**	**451,824**	**913**	**867,681**	**13,814**	**1.6**
Non-service specific areas							
Loan Charges	110,785				108,230	(2,555)	(2.3)
Other non-service specific costs less sums to be disaggregated:	22,929				21,429	(1,500)	(6.5)
- Apprenticeship Levy	1,857	929	951	22	1,857	0	0.0
- Carbon Tax/Climate Change Levy	967				467	(500)	(51.7)
- Discretionary Rates	500				500	0	0.0
Council Tax Reduction Scheme	26,319	n/a	n/a	n/a	26,319	0	0.0
Staff early release costs	2,500	n/a	n/a	n/a	2,500	0	0.0
Net Cost of Benefits	(127)	n/a	n/a	n/a	(127)	0	0.0
Interest and investment income	(11,145)	0	0	0	(11,145)	0	0.0
Business Rates Incentivisation Scheme, 2017/18 - payment received	0	0	0	0	(387)	(387)	n/a
Non-service specific areas total	**154,585**	**929**	**951**	**22**	**149,643**	**(4,942)**	**(3.2)**
Movements in reserves							
Capital Fund	1,178	1,178	0	(1,178)	1,178	0	0.0
Net contribution to / (from) earmarked funds	6,296	6,296	0	(6,296)	(1,576)	(7,872)	(125.0)
Movements in reserves total	**7,474**	**7,474**	**0**	**(7,474)**	**(398)**	**(7,872)**	**(105.3)**
Sources of funding							
General Revenue Funding	(356,927)	(178,464)	(178,464)	0	(356,927)	0	0.0
Non-Domestic Rates	(365,250)	(182,625)	(182,625)	0	(365,250)	0	0.0
Council Tax	(293,748)	(146,874)	(146,874)	0	(294,748)	(1,000)	(0.3)
Sources of funding total	**(1,015,925)**	**(507,963)**	**(507,963)**	**0**	**(1,016,925)**	**(1,000)**	**(0.1)**
In-year (surplus) / deficit	**0**	**(48,649)**	**(55,188)**	**(6,539)**	**0**	**0**	**0.0**

Governance, Risk and Best Value Committee

10.00am, Tuesday, 18 February 2020

Capital Monitoring 2019/20 - Month Eight Position – referral from the Finance and Resources Committee

Executive/routine	
Wards	**All**
Council Commitments	

1. For Decision/Action

1.1 The Finance and Resources Committee has referred a report on the Capital Monitoring 2019/20 - Month Eight Position to the Governance, Risk and Best Value Committee for consideration as part of its work programme.

Laurence Rockey

Head of Strategy and Communications

Contact: Rachel Gentleman, Committee Services

Email: rachel.gentleman@edinburgh.gov.uk | Tel: 0131 529 4107

Referral Report

Capital Monitoring 2019/20 - Month Eight Position

2. Terms of Referral

2.1 On 23 January 2020, the Finance and Resources Committee considered a report setting out capital expenditure and income forecasts for 2019/20, providing explanations for significant variances.

2.2 The Finance and Resources Committee agreed:

2.2.1 To note the projected capital outturn position for the General Fund and Housing Revenue Account at month eight.

2.2.2 To note the Council's prudential indicators at month eight.

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

2.2.4 To clarify the percentage of homes expected to meet EESSH by the end of the year.

2.2.5 To agree that officers would investigate whether a different accounting approach could be used other than the current approach of showing slippage on house building projects as a reduction in capital.

3. Background Reading/ External References

Minute of the Finance and Resources Committee of 23 January 2020

4. Appendices

Appendix 1 – report by the Executive Director of Resources

Finance and Resources Committee

10.00am, Thursday, 23 January 2020

Capital Monitoring 2019/20- Month Eight Position

Executive/routine	**Executive**
Wards	**All**
Council Commitments	

1. Recommendations

1.1 To note the projected capital outturn position for the General Fund and Housing Revenue Account (HRA) at month eight;

1.2 To note the Council's prudential indicators at month eight; and

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

Stephen S. Moir

Executive Director of Resources

Contact: Liam MacDonald, Senior Accountant,

Finance Division, Resources Directorate

E-mail: Liam.MacDonald@edinburgh.gov.uk | Tel: 0131 469 3174

Report

Capital Monitoring 2019/20- Period Eight Position

2. Executive Summary

2.1 The report provides capital expenditure and income forecasts for 2019/20, providing explanations for significant variances.

2.2 At month eight, slippage of £25.610m is forecast against the general fund capital expenditure budget of £288.870m. Capital income is forecast to be £179.950m, due to carry forward of £1.579m on Early Years 1,140 hours programme and £2.132m on Town Centre funding, resulting in a net requirement of £83.310m in loans fund advances.

2.3 At month eight, the Housing Revenue Account (HRA) is reporting capital expenditure slippage of £8.275m which is partially offset by slippage of £4.564m in capital receipts primarily due to delays in completion of new homes at North Sighthill and Craigmillar which is also reflected in the Place - Lending figures.

3. Background

3.1 The Council set its capital investment programme for the period 2019-24 at its budget meeting of 21 February 2019. This budget has subsequently been revised to reflect slippage from 2018/19 and up-to-date project cashflows, as reported to this committee on 15 August 2019.

3.2 This report sets out forecast capital expenditure and income for the current financial year at month eight and compares this with the revised capital budget.

3.3 The initial Capital Budget Strategy 2020-2030 was reported to Finance and Resources Committee on 10 October 2019 and an updated version will be reported to Finance and Resources Committee on 14 February 2020.

4. Main report

General Fund

4.1 At month eight, general fund expenditure is projected to be £263.260m, compared with a budget of £288.870m, resulting in projected slippage of £25.610m. Grants and other capital income are forecast to be £179.950m, which represents acceleration of £3.652m against a budget of £172.90. The remaining expenditure being funded by loans fund advances of £83.310m. A detailed position is provided in Appendix 1.

4.2 Within Communities and Families, slippage includes;

- Rising schools rolls of £5.745m to reflect updated expenditure forecasting for a variety of projects including Sciennes, Kirkliston, Liberton High School, Deanpark Primary School, Castleview and Echline now expected to be completed in 2020/21 financial year;
- Local Development Plan Primary School Design costs of £3.975m as the specialist design team were only appointed at 10 October 2019 Finance and Resources Committee and therefore the works programme has now been more accurately phased;
- New South Edinburgh Primary of £2.553m due to the project being significantly delayed by utility companies relating to the diversion of a combined sewer. Whilst these delays resulted in adjustments to the annual spend profile, they will have no impact on the expected and publicised opening date for the new school of August 2021;
- Boroughmuir High School Extension of £2.042m due to extension of delivery programme agreed with the school to meet operational requirements, with work to be completed by August 2021;
- Castlebrae New Wave Four School of £1.883m in order to align expenditure to the final contract programme now that the project is on-site and work commencing. The estimated opening date for the new school is still August 2021; and
- Early Years 1,140 hours programme of £1.579m which will be matched by corresponding carry forward of the Scottish Government grant, with the Council still on target to deliver additional hours capacity before the statutory deadline.

4.3 Slippage in Communities and Families is partially offset by accelerated expenditure on Meadowbank Stadium ahead of its full funding package being agreed. A proposal for addressing the funding shortfall is set out in the Capital Budget Strategy 2020-30 report, which will be reported to Finance and Resources Committee on 14 February 2020.

4.4 Within the Place Directorate, slippage includes;

- Town Centre Fund where there is slippage of £2.132m which will be matched by corresponding carry forward of the Scottish Government grant. Funding allocations were only made in June 2019 with supported projects commenced thereafter. Projects are scheduled to be completed by 30 September 2020, the deadline set by the Scottish Government for funding;
- North Bridge where there is slippage of £1.670m due to delays, that for the most part, are out with the Council's control. The delays were due to the Contractor resolving scaffolding design issues and ensuring that the bridge can accommodate the scaffold and working loads. This work has had no material impact upon members of the public or adjoining stakeholders. The

project management team have been active in seeking the implementation of mitigation measures to reduce the overall impact of this ongoing delaying event;

- Local Development Plan Roads Obligations where there is slippage of £1.400m. Work is being undertaken to develop project management capacity to deliver this project in-line with the Finance and Resources Committee approval;
- Energy Efficiency Street Lighting Project where there is slippage of £1.168m due to changes in the sequencing of the programme, bringing forward work with less value whilst pushing higher value works towards the rear of the programme. This has added 2 months to the overall 36-month programme due to additional project scope;
- Carriageways and Footways where there is slippage of £1.084m due to inherent issues and complexities that forces the delay of the programme;
- Leith Theatre where there is slippage of £0.648m due to delays caused by relocation of an electrical substation; and
- Dunard Centre where there is slippage of £0.500m due to uncertainty caused by the judicial review.

4.5 The forecast includes estimated costs for the Tram to Newhaven project which are based on the Final Business Case approved by Council on 14 March 2019 and the updated position following completion of Early Contractor Involvement stage of the project. The budget was realigned in Period Six to reflect the revised expenditure profile agreed following Early Contractor Involvement and remains within the time and budget parameters agreed by Council. The new spend profile at Period Eight shows acceleration of £4.217m, this includes re-alignment of the programme of work for mobilisation, traffic management and utilities. At Period Six, insurance costs were assumed to be spread across the entire project whereas they are now recognised as being paid up-front.

4.6 Within the Place - Lending figures, there is slippage in National Housing Trust payments where the Shrubhill payment of £4.723m which was due in February 2020 is forecast to slip into next financial year, with completion now estimated at September 2020. There is also slippage on Edinburgh Living Mid-Market Rent (MMR) on-lending of £7.503m due to delays in completion of new homes at North Sighthill and Pennywell. The Council will delay borrowing to match the revised expenditure profiles.

4.7 Within the Resources Directorate, there is acceleration across Asset Management Works which includes;

- c. £2m major structural improvements to ceilings;
- c. £2m asbestos removal costs;
- c. £1m for Edinburgh Leisure properties; and

- c. £5m for access to school properties throughout the year which has allowed an acceleration of works from future years.

4.8 There is a general slippage bias of 2.5% applied across the programme included in the figures provided in Appendix 1, resulting in additional slippage of £4.215m. This is in recognition of the fact that variances against budgets are likely to occur due to delays or unforeseen circumstances out with the Council's control. The Directorates have provided forecasts against project budgets and the general provision will be kept under review throughout the year and forecasts will be amended as appropriate.

4.9 Additional detail of the slippage and acceleration on capital projects is included in Appendix 2. This is split across five broad categories; however, it is worth noting that a project could exhibit an element of all the categories, but the overriding reason has been considered when applying a variance category.

4.10 Income from asset sales is anticipated to be £10.698 higher than budget. This is largely due to the acceleration of land sales to the HRA for affordable house building and regeneration. This acceleration is partially offset by a reduction in capital grants income, reflecting the carry forward of £1.579m for the Early Years 1,140 hours programme and £2.132m for the Town Centre Fund. Members should be aware that the value and timing of capital receipts can be impacted by several factors including abnormal costs arising from survey results and offers contingent on planning approvals. Any revisions to the receipts programme will be reported within future capital monitoring reports.

HRA

4.11 The HRA capital investment budget is £108.954 million for 2019/20, a 35% increase on the previous year and is the largest annual capital investment programme in Council homes. At period eight, it is forecasting a slippage of £8.275m (7.6%) on the approved annual expenditure budget. There is slippage in capital receipts of £4.564m primarily from Edinburgh Living MMR as clarified in 4.6, resulting in a net slippage across the HRA of £3.711m (6.2%). A detailed position is provided in Appendix 3.

4.12 This year's core capital programme includes installation of new heating systems, improved insulation and new windows and doors to enable homes to meet the Energy Efficiency Standard for Social Housing (EESSH); making them easier and cheaper to heat for tenants with 75% of homes expected to meet EESSH by the end of the year. The reported slippage on the core housing improvement programme is due to contractor capacity; including the loss of a major kitchens and bathroom contractor who went into administration at the end of the last financial year. To mitigate this risk in future, a new Housing Capital Framework is currently being procured and expected to be in place from April 2020. This will increase the number of lots and contractors who can be drawn upon to deliver the five-year capital programme.

4.13 There is also an element of slippage in the external fabric improvement programme, due to delays in securing owner consents to progress works in mixed tenure blocks.

A business case is presented to this Committee to pilot a Mixed Tenure Improvement Service (MTIS) and to extend debt repayment terms to Council's Scheme of Assistance to increase the support available for home-owners in HRA-led projects to help progress mixed tenure investment programme.

4.14 The slippage in the core programme has been partly offset by the acquisition of ex-Council homes to consolidate Council owned blocks and the acceleration of the heating replacement programme. It is expected that 75% of Council homes will meet the Energy Efficient Standard for Social Housing by the end of the year.

4.15 The 2019/20 Council new build programme budget of £73.323m represents a 72% increase on the previous year's budget and is the largest Council annual new build programme to date. There are currently around 800 homes under construction, 3,500 homes in design development and/or procurement; including major strategic sites at Fountainbridge, Powderhall, Meadowbank and Granton. Around 300 new homes are expected to complete by the end of 2019/20. The house building programme is projecting slippage of £2.564m (3.5%) in gross expenditure in month eight. There have been some delays in handover of homes from contractors with damages applied in accordance with contractual agreements. A significant proportion of this year's budget will be used to purchase land from the General Fund for housing development through the HRA.

4.16 Despite the projected slippage, the HRA capital programme is forecasting an outturn of over £100m in 2019/20, which is almost 25% higher than last year's outturn and more than double the amount spend in 2016/17.

Prudential Indicators

4.17 The above forecasts are reflected in the Council's prudential indicators, which are set out in Appendix 4.

5. Next Steps

5.1 Finance staff will continue work with project and programme managers to monitor capital budgets. A further capital monitoring report will be provided to the Finance and Resources Committee showing the outturn position.

6. Financial impact

6.1 The projected 2019/20 general fund outturn outlines loans fund advances of £83.310m. The overall loan charges associated with this over a 30-year period would be a principal amount of £83.310m, interest and expenses of £75.207m, resulting in a total cost of £158.517m based on a loans fund interest rate of 4.6%. The average annual cost would be £5.284m for 30 years.

6.2 The projected 2019/20 HRA outturn outlines loans fund advances of £55.800m. The overall loans charges associated with this over a 30-year period would be a principal amount of £55.800m, interest of £50.373m, resulting in a total cost of £106.173m based on a loans fund rate of 4.6%. The average annual cost would be £3.539m for 30 years.

6.3 Borrowing required is carried out in line with the Council's approved Treasury Management Strategy.

6.4 The loan charge costs outlined above will be met from the general fund and HRA revenue budgets for loan charges.

7. Stakeholder/Community Impact

7.1 Consultation on the capital budget was undertaken as part of the Council's budget setting process.

7.2 The stakeholder and community impact of individual projects within the Council's capital programme is considered as part of the business cases for those projects.

8. Background reading/external references

8.1 Capital Investment Programme 2019-20 to 2023-24, The City of Edinburgh Council, 21 February 2019

8.2 Housing Revenue Account Budget Strategy 2019-24, The City of Edinburgh Council, 21 February 2019

8.3 Coalition Budget Motion, The City of Edinburgh Council, 21 February 2019

8.4 Edinburgh Tram – York Place to Newhaven Final Business Case, The City of Edinburgh Council, 14 March 2019

8.5 Capital Monitoring 2019/20 – Month Three Position, Finance and Resources Committee, 15 August 2019

8.6 Half Year Capital Monitoring 2019/20 Position, Finance and Resources Committee, 6 December 2019

8.7 Capital Budget Strategy 2020-30, Finance and Resources Committee, 10 October 2019

9. Appendices

Appendix 1 - Capital Monitoring 2019/20 – General Fund

Appendix 2 - Slippage and Acceleration on Projects

Appendix 3 - Capital Monitoring 2019/20 – HRA

Appendix 4 - Prudential Indicators 2019/20

Appendix 1 Capital Monitoring 2019/20

General Fund Summary

Period 8

Expenditure	Approved Budget £000	Adjusts £000	Revised Budget £000	Actual to Date £000	Projected Outturn £000	Projected £000	Variance %
Communities and Families	116,193	-34,789	81,404	26,936	66,319	-15,085	-18.53%
Edinburgh IJB	239	-122	117	0	117	0	0.00%
Place	141,766	-31,475	110,291	50,494	99,745	-10,546	-9.56%
Place - Tram York Place to Newhaven	0	20,994	20,994	8,863	25,211	4,217	20.09%
Place - Lending	18,118	22,556	40,674	19,895	28,448	-12,226	-30.06%
Resources - Asset Management Works	31,498	-4,494	27,004	32,734	40,300	13,296	49.24%
Resources - Other	11,706	-3,320	8,386	549	7,335	-1,051	-12.53%
General slippage in programme 2.5% (excluding lending, TMDF and Tram)	0	0	0	0	-4,215	-4,215	n/a
Total Gross Expenditure	**319,520**	**-30,650**	**288,870**	**139,471**	**263,260**	**-25,610**	**-8.87%**

Income	Approved Budget £000	Adjusts £000	Revised Budget £000	Actual to Date £000	Projected Outturn £000	Projected £000	Variance %
Capital Receipts							
General Asset Sales	6,318	10,127	16,445	2,916	16,445	0	0.00%
Ringfenced Asset Sales	10,000	0	10,000	6,273	20,698	10,698	106.98%
Total Capital Receipts from Asset Sales	*16,318*	*10,127*	*26,445*	*9,189*	*37,143*	*10,698*	*40.45%*
Drawdown from Capital Fund	*6,311*	*0*	*6,311*	*0*	*6,311*	*0*	*0.00%*
Developer and Other Contributions	*585*	*12,760*	*13,345*	*12,113*	*13,345*	*0*	*0.00%*
Developers Contributions Transferred to Investments	*0*	*0*	*-8,728*	*-8,728*	*-8,728*	*0*	*0.00%*
Total Capital Receipts	***23,214***	***22,887***	***37,373***	***12,574***	***48,071***	***10,698***	***28.62%***
Grants							
Scottish Government General Capital Grant	58,675	71	58,746	39,429	58,746	0	0.00%
Cycling, Walking and Safer Streets	834	0	834	0	893	59	7.07%
Transfer of Management of Development Funding (TMDF)	33,877	11,354	45,231	10,429	45,231	0	0.00%
Early Years and Childcare - Expansion	14,500	0	14,500	14,500	12,921	-1,579	-10.89%
Town Centre Fund	0	2,613	2,613	1,960	481	-2,132	-81.59%
Capital Grants Unapplied Account Drawdown	11,297	2,310	13,607	0	13,607	0	0.00%
Total Grants	***119,183***	***16,348***	***135,531***	***66,318***	***131,879***	***-3,652***	***-2.69%***
Total Income	**142,397**	**39,235**	**172,904**	**78,892**	**179,950**	**7,046**	**4.08%**
Balance to be funded through Loans Fund Advance	**177,123**	**-69,885**	**115,966**		**83,310**	**-32,656**	**-28.16%**

Appendix 2 Capital Monitoring 2019/20

General Fund Summary

Period 8

Slippage and Acceleration on Projects
Slippage on projects is shown as a negative value, while acceleration or overspends are shown as positive values.

Key to variance category

Type	***Explanation***
1. Slippage due to unforeseen delays	Slippage that has occurred due to unforeseen circumstances or delays that for the most part, are outwith the Council's control.
2. Slippage due to optimistic budget	Slippage that has occurred due to optimism bias when budget was set. Issues include projecting spend on block budgets when a programme of works has not been considered or designed, not applying a discount factor for adverse weather / risk issues, providing for too much contingency and predicting an optimistic works timetable.
3. Slippage due to timing of payments	Slippage that has occurred where a project is on time and schedule but is as a result of the timing of cash flows.
4. Acceleration on a project	Represents accelerated spend on a project i.e. due to better than anticipated progress.
5. Projected Underspend on a project	Projects where the final outturn is expected to be below budget.

Note that a project will exhibit an element of all of the above but the overriding reason has been considered when applying a variance category.

	Period 8 £000	Period 6 £000	Movement Between Periods £000	Explanations for Significant Slippage / Acceleration	Variance Category
Communities and Families					
LDP Primary Schools	-3,975	0	-3,975	Specialist design team appointed at 10 October 2019 Committee	2
New South Edinburgh Primary	-2,553	-243	-2,310	Project significantly delayed due to utilities	1
Boroughmuir High School Extension	-2,042	-1,764	-278	Delivery date rescheduled with school's agreement	2
Castlebrae New Wave Four School	-1,883	-1,883	0	Delay in going on-site but forecast matches contract, now on-site and work commencing	2
Early Years 1,140	-1,579	-5,062	3,483	Slippage will be matched by carry forward of Scottish Government Grant	1
Rising School Rolls Total Programme	-5,745	-1,761	-3,984	Sciennes, Kirkliston, Liberton, Deanpark, Castleview and Echline slipped to next year	2
Boroughmuir High School	-916	-1,316	400	Original build complete - retention being held	3
Leith Victoria Primary School	-54	1,042	-1,096	Project now delayed due to land transfer and site conditions	1
Meadowbank Sports Centre	3,394	995	2,399	Timing difference on income and expenditure	4
St Crispin's School	660	313	347	Acceleration in year	4
Net (slippage) / acceleration on various projects	-392	-434	42	Various movements over a number of projects	2
Total Communities and Families	**-15,085**	**-10,113**	**-4,972**		
Place (including Tram and Lending)					
Edinburgh Living Mid-Market Rent	-7,503	-6,971	-532	Delays in completion of new homes at North Sighthill and Craigmillar	3
National Housing Trust	-4,723	-4,723	0	Shrubhill payment of £4.7m due in February 2020 now forecast September 2020	3
Trams - York Place to Newhaven	4,217	0	4,217	New profile aligned to timing of programme of work; including mobilisation, traffic management and utilities. Insurance now paid up-front rather than profiled over the life of project.	4
Town Centre Fund	-2,132	0	-2,132	Slippage will be matched by carry forward of Scottish Government Grant	2
North Bridge Major Refurbishment	-1,670	-1,435	-235	Delays in temporary works scaffolding design and erection and condition of concrete deck, necessitating redesign.	1
LDP Roads	-1,400	-1,400	0	Developing a PMO schedule to deliver the project	2
Energy Efficiency Street Lighting	-1,168	-1,715	547	Lower value work has been brought forward	3
Carriageways and Footways	-1,084	0	-1,084	Optimistic budget with inherent issues and complexities that forces the delay of the programme	2
Various Bridge Strengthening Projects	-817	-367	-450	Primarily slippage on Burnshot Bridge	1
Leith Theatre	-648	-648	0	Delay caused by relocation of an electrical substation	2
Dunard Centre	-500	-500	0	Due to uncertainty caused by the judicial review	1
Localities	-363	0	-363	Optimistic budget with inherent issues and complexities that forces the delay of the programme	2
Bus Priority Schemes / Bus Shelters	-357	0	-357	Use of additional Transport Scotland funding is being prioritised before Council funding	3
Net (slippage) / acceleration on various projects	-407	61	-468	Various movements over a number of projects	2
Total Place	**-18,555**	**-17,698**	**-857**		
Resources - Asset Management Works					
Acceleration across the Asset Management Works programme	13,296	2,881	10,415	£2m ceilings, £2m asbestos, £1m Edinburgh Leisure and c. £5m acceleration of school projects	4
Total Resources - Asset Management Works	**13,296**	**2,881**	**10,415**		
Resources - Other					
Net (slippage) / acceleration on various projects	-1,051	285	-1,336	Slippage on IT contract and other minor movements across projects	2
Total Resources - Other	**-1,051**	**285**	**-1,336**		
Council Wide / Corporate Projects					
Net (slippage) / acceleration on various projects	-4,215	-4,036	-179	Various movements over a number of projects	2
Total Council Wide / Corporate Projects	**-4,215**	**-4,036**	**-179**		
Total for all Services	**-25,610**	**-28,681**	**3,071**		

Summary of Variance Category		**Period 8**	**Period 6**	**Movement**
1	Slippage due to unforeseen delays	-7,173	-6,565	-608
2	Slippage due to optimistic budget	-25,337	-11,580	-13,757
3	Slippage due to timing of payments	-14,667	-14,725	58
4	Acceleration on a project	21,567	4,189	17,378
5	Projected final underspend	0	0	0
		-25,610	**-28,681**	**3,071**

Appendix 3 Capital Monitoring 2019/20

Housing Revenue Account

Period 8

Expenditure	Revised Budget £000	Actual to Date £000	Projected Outturn £000	Projected Variance £000	Projected Variance %
Core Programme	35,631	15,806	29,921	-5,710	-16.0%
House Building	73,323	23,425	70,758	-2,565	-3.5%
Total Gross Expenditure	**108,954**	**39,231**	**100,679**	**-8,275**	**-7.6%**

Income	Revised Budget £000	Actual to Date £000	Projected Outturn £000	Projected Variance £000	Projected Variance %
Capital Receipts	17,917	13,353	13,353	-4,564	-25.5%
Developers and Other Contributions	23,000	2,027	23,000	0	0.0%
Specific Capital Grant	8,526	2,801	8,526	0	0.0%
Total Income	**49,443**	**18,181**	**44,879**	**-4,564**	**-9.2%**
Balance to be funded through Loans Fund Advance	**59,511**		**55,800**	**-3,711**	**-6.2%**

Appendix 4 Capital Monitoring 2019/20

Prudential Indicators 2019/20 - Period 8

Indicator 1 - Estimate of Capital Expenditure	**2018/19 Actual £000**	**2019/20 Estimate £000**	**2019/20 Forecast £000**	**2020/21 Estimate £000**	**2020/21 Forecast £000**	**2021/22 Estimate £000**	**2021/22 Forecast £000**	**2022/23 Estimate £000**	**2022/23 Forecast £000**	**2023/24 Estimate £000**	**2023/24 Forecast £000**
Council Wide / Corporate Projects	26	0	0	0	0	0	0	0	0	0	0
Contingency - Meadowbank Stadium	0	0	0	0	0	0	0	0	0	7,000	7,000
Lending	23,152	40,674	28,448	80,154	91,848	55,104	55,104	76,692	76,692	22,266	22,266
Communities and Families	28,431	77,414	66,319	96,617	96,617	1,707	1,707	165	165	165	165
Edinburgh Integration Joint Board	138	117	117	5,000	5,000	5,000	5,000	0	0	0	0
Place	109,572	106,650	99,745	84,984	84,984	29,963	29,963	36,785	36,785	19,835	19,835
Resources	2,652	8,386	7,335	5,000	5,000	0	0	0	0	0	0
Resources - Asset Management Works	21,770	27,039	40,300	30,000	30,000	25,516	25,516	20,450	20,450	14,000	14,000
Trams	0	20,994	25,211	90,804	90,804	58,004	58,004	29,731	29,731	0	0
General slippage / acceleration across programme (5% 2.5% 19/20)	0	0	-4,215	0	-7,044	0	7,971	0	239	0	1,170
Total General Services Expenditure	***185,741***	***281,274***	***263,260***	***392,559***	***397,209***	***175,294***	***183,265***	***163,823***	***164,062***	***63,266***	***64,436***
Housing Revenue Account Expenditure		***108,954***	***100,679***	***142,251***	***142,251***	***177,531***	***177,531***	***171,392***	***171,392***	***273,984***	***273,984***
Total Capital Expenditure	**185,741**	**390,228**	**363,939**	**534,810**	**539,460**	**352,825**	**360,796**	**335,215**	**335,454**	**337,250**	**338,420**

The 'estimate' figures relate to those reported as part of the revised Capital Investment Programmes reported to Finance and Resources Committee on 16 August 2019 incorporating the final slippage and realignment after the outturn for 2018/19. Differences between these and the 'forecast' figures relate to slippage or acceleration in the programmes for the General Fund and HRA detailed in Appendices 1, 2 and 3.

The 'Lending' figures relate to lending by the Council to National Housing Trust (NHT) bodies and Edinburgh Living LLPs. The Edinburgh Living LLPs figures are based on a pipeline of development and will be subject to annual approval from Finance and Resources Committee and Council. The figures shown are indicative.

Indicator 2 - Ratio of Financing Costs to Net Revenue Stream	**2018/19 Actual %**	**2019/20 Estimate %**	**2019/20 Forecast %**	**2020/21 Estimate %**	**2021/22 Estimate %**	**2022/23 Estimate %**	**2023/24 Estimate %**
General Services	11.38	10.58	10.44	10.72	10.44	10.39	n/a
Housing Revenue Account	39.98	41.64	42.08	44.64	46.96	49.41	50.89

Figures for 2020/21 onwards are indicative as neither the Council nor HRA has set a budget for these years. The figures for General Services are based on the current long term financial plan that ends in 2022/23. HRA figures are based on the current business plan.

Indicator 3 - Capital Financing Requirement	**2018/19 Actual £000**	**2019/20 Estimate £000**	**2019/20 Forecast £000**	**2020/21 Estimate £000**	**2020/21 Forecast £000**	**2021/22 Estimate £000**	**2021/22 Forecast £000**	**2022/23 Estimate £000**	**2022/23 Forecast £000**	**2023/24 Estimate £000**	**2023/24 Forecast £000**
General Services (including finance leases)	1,079,328	1,206,776	1,205,308	1,376,423	1,368,088	1,384,096	1,383,732	1,356,907	1,356,782	1,272,398	1,273,443
Edinburgh Living LLP	2,734	26,862	19,238	107,326	99,654	161,152	153,480	235,798	151,434	254,932	148,302
NHT LLPs	87,143	103,651	98,928	107,693	107,693	107,693	107,693	107,693	107,693	107,693	107,693
Housing Revenue Account	377,454	415,351	412,759	415,678	413,086	479,677	477,085	526,588	523,996	675,321	672,729
Total Capital Financing Requirement	**1,546,659**	**1,752,640**	**1,736,233**	**2,007,120**	**1,988,521**	**2,132,618**	**2,121,990**	**2,226,986**	**2,139,905**	**2,310,343**	**2,202,167**

Forecasts include the capital financing requirement relating to PPP assets and advances to NHT and Edinburgh Living LLPs

This page is intentionally left blank

Governance, Risk and Best Value Committee

10.00am, Tuesday, 18 February 2020

Accounts Commission: Local Government in Scotland – Financial Overview 2018/19 – referral from the Finance and Resources Committee

Executive/routine	
Wards	**All**
Council Commitments	

1. For Decision/Action

1.1 The Finance and Resources Committee has referred a report on the Accounts Commission: Local Government in Scotland – Financial Overview 2018/19 to the Governance, Risk and Best Value Committee for consideration as part of its work programme.

Laurence Rockey

Head of Strategy and Communications

Contact: Rachel Gentleman, Committee Services

Email: rachel.gentleman@edinburgh.gov.uk | Tel: 0131 529 4107

Referral Report

Accounts Commission: Local Government in Scotland – Financial Overview 2018/19

2. Terms of Referral

2.1 On 23 January 2020, the Finance and Resources Committee considered a report providing a summary of the main issues and themes identified within the Accounts Commission's recently published Financial Overview 2018/19 and how these related to the local context within Edinburgh.

2.2 The Finance and Resources Committee agreed:

2.2.1 To note the report.

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

2.2.3 To agree that officers would liaise with Audit Scotland regarding the information contained in Exhibit 4 of the Audit Scotland report to request that sources of income for local authorities was presented in different format that indicated the extent to which the City of Edinburgh Council was underfunded in relation to other local authorities.

3. Background Reading/ External References

Minute of the Finance and Resources Committee of 23 January 2020

4. Appendices

Appendix 1 – report by the Chief Executive and Executive Director of Resources

Finance and Resources Committee

10.00am, Thursday, 23 January 2020

Accounts Commission: Local Government in Scotland – Financial Overview 2018/19

Executive/routine
Wards
Council Commitments

1. Recommendations

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

1.1.1 note the contents of the report; and

1.1.2 refer the report to the Governance, Risk and Best Value Committee for its scrutiny.

Andrew Kerr

Chief Executive

Contact: Laurence Rockey, Head of Strategy and Communications
E-mail: laurence.rockey@edinburgh.gov.uk
Tel: 0131 469 3493

Stephen S. Moir

Executive Director of Resources

Contact: Hugh Dunn, Head of Finance
Finance Division, Resources Directorate
E-mail: hugh.dunn@edinburgh.gov.uk
Tel: 0131 469 3150

Report

Accounts Commission: Local Government in Scotland – Financial Overview 2018/19

2. Executive Summary

2.1 The report provides a summary of the main issues and themes identified within the Accounts Commission's recently-published *Financial Overview 2018/19* and how these relate to the local context within Edinburgh.

3. Background

3.1 In December 2019, the Accounts Commission published its annual *Financial Overview* report, an independent high-level analysis of the financial performance of councils during the preceding year (2018/19), their financial standing entering the current year and associated longer-term financial outlook. As in previous years, the overview will be complemented by the publication of the *Challenges and Performance* report in April 2020.

3.2 The report's contents and main conclusions are drawn from councils' audited accounts and associated external audit reports, with some of the more detailed financial analysis informed by locally-issued questionnaires. The report features a number of questions that elected members may wish to consider in the context of their own particular council's position and performance. The report additionally includes an overview of the Scottish Local Government Pension Scheme for 2018/19 to be considered in detail at a subsequent meeting of the Pensions Committee.

4. Main report

Overview of report and key messages

4.1 The report's format follows that adopted for the 2017/18 reporting year, with respective sections on income, financial standing, financial outlook and an Integration Joint Boards (IJBs) overview. A series of key messages, also echoing those of previous years, is set out on page 7 of the report, drawing specific attention to the following:

(i) continuing real-terms revenue funding reductions for councils;

(ii) an intention, at the outset of the year, to meet most of the resulting funding gap for 2018/19 through approved savings but with greater-than-planned reliance on reserves given subsequent delivery shortfalls;

(iii) a slight overall reduction in General Fund reserve levels over the past three years;

(iv) effective embedding within most councils of medium-term financial planning but with a need, in some cases, for this to be extended to the longer term;

(v) on-going uncertainty around the potential longer-term impacts of EU withdrawal; and

(vi) continuing challenges around the short- and medium-term sustainability of many IJBs, underlining a more fundamental need to develop longer-term financial planning for these services.

4.2 Given the report's Scotland-wide coverage, not all of its recommendations are of direct relevance but much of the content nonetheless resonates with the Council's own situation, including the need for service transformation, prioritisation and more effective and integrated management of growing social care- related demand.

Specific references or areas of particular relevance to Edinburgh

4.3 **Paragraphs 10 and 11** highlight intended improvements in the transparency of the calculations underpinning the Local Government Finance Settlement, an overview report on which was considered by the Finance and Resources Committee on 7 March 2019. The ensuing Scotland-wide review resulted in a number of recommendations geared towards simplifying current arrangements, with these measures approved by COSLA Leaders for implementation as part of the 2020/23 Local Government Finance Settlement. Following the development of an overarching fiscal framework, a detailed review of distribution will then be taken forward at a national level, including, but not limited to, further consideration of how best to reflect issues of deprivation and rurality within the settlement process.

4.4 **Paragraphs 12 to 16** outline various assessments of the extent to which grant funding is increasingly linked, either directly or indirectly, to delivery of national commitments; Edinburgh's proportionate share of these ring-fenced or otherwise-committed funds is similar to the national average. In overall terms, however, the relative affluence of the city's domestic and non-domestic tax bases means that Council Tax and Non-Domestic Rates (NDR) represent a larger proportion of the Council's overall funding than for most other councils. When the impact of the size of the city's independent education sector is factored in, as shown in Exhibit 4 on page 14 of the Accounts Commission report, the Council's combined General Revenue Funding (GRF) and NDR income are proportionately the lowest of any council in Scotland.

4.5 **Paragraph 21** sets out councils' opening 2018/19 funding gaps expressed before factoring in additional Council Tax income. While such gaps are inevitably a function of councils' assumptions on a range of expenditure and income factors, as well as local priorities and investment, Edinburgh's proportionate gross requirement was slightly higher than the national average, a position that may be attributed to a lower-than-average level of grant settlement. This, in turn, is consistent with the Council's status as a recipient of financial support through the stability funding floor. The approved budget did, however, not include any assumed drawdown from unallocated reserves, maintaining them at the target level originally achieved in March 2011.

4.6 While the 2018/19 outturn showed £0.7m of additional Council Tax income relative to budgeted levels, in overall terms, delivery of approved savings continued the downward trend of recent years, with only 60% by value secured. A balanced overall position was, however, able to be achieved through (i) significant loan charge savings, (ii) a lower-than-budgeted call on inflationary and other uplifts provided within the budget framework in respect of anticipated expenditure pressures and (iii) additional interest and other investment income. In view of the reduction in in-year savings delivery, a non-recurring £1m contribution to supplement project management capacity has been provided in 2019/20, with the report elsewhere on today's agenda noting a corresponding marked increase in the proportion of savings by value currently assumed to be delivered by the year-end.

4.7 **Paragraphs 24 to 32** include a detailed commentary on usable reserve levels. Against a backdrop of an overall Scotland-wide reduction over the period from 2015/16 to 2018/19, Exhibit 8 on page 20 indicates that Edinburgh's usable reserves increased by 3.8% per annum over this period, primarily reflecting set-aside of Council Tax second home income for subsequent use as part of the 21st Century Homes programme[1]. While the Council's level of unallocated reserves is somewhat lower than the Scottish average, this is mitigated by the maintenance of a number of earmarked reserves, such that the combined position is assessed to be consistent with the level of risk to which it is exposed. The purpose and anticipated application of, or increases in, each earmarked reserve are additionally considered on an annual basis by the Finance and Resources Committee.

4.8 **Paragraphs 33 to 39** provide an overview of the make-up of planned capital spend and compare this to actual expenditure, including reference to in-year investment in Edinburgh. While expenditure slippage equal to 24.6% of budget in 2018/19 was noticeably higher than the equivalent percentage in 2017/18, a significant element of this slippage was attributable to timing differences between the receipt of funding support and incurring of corresponding expenditure, particularly as part of the Early Learning and Childcare expansion programme. The period eight-based report elsewhere on today's agenda points to a similar level of expenditure slippage in 2019/20 as was seen in 2017/18 although the position will continue to be kept under active review and, where possible and appropriate, opportunities to accelerate expenditure identified.

4.9 **Paragraphs 40 to 46** provide an overview of comparative debt levels. In contrast to the national position, the Council's Capital Financing Requirement (CFR; its

[1] The Council's overall level of usable reserves did, however, fall significantly in 2018/19 (by £34.9m, or 12.6% of its opening value) due primarily to planned investment as part of the 21st Century Homes programme.

underlying need to borrow to fund expenditure on assets) fell by 2% in 2018/19. Actual external debt levels are lower than the CFR due to the Council's conscious strategy of using available cash balances in lieu of undertaking external borrowing. Successive years' reductions in the Council's CFR have seen overall proportionate debt levels (and the associated loans charges) move towards the Scottish average, with its gross debt: net annual revenue ratio in 2018/19 of 135% now only slightly above the Scotland-wide equivalent of 127%. What is more important, however, is that such borrowing is prudent, affordable and sustainable and all decisions in this area will continue to be subject to Council consideration and approval, taking into account both the impact of recent increases in Public Works Loans Board (PWLB) rates and the priorities within the Council's wider ten-year Capital Plan.

4.10 The Council's proportion of borrowing at fixed rates as of 31 March 2019 was 68%, slightly above the average for Scotland as a whole. While the Council also has a number of PPP-related contracts which are linked to Retail Price Index (RPI) movements, the effect of these is "diluted" by a constraining factor, such that each 1% change in RPI results in a much smaller 0.44% change in unitary charge in the case of the PPP1 contract and 0.67% for the PPP2 equivalent. Successful Inverse LOBO restructuring in October 2019 has reduced the Council's interest rate exposure further.

4.11 The remainder of the chapter (**Paragraphs 47 to 60**) considers, in turn, remaining equal pay settlements and liabilities, a number of pensions-related issues and transparency of financial reporting. In the case of equal pay, the Council's remaining anticipated exposure is considered low, having previously settled the majority of eligible claims. Pensions-related issues are the subject of more in-depth coverage in a Local Government Pension Scheme (LGPS) supplement, the detail of which will be considered by the Pensions Committee at a subsequent meeting. For severance-related cases, however, the average payback period for staff departures through Voluntary Early Release Arrangements (VERA) or Voluntary Redundancy (VR) approved since September 2015 has been around thirteen and a half months, well within the two-year period recommended by the Scottish Government.

4.12 While a detailed analysis of actual savings delivery was included in the revenue outturn report in August, this analysis is not referenced within the Management Commentary and will thus be added in subsequent years' audited accounts.

4.13 The third, shorter chapter of the report (**Paragraphs 61 to 87**) notes the overall increase in revenue grant funding in 2019/20 whilst emphasising that the majority of this increase is linked to specific initiatives, with the Council's level of core grant funding falling by 0.7% in cash terms. Looking forward, while the Scottish Government had intended to issue a three-year revenue settlement for 2020/23, due to wider uncertainty affecting public finances at UK level, this now looks unlikely, adding to the difficulty in developing a longer-term revenue strategy.

4.14 This said, the Council is seeking to set a balanced three-year budget in February, based on best-available information on likely funding levels. All key assumptions within the budget framework will continue to be subject to at-least six-monthly review, with corresponding reporting to members. Opportunities to expand the timeframe covered by the revenue budget framework will be examined if and when relevant details become available.

4.15 As in 2018/19, the Council's funding gap in 2019/20 was slightly above the national average due to receipt of a level of grant funding below that for Scotland as a whole. As is noted in the report, however, in contrast to some previous years, inflationary pressures (particularly pay awards) account for a significant proportion of the total savings requirement. Around a fifth of the Council's overall funding gap for 2019/20 was approved to be met through Council Tax increases, with the remainder to be addressed through recurring savings and other income measures.

4.16 **Paragraphs 84 and 85** outline progress in putting in place the legal and consultative framework to introduce additional discretionary local taxes, focusing on the transient visitor and workplace parking levies. **Paragraphs 86 and 87** then highlight potential impacts and implications of EU withdrawal, with the subsequently-released short briefing on preparedness to be considered by elected members in due course.

4.17 The final part of the report (**Paragraphs 88 to 109**) reviews the financial performance of **IJBs** in 2018/19 and their broader financial standing entering 2019/20. The position of the EIJB in 2018/19 in most respects mirrored that of IJBs across Scotland, with a 3.1% overall year-on-year funding increase, an increased level of year-end reserves (but with a significant element linked to unspent earmarked funding) and limited evidence of shifting social care spend between council and NHS partners.

4.18 Although the EIJB reported an in-year surplus of £1.3m in 2018/19, actual savings of £9.7m were delivered against an approved plan of £15.4m, with further unidentified EIJB savings plans of £4.8m. Overall balance was therefore only achieved through the provision of £10.5m of additional year-end contributions from the partners. While the EIJB was one of eleven IJBs where the 2019/20 budget had not been formally agreed by 1 April 2019, as of December 2019 a balanced overall position is being forecast after taking account of anticipated contributions from EIJB reserves and slippage on planned investment.

4.19 In noting that the EIJB had considered high-level financial projections for the five-year period to 2023/24, the external auditor nonetheless noted an urgent need to develop a strategic approach to financial planning in both the immediate and medium to longer term. A subsequent report to the EIJB in October 2019 estimated a gross savings requirement of £99m (14% of total expenditure) over this period.

5. Next Steps

5.1 Publication of the Financial Overview will be complemented by the issuing of the *Challenges and Performance* in April 2020 and a subsequent report will be brought forward to both the Finance and Resources and Governance, Risk and Best Value Committees at that time.

6. Financial impact

6.1 There is no direct impact arising from the report's contents but its content reminds officers and members of the importance of service transformation and, where necessary and appropriate, prioritisation to secure financial sustainability going forward.

7. Stakeholder/Community Impact

7.1 There is no direct impact arising from the report's contents.

8. Background reading/external references

8.1 City of Edinburgh Council – 2018/19 Annual Audit Report to the Council and the Controller of Audit, Governance, Risk and Best Value Committee, 17 September 2019

8.2 Principles of the Local Government Finance Settlement, Finance and Resources Committee, 19 March 2019

9. Appendices

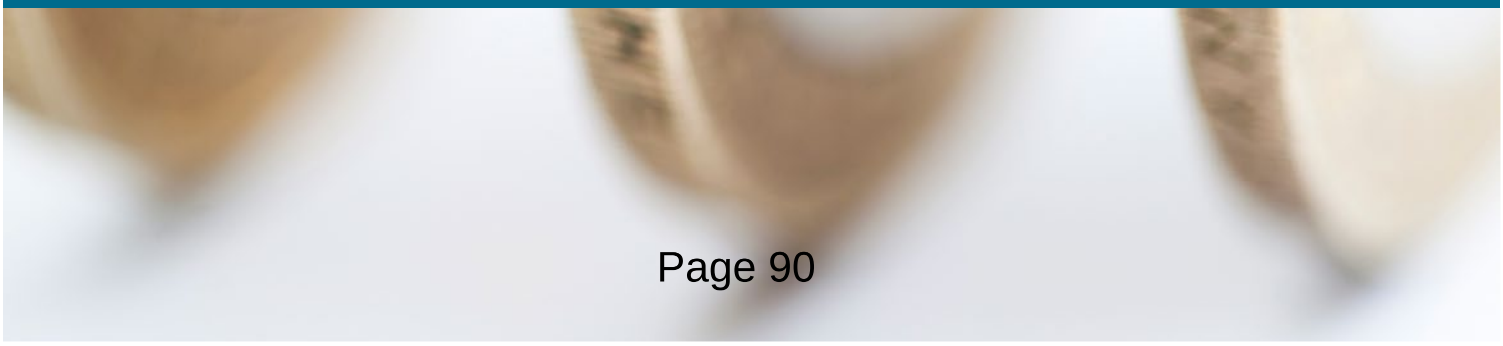
One – Local Government in Scotland – Financial Overview 2018/19

Local government in Scotland

Financial overview 2018/19

ACCOUNTS COMMISSION

Prepared by Audit Scotland
December 2019



The Accounts Commission

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

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

Our work includes:

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

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

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

Contents

Links

PDF download

Web link

Information box

Exhibit data

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

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

Audit team

The core audit team consisted of: Kathrine Sibbald, Lisa Duthie, Chris Lewis and Lucy Ross, with support from other colleagues and under the direction of Brian Howarth.

Key facts

- **0.7 per cent**: Real terms reduction in Scottish Government revenue funding 2017/18 to 2018/19
- **£17.7 billion**: Councils' income 2018/19
- **£2.75 billion**: Councils' capital spending in 2018/19
- **£2.5 billion**: Councils' usable reserves at 31 March 2019
- **£9.3 billion**: Councils' share of the Local Government Pension Scheme deficit at 31 March 2019
- **£15.4 billion**: Councils' net debt at 31 March 2019
- **£2.5 billion**: Council budgets delegated to IJBs in 2018/19
- **£8.6 billion**: IJBs' spending in 2018/19

Chair's introduction

This report, the Accounts Commission's overview of the 2018/19 financial year, provides an independent, public assessment of how effectively Scottish local government is managing public money and responding to the financial challenges it faces. I believe our overview reports are an important tool to highlight to councillors, officers and the public the issues we are most concerned about.

Of particular note for us this year, Integration Joint Boards (IJBs) continue to face very significant challenges and they need to do much more to address their financial sustainability. The pace of progress with integration has been too slow and we have yet to see evidence of a significant shift in spending and services from hospitals to community and social care. I continue to be concerned about the significant turnover in senior staff in IJBs. This instability inevitably impacts on leadership capacity and the pace of progress. The Commission has a strong interest in the performance and development of IJBs and we are planning arrangements to review their progress in delivering Best Value for their communities.

Our report also sets out that councils face the increasing challenge of meeting changing and growing demands on their services, but their income is straining to keep pace. Although Scottish Government funding to councils has been relatively stable this year, since 2013/14 it has fallen in real terms. Funding is forecast to fall further in the medium term against a backdrop of increasing volatility in public finances. The Commission also notes that two-thirds of councils have reduced their general fund reserves over the last three years rather than maintaining or building their reserves. The signs of a trend in reducing reserves may be emerging. I have previously commented that ongoing use of reserves to manage funding gaps is not sustainable.

After several years of tightening budgets, we recognise councils have already made savings through restructuring and efficiencies, but transformation in terms of service redesign is required to deal with the further reductions forecast. The Commission will continue to have a close interest in how councils and IJBs are redesigning services to meet the needs of their communities.

I also encourage councils and IJBs to continue to do all they can to improve and develop their approaches to medium- and long-term financial planning. This is not easy, but it is a fundamental tool to support councillors and officers to make well-considered decisions and effectively manage the continuing challenges ahead. The Scottish Government has committed to providing three-year indicative budgets in the future, which the Commission welcomes, as this will support improved medium-term financial planning in councils and IJBs.

Finally, we note that again there has been some improvement with the quality of reporting on financial matters in councils. I encourage councils and IJBs to continue to improve the transparency and clarity of management commentaries and wider financial information provided to councillors and the public.

I hope you find this overview useful and would welcome any feedback you may have.

Graham Sharp
Chair of the Accounts Commission

Summary

Key messages

Councils:

1 In 2018/19, Scottish council revenue income totalled £17.7 billion, an increase from 2017/18 (£17.3 billion).

2 Scottish Government revenue funding remains the most significant source of income and this increased by 1.1 per cent in cash terms in 2018/19, a 0.7 per cent decrease in real terms. Since 2013/14, Scottish Government funding to councils has reduced by 7.6 per cent in real terms.

3 In 2018/19, the funding gap was three per cent of total budget. Councils planned to manage this primarily through savings, though a shortfall in savings achieved meant that more of the funding gap was met from reserves than planned.

4 Councils are increasingly drawing on their revenue reserves. The net draw on revenue reserves in 2018/19 was £45 million. Twenty-three councils have reduced their general fund reserves over the last three years.

5 Capital expenditure increased by £62 million (2.3 per cent) to £2.75 billion, with more spent on housing and less on education.

6 All councils have medium-term financial planning covering three years or more. Long-term financial planning has not improved since last year and more progress is needed.

7 Councils have made preparations for EU withdrawal but there are many potential implications that cannot be anticipated in financial planning.

Integration Joint Boards (IJBs):

8 A majority of IJBs struggled to achieve break-even in 2018/19, either recording a deficit or relying on additional funding from partners.

9 Around a third of the IJBs failed to agree a budget with their partners for the start of the 2019/20 financial year.

10 Medium-term financial planning is improving but no IJB had a financial plan that extended for more than five years. A focus on developing longer-term financial planning is required by IJBs.

11 Over a third of IJB senior staff have changed during 2018/19.

About this report

1. This report provides a high-level independent analysis of the financial performance of councils during 2018/19 and their financial position at the end of that year. It also looks ahead and comments on the financial outlook for councils. It is one of two overview reports that the Accounts Commission publishes each year. The second report comments on the wider challenges and performance of councils. It will be published in April 2020.

2. Our primary sources of information for the financial overview are councils' 2018/19 audited accounts, including management commentaries and the 2018/19 external annual audit reports for each council. We have supplemented this with data submitted by councils through local audit teams and to the Scottish Government through the Capital Provisional Outturn and Budget Estimates (CPOBE).

3. We refer to 'real-terms' changes in this report. This means we are showing financial information from past and future years at 2018/19 prices, adjusted for inflation so that they are comparable. Similarly, where 2019/20 comparisons are made we have adjusted for inflation to 2019/20 prices. We also refer to figures in 'cash terms'. This means we are showing the actual cash or money paid or received.

4. Throughout the report, we identify examples of questions that councillors may wish to consider, to help with understanding their council's financial position and to scrutinise financial performance. The Accounts Commission encourages councillors to use an appropriate level of challenge in scrutiny and ensure they receive sufficient information to answer their questions fully. The example questions are also available on our website in ***Supplement 1: Scrutiny tool for councillors***.

5. Accompanying this report, and to facilitate insight and comparisons across the sector, we have provided additional financial information on our **website**. We have also produced a separate document ***Supplement 2: Local Government Pension Scheme 2018/19***. We hope the data and LGPS supplement will be useful for senior council finance officers, their staff and other interested stakeholders.

Part 1

Councils' income in 2018/19

Key messages

- In 2018/19, Scottish council revenue income totalled £17.7 billion, an increase from 2017/18 (£17.3 billion).
- Scottish Government revenue funding remains the most significant source of income and this increased by 1.1 per cent in cash terms in 2018/19 (0.7 per cent decrease in real terms).
- Since 2013/14, Scottish Government revenue funding to councils has reduced by 7.6 per cent.
- A growing proportion of Scottish Government revenue funding to councils is committed to national policy initiatives.

In 2018/19, Scottish council revenue income totalled £17.7 billion

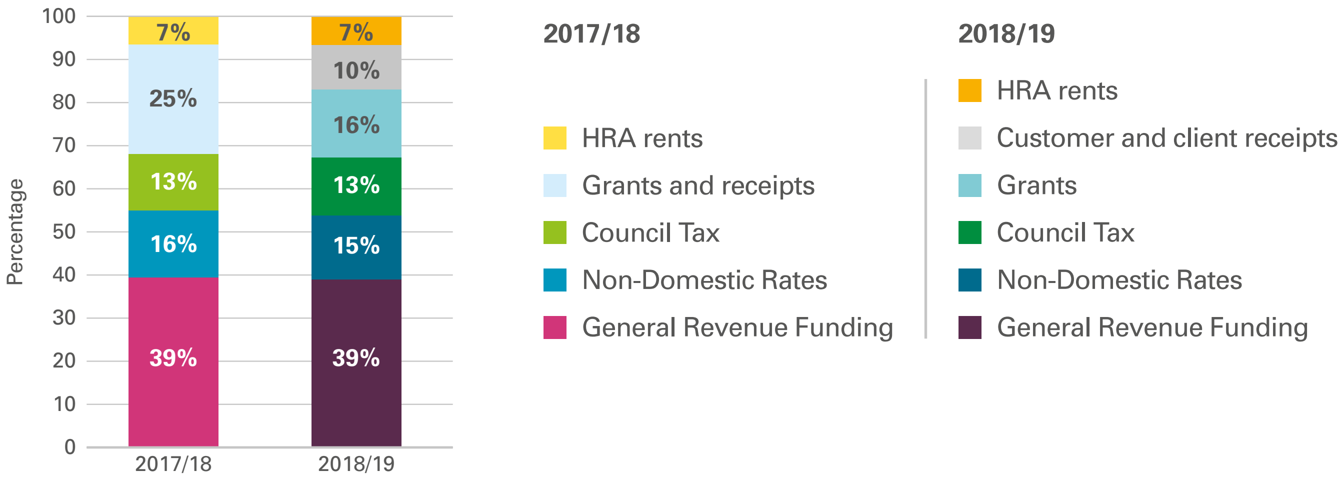
Councils' annual income increased slightly in 2018/19

6. Scottish councils get their annual funding and income from a range of sources (Exhibit 1). In 2018/19, these totalled £17.7 billion, which is an increase from 2017/18 (£17.3 billion). The main source of funding is the Scottish Government. In 2018/19, the Scottish Government provided £9.8 billion (compared to £9.7 billion in 2017/18).

Exhibit 1

Sources of council revenue income, 2018/19

Funding and income increased from last year to £17.7 billion.



Note: In the 2017/18 data, customer and client receipts are included in grants and receipts.
Source: Audited financial statements 2018/19 and 2017/18

Scottish Government funding

Scottish Government revenue funding fell by 0.7 per cent in real terms in 2018/19

7. In 2018/19, the **total revenue funding** from the Scottish Government increased by 1.1 per cent in cash terms and decreased by 0.7 per cent in real terms (Exhibit 2). The total revenue funding of £9.8 billion consists of the general revenue grant funding of £6.9 billion (70 per cent); Non-Domestic Rates (NDR) £2.6 billion (27 per cent); and specific grants making up the remaining £0.3 billion (3 per cent).

Exhibit 2

Changes in Scottish Government revenue funding in 2018/19

Scottish Government revenue funding reduced by 0.7 per cent in real terms in 2018/19.

	2017/18 £m	2018/19 £m	Cash %	Real %
Revenue Grant	7,019	7,159	2.0 ▲	0.2 ▲
NDR	2,666	2,636	-1.1 ▼	-2.9 ▼
Total revenue funding	**9,685**	**9,795**	**1.1 ▲**	**-0.7 ▼**
Health and Social Care funding via NHS	355	355		
	10,040	**10,150**	**1.1 ▲**	**-0.7 ▼**

Note: On 28 March 2018, the Scottish Government paid £34.5 million of additional funding to councils. This is included in the 2017/18 column above.

Source: Finance Circulars 4/2018 and 2/2019, and Scottish Government budget documents

Since 2013/14, Scottish Government revenue funding to councils has reduced more than to other areas

8. Funding from the Scottish Government to local government between 2013/14 and 2018/19 decreased by 7.6 per cent over these six years, in real terms (Exhibit 3, page 11). Scottish Government revenue funding across other areas decreased by 0.4 per cent over the same period, demonstrating that local government funding has undergone a more significant reduction than the rest of the Scottish Government budget over this period.

9. However, the gap between local government revenue funding and the rest of the Scottish Government revenue budget narrowed in the last year (between 2017/18 and 2018/19) to 7.2 per cent.

How Scottish Government funding is distributed is to become more transparent

10. Grant-aided Expenditure (GAE) is the main distributing methodology for determining Scottish Government revenue funding provided to councils. The remaining Scottish Government revenue funding is determined by a range of other separate non-GAE methodologies agreed by the Scottish Government and COSLA.[1] Over time, the proportion of the non-GAE element of funding has grown and in 2019/20 represents a third of the total funding.

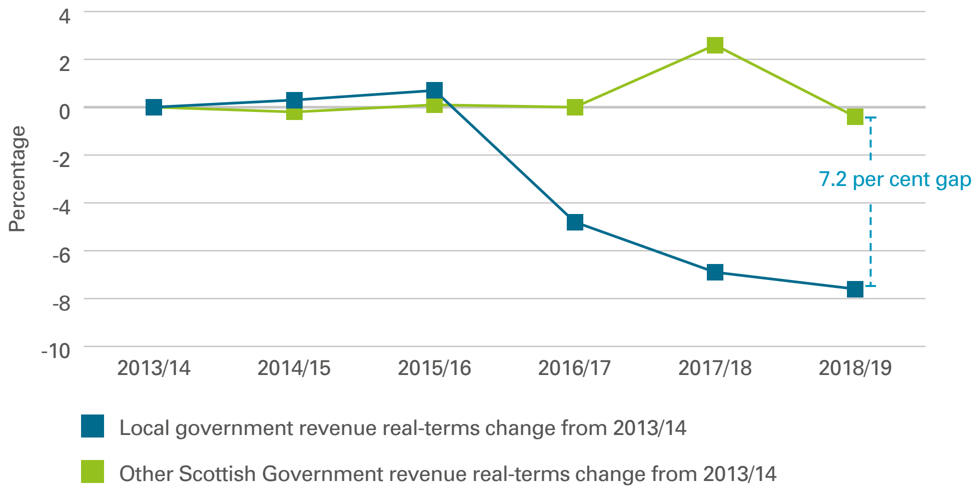
Total revenue funding

This consists of general resource grants, specific revenue grants (together known as revenue grants) and Non-Domestic Rates income (NDR).

It does not include health and social care funding paid to local government via the NHS.

Exhibit 3
A comparison of real-terms changes in local government and other Scottish Government revenue funding

Over the last six years local government revenue funding from the Scottish Government fell by 7.6 per cent, while other Scottish Government revenue funding fell by 0.4 per cent.



Source: Scottish Government budget documents and financial circulars

11. In our financial overview report in 2017/18, we reported on the lack of transparency of the calculations for the non-GAE distributions to individual councils. The Scottish Government has now provided this information to the Local Government and Communities Committee of the Parliament, SPICe[2] and COSLA. It is also planning to include the methodologies used for the specific revenue grants and other non-GAE funding within their annual Grant Aided Expenditure *Green Book* publication from 2020/21.

A growing proportion of funding is committed to national policy initiatives

12. The Commission commented in its report *Challenges and performance 2019* that an increasing proportion of council budgets is committed to national policy initiatives. This reduces the flexibility councils have for deciding how they plan and prioritise the use of funding to respond to local priorities. There are different approaches to describing the scope of this flexibility by stakeholders; different figures and language complicate this.

13. Within the £9.8 billion Scottish Government revenue funding, a relatively small, but growing, element is identified by the Scottish Government as specific revenue grants, set out in the annual settlement to councils. This money is ring-fenced to fund identified policies, such as the Pupil Equity Fund, Criminal Justice and Early Years Expansion. These grants totalled £0.3 billion in 2018/19 (£0.5 billion in 2019/20). The Scottish Government's view is that other funding is not ring-fenced and it is therefore at the discretion of councils how they deliver commitments and services with these funds.

An increasing proportion of council budgets is committed to national policy initiatives. This reduces the flexibility councils have for deciding how they plan and prioritise the use of funding to respond to local priorities

14. In addition to specific revenue grants, funding for other national policy initiatives is set out in the annual settlement but not formally ring-fenced. These are mainly initiatives linked to education and social care. Collectively, ring-fenced and funding linked to other national policy initiatives, increased from £0.6 billion to £1 billion, between 2018/19 and 2019/20. This is around 10 per cent of Scottish Government funding to councils. The Commission has previously highlighted that education and social care represent over two-thirds of councils' spending and, 'although it is possible to make savings in these areas, national priorities, statutory obligations and demand for services make this challenging'.[3]

COSLA identifies reducing flexibility based on estimated expenditure

15. COSLA has also described its position on the flexibility of councils' budgets. It has taken a different and wider approach to this. It focuses on estimated expenditure. It identifies expenditure areas that have been ring-fenced or are protected through obligations created by current and past Scottish Government policy initiatives, demand pressures, or fixed obligations such as loan charges. For 2019/20, the most significant areas that COSLA identified included:

- primary and secondary teacher staff costs (£2.5 billion)
- all adult social work costs devolved to IJBs (£2.7 billion)
- loan charges (including PPP costs) (£0.7 billion)
- and other areas such as Council Tax Reduction Scheme (£0.4 billion) and Early Learning (£0.4 billion).

16. In its response to the Local Government and Communities Committee on the 2019/20 budget, COSLA's view is that Scottish Government policies and fixed commitments represented 58 per cent of local government revenue expenditure budgets in 2018/19; 60 per cent in 2019/20.

Other income

Council tax increases of three per cent increased total income slightly

17. As identified in our report *Challenges and performance 2019* all councils increased council tax rates by the maximum allowable three per cent in 2018/19. With increases in the number of properties, total council tax increased by £97 million (4.2 per cent increase) in 2018/19. As only 10 to 19 per cent of funding and income is raised through council tax, this only produces an increase of around 0.5 per cent.

Councils rely on a significant element of grant and NHS income

18. This year, for the first time, we have used financial statements and information collected from auditors, to provide an insight into the extent of grant income received by councils. In a small number of councils this was hampered by a lack of clarity in the accounts about grant income credited to services. Our analysis shows that £3.0 billion (16 per cent) of income was revenue grant income received by Scottish councils (and credited as income to services) in 2018/19.

?

How dependent is your council on the various sources of income compared to other councils, including: Scottish Government funding, grants, council tax and receipts from customers/clients?

Challenges and performance 2019
March 2019

19. The major components of this grant income include:

- Housing benefit grants from the Department of Work and Pensions totalling £1.4 billion.
- NHS income, £0.7 billion, including resource transfer and integration fund transfers.
- Scottish Government ring-fenced and other non-government grants of £0.9 billion (including criminal justice, pupil equity and attainment funding and early learning grants).

The proportion of income from each main source varies significantly across councils

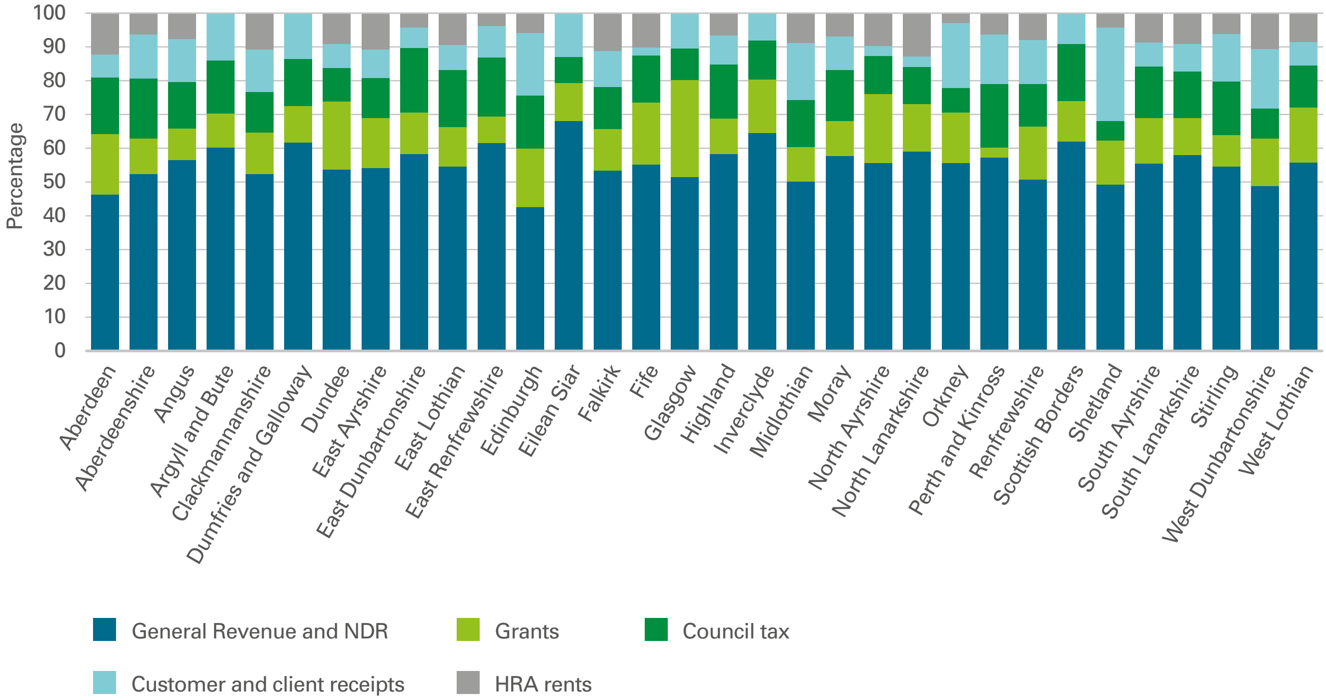
20. There are major differences between councils in the nature and scale of income (Exhibit 4, page 14). The most obvious of these is house rents, where six councils are not registered social housing providers, and so do not generate income from housing rents. However, there are other major differences between councils when looking at other sources of income:

- Some councils are less reliant on general revenue funding from the Scottish Government and NDR than others. This ranges from City of Edinburgh Council (43 per cent) to Eilean Siar (68 per cent).
- The other two islands authorities, Orkney and Shetland, have significant harbour activities which generate locally significant income streams of £15 million and £30 million, respectively.
- Some councils have relatively low income from fees and charges for services. There may be local policy reasons for this.
- Some councils generate relatively higher levels of income from council tax. East Dunbartonshire and Perth and Kinross councils rely on council tax to provide 19 per cent of their total income and funding (excluding HRA). In comparison, all three island authorities (Shetland, Orkney and Eilean Siar) realise less than 10 per cent of their total income from council tax.
- Some councils receive a greater proportion of income from grants and NHS funding. The most significant of these is Glasgow City Council which has 29 per cent (£680 million) of its total income from this source. This includes £329 million of housing benefit subsidy, £148 million from the NHS and £58 million of ring-fenced grants from the Scottish Government.

Exhibit 4

The proportion of income from each source for each council

Some sources of income are more important to each council.



Source: Audited financial statement 2018/19

Part 2

Councils' financial position in 2018/19

Key messages

- The 2018/19 funding gap of three per cent was less than the previous year (four per cent). Councils planned to manage this primarily through savings, though a shortfall in savings achieved meant that a higher proportion of the funding gap was met from reserves than planned.
- Across Scotland councils increased their use of revenue reserves. The net draw on revenue reserves in 2018/19 was £45 million. Over the past five years the position has changed, with councils increasingly drawing on their revenue reserves.
- Twenty-three councils have reduced their general fund reserves over the last three years. No council has a position where this rate of depletion would eliminate the total general fund within three years.
- Capital expenditure increased by £62 million or 2.3 per cent in 2018/19 to £2.75 billion, with more spent on housing and economic development and less on education.
- The value of pension liabilities in councils increased by £0.5 billion to reflect the impact of the McCloud case.
- Councils should continue to improve the transparency of the management commentary.

Council budgets and outturn 2018/19

The 2018/19 three per cent funding gap was less than the previous year

21. Councils' 2018/19 budgets identified total final net expenditure of £12.2 billion. These were not fully met by budgeted income. The funding gap was £0.4 billion (three per cent). In 2017/18, the shortfall was £0.5 billion (four per cent).

22. Councils planned to manage funding gaps through savings. On average, councils delivered 87 per cent of planned savings. However, there was significant variation in how individual councils performed against their savings targets:

How big is the funding gap for your council relative to the total budget?

- Moray Council, which planned to deliver savings of £6.3 million, achieved savings of £7.2 million or 114 per cent of its target. Inverclyde, North Ayrshire and West Lothian councils also performed well against their savings targets.
- Shetland Islands Council, which planned to deliver savings of £1.9 million, achieved savings of £0.4 million or just 21 per cent of its target.

A higher proportion of the funding gap was met from reserves than planned

23. Some councils planned to use reserves to present balanced budgets. An analysis of data from a sample of 18 councils shows that planned use of reserves for 2018/19 was £52 million. The combined total funding gap for these councils was £272 million, of which planned use of reserves represented 19 per cent. The actual use of reserves by the sample of 18 councils was higher than planned at £71 million.

Usable reserves

24. All councils hold reserves but there is variation in the nature and value of these reserves. Reserves play an important role in good financial management of councils. They may be used to invest in a major project, transform services or respond to unexpected events. Reserves are a one-off resource so councils need to plan carefully for their use. Exhibit 5 (page 17) shows the nature and value of usable reserves in 2018/19. Over 77 per cent of the total balance is made up of revenue reserves which include the general fund, housing revenue account, insurance, repairs and renewals funds and other specific funds, eg harbour. The remainder relates to capital reserves which are used to support the costs associated with capital investment projects.

In 2018/19, 16 councils ended the year with a lower level of usable reserves

25. Across all councils there was a net decrease in usable reserves of £6 million to £2.5 billion. Sixteen councils ended the year with a lower level of usable reserves in 2018/19, which is relatively consistent with 2017/18 (18 councils).

26. Examples of councils with notable reductions in usable reserves in 2018/19 include:

- West Dunbartonshire reduced usable reserves by £6 million (or 28 per cent), which mostly related to the housing revenue account balance being used to fund capital expenditure.
- South Ayrshire used £7 million (or 17 per cent) of its reserves. This relates to a draw on its committed general fund in line with its budget plans.
- Moray drew down £4 million (or 16 per cent) from reserves, using its uncommitted general fund to support the 2018/19 financial position. This was part of the approved budget plan.

What are your council's plans for meeting the current and future funding gaps – savings plans, efficiencies, reduction in services, or transformation, increased charges, use of reserves?

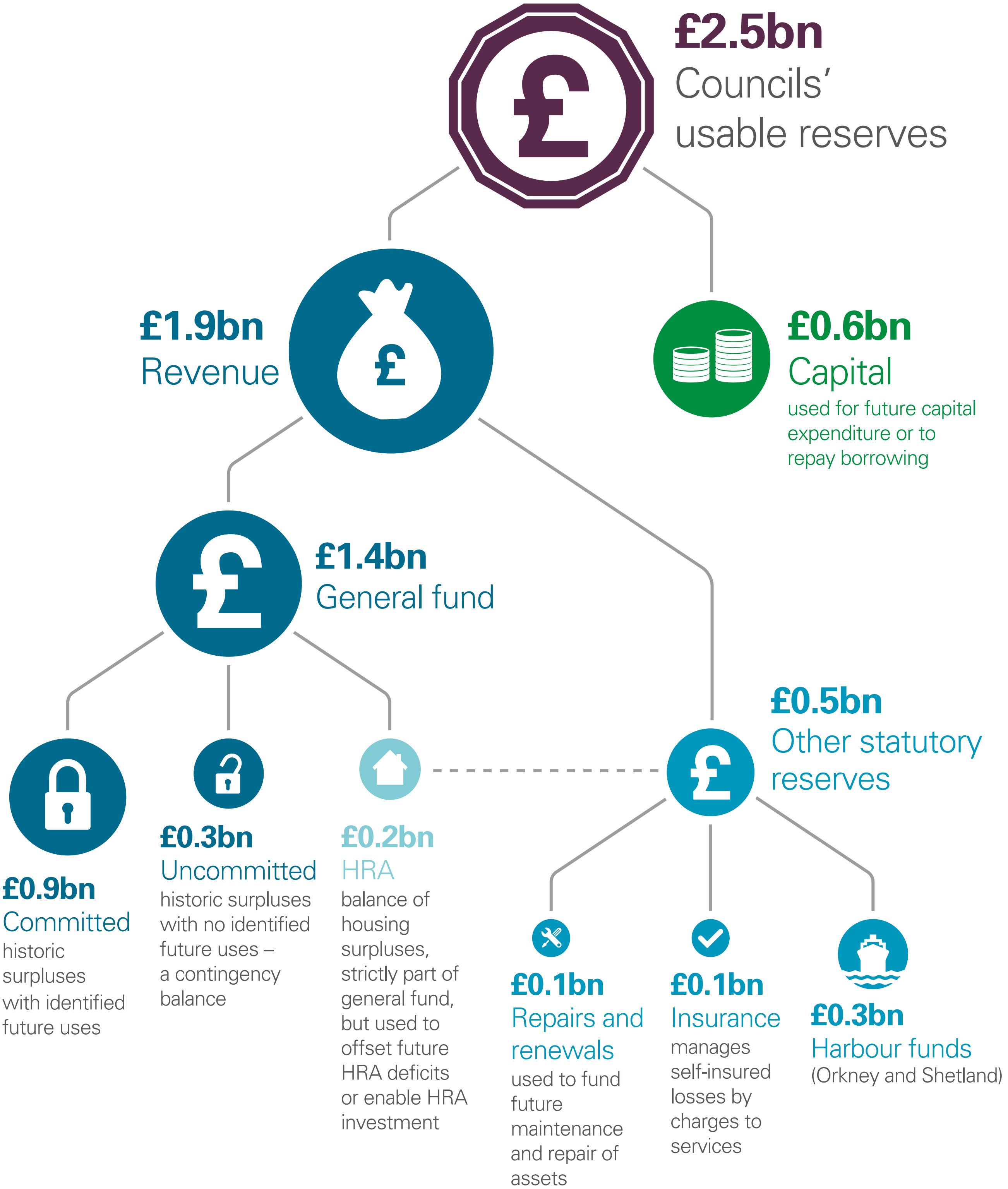
Are there significant elements of unidentified savings in the agreed budget or are all planned savings actions clearly identified?

How well are you kept informed about progress against savings plans?

Does your council have a transformation plan? Does it clearly set out the aims and objectives and how and when these will be achieved?

How effectively are you engaged and informed about the council's transformation programme and kept informed about progress?

Exhibit 5
The relative size and nature of councils' usable reserves
In 2018/19, usable reserves held by councils totalled £2.5 billion.



Source: Audited financial statements 2018/19

Revenue reserves

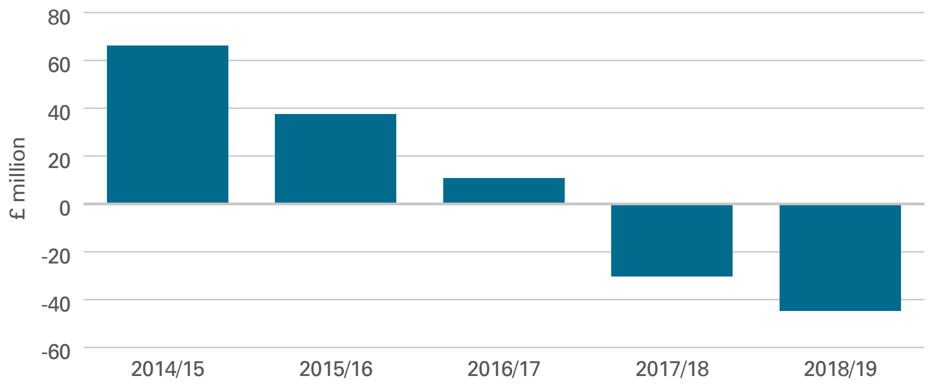
Across Scotland councils increased their use of revenue reserves

27. In recent years, councils have been increasingly turning to reserves to address funding gaps or apply to identified earmarked expenditure. The net draw on revenue reserves in 2018/19 was £45 million. Over the past five years the position has changed from councils adding to revenue reserves to an increasing draw on their revenue reserves (Exhibit 6).

Exhibit 6

The movement in usable revenue reserves

Councils have been increasing their use of (rather than adding to) revenue reserves over the last two years.



Source: Audited financial statements 2014/15–2018/19

Across Scotland councils increased their use of revenue reserves. The net draw on revenue reserves in 2018/19 was £45 million.

General fund reserves

Councils have committed varying proportions of their general fund reserves

28. The total revenue reserve position includes a general fund reserve and councils can commit to using general fund balances for specific purposes in future years or maintain some as uncommitted. In last year's report, we highlighted the importance of councillors understanding the purpose of committed (or earmarked) reserves. We found that nearly all councils set out the purpose of their earmarked reserves, but the intended timing of this expenditure is not always clear. Knowing when the expenditure is likely to be incurred is an important part of understanding the need for these reserves.

29. The uncommitted element is used to provide against unforeseen circumstances and mitigate the financial impact of these. Councils have different strategies for managing the level at which they maintain an uncommitted balance (Exhibit 7, page 19). Most have a reserves policy that sets out a minimum level of uncommitted general fund to be maintained. This typically varies from one per cent to four per cent of expenditure across councils. Some councils, including North Lanarkshire and West Lothian, take a risk-based approach to identify an appropriate level for the uncommitted general fund each year. For both these councils this approach has led to a relatively low level of uncommitted general fund.

What is your council's reserves policy?

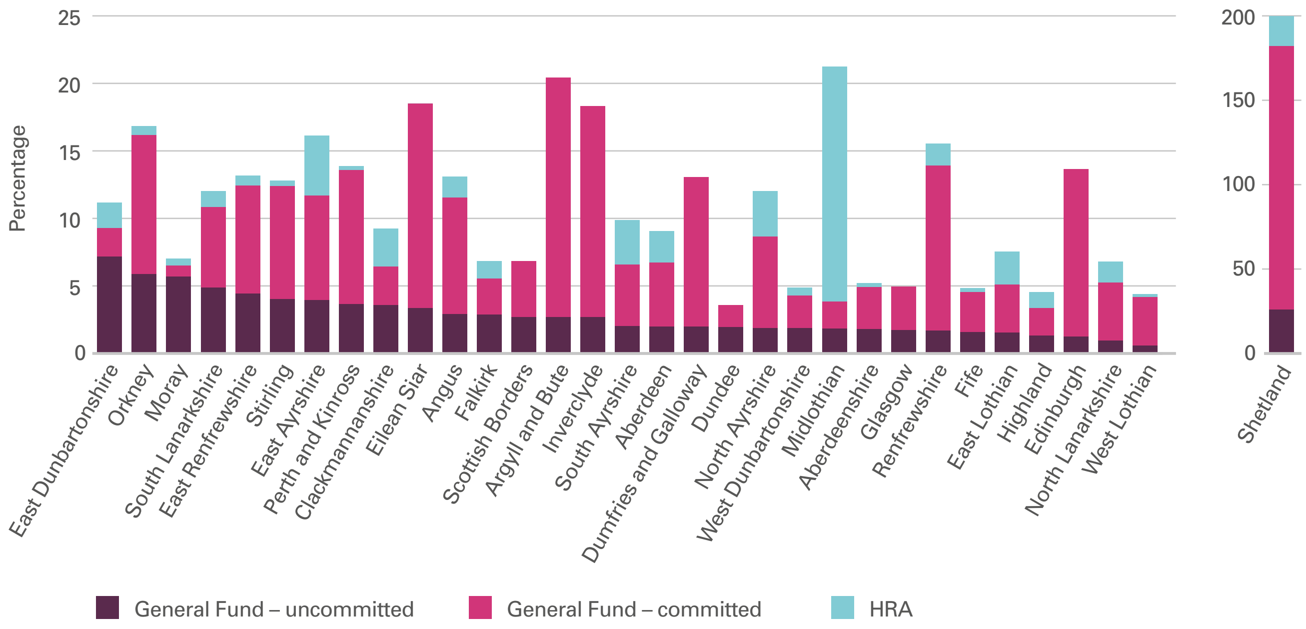
Do committed/earmarked/specific reserves have clear purpose and projected cashflows or are they part of the general contingency or uncommitted general fund?

30. The Best Value Assurance Reports for North Lanarkshire and West Lothian both comment on the low level of uncommitted general fund but recognise that it has been set at a desired level and successfully maintained over several years. However, councils with a low level of uncommitted general fund are more exposed to the risk of an unexpected change in circumstances.

Exhibit 7

General fund as a proportion of net annual revenue split between committed, uncommitted and HRA

All councils hold an uncommitted general fund to protect against unforeseen financial pressures.



Note: Orkney and Shetland also have significant harbour funds which are not included above.

Source: Audited financial statements 2018/19

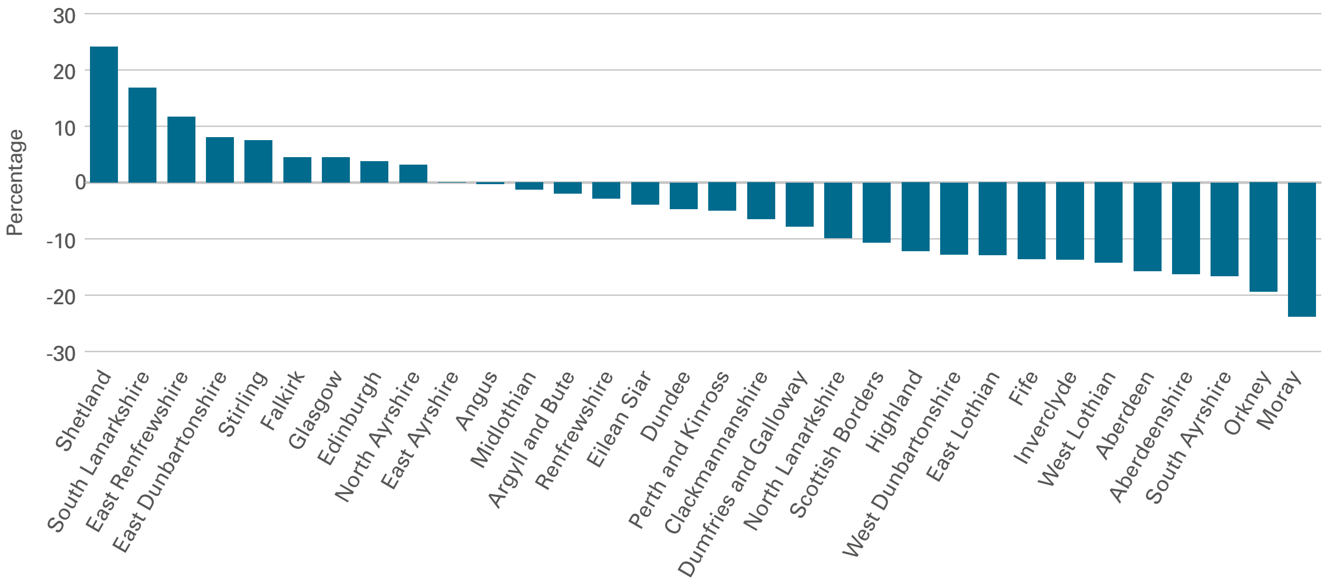
Twenty-three councils have reduced their general fund reserves over the last three years

31. In recent years, there is significant variation in whether councils have added to, or drawn on, their general fund reserve (including the housing revenue balance). Exhibit 8 (page 20) shows the average annual movement on the general fund over the last three years (as a percentage of the total remaining balance at 31 March 2019). Shetland has experienced a relative increase in its general fund of 24 per cent while Moray has experienced a similar relative reduction.

32. Although no council has a position where this rate of depletion would eliminate the total general fund within three years, one council (Moray) would deplete its general fund within five years. The total general fund reserve is £14 million and Moray Council has identified that a further £3.7 million draw on reserves will be required to balance the 2019/20 budget (compared to £4.6 million in 2018/19 and an average of £3.6 million over each of the past three years). The council's budget papers clearly recognise that this approach to financial management is not sustainable and that funding gaps over the medium term will need to be funded from savings, which have not yet been identified.

Is the council using up its reserves and is it likely to deplete these over the medium or long term (within 5 or within 10 years)?

Exhibit 8
Average annual movement in general fund over the last three years
Some councils are reducing general fund reserves by significant amounts.



Source: Audited financial statements 2015/16–2018/19

Capital

Total capital spending was £2.75 billion with more spent on housing and economic development and less on education

33. Capital expenditure increased by £62 million or 2.3 per cent in 2018/19 to £2.75 billion. A larger proportion was spent on housing and economic development than in the previous year (Exhibit 9, page 21). These two areas now account for 44 per cent of total capital expenditure (39 per cent in 2017/18). The proportion of capital expenditure on education has fallen from 27 per cent in 2017/18 to 20 per cent in 2018/19.

34. Some of the major new investments include:

- East Ayrshire Council – Barony Campus. This is the biggest capital investment project ever undertaken by East Ayrshire Council with an estimated total cost of £68 million. On the outskirts of Cumnock, the campus consolidates five schools into one campus.
- City of Edinburgh Council – Additional investment in educational properties, roads and social housing through the housing development fund with over 700 new homes under construction and a further 3,000 homes in design and development stages. The council is also providing funding for homes for mid-market rent from private developers through the National Housing Trust and through the Edinburgh Living LLP.

What are your council's medium-term and long-term plans for capital spending?

How well are you kept informed about progress against capital plans?

How well do you understand the reasons for any underspend against the annual capital budget?

- Midlothian Council – Newbattle Community Campus. A £38 million hub project opened in May 2018 as the council's first 'centre of excellence in digital technology' providing enhanced education and leisure facilities for Newtongrange, Mayfield, Gorebridge and the surrounding communities.

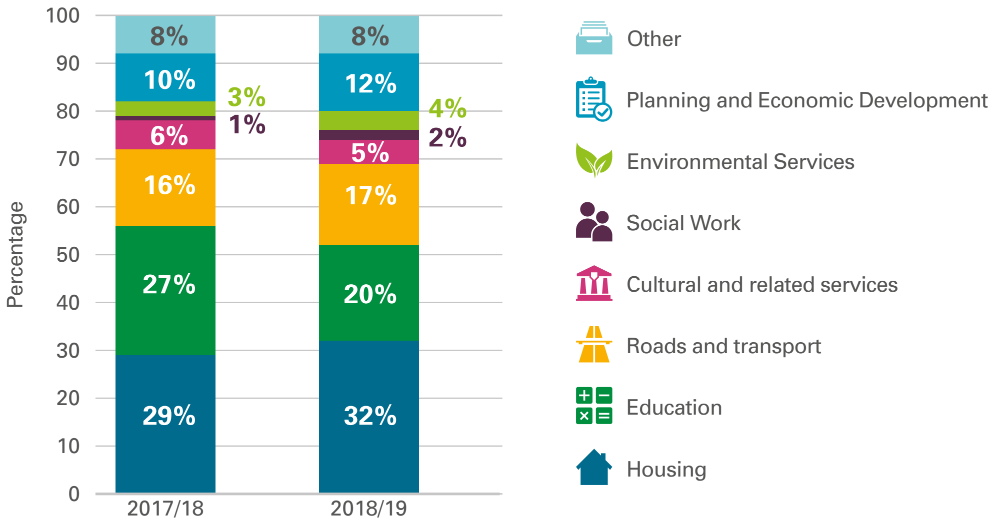
Investment has led to an increase in the number of council houses

35. Across Scotland, social housing is provided by a mix of housing associations and councils. Twenty-six councils in Scotland provide social housing. Fife and North Lanarkshire have the most housing stock (in excess of 30,000 properties each).

Exhibit 9

Capital expenditure by service area 2018/19 and 2017/18

A larger proportion was spent on housing and economic development and less on education in 2018/19.



Source: Scottish government CPOBE – capital provisional outturn (and budget expenditure)

36. We are now seeing the effect of housing investment and the end of the right-to-buy scheme leading to an increase in social housing stock. The total number of houses at 31 March 2019 has increased by 1,950 to 315,649. Edinburgh increased its housing stock by four per cent (719 properties) and West Lothian increased its housing stock by three per cent (434 properties). Falkirk, Highland, North Lanarkshire, Renfrewshire and South Lanarkshire have also increased their housing stock, each by more than 100 homes. East Ayrshire has experienced the biggest decrease, reducing its house numbers by 264.

Government grants and money from councils' revenue budget continue to be the main sources of funding for capital expenditure

37. The sources of capital expenditure funding in 2018/19 are mostly consistent with 2017/18 and include:

- £1.1 billion of government grants (£60 million or six per cent higher than 2017/18).
- £0.9 billion taken from council revenue (capital financed from current revenue and loans fund charges).
- £0.6 billion increase in the underlying need for councils to borrow.

Auditors reported underspends in annual capital budgets at a number of councils

38. A number of the local auditors in their annual audit reports identified that councils had significant underspends against their annual capital budgets:

- Aberdeen City's 37 per cent underspend is in part due to the reprofiling of four proposed new primary schools, delays with the Union Terrace Gardens Project and in settling land claims for the Aberdeen bypass.
- West Dunbartonshire underspent by 41 per cent. We reported in the *Best Value Assurance Report* (June 2018) that there has been a trend of significant levels of capital slippage at the council over a number of years and recommended that the council review its project management processes and consider performing self-assessments to identify areas for improvement.
- Orkney Islands' 50 per cent underspend is due to weaknesses in forward planning arrangements and the auditor reported a history of capital slippage. Capital projects which experienced slippage in 2018/19 include £3 million for the Scapa Flow Visitor Centre and Museum and £4 million for a new tug.

39. There can be local reasons for underspends against annual capital budgets that reflect the phasing of projects over a number of years. The key issue is that councillors understand whether annual underspends of budget are symptomatic of delays in overall capital project delivery and encourage officers to address these or refine the overall capital aspirations.

Debt

There is variation in the relative underlying borrowing position of councils

40. The underlying borrowing position of councils varies across Scotland from 58 per cent of net annual revenue in Renfrewshire and Orkney to 237 per cent in Aberdeen City (Exhibit 10, page 23). Overall gross debt levels have grown by £0.7 billion (or four per cent) in the last year. Councils with higher borrowing levels usually incur higher annual costs of servicing the debt and may have less headroom for further affordable borrowing.

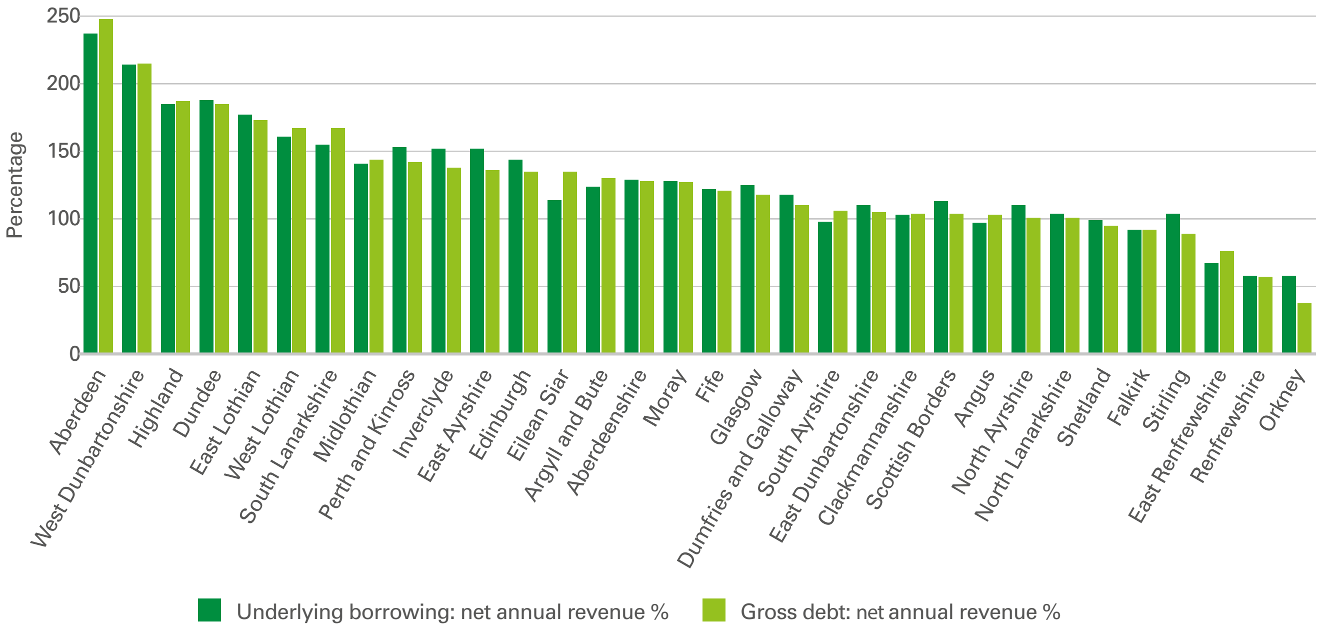
What is your council's current debt position relative to its annual revenue?

41. The underlying borrowing position consists of the net debt of the councils at 31 March 2019 (total debt less investments and cash) adjusted for total usable reserves. This is because a council with significant reserves that are not cash-backed would need to borrow more in the future to realise these reserves.

Exhibit 10

Underlying borrowing and gross debt as a proportion of net annual revenue

The underlying borrowing position of councils varies from 58 per cent to 237 per cent of net annual revenue.



Source: Audited financial statements 2018/19

Total net debt across councils has increased by £0.3 billion, mainly due to three councils

42. The different sources of debt held by councils comprises:

- The Public Works Loans Board (PWLB), a UK Government agency that issues loans to local authorities and other specified bodies (56 per cent).
- Other market loans (27 per cent).
- Other long-term liabilities from assets acquired through public private partnerships including Private Finance Initiative (PFI), Public Private Partnership (PPP) and Non-Profit Distributing (NPD) models (17 per cent).

43. Total net debt has increased by £0.3 billion (2.3 per cent), from £15.1 billion in 2017/18 to £15.4 billion in 2018/19. Three councils account for most of the movement in net debt this year:

- Aberdeen City Council – an increase of £203 million (21 per cent) due to an increase in PPP liabilities and short term borrowing from other local authorities to fund capital investment.
- East Ayrshire Council – increase of £67 million (20 per cent) due to an increase in finance lease liabilities for an NDP schools project that the council occupied in the year.
- Dundee City Council – increase of £66 million (10 per cent) due to an increase in borrowing to fund the council's capital programme, including £12.4 million for council housing.

The overall cost of servicing debt is unchanged but councils incur different levels of spend on their annual revenue

44. Total interest costs remain consistent year-on-year at £0.8 billion. In 2018/19, these payments varied from 10 per cent of net annual revenue in Aberdeen to two per cent in Orkney with 19 councils spending more than six per cent of their net annual revenue on debt interest. Higher interest costs can reflect the extent, type and age of debt held.

Most debt is fixed interest, but PFI/PPP/NPD schemes are variable interest

45. Most council borrowing comes from the PWLB and this is usually issued at a fixed interest rate. Our analysis from auditors found that fixed interest payments made up around 65 per cent of total interest payments in 2018/19. In October 2019, the UK Treasury announced that interest rates on new PWLB loans would rise from 1.81 per cent to 2.81 per cent. This will make new PWLB borrowing or refinancing of debt for councils more expensive.

46. The remainder relates to interest payments on PFI/PPP/NPD agreements (30 per cent), where unitary charges are typically linked to RPI and variable interest loans (five per cent). Aberdeen City Council issued index-linked bonds in November 2016, raising £415 million to support its capital investment programme. This is also linked to RPI and the income generated by the new Aberdeen Exhibition and Conference Centre is expected to contribute to the cost of servicing the bond each year.

How much of the council's budget is used to pay interest and debt repayments?

Are you given clear and sufficient information to understand risks and support decisions about future borrowing?

Provisions and equal pay

Glasgow City Council agreed to settle equal pay claims at a cost of £0.5 billion

47. In last year's report, we highlighted that the impact of equal pay claims on Glasgow City Council's financial planning could be significant. In May 2019, the council agreed to settle outstanding equal pay claims at a total cost of £0.5 billion. The council has developed a funding strategy that will spread the cost of settlement over several years and this has been built into the council's baseline budget from 2019/20 onwards. The funding strategy includes one of the council's arm's-length external organisations (ALEOs) refinancing an existing loan with Barclays Bank and remitting this to the council as a member contribution. The second element involves a sale and leaseback arrangement of property with the same ALEO. The local auditor assessed the overarching governance arrangements of the equal pay project, along with the controls in place around the calculation and payment of settlements and considered them to be appropriate.

48. The settlement does not fully extinguish the council's equal pay liability. The council is currently working towards implementation of a new pay and grading system by April 2021, and a liability may remain until the new system is in place.

Pensions and severance

Employer pension liabilities increased as a result of the McCloud case

49. Councils' share of the Local Government Pension Scheme (LGPS) net liability at 31 March 2019 increased by 41 per cent to £9.3 billion, compared to £6.6 billion at 31 March 2018.

50. In 2015, the government introduced reforms to public sector pensions. In December 2018, the Court of Appeal ruled, in the McCloud case, that the transitional protection offered to some members of the judicial and fire fighters' schemes as part of the reforms amounted to unlawful discrimination – www.judiciary.uk/. As all care schemes introduced in 2015 contained transitional protection, all schemes are likely to be unlawful. This includes the local government pension funds. On 27 June 2019, the Supreme Court denied the UK Government leave to appeal and the UK Government conceded that the protections in place were discriminatory on grounds of age. In accordance with accounting standards, this was regarded as an adjusting event after the balance sheet and councils were advised to adjust their unaudited financial statements.

51. In June, the Government Actuary's Department (GAD) provided actuarial firms with a methodology for estimating the likely impact of the rulings on pension liabilities. Local government pension fund actuaries were requested to apply the GAD assumptions which generally resulted in an increase in the net pension liabilities.

52. The impact of McCloud on council finances will become clearer at the next triennial revaluation of pension funds at 31 March 2020, when contribution rates are redetermined. There may be a funding pressure, with councils having to make additional future employer contibutions to cover the increased liabilities.

Other issues affected revised pension liabilities

53. While the impact of McCloud was the main element in the revised figures, there were other factors involved including Guaranteed Minimum Pension (GMP) equalisation (due to contracting out of the state earnings related pension scheme (SERPS) in April 1978). This provided for reduced employer and employee National Insurance contributions in return for members receiving a GMP from an occupational pension scheme. GMPs are discriminatory in various ways. For example, they are payable at 60 for female members and 65 for male members and they have built up at different rates, reflecting the earlier payment age for women. An interim method of calculating the cost of persons retiring between April 2016 and April 2021 has been agreed by HM Treasury.

54. In a few other cases, there were specific issues which were updated in the revised actuarial valuations. For example, in Aberdeenshire, the actuary had not reflected the impact of the backdated pay award, and in Aberdeen City, Stirling and Dumfries and Galloway, the initial calculations were based on the estimated investment position for the year end and this was revised to actual data in the audited statements.

55. The total impact of the above issues on councils' pension liabilities was £0.5 billion (or 5.5 per cent).

Local auditors reported some issues with severance cases

56. Some auditors reported that business-case calculations of the cost and benefits of severance were not taking into account all costs that they would expect to see. Auditors also found that some councils were using longer than expected payback periods: this is the length of time it would take the council to recoup the cost of the severance through expected savings in salary costs. The Scottish Government recommends this be no longer than two years, but auditors found examples of this being up to five years.

57. These severance cases often came as the result of restructuring at senior levels, with the intention of making future cost savings. Councils need to ensure that a robust business case is prepared for severance or early retirement that considers the long-term financial commitment of these decisions.

Does the council prepare business cases for severance proposals and are these reported to councillors?

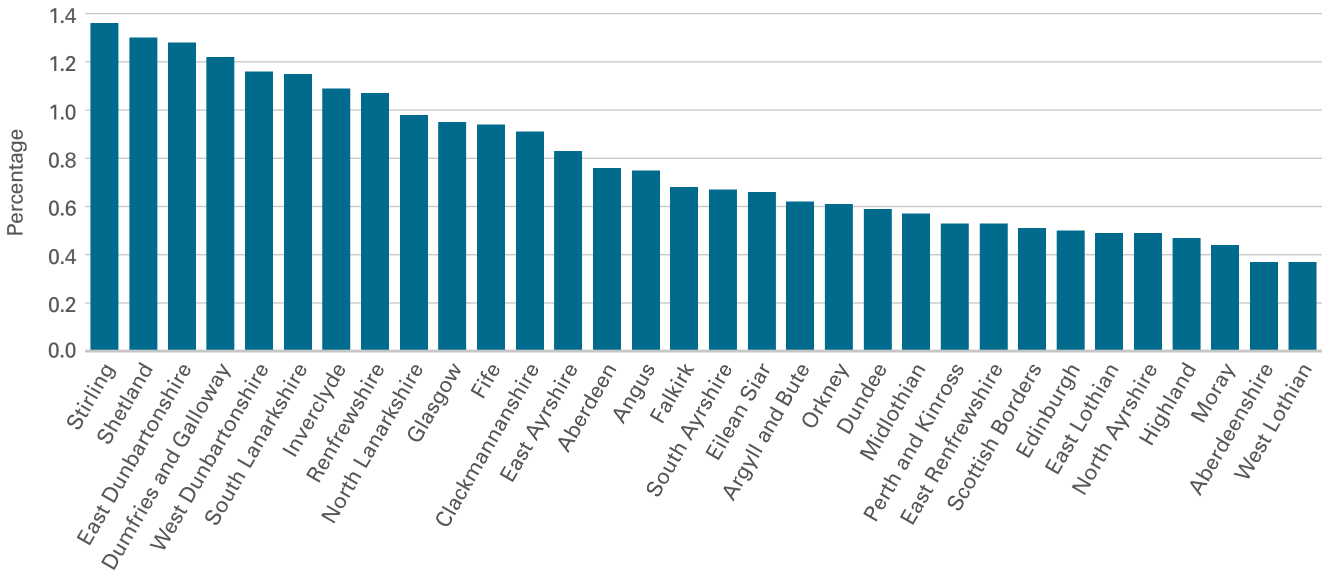
All councils have ongoing commitments in respect of unfunded pension liabilities, but the extent of these costs vary

58. Unfunded liabilities are pension amounts that are not met by the pension schemes, but by the individual employer. These can occur when an employer approves an early retirement, without actuarial reduction and with enhanced pension. All councils have ongoing commitments arising from past decisions on early retirements. Exhibit 11 shows that for some councils this ongoing cost represents more than one per cent of their annual net operating expenditure.

Exhibit 11

Annual cost of unfunded benefits as a percentage of net operating expenditure

Annual payments for historic early retirements vary significantly.



Source: Audited financial statements 2018/19 and IAS19 valuation reports by actuaries

Financial management and transparency

Management commentaries do not always explain the link between budget outturn and the financial performance in the accounts or achievement of planned savings targets

59. In last year's report, we highlighted three key aspects to an assessment of whether financial reporting is transparent in the management commentaries:

- Is the outturn against budget position for the year clearly shown with the reasons for significant variances obvious?
- Is the outturn reported in the narrative reconciled to the movement in the general fund contained in the financial statements and major differences explained?
- Is progress against agreed savings reported?

60. Our review of 2018/19 management commentaries found that:

- Both Comhairle Nan Eilean Siar and The Highland Council included these key aspects of transparency in their management commentaries.
- Nearly all councils reported their year-end outturn, but five councils did not provide explanations for significant variances from budget.
- Nine councils reported the outturn in the management commentary but this was not reconciled to the financial performance in the accounts. This narrative is critical to the understanding of a council's performance against budget and how this translates into the movement on the general fund reported in the accounts.
- Only ten councils reported progress against agreed savings.

Management commentaries

A management commentary is a report by the council, set out with its annual accounts. It should provide information on the council's strategic priorities and key risks, as well as a balanced analysis of the financial and wider performance of the council in the year.

Does the management commentary of the council (and of the IJB accounts) show the outturn against budget reconciled to movement in the general fund and progress against agreed savings plans?

Part 3

Councils' financial outlook

Key messages

- Scottish Government revenue funding to local government in 2019/20 increased by 2.9 per cent in cash terms (0.9 per cent in real terms).
- In 2019/20, the Scottish Government increased the cap on council tax increases. Twelve councils decided to increase council tax by the full amount (4.8 per cent).
- Many councils are also seeking other ways to increase income, including increasing fees and some have introduced new charges in 2019/20. Some councils also continue to pursue new local taxes.
- Councils' 2019/20 financial plans identified a total funding gap of £0.5 billion (three per cent of income). This continues the increasing pressure on councils to find further cost savings, redesign services, reduce services, increase income or use reserves. These decisions are likely to become increasingly difficult for councillors. Councils planned to manage their funding gaps mainly through identified cost savings.
- All councils have medium-term financial planning covering three years or more. Long-term financial planning has not progressed since last year.
- The Scottish Government has made a commitment to set out multi-year budgets, which will assist councils with financial planning.
- Councils have made preparations for EU withdrawal but there are many potential implications that cannot be anticipated in financial planning.

2019/20 funding settlement

Scottish Government revenue funding to local government in 2019/20 increased by 0.9 per cent in real terms

61. The Local Government revenue settlement from the Scottish Government in 2019/20 increased by 2.9 per cent (cash terms) from 2018/19 to £10.1 billion. This was a real-terms increase of 0.9 per cent. Over 80 per cent of the increase is due to growth in specific revenue grant funding.

Medium- and long-term financial planning

The Scottish Government has made a commitment to set out multi-year budgets, which will assist councils with financial planning

62. The funding settlement to councils continues to be provided on an annual basis. This makes it challenging for councils to plan and budget effectively for the medium term. The Scottish Government planned to publish indicative multi-year revenue budgets in December 2019 covering a three-year period,[4] and to then publish a three-year indicative capital budget in the summer of 2020. However, it is unlikely to produce these this year. The Commission views this commitment to multi-year budgets as a positive step and will monitor and report on progress and the impact on council planning in future overview reports.

63. The Scottish budget is becoming increasingly complex. It is subject to greater uncertainty and volatility than when the majority of its funding was relatively fixed through the block grant from the UK Government. The way the Scottish economy performs relative to the rest of the UK now has a greater influence on public finances than ever before. Given Scottish Government funding remains the most significant source of income for councils, this volatility in the Scottish budget holds uncertainty and risks for funding to councils. This adds to the complexity and challenges for councils in planning for the medium and long term.

64. On 30 May 2019, the Scottish Government published its second medium-term financial strategy.[5] Income tax forecasts in the strategy suggest that the Scottish Government may need to budget for a significant revenue shortfall in each of the next three years, because forecasts have fallen since budgets were set. This shortfall could total £1 billion over the three years covered by the strategy.

65. The strategy continues to lack detail of proposed spending priorities or plans or how these might address the budgetary challenge. It does set out principles which will be used in a future spending review, although the timing of this remains uncertain. In September 2019, the Auditor General reported[6] that the strategy 'does not reflect all the basic components of a medium-term financial plan. It does not include indicative spending plans or priorities, or links to outcomes. There is no detail on how the Scottish Government would address a possible £1 billion shortfall due to forecast errors'.

All councils have medium-term financial planning, but the content could be improved

66. In 2019/20, all councils had financial plans that covered at least three years.

67. Medium-term financial plans should be at the core of strategic planning and decision-making. In order to ensure these decisions are made with the most current and accurate information, medium-term financial plans should be reviewed and refreshed annually and maintained as a rolling three- to five-year plan.

68. Local auditors reported that the content of medium-term financial plans varied:

- 28 (or 90 per cent) included estimates for Scottish Government funding
- 25 (or 81 per cent) included a total projection for net expenditure
- 18 (or 58 per cent) included projections of net expenditure at service level

Audit Scotland published a briefing in October 2019, *Scotland's new financial powers: Operation of the Fiscal Framework 2018/19*.

This sets out an overview of how the Scottish budget operated during 2018/19, how the Fiscal Framework operated, provides an update of the main risks that affect the Scottish budget and what these mean for the management of the Scottish public finances.

The 2018/19 audit of the Scottish Government Consolidated Accounts
September 2019

- 17 (or 55 per cent) included projections for service income
- 21 (or 68 per cent) included projections for the costs of borrowing.

69. There is scope for the content of financial planning to improve to include the elements in paragraph 68 (page 29) and assist members and other stakeholders in determining which services are likely to experience the biggest budget pressures, how service income is expected to contribute to the overall position and the extent to which relatively **fixed costs** such as borrowing and unfunded pension liabilities affect the budget position.

A third of councils have financial plans that cover more than five years

70. Long-term financial planning has not progressed since last year. Financial planning, covering more than five years, was identified in just ten councils. Last year we reported 16 councils, but further work indicates some of these have not been updated and now refer to less than five years or are limited to capital expenditure plans.

71. Long-term financial planning is particularly important in the context of increasing financial challenges and wider demands on services, in order to manage financial challenges and to make well-informed decisions, which are aligned to council priorities.

Financial pressures in 2019/20 budgets

72. Councils' 2019/20 budget papers set out some common themes in the pressures that councils identified:

- Changes to staff-related costs generated significant pressure on budgets. For example, the local government pay offer made by COSLA and accepted by the Scottish Joint Council (SJC), which led to a pay increase of 9.5 per cent over the three-year period from 2018 to 2021.
- Demand pressures, particularly the expected population growth in some council areas, the increasing proportion of the population that is over 65 and over 75 years and other demographic changes.

Councils' identify a total funding gap of three per cent in 2019/20 budgets

73. Councils' 2019/20 financial plans identified a total funding gap of £0.5 billion (three per cent). This is consistent with the three per cent gap in 2018/19. This continues the increasing pressure on councils to find cost savings, reduce services, increase income and/or use reserves and these decisions are likely to become increasingly difficult for councillors.

74. The basis and timing of the reported gap can vary from council to council. For example, two councils stated their funding gap after including a council tax increase, but the majority included council tax as one of their measures to close an identified gap. Councils could be more consistent in their presentation of the funding gap.

75. Funding gaps identified in 2019/20 budgets ranged from one to seven per cent across councils. Councils most frequently reported a gap of between two and four per cent. Aberdeen City and Clackmannanshire councils identified the largest funding gaps, relative to the councils' total funding and income (excluding HRA), of between six and seven per cent.

Fixed costs

Fixed costs remain unchanged in the short term over a wide range of activity. Their presence magnifies the effect of overall budget reductions or demand increases on the remaining budget.

Does your council have medium- and long-term financial plans and do they include a range of potential funding and financial scenarios?

Does the medium-term plan provide sufficient information on estimated Scottish Government funding, projected net expenditure (in total and for each service), projections for service income, projections for cost of borrowing?

Councils managed their funding gaps mainly through identifying planned savings

76. Exhibit 12 sets out the proposed measures to address the funding gap across councils. Savings plans were the most common action, contributing £352 million (66 per cent) to the identified funding gap. This will include plans for cost reduction and service redesign. Of these **savings** ⓘ, 96 per cent were 'recurrent', with only 4 per cent 'non-recurrent'.

77. Council tax increases provided a further £89 million (17 per cent) of income to bridge the gap. Increase to fees and charges for services made a minor contribution too (three per cent). The planned use of reserves made up the shortfall in the funding gap of £73 million (13 per cent) with 17 councils planning to use reserves to bridge the funding gap.

Savings

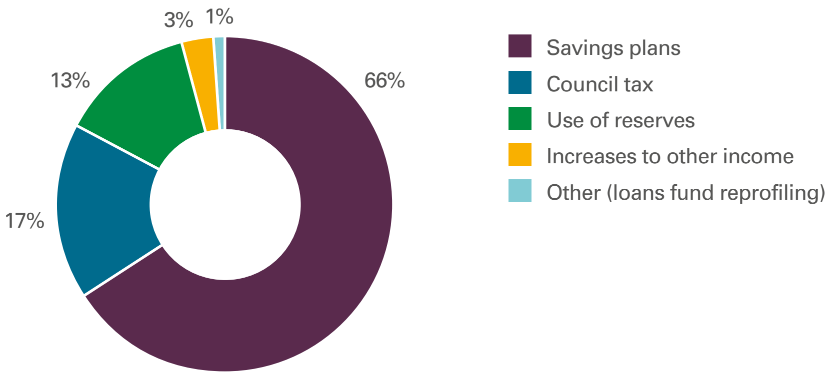
Recurring savings are savings, that once achieved, recur year-on-year from that date.

Non-recurring savings are one-off savings that apply to one financial year and do not result in ongoing savings in future years.

Exhibit 12

Planned savings were the most common way of addressing funding gaps

66 per cent of the funding gap in 2019/20 is to be met through planned savings measures.



Source: Local auditor returns and council budget papers 2019/20

78. The position is unique to each individual council, for example East Renfrewshire Council identified a funding gap of £15.3 million, or five per cent of its funding and income (excluding HRA). The agreed budget identified that the gap was to be met through:

- Planned savings – £9.33 million (61 per cent)
- Use of reserves – £4.31 million (28 per cent)
- Three per cent council tax increase – £1.63 million (11 per cent).

Fees, charges and local taxation

Many councils have been increasing fees and some have introduced new charges

79. Charges for services vary across councils. For example, some councils do not charge for music instruction but the majority have an annual charge. This varies significantly from £117 in Inverclyde Council to £524 in Clackmannanshire Council.[7]

80. Many councils are increasing charges for services. An analysis of 18 types of charges indicates that two of the largest increases from 2018/19 to 2019/20 were applied to:

- Community alarms, 22 councils provided information on this charge and the average increase was 19 per cent.
- Bulky waste uplift, where 27 councils reported an average increase of eight per cent.

81. Some councils continue to introduce new fees and charges. These include:

- garden waste uplift
- the expansion of parking charges
- new charges associated with funerals (for example, use of multi-media)
- licensing (for example, new licences for public entertainment)
- planning services (for example, pre-application meeting charges).

Greater council tax increases were deployed in 2019/20 than in previous years

82. In 2019/20, the Scottish Government increased the cap on council tax increases to 4.8 per cent in cash terms (3.0 per cent in real terms). Twelve councils decided to increase council tax by the full amount (4.8 per cent). Thirteen councils increased it by three per cent and the other seven by between 3.9 and 4.5 per cent.

Councils continue to pursue new local taxes

83. As we reported in our report *Local government in Scotland: Challenges and Performance 2019*, local authorities are exploring new ways in which to raise tax locally.

84. The City of Edinburgh Council has endorsed a proposal for an Edinburgh transient visitor levy or 'tourist tax'. This would be based on a charge of £2 per room per night applying all year round for all accommodation types within the council boundary, except for campsites, for a maximum of seven consecutive nights. This scheme is expected to raise up to £14.6 million a year. Implementation of this will require legislation to be passed by the Scottish Parliament. The government has included a Transient Visitor Levy Bill in their 2019/20 programme for Scotland *(Protecting Scotland's Future: the Government's Programme for Scotland 2019–2020)*. The Bill aims to provide local authorities with discretionary powers to apply the charge with the income being used to fund local authority expenditure on tourism.

85. In October 2019, the Transport Act was passed. The Scottish Government supported amendments to the Bill at stage two of the legislative process, which provide local authorities with the discretionary power to apply a workplace parking levy.

EU withdrawal

86. EU withdrawal has the potential to exacerbate the existing financial pressures faced by councils. The risk of increased cost of goods and services from the EU is one of the more immediate concerns. Longer term, councils are concerned about the wider economic implications for public finances and the impact on their local areas. For example, increases in interest rates, reduction in business investment or an increase in unemployment and poverty are all risks to councils' communities and therefore to councils' financial planning.

87. The Scottish Government has allocated £1.6 million (£50k per council) to support ongoing work in councils to coordinate preparations for leaving the EU. It has also approved £7 million for a Rapid Poverty Mitigation Fund, to enable councils to respond to anticipated increased demand in the event of a no-deal exit. This includes scaling-up existing measures such as the Scottish Welfare Fund and Discretionary Housing Payments and supporting people in food or fuel poverty.

In December 2019, we plan to publish a briefing on how the public sector in Scotland has responded to EU withdrawal. This will be available on the **Audit Scotland website**.

Part 4

Integration Joint Boards overview 2018/19

Key messages

- The pace of health and social care integration has been too slow and there is limited evidence to suggest any significant shift in spending from health to social care.
- Overall, IJB budgets increased by three per cent in 2018/19.
- The identified budget gap reduced from £248 million (2.9 per cent of total income) in 2018/19 to £208 million (2.5 per cent of total income for 2019/20).
- A majority of IJBs struggled to achieve break-even and 19 would have recorded a deficit without additional funding from partners at the year end.
- Around a third of the IJBs failed to agree a budget with their partners for the start of the 2019/20 financial year. For several IJBs, although the budget was set on time, it still had an element of unidentified savings which meant it was unbalanced at the start of the year.
- A focus on long-term financial planning is required by IJBs to assist effective decision making that will support long-term financial sustainability.
- Over a third of IJB senior staff have changed during 2018/19.

Funding and expenditure

Overall, IJB budgets increased by three per cent in 2018/19

88. Overall total IJB funding increased by three per cent in 2018/19 and this was reflected in a three per cent increase in total expenditure of £0.3 billion to £8.6 billion. The total contributions from councils increased from £2.4 to £2.5 billion and NHS contributions from £5.9 to £6.1 billion.

The pace of progress with integration has been too slow

89. The average proportion of NHS and council funding to IJBs (71 per cent/ 29 per cent) and expenditure incurred (64 per cent/ 36 per cent) remains consistent with the previous two years. This does not indicate any significant shift in health and social care spend between partners and this finding is consistent with the Scottish Government's spending and performance update.

90. As a result of concerns about the pace of health and social care integration, the Cabinet Secretary for Health and Sport commissioned a review of progress. This was conducted in late 2018. The Ministerial Strategic Group for Health and Community Care (MSG) published its findings in February 2019 and set out proposals for ensuring the success of integration. Following publication of its review, the MSG issued a self-evaluation template. This aimed to evaluate the current position on the findings of the review. This exercise will be repeated to demonstrate any progress made.

NHS in Scotland 2019
October 2019

91. The Auditor General commented in *NHS in Scotland 2019*, October 2019, in relation to health and social care reform that the pace of change has been too slow. She recommended that the Scottish Government in partnership with NHS boards and integration authorities should 'develop a new national health and social care strategy to run from 2020 that supports large-scale, system-wide reform, with clear priorities that identify the improvement activities most likely to achieve the reform needed'.

More IJBs now hold reserves, but this varies significantly

92. A further £34 million was added to IJB reserves in 2018/19, which now total £158 million or 1.8 per cent of total expenditure (1.5 per cent in 2017/18). Some of this increase in reserves is as a result of IJBs holding unspent earmarked funding from the NHS, including those associated with Primary Care Improvement Fund and the Mental Health Strategy. More IJBs now hold some level of reserve (26 in 2018/19 compared to 22 in 2017/18) (Exhibit 13, page 36). The IJBs without any reserve include Fife, Scottish Borders and South Ayrshire. One IJB, North Ayrshire, continues to hold a negative reserve of -£4.9 million. In 2018/19, the IJB started to repay this debt to the council and the remainder will be repaid in future years. This expectation of future 'repayment' of historic overspends is also identified as an issue in Argyll and Bute.

What is your IJB's reserve policy?

Are the commitments made reviewed annually to ensure they reflect the best use of the IJB's reserves?

93. Of those IJBs with reserves, the position varies from Argyll and Bute with 0.1 per cent of total annual expenditure held as reserve (£0.3 million) to Eilean Siar with 9.8 per cent (£5.8 million).

2018/19 financial position

The majority of IJBs struggled to achieve break-even

94. In 2018/19, 20 IJBs reported a surplus, two reported break-even and eight reported a deficit. The overall position was an underspend of £34 million. A number of IJBs failed to deliver all of their planned savings in the year and many have struggled to achieve financial balance, requiring additional funding from partners. Without this additional funding, 19 would have recorded a total deficit of £58 million.

Recruitment challenges present a risk to service sustainability

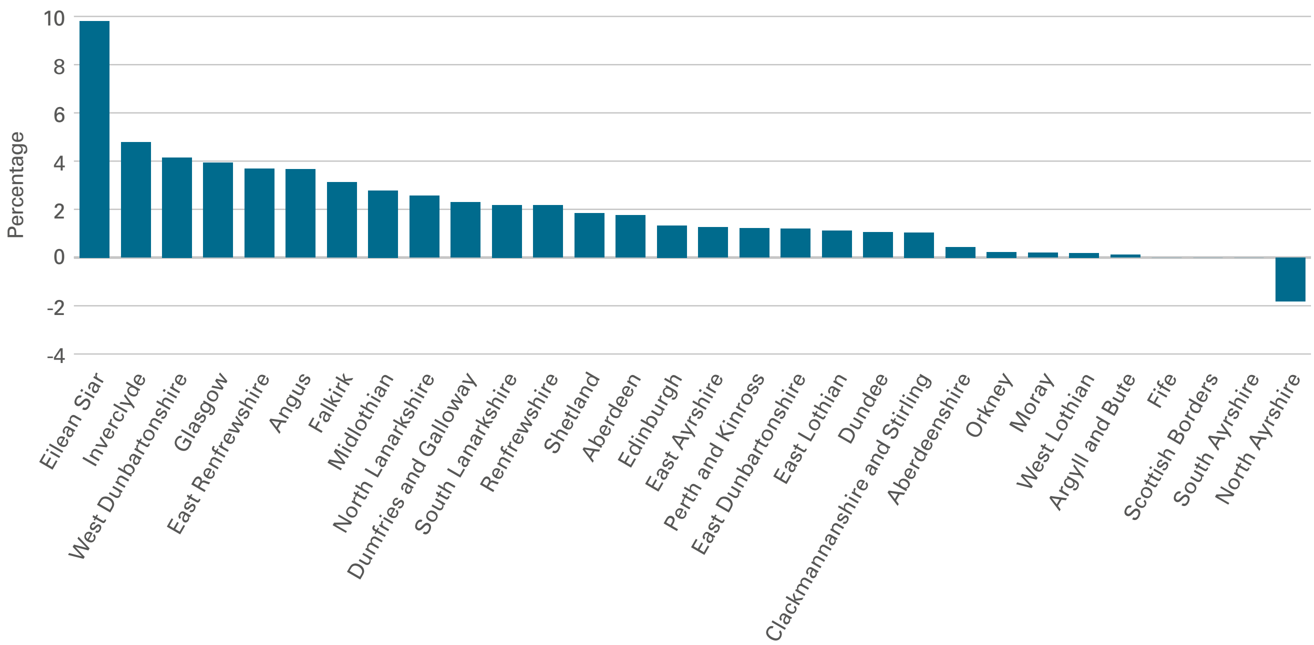
95. Some IJBs have indicated that staffing issues have contributed to either overspends or underspends against budgets.

96. In the case of Eilean Siar, recruitment difficulties contribute to underspends against the IJB budget. The apparent healthy financial position masks issues of service sustainability, which are stated in the IJB's management commentary: 'Recruiting staff is already proving difficult for both nursing and social care staff and is expected to worsen as the available workforce on the islands decreases.'

Exhibit 13

Integration Joint Board reserves as a percentage of total spend, 2018/19

More IJBs (26) now hold a reserve, but this varies significantly.



Source: Audited financial statements 2018/19

97. Other IJBs have highlighted the risks that recruitment difficulties could present for the sustainability of services in the future. In Dumfries and Galloway, consultant vacancy rates have averaged around 20 per cent over the last two years and there has been a seven per cent increase in the use of agency staff. Edinburgh has reported that 45 per cent of their workforce are aged over 50, which could cause capacity and supply issues in the future.

98. Audit Scotland's report, *NHS workforce planning – part 2*, highlights pressures on the primary care workforce linked to recruitment and retention. The Scottish Government acknowledges the pressures on the workforce but has not estimated the impact they will have on primary care services. Integration Joint Boards are responsible for planning, designing and commissioning services and need to think differently about how these services can be delivered with the resources available.

NHS workforce planning – part 2
August 2019

Financial planning

Budgets were not always agreed by 1 April and budgets included unidentified savings plans

99. Having clear, complete and detailed agreed budgets is a fundamental business and governance tool. Fourteen IJBs failed to agree a budget with their partners for the start of the 2018/19 financial year. This position improved for 2019/20, with 11 encountering a delay that meant the budget was not formally agreed by 1 April 2019.

Is a budget agreed by the IJB before the start of the financial year? If not, why not?

100. Just under half of IJBs had budgets that included some unidentified savings. This meant the budgets were not balanced at the start of the year.

101. Our review of annual audit reports found that several IJBs, including Fife and Shetland, failed to deliver planned savings in year. This will have contributed to the financial pressures incurred.

102. The results from the national self-assessment tool developed in response to the Auditor General and Accounts Commission's report, *Health and social care integration: update on progress*, and the *Review of Progress with Integration of Health and Social Care* report by the Ministerial Strategic Group for Health and Community Care indicate that IJBs recognise the timely agreement of budgets is an area for improvement. Eighteen IJBs assessed this area as either 'not established' or only 'partly established'.

Financial outlook

Medium-term financial planning is improving

103. Last year we reported that only a third of IJBs had a medium-term financial plan in place and that there was no evidence of longer-term financial planning. Since then, the position on medium-term financial planning has improved with auditors reporting that over two-thirds of IJBs have a medium-term financial plan. Over half of these covered a three-year period, with the remainder covering a longer period of between four and five years. Two thirds of the IJBs with medium-term financial plans reviewed them on an annual basis.

104. The plans typically included projections of net expenditure, income and projected funding gaps. Where estimates were included on pay growth, non-pay costs, demand and changes in government funding the estimated rates were found to vary significantly.

105. No IJBs had a financial plan that extended for more than five years. A focus on longer-term financial planning is required by IJBs as changes under integration are only likely to be achieved in the longer term.

The projected funding gap is £208 million for 2019/20

106. Auditors identified a total estimated funding gap of £208 million for 2019/20, representing 2.5 per cent of total income. This is an improvement in comparison to 2018/19 (£248 million or 2.9% of total income). The 2019/20 funding gap as a proportion of total income varied between zero and 7.6 per cent.

107. Exhibit 14 (page 38) shows how IJBs propose to bridge the 2019/20 funding gap. Of the £208 million, 59 per cent was anticipated to be met by identified savings and 30 per cent by unidentified savings plans. Seven IJBs planned to cover part of the estimated funding gap from reserves.

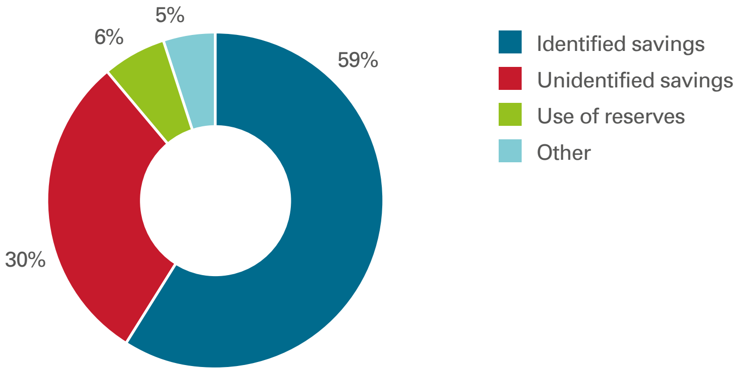
Does the medium-term plan provide sufficient information on host partner funding, projected net expenditure, projections for income, projections for cost of borrowing?

Does the IJB have a transformation plan?

Does it clearly set out the aims and objectives and how and when these will be achieved?

How big is the funding gap for your IJB relative to the total budget?

Exhibit 14
Plans to address 2019/20 funding gap
Savings had not been identified for 30 per cent of the 2019/20 funding gap.



Source: Auditor returns and IJB board papers

Wider governance issues

Over a third of IJB senior staff have changed during 2018/19

108. Based on data returns from auditors we found that over a third of IJBs have experienced turnover in their chief officer or chief finance officer in the year. In some cases, both these postholders have changed. Our report *Health and social care integration* highlighted the risk of leadership changes and capacity to the transformation of services and successful integration.

109. The annual audit report for Argyll and Bute notes that the turnover in key staff led to weaknesses in financial reporting and a reduced focus on the delivery of approved savings. The chief officer changed, and two chief finance officers left the IJB in an eight-month period. Interim cover on a part-time basis was provided by the council's section 95 officer from December 2018 to June 2019, when a permanent appointment was made to the new role of head of finance and transformation.

Health and social care integration: update on progress
November 2018

Endnotes

1 Convention of Scottish Local Authorities.

2 Scottish Parliament Information Centre.

3 *Local government in Scotland: Challenges and performance 2019*, Accounts Commission, March 2019.

4 SPICe briefing on the Scottish Government's Medium-term Financial Strategy, May 2019.

5 *Scotland's Fiscal Outlook*, Scottish Government, May 2019.

6 *The 2018/19 audit of the Scottish Government Consolidated Accounts*, Auditor General, September 2019.

7 *Instrumental Music Services: Results from the IMS Survey May–July 2018*, Improvement Service, 2018.

Local government in Scotland

Financial overview 2018/19

This report is available in PDF and RTF formats, along with a podcast summary at:
www.audit-scotland.gov.uk

If you require this publication in an alternative format and/or language, please contact us to discuss your needs: 0131 625 1500
or info@audit-scotland.gov.uk

For the latest news, reports and updates, follow us on:

AUDIT SCOTLAND

Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
T: 0131 625 1500 E: info@audit-scotland.gov.uk
www.audit-scotland.gov.uk

ISBN 978 1 913287 12 2

This page is intentionally left blank

Governance, Risk and Best Value Committee

10am, Tuesday, 18 February 2020

Treasury Management Mid-Term Report 2019/20 - referral from the City of Edinburgh Council

Executive/routine	
Wards	
Council Commitments	

1. For Decision/Action

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

Andrew Kerr

Chief Executive

Contact: Louise Williamson, Committee Services

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

Referral Report

Treasury Management Mid-Term Report 2019/20

2. Terms of Referral

2.1 The City of Edinburgh Council on 6 February 2020 considered a report which provided an update on Treasury Management Activity undertaken in the first half of 2019/20. Approval was sought for the Treasury Management Strategy.

2.2 In accordance with the Strategy set in March 2018 the Council drew down no borrowing during the first half of the financial year with the exception of one tranche for Edinburgh Living of £1,284,315.00 on 11 June from the Public Works Loan Board. The overall approach continued to generate significant short-term savings in Loans Charges for the Council.

2.3 The investment return for 2019/20 continued to show out-performance against the Fund's benchmark, although low in absolute terms, while maintaining the security of the investments as a priority.

2.4 The City of Edinburgh Council agreed:

2.4.1 To approve the Treasury Management Strategy.

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

3. Background Reading/ External References

Minute of the City of Edinburgh Council 6 February 2020.

Minute of Finance and Resources Committee 6 December 2019.

4. Appendices

Appendix 1 - report by the Executive Director of Resources

Appendix 1

Finance & Resources Committee

10:00am, Friday, 6 December 2019

Treasury Management: Mid-Term Report 2019/20

Executive/routine	**Executive**
Wards	
Council Commitments	

1. Recommendations

1.1 It is recommended that the Committee:

1.1.1 notes the mid-term report on Treasury Management for 2019/20; and

1.1.2 refers the report to City of Edinburgh Council for approval and subsequent remit by the City of Edinburgh Council to the Governance Risk and Best Value Committee for scrutiny.

Stephen S. Moir

Executive Director of Resources

Contact: Innes Edwards, Principal Treasury and Banking Manager,

Finance Division, Resources Directorate

E-mail: innes.edwards@edinburgh.gov.uk | Tel: 0131 469 6291

Treasury Management: Mid-Term Report 2019/20

Treasury Management: Mid-Term Report 2019/20

2. Executive Summary

2.1 The purpose of this report is to give an update on Treasury Management activity undertaken in the first half of 2019/20.

2.2 In accordance with the Strategy set in March 2019 the Council drew down no borrowing during the first half of the financial year apart from one tranche for Edinburgh Living of £1,284,315.00 on the 11th June from the PWLB. The overall approach continues to generate significant short-term savings in Loans Charges for the Council.

2.3 The investment return for 2019/20 continues to show out-performance against the Fund's benchmark, although low in absolute terms, while maintaining the security of the investments as a priority.

3. Background

3.1 The Council has adopted the CIPFA Code of Practice on Treasury Management in the Public Sector, and under the code, the mid-term report has been prepared setting out activity undertaken.

4. Main report

4.1 UK Interest Rates

4.1.1 During the last six months of Brexit and Political uncertainty, the Bank of England's (BoE) Monetary Policy Committee (MPC) made no change to monetary policy. The minutes of the September meeting said the response to a no-deal Brexit could be in either direction and sees need for limited rate rise if Brexit is smooth.

4.2 Debt Management

4.2.1 The Council continued to fund its borrowing requirement by reducing its investments. At the end of the period, redemption of the Council's Inverse LOBO loans with Nat West Markets was agreed and refinanced with a loan from the PWLB with transactions settled in early October. A report elsewhere in the agenda provides further details.

4.2.2 There were two significant events post the end of the half year. Firstly, at the start of October the UK Treasury took a policy decision to increase the margin on PWLB loans by 100bps. Secondly, the Notice to Proceed for the Tram to Newhaven project was issued and as this committed the Council to incurring the capital expenditure, the interest rate risk on the base funding requirement for the project was locked out.

4.3 Investment Outturn

4.3.1 The Council's cash balances are pooled and invested via the Treasury Cash Fund subject to the limits set out in the Treasury Management Policy Statement. Appendix 2 provides detail on Council's investments.

4.3.2 As can also be seen in Appendix 2 Treasury Cash Fund performance continues to out-perform its benchmark although investment returns remain low.

5. Next Steps

5.1 The Treasury team will continue to operate its Treasury Cash Fund with the aim of out-performing its benchmark of 7-day London Interbank Bid Rate (LIBID) and manage the Council's debt portfolio to minimise the cost to the Council while mitigating risk.

6. Financial impact

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

7. Stakeholder/Community Impact

7.1 There are no adverse stakeholder/community impacts arising from this report.

8. Background reading/external references

8.1 None

9. Appendices

9.1 Debt Management Activity

9.2 Investment Out-turn

9.3 Debt Outstanding 30 September 2019

Appendix 1

Debt Management Activity

Debt Management Strategy for 2019/20 as outlined in the Strategy Report was:

To address the borrowing requirement it is intended, subject to appropriate rates being available, to:

- *Fund the 2019/20 requirement by reducing cash deposits further;*
- *Borrow for each tranche of LLP housing subject to meeting the viability test for the tranche;*
- *Seek to mitigate risk on major projects as the requirement becomes more certain.*

As previously reported to the Finance and Resources Committee, the Council had been in discussion with RBS / Nat West Markets over the options for restructuring the Council's Inverse LOBO loans. At the end of September the Council repaid the Inverse LOBO loans and refinanced them with a loan from the PWLB. At the same time, an additional £40m loan was taken from the PWLB as part of general interest rate risk management.

Figure 1 below shows the PWLB borrowing rates since April 2005. Our Treasury Advisors, Arlingclose issued the following update with regards gilt yields:

Gilt yields remained volatile over the period on the back of ongoing economic and political uncertainty. From a yield of 0.63% at the end of June, the 5-year benchmark gilt yield fell to 0.32% by the end of September. There were falls in the 10-year and 20-year gilts over the same period, with the former dropping from 0.83% to 0.55% and the latter falling from 1.35% to 0.88%. 1-month, 3-month and 12-month LIBID (London Interbank Bid) rates averaged 0.65%, 0.75% and 1.00% respectively over the period.

Recent activity in the bond markets and PWLB interest rates highlight that weaker economic growth remains a global risk. The US yield curve remains inverted with 10-year Treasury yields lower than US 3-month bills. History has shown that a recession hasn't been far behind a yield curve inversion. Following the sale of 10-year Bunds at -0.24% in June, yields on German government securities continue to remain negative in the secondary market with 2 and 5-year securities currently both trading around -0.77%.

There were 2 very significant events post the half year.

Firstly as can also be seen in Figure 1 below, on the 9th October just after the end of the Mid term period, the UK Treasury increased the margin applied to all PWLB loans by 100 basis points with immediate effect.

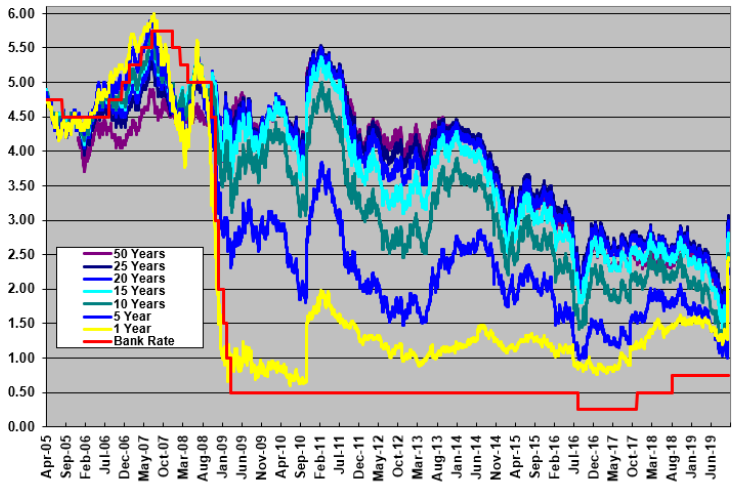


Figure 1 – PWLB Rates April 2005 to Date

Source: DMO

The PWLB's statement included the following point:

Some local authorities have substantially increased their use of the PWLB in recent months, as the cost of borrowing has fallen to record lows. HM Treasury is therefore restoring interest rates to levels available in 2019, by increasing the margin that applies to new loans from the PWLB by 100bps (one percentage point) on top of usual lending terms

Secondly, the Notice to Proceed was issued for the Tram to Newhaven project. With the significant volatility which there had been in in Gilt Yields and significant upside risk in interest rates if the issues around the UK leaving the EU were seen as being resolved, the decision was taken to lock out the interest rate risk on base funding requirement for the project. £150m of PWLB borrowing was completed after the end of the first half of the financial year and has been included as planned in Table 1 below which shows the Council's borrowing requirement over the next four years.

Capital Funding v. External Debt	2018/19	2019/20	2020/21	2021/22	2022/23
	Outturn	Estimate	Estimate	Estimate	Estimate
	£0	£0	£0	£0	£0
Debt b/fd	1,245,546	1,198,460	1,307,027	1,385,415	1,391,499
Cumulative Capital Expenditure b/fd	1,384,534	1,355,902	1,405,121	1,772,429	1,876,073
Over/underborrowed b/fd	-138,988	-157,442	-98,094	-387,014	-484,574
GF Capital Financed by borrowing	14,196	60,812	306,793	78,810	45,751
HRA Capital Financed by borrowing	16,500	52,618	50,416	44,927	24,100
Lending to LLPs	23,153	28,980	82,774	55,104	76,692
less scheduled repayments by GF	-60,791	-71,000	-49,166	-50,331	-51,409
less scheduled repayments by HRA	-20,115	-21,615	-22,883	-24,226	-25,650
less scheduled repayments by Joint Boards	-1,575	-517	-544	-556	-589
less scheduled repayments by LLPs		-59	-82	-84	-86
Underlying Need to Borrow	**-28,632**	**49,219**	**367,308**	**103,644**	**68,809**
plus total maturing debt	49,960	58,628	55,621	49,020	48,334
Total Borrowing Requirement	**21,328**	**107,847**	**422,929**	**152,664**	**117,143**
Cummulative Borrowing Requirement		**107,847**	**530,776**	**683,440**	**800,583**
Committed Market Borrowing			60,000		
Planned PWLB borrowing	2,874	167,195	74,009	55,104	76,692
Debt at end of the year	**1,198,460**	**1,307,027**	**1,385,415**	**1,391,499**	**1,419,857**
Cumulative Capital Expenditure	**1,355,902**	**1,405,121**	**1,772,429**	**1,876,073**	**1,944,882**
Cumulative Over/Under Borrowed	**-157,442**	**-98,094**	**-387,014**	**-484,574**	**-525,025**

Table 1 – Summary of Capital Advances v External Debt

This shows that the Council still has a significant borrowing requirement to fund in the medium term.

It is intended to continue the strategy of using investments to temporarily fund the Council’s ongoing borrowing requirement in the short term. However, work will continue to investigate funding sources other than the PWLB which could be used to manage the Council’s interest rate risk.

Edinburgh Living LLP’s will continue to be considered on a tranche by tranche basis.

Appendix 2

Investment Out-turn

The Council's cash balances are pooled and invested via the Treasury Cash Fund subject to the limits set out in the Treasury Management Policy Statement. Figure 2 below shows the daily investment in the Cash Fund since April 2009 The Treasury Management strategy is to ensure that surplus funds are invested in accordance with the list of approved organisations for investment, minimising the risk to the capital sum and optimising the return on these funds consistent with those risks. The Cash Fund's Investment Strategy continues to be based around the security of the investments.

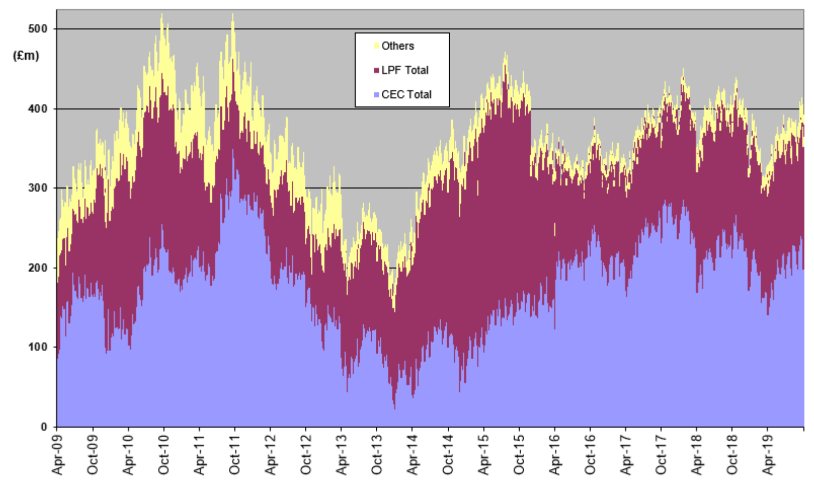


Figure 2 - Source of Funds

Figure 3 shows the rates achieved in the Friday auctions of UK Treasury Bills. Treasury Bill yields have been above what can be achieved in the inter Local Authority market and have provided a useful uplift in rate. At the end of September, the total of UK Treasury Bills held were £127m at an average rate of 0.747%.

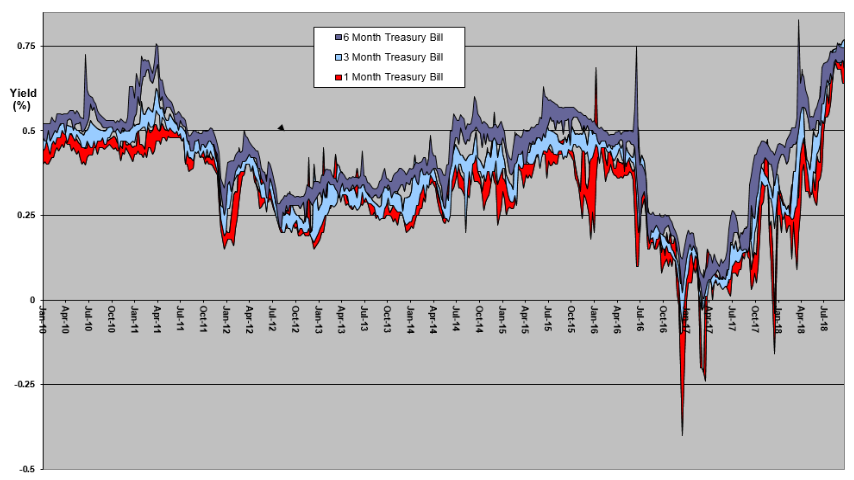


Figure 3 – UK Treasury Bill Yields

Source: DMO

Figure 4 shows in detail the distribution on Cash Fund investments since inception in 2007. This shows the increased investment within UK Treasury Bills but also the continued investment within UK Local Authorities, Money Market Funds and Banks.

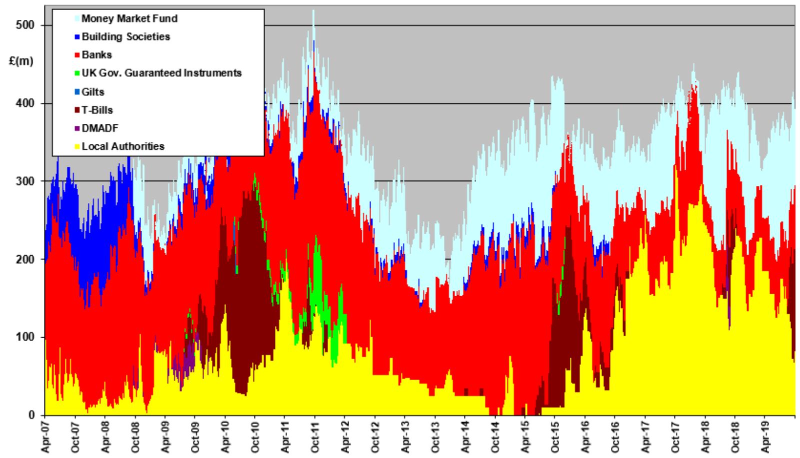


Figure 4 – Cash Fund Investments since inception

As can be seen in Figure 5 22% of the fund was invested in Local Authority deposits between 8 different authorities, 32% of the fund was held in UK Treasury Bills, 21% was invested with Banks in call accounts split between instant access and 31-day notice with HSBC and 25% on deposit with Money Market Funds.

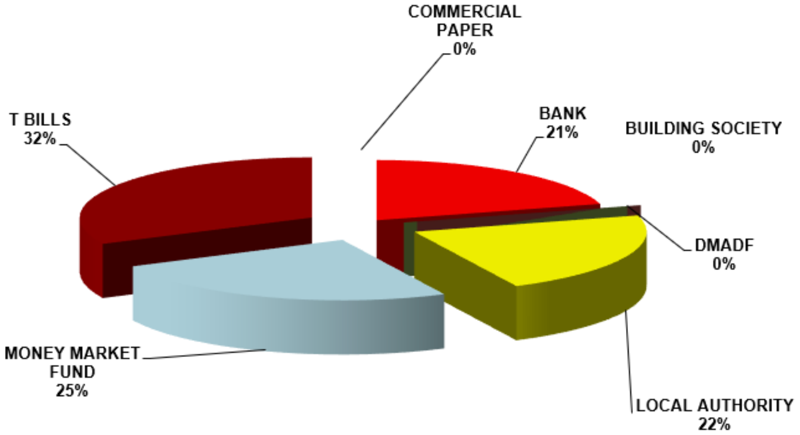


Figure 5 – Investments by Counterparty 30th September 2019

The strategy is to seek Local Authority and UK Treasury Bill trades which add value to relative MMF/Bank rates and make a positive performance contribution. With Gilt Yields being low many Local Authorities have taken advantage of the opportunity to lock out the low interest rates on offer. The resultant liquidity has reduced inter Local Authority market rates further.

As can be seen in Figure 6 the weighted average life of the fund increased slightly to 21 days at the end of September. This is mainly due to maturing Local Authority deposits and call account balances being reinvested with 1 and 3 month UK Treasury Bills.

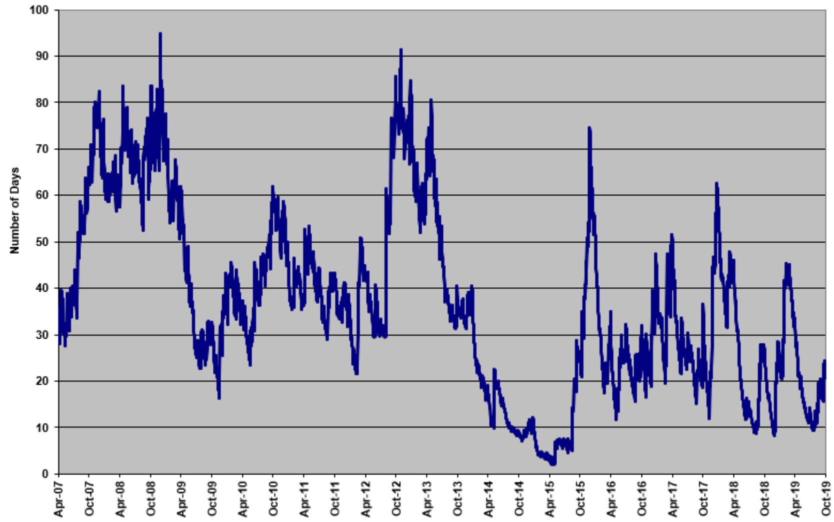


Figure 6 - Cash Fund Weighted Average Life

Cash Fund performance

The annualised rate of return for the Cash Fund for the six months to September 2019 was 0.79% against a benchmark of 0.57%. Figure 7 below shows the daily investment performance of the cash Fund against its benchmark since April 2011. As can be seen, Cash Fund performance has remained above benchmark. The dip in performance is due to reduced rates on offer from Local Authorities as they continued to borrow from PWLB due to low gilt rates before the DMO increased borrowing rates across the board by 100 basis points.

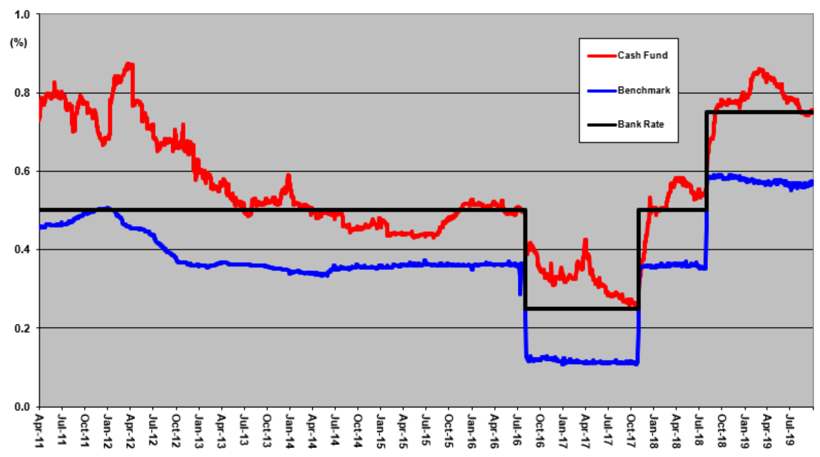


Figure 7 - Treasury Cash Fund Investment Performance

Appendix 3

Debt outstanding 30th September 2019

Market Debt (non LOBO)

Loan Type	Start Date	Maturity Date	Principal Outstanding (£)	Interest Rate (%)	Annual Interest (£)
M	30/06/2005	30/06/2065	5,000,000.00	4.4	220,000.00
M	07/07/2005	07/07/2065	5,000,000.00	4.4	220,000.00
M	21/12/2005	21/12/2065	5,000,000.00	4.99	249,500.00
M	28/12/2005	24/12/2065	12,500,000.00	4.99	623,750.00
M	14/03/2006	15/03/2066	15,000,000.00	5	750,000.00
M	18/08/2006	18/08/2066	10,000,000.00	5.25	525,000.00
M	01/02/2008	01/02/2078	10,000,000.00	3.95	395,000.00
			62,500,000.00		

Market Debt (LOBO)

Loan Type	Start Date	Maturity Date	Principal Outstanding (£)	Interest Rate (%)	Annual Interest (£)
M	12/11/1998	13/11/2028	3,000,000.00	4.75	142,500.00
M	15/12/2003	15/12/2053	10,000,000.00	5.25	525,000.00
M	18/02/2004	18/02/2054	10,000,000.00	4.54	454,000.00
M	28/04/2005	28/04/2055	12,900,000.00	4.75	612,750.00
M	25/02/2011	25/02/2060	15,000,000.00	8.272	1,240,800.00
M	25/02/2011	25/02/2060	10,000,000.00	8.272	827,200.00
M	26/02/2010	26/02/2060	5,000,000.00	8.242	412,100.00
M	26/02/2010	26/02/2060	10,000,000.00	8.242	824,200.00
M	01/07/2005	01/07/2065	10,000,000.00	3.86	386,000.00
M	24/08/2005	24/08/2065	5,000,000.00	4.4	220,000.00
M	07/09/2005	07/09/2065	10,000,000.00	4.99	499,000.00
M	13/09/2005	14/09/2065	5,000,000.00	3.95	197,500.00
M	03/10/2005	05/10/2065	5,000,000.00	4.375	218,750.00
M	23/12/2005	23/12/2065	10,000,000.00	4.75	475,000.00
M	06/03/2006	04/03/2066	5,000,000.00	4.625	231,250.00
M	17/03/2006	17/03/2066	10,000,000.00	5.25	525,000.00
M	03/04/2006	01/04/2066	10,000,000.00	4.875	487,500.00
M	03/04/2006	01/04/2066	10,000,000.00	4.875	487,500.00
M	03/04/2006	01/04/2066	10,000,000.00	4.875	487,500.00
M	07/04/2006	07/04/2066	10,000,000.00	4.75	475,000.00
M	05/06/2006	07/06/2066	20,000,000.00	5.25	1,050,000.00
M	05/06/2006	07/06/2066	16,500,000.00	5.25	866,250.00
			212,400,000.00		

PWLB Loan Type	Start Date	Maturity Date	Principal Outstanding (£)	Interest Rate (%)	Annual Interest (£)
A	12/11/2008	12/11/2019	277,076.95	3.96	27,006.62
M	23/03/1994	15/11/2019	5,000,000.00	8	400,000.00
M	07/12/1994	15/11/2019	10,000,000.00	8.625	862,500.00
A	01/12/2008	01/12/2019	273,000.75	3.65	24,555.73
M	01/12/2009	01/12/2019	5,000,000.00	3.77	188,500.00
M	14/12/2009	14/12/2019	10,000,000.00	3.91	391,000.00
M	15/02/1995	25/03/2020	5,000,000.00	8.625	431,250.00
M	21/04/2009	21/04/2020	10,000,000.00	3.54	354,000.00
M	12/05/2009	12/05/2020	10,000,000.00	3.96	396,000.00
M	21/10/1994	15/05/2020	5,000,000.00	8.625	431,250.00
M	07/12/1994	15/05/2020	5,000,000.00	8.625	431,250.00
M	21/11/2011	21/05/2020	15,000,000.00	2.94	441,000.00
M	16/08/1995	03/08/2020	2,997,451.21	8.375	251,036.54
M	09/12/1994	15/11/2020	5,000,000.00	8.625	431,250.00
A	10/05/2010	10/05/2021	1,038,832.30	3.09	43,624.27
M	21/10/1994	15/05/2021	10,000,000.00	8.625	862,500.00
M	10/03/1995	15/05/2021	11,900,000.00	8.75	1,041,250.00
M	12/06/1995	15/05/2021	10,000,000.00	8	800,000.00
M	02/06/2010	02/06/2021	5,000,000.00	3.89	194,500.00
M	16/08/1994	03/08/2021	2,997,451.21	8.5	254,783.35
M	28/04/1994	25/09/2021	5,000,000.00	8.125	406,250.00
M	23/04/2009	23/04/2022	5,000,000.00	3.76	188,000.00
M	12/06/1995	15/05/2022	10,200,000.00	8	816,000.00
M	14/06/2010	14/06/2022	10,000,000.00	3.95	395,000.00
M	31/03/1995	25/09/2022	6,206,000.00	8.625	535,267.50
M	16/02/1995	03/02/2023	2,997,451.21	8.625	258,530.17
M	24/04/1995	25/03/2023	10,000,000.00	8.5	850,000.00
M	05/12/1995	15/05/2023	5,200,000.00	8	416,000.00
M	20/09/1993	14/09/2023	2,997,451.21	7.875	236,049.28
M	20/09/1993	14/09/2023	584,502.98	7.875	46,029.61
M	08/05/1996	25/09/2023	10,000,000.00	8.375	837,500.00
M	13/10/2009	13/10/2023	5,000,000.00	3.87	193,500.00
M	05/12/1995	15/11/2023	10,000,000.00	8	800,000.00
M	10/05/2010	10/05/2024	10,000,000.00	4.32	432,000.00
M	28/09/1995	28/09/2024	2,895,506.10	8.25	238,879.25
M	14/05/2012	14/11/2024	10,000,000.00	3.36	336,000.00
A	14/12/2009	14/12/2024	4,309,909.05	3.66	176,888.32
M	17/10/1996	25/03/2025	10,000,000.00	7.875	787,500.00
M	10/05/2010	10/05/2025	5,000,000.00	4.37	218,500.00
M	16/11/2012	16/05/2025	20,000,000.00	2.88	576,000.00
M	13/02/1997	18/05/2025	10,000,000.00	7.375	737,500.00
M	20/02/1997	15/11/2025	20,000,000.00	7.375	1,475,000.00
A	01/12/2009	01/12/2025	7,149,605.57	3.64	286,494.83

M	21/12/1995	21/12/2025	2,397,960.97	7.875	188,839.43
M	21/05/1997	15/05/2026	10,000,000.00	7.125	712,500.00
M	28/05/1997	15/05/2026	10,000,000.00	7.25	725,000.00
M	29/08/1997	15/11/2026	5,000,000.00	7	350,000.00
M	24/06/1997	15/11/2026	5,328,077.00	7.125	379,625.49
M	07/08/1997	15/11/2026	15,000,000.00	6.875	1,031,250.00
M	13/10/1997	25/03/2027	10,000,000.00	6.375	637,500.00
M	22/10/1997	25/03/2027	5,000,000.00	6.5	325,000.00
M	13/11/1997	15/05/2027	3,649,966.00	6.5	237,247.79
M	17/11/1997	15/05/2027	5,000,000.00	6.5	325,000.00
M	13/12/2012	13/06/2027	20,000,000.00	3.18	636,000.00
M	12/03/1998	15/11/2027	8,677,693.00	5.875	509,814.46
M	06/09/2010	06/09/2028	10,000,000.00	3.85	385,000.00
M	14/07/2011	14/07/2029	10,000,000.00	4.9	490,000.00
E	14/07/1950	03/03/2030	2,654.08	3	85.31
M	14/07/2011	14/07/2030	10,000,000.00	4.93	493,000.00
E	15/06/1951	15/05/2031	2,812.26	3	89.64
M	06/09/2010	06/09/2031	20,000,000.00	3.95	790,000.00
M	15/12/2011	15/06/2032	10,000,000.00	3.98	398,000.00
M	15/09/2011	15/09/2036	10,000,000.00	4.47	447,000.00
M	22/09/2011	22/09/2036	10,000,000.00	4.49	449,000.00
M	10/12/2007	10/12/2037	10,000,000.00	4.49	449,000.00
M	08/09/2011	08/09/2038	10,000,000.00	4.67	467,000.00
M	15/09/2011	15/09/2039	10,000,000.00	4.52	452,000.00
M	06/10/2011	06/10/2043	20,000,000.00	4.35	870,000.00
M	09/08/2011	09/02/2046	20,000,000.00	4.8	960,000.00
M	23/01/2006	23/07/2046	10,000,000.00	3.7	370,000.00
M	23/01/2006	23/07/2046	10,000,000.00	3.7	370,000.00
M	19/05/2006	19/11/2046	10,000,000.00	4.25	425,000.00
M	07/01/2008	07/01/2048	5,000,000.00	4.4	220,000.00
M	27/01/2006	27/07/2051	1,250,000.00	3.7	46,250.00
M	16/01/2007	16/07/2052	40,000,000.00	4.25	1,700,000.00
M	30/01/2007	30/07/2052	10,000,000.00	4.35	435,000.00
M	13/02/2007	13/08/2052	20,000,000.00	4.35	870,000.00
M	20/02/2007	20/08/2052	70,000,000.00	4.35	3,045,000.00
M	22/02/2007	22/08/2052	50,000,000.00	4.35	2,175,000.00
M	08/03/2007	08/09/2052	5,000,000.00	4.25	212,500.00
M	30/05/2007	30/11/2052	10,000,000.00	4.6	460,000.00
M	11/06/2007	11/12/2052	15,000,000.00	4.7	705,000.00
M	12/06/2007	12/12/2052	25,000,000.00	4.75	1,187,500.00
M	05/07/2007	05/01/2053	12,000,000.00	4.8	576,000.00
M	25/07/2007	25/01/2053	5,000,000.00	4.65	232,500.00
M	10/08/2007	10/02/2053	5,000,000.00	4.55	227,500.00
M	24/08/2007	24/02/2053	7,500,000.00	4.5	337,500.00
M	13/09/2007	13/03/2053	5,000,000.00	4.5	225,000.00
M	12/10/2007	12/04/2053	5,000,000.00	4.6	230,000.00
M	05/11/2007	05/05/2057	5,000,000.00	4.6	230,000.00

M	15/08/2008	15/02/2058	5,000,000.00	4.39	219,500.00
A	25/01/2019	25/01/2059	2,715,081.66	2.65	71,949.66
A	11/06/2019	11/06/2059	1,284,315.00	2.23	28,640.22
M	02/12/2011	02/12/2061	5,000,000.00	3.98	199,000.00
			901,832,798.51		

SALIX INTEREST FREE

Loan Type	Start Date	Maturity Date	Principal Outstanding (£)	Interest Rate (%)	Annual Interest (£)
Z	07/01/2015	01/09/2021	157,914.28	0.00	0.00
Z	31/03/2015	01/04/2023	631,014.09	0.00	0.00
Z	22/09/2015	01/10/2023	175,839.76	0.00	0.00
Z	29/03/2019	01/04/2029	139,978.53	0.00	0.00
			1,104,746.66		

Borrowing completed since 30th September

PWLB

Loan Type	Start Date	Maturity Date	Principal Outstanding (£)	Interest Rate (%)	Annual Interest (£)
A	01/10/2019	01/10/2059	1,343,557.00	1.74	23,377.89
A	02/10/2019	02/10/2059	40,000,000.00	1.8	720,000.00
M	04/10/2019	04/04/2060	40,000,000.00	1.69	676,000.00
A	14/10/2019	10/04/2053	110,000,000.00	2.69	2,959,000.00
			191,343,557.00		

Governance, Risk, and Best Value Committee

Tuesday, 18 February 2020, 10am

Internal Audit: Proposed Changes to the 2019/20 Internal Audit Annual Plan

Item number	
Executive/routine	
Wards	
Council Commitments	

1. Recommendations

It is recommended that:

1.1 The Committee notes that the five proposed routine (non-urgent) changes to the 2019/20 Internal Audit (IA) annual plan have been discussed with both the Corporate Leadership Team (CLT) and the Committee Convenor, who have confirmed their agreement in principle; and

1.2 the Committee approves the five proposed changes.

Lesley Newdall

Chief Internal Auditor

Legal and Risk Division, Resources Directorate

E-mail: lesley.newdall@edinburgh.gov.uk | Tel: 0131 469 3216

Report

Internal Audit: Proposed Changes to the 2019/20 Internal Audit Annual Plan

2. Executive Summary

2.1 This paper includes proposals for five routine (non-urgent) changes to the 2019/20 IA annual plan.

2.2 It is proposed that four 2019/20 audits are carried forward into the 2020/21 annual plan and that the planned scope for one audit is amended, with the work allocated across the both the 2019/20 and 2020/21 annual plans.

2.3 The proposals have been discussed with the CLT at their meeting on 22 January 2020, and also with the Committee Convenor who have confirmed their agreement in principle.

2.4 An update on progress with delivery of the 2019/20 Internal Audit annual plan is included at Appendices 1 and 2 to support the Committee with their decision to support the five proposed changes.

3. Background

3.1 In August 2018, the Corporate Leadership Team and Governance, Risk, and Best Value Committee approved the implementation of a new process for approval of urgent and routine (non-urgent) changes to the IA annual plan.

3.2 Implementation of this process ensures that the integrity of the annual plan and the independence of Internal Audit are effectively maintained.

3.3 An urgent request for a change to the IA plan is defined as a change related to new and emerging risks that have crystallised and which require urgent IA focus to confirm the effectiveness of the established control environment.

3.4 The final decision to accept or reject urgent changes to the IA annual plan are made by the Chief Executive or relevant Executive Director (in line with the Council's urgency provisions process) in consultation with the Convenor of the Governance, Risk and Best Value Committee (GRBV) and the Chief Internal Auditor.

3.5 The process for implementation of routine (non-urgent) changes to the IA annual plan is discussion with the Corporate Leadership Team (CLT) and subsequent discussion and approval by the GRBV, with the final decision to accept or reject the proposed change made by the Committee.

4. Main report

4.1 It is proposed that a total of four audits currently included in the 2019/20 IA annual plan are carried forward into the 2020/21 IA plan year for the reasons detailed below, and that the scope of the planned 2019/20 CGI Change Management review is amended, with the audit work allocated across the 2019/20 and 2020/21 plan years.

4.1.1 **Freedom of Information (FOI) –** completion of the planned FOI review will require significant effort from the Council's Information Governance Unit (IGU), which is currently under significant workload pressure resulting from an extensive volume of ongoing correspondence (including FOI requests and complaints) in relation to one specific complex matter.

Management has advised that they are currently working towards solutions to support the IGU workload position.

Recognising this pressure, it is recommended that the planned FOI audit is carried forward into the 2020/21 annual plan year and completed once the solution to address the current pressures has been implemented.

4.1.2 **Payroll Continuous Monitoring –** the 2019/20 IA annual plan included continuous monitoring review of payroll that involved applying data analytics across the monthly Council payrolls on a quarterly basis to enable identification and resolution of any transaction processing anomalies.

It has not been possible to adopt this quarterly approach as the Payroll team has been unable to provide responses to the anomalies identified from the 2018/19 payroll review (completed in August 2019) as a result of workload pressures and unplanned employee turnover. It should be noted that none of the outstanding anomalies identified from the 2018/19 audit were considered material in terms of the financial statements, as confirmed by the Council's external auditors Scott Moncrieff.

Recognising these challenges, it is recommended that a full review of the 2019/20 payroll review using data analytics is carried forward into the first quarter of the 2020/21 annual plan year, with the quarterly continuous monitoring approach implemented thereafter.

4.1.3 **Building Standards Follow-Up** – the 2019/20 IA annual plan included two follow-up reviews of Building Standards. The purpose of the first review was to confirm that all Internal Audit findings raised in the March 2018 Building Standards review had been implemented, with the second review to confirm whether the enhanced controls had been effectively sustained scheduled for completion later in the 2019/20 IA plan year.

As the first review was completed in November 2019 and the outcomes shared with the Scottish Government, it is Internal Audit's opinion that there has not been sufficient elapsed time to confirm that the enhanced controls have been effectively sustained.

Consequently, it is proposed that the second review is carried forward and completed in the 2020/21 annual plan year.

4.1.4 **Royal Edinburgh Military Tattoo (REMT)** – the 2018/19 REMT annual audit was completed in March / April 2019, and REMT management has advised that they would prefer the next audit to be completed in April / May 2020, enabling them to finalise their financial statements.

Consequently, the current audit included in the 2019/20 can be recommended for removal and the work carried forward into the 2020/21 annual plan year.

This will result in the loss of circa £9k income for completion of this work in the Council's 2019/20 financial year.

4.1.5 **CGI Change Management –** the 2019/20 IA annual plan includes a review of CGI change management that was carried forward from 2018/19, with the objective of 'reviewing the adequacy and effectiveness of the CGI change management model established to support delivery of the Council's change programme'. The scope detailed in the initial terms of reference for this review provided to Customer and Digital Services and CGI in December 2019 following planning / discovery days with the CGI teams in October / November specified that the review would cover the change management process from point of initiation (completion of change requests) through to final implementation of the change.

Both Customer and Digital Services and CGI management have advised that it is not feasible to complete this work within the scope of one audit as it comprises two separate processes (change initiation and then change implementation) which are performed by two separate CGI teams, and that the scale of a combined review is unlikely to be achievable in sufficient time to support the 2019/20 IA annual opinion that will be presented to the GRBV in June 2020.

CGI and Customer and Digital Services have proposed that the scope of the 2019/20 audit is changed and allocated across both the 2019/20 and 2020/21 annual plans, with an audit of change initiation performed in 2019/20 and the audit of change implementation completed in 2020/21.

Whilst Internal Audit can support this approach, there is clear impact that the risk of handover between the change initiation and implementation teams will not be covered in the 2019/20 IA plan year, and that consequently only partial assurance will be provided in 2019/20 on the adequacy and effectiveness of the CGI change management model established to support delivery of the Council’s change programme.

5. Next Steps

5.1 IA will continue to monitor progress with delivery of the Internal Audit annual plan and the ongoing risk profile of the Council to determine whether any further changes to the annual plan are required.

5.2 Where further changes are required, the process for approving changes to the annual plan will be applied.

6. Financial impact

6.1 Loss of circa £9k income from REMT as no IA review will be completed in the Council’s 2019/20 financial year.

7. Stakeholder/Community Impact

7.1 The main stakeholder and community impacts associated with these proposals is delayed delivery of Internal Audit assurance on the effectiveness of the delivery of services and associated risk management by these services.

8. Background reading/external references

8.1 Internal Audit – Proposed process for approving changes to the Internal Audit plan – Item 7.9

9. Appendices

Appendix 1 – 2019/20 Internal Audit Annual Plan Reconciliation

Appendix 2 - Summary of 2019/20 IA Plan Progress as at 10 February 2020

Appendix 1 – 2019/20 IA Annual Plan Reconciliation

Reconciliation		Comments
Total number of reviews in 19/20 IA Plan	**50**	**Approved by GRBV March 2019**
Add - Reviews carried forward from 2018/19	3	Payroll; Looked After and Accommodated Children (St Katherine's); Building Standards Follow-up
Add - Reviews added in 2019/20	2	Transfer of the Management of Development Funding Grant and City Deal
Add – Findings only review	1	Drivers
Less - Reviews to be removed from the plan	(4)	As detailed in the main paper above
Lesss – Combined reviews	(1)	Two of the planned project management audits have been combined to provide extended focus on governance of first line projects delivered outwith the Council's Major Projects Portfolio
Total reviews to be delivered to support 2019/20 IA opinion	**51**	**Refer Appendix 2 below for further detail**

Appendix 2 – Summary of 2019/20 IA Plan Progress as at 10 February 2020

Audit Review			
Completed		**Report Rating**	**Presented to Committee**
1.	Transfer of the Management of Development Funding Grant	**Effective**	December 2019
2.	Building Standards Follow-up b/f 2018/19	**Effective**	March 2020
3.	CGI Sub Contract Management	**Some Improvement Required**	March 2020
4.	Drivers – Findings Only Report	**Sig. Improvement Required**	March 2020
5.	LPF - Charles River Project	**N/A**	Will be presented to pensions sub audit committee
6.	Housebuilding and Local Development Plan (PwC)	**Effective**	March 2020
7.	Looked After and Accommodated Children (St Katherine's) b/f 2018/19	**Some Improvement Required**	March 2020
8.	Budget Setting and Management	**Some Improvement Required**	March 2020
Total reports completed		**8**	
Draft Reports Issued to Management		**Expected Completion**	
9.	Port Facilities Security Plan	February 2020	
10.	CGI Partnership Management and Governance		
11.	Policy Management Framework		
12.	Schools Admissions and Inclusion		
Total draft reports issued to management		**4**	
Draft Reports Being Prepared		**Expected Completion**	
13.	Health and Social Care Localities	March 2020	
14.	Model and Intelligent Automation Risk		
15.	EIJB Transformation Framework		
16.	Implementation of Assurance Actions and Linkage to Annual Governance Statement (PwC)		
17.	Unsupported Technology (Shadow IT) (PwC Specialist)		
18.	Project Management – Governance of First Line Projects outwith the Major Projects Portfolio		
19.	Protection of Vulnerable Groups and Disclosures		

Audit Review		
Total reports being prepared		**7**
Fieldwork		**Expected Completion**
20.	Edinburgh Tram Extension	Ongoing agile project reviews
21.	Enterprise Resource Planning System Implementation	
22.	SEStran	February 2020
23.	Health and Safety – Tree Management	March 2020
24.	Social Media	March 2020
25.	Payroll b/f 2018/19	March 2020
26.	City Deal	March 2020
27.	Validation	March 2020
28.	Health and Safety - Lone working	March 2020
29.	Brexit Impacts – Supply Chain Management (PwC)	March 2020
30.	Health and Safety – Life Safety	March 2020
31.	LPF Pensions Entitlement	March 2020
32.	LPF - Custodian Services	April 2020
33.	Digital Services – Resilience (PwC Specialist)	April 2020
34.	Digital Services - Change Management - c/f 2018/19 (PwC Specialist)	April 2020
35.	Digital Services – Incident and Problem Management (PwC Specialist)	April 2020
36.	Digital Services - Mobile Device Mgt (PwC Specialist)	April 2020
37.	Health and Safety – Managing Violent and Aggressive Behaviour across Communities and Families	April 2020
38.	Risk Management (Scott Moncrieff – Specialist Review)	April 2020
Total reviews in progress		**19**
Planning		**Expected Completion**
39.	Repairs and Maintenance	April 2020
40.	Customer Experience	April 2020
41.	Criminal Justice Social Work (PwC)	April 2020
42.	Internal Council Companies (PwC)	April 2020
43.	Performance Management Information (PwC)	April 2020
44.	Prevention Services	April 2020
45.	Enhanced / Intensive Housing Benefit (PwC)	April 2020
46.	Care Homes Follow Up	April 2020
47.	Lothian Valuation Joint Board	April 2020

Audit Review		
48.	Parking and Traffic Regulation (PwC)	April 2020
49.	Registration and Bereavement Services (PwC)	April 2020
50.	EIJB Recommendations from external bodies	April 2020
Total reviews at planning stage		**12**
Not yet started		**Expected Completion**
51.	EIJB Strategic Planning – Capital and Workforce Planning	April 2020
Total audits not yet started		**1**

This page is intentionally left blank

Governance, Risk and Best Value Committee

10.00am, Tuesday, 18 February 2020

Annual Assurance Schedule – Chief Executive - Strategy and Communications

Executive/routine
Wards
Council Commitments

1. Recommendations

1.1 To note the annual assurance schedule.

Andrew Kerr

Chief Executive

Contact: Laurence Rockey, Head of Strategy and Communications

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

Report

Annual Assurance Schedule – Chief Executive - Strategy and Communications

2. Executive Summary

2.1 The purpose of this report is to present the Annual Assurance Schedule from the Head of Strategy and Communications to the Governance, Risk and Best Value Committee for scrutiny and to note that an action plan will be developed in response to areas where controls need to be enhanced

3. Background

3.1 Each year the City of Edinburgh Council requires that the Executive Directors complete Certificates of Assurance that represent their view of the effectiveness and appropriateness of controls in their areas of responsibility. These Certificates support the writing of the Annual Governance Statement which is a component part of the authority's Statement of Accounts.

3.2 An Assurance Schedule, to help prompt Executive Directors and relevant Heads of Service to consider various aspects of their control environment, is circulated in advance of Certificates.

3.3 A review of the process was undertaken by Strategy and Communications in response to feedback received in relation to last year's exercise resulting in the implementation of a 'comply or explain' model. The format and design of documentation was also updated to reduce manual administration and implement auto-population of improvement actions. This is designed to help officers to use improvement actions to inform the corporate governance framework self-assessment exercise. The process will continue to be reviewed in line with feedback.

4. Main report

4.1 The Strategy and Communications Assurance schedule (appendix 1) was completed and returned to the Democracy, Governance and Resilience Team, after which a Certificate of Assurance was issued. This informed the drafting of the

Annual Governance Statement, submitted to Council as part of the Unaudited Annual Accounts for 2018/19.

4.2 The Certificates of Assurance require Heads of Service and their Executive Directors to confirm that:

4.2.1 They have considered the effectiveness of controls in their service area/directorate, including controls in place to mitigate major risks to their division/directorate's objectives.

4.2.2 To the best of their knowledge, appropriate controls are in operation upon which they can place reasonable assurance and that there are no significant matters arising that should be raised specifically in the Annual Governance Statement (or otherwise); and

4.2.3 They have identified actions, where appropriate that will be taken to continue improvement.

4.3 The schedule is completed by the relevant Executive Director or Head of Service.

4.4 Before signing their Certificate of Assurance, the Executive Director or Head of Service should ensure that the schedule has been completed accurately.

4.5 An overview of the Strategy and Communications Division is attached at appendix two. This ensures that the assurance statement can be considered relative to the overall responsibilities, functions, budgets and staffing levels for the Directorate.

5. Next Steps

5.1 Actions in the schedule are taken forward by the division's senior management team.

6. Financial impact

6.1 The annual assurance process and production of the annual governance statement is contained within the relevant budget.

7. Stakeholder/Community Impact

7.1 The annual assurance schedule exercise is a corporate activity concerned with internal controls and does not require consultation or external engagement.

7.2 The Annual Assurance Schedule template was drafted using input from the Council's subject matter experts. This included contributions from Resilience, Internal Audit, Health and Safety, Governance, Legal Services, Financial Services and Human Resources.

8. Background reading/external references

8.1 The City of Edinburgh Council – 27 June 2019 – 2018/19 Annual Audit Report to the Council and the Controller of Audit (Audited Annual Accounts ISA260)

9. Appendices

Appendix 1 - Strategy and Communications Assurance schedule

Appendix 2 - Overview of the Strategy and Communications Division

Head of Service's Schedule of Assurance for the Annual Governance Statement

For the year ending 31 March 2019

Service Area	**Strategy and Communications**				
Completed by	**Andy Nichol**	**Job title**	Programme Manager	**Date completed**	
Signed off by		**Job title**	Head of Strategy and Communications		
Print name of signatory	**Laurence Rockey**	**Date of signature**			

Reviewed by		**Role**	Democracy, Governance and Resilience Senior Manager	**Date**	
Issued to Internal Auditor		**Date**			

Introduction

The Statement of Accounts 2018/2019 includes the Annual Governance Statement signed by the Council Leader, the Chief Executive and the Head of Finance. The Annual Governance Statement is supported by Certificates of Assurance from each of the Executive Directors.

Before signing the Certificate of Assurance Executive Directors should ensure that this schedule has been completed accurately. The Certificates of Assurance require Executive Directors to confirm that:

1. they have considered the effectiveness of controls in their directorates, including controls in place to mitigate major risks to their directorate's objectives;
2. to the best of their knowledge, appropriate controls are in operation upon which they can place reasonable assurance and that there are no significant matters arising that should be raised specifically in the Annual Governance Statement (or otherwise); and
3. they have identified actions that will be taken to continue improvement.

Executive Directors seek assurance through issue of this schedule to their Heads of Service to satisfy themselves that effective controls are in place across all of their service areas. Completing this schedule helps prompt Heads of Service to consider various aspects of their control environment and will inform the Executive Director's assessment of compliance (suggested managers to provide information and/or responses are highlighted below).

This schedule should be used as a prompt to think about good governance and the internal control environment and is not an exhaustive list.

Section	Requirements	Supporting officers
Section 1	Internal Control Environment	Head of Service
Section 2	Risk and Resilience	Directorate/Service Area Risk Committee Representative/Resilience Co-ordinator
Section 3	Workforce Controls	Head of Service
Section 4	Council Companies	Senior Relationship Lead / Company Observer(s)
Section 5	Policy	Head of Service
Section 6	Governance and Compliance	Head of Service
Section 7	Information Governance	Directorate/Service Area Record Officers
Section 8	Health & Safety	SMT Health & Safety Lead
Section 9	Performance	Head of Service
Section 10	Commercial and Contract Management	Head of Service
Section 11	Change and Projects	Head of Service
Section 12	Financial Control	Service Area Financial Manager or Representative
Section 13	Group Accounts	RESOURCES only
Section 14	National Agency Inspection Reports	Head of Service
Section 15	Internal Audit, External Audit & Review Rep	Head of Service
Section 16	Progress	Head of Service

Guidance on completing the Schedule

The schedule should be completed by the Head of Service or by a nominated senior manager.

Step 1: Please address each statement in the "Assurance Statements" tab. The options for the response are included as a drop down. Please note this submission covers the

Step 2: Where a "Partially Compliant" or "Not Compliant" response is given, a clear explanation should be completed in the free text explanation cell to the right. There is no

Step 3: On the "Improvement Plan" tab please provide the details for each "Action Owner" and "Action Deadline" where "Improvement Actions" have auto-populated from the

For further information or assistance please contact:

	Gavin King	Laura Callender
	Democracy, Governance and Resilience Senior N	Governance Manager
	Strategy & Communications	Strategy & Communications
	529 4239 or gavin.king@edinburgh.gov.uk	529 3655 or laura.callender@edinburgh.gov.uk

Internal Control Environment

1	**Explanation**
1.1	Please explain why your service area is not fully compliant.
Corporate Governance Framework	6.2.1 Ensuring that risk management and internal control strategies, policies and arrangements are aligned with achieving objectives and evaluated on a regular basis. 6.2.2 Ensuring additional assurance on the overall adequacy and effectiveness of the framework of governance, risk management and control is provided by
1.2	Please explain why your service area is not fully compliant.
Corporate Governance Framework	7.3.1 Ensuring that when working in partnership, arrangements for accountability are clear and the need for wider public accountability has been recognised and met. 7.3.2 Ensuring that internal and external audit arrangements provide assurance on governance arrangements and risks from 3rd party service delivery and
1.3	1. Please explain why reviews are not undertaken or were not effective and what needs to be done to rectify this.
Corporate Governance Framework	6.2.1 Ensuring that risk management and internal control strategies, policies and arrangements are aligned with achieving objectives and evaluated on a regular basis. 6.2.2 Ensuring additional assurance on the overall adequacy and effectiveness of the framework of governance, risk management and control is provided by
1.4	Please detail any problems that have been identified and could have an impact on the Annual or Group Accounts.
Corporate Governance Framework	4.2.1 Establishing and implementing robust planning and control cycles that take into account stakeholder input, risks and are adaptable to changing circumstance. 4.2.2 Establishing effective KPIs and capacity to generate performance information that allows for the quality of services and projects to be

Risk and Resilience

2	**Explanation**
2.1	Please explain why your risk management arrangements do not identify all of the key risks to your service area (and the Council) including those arising from
Corporate Governance Framework	6.2.1 Ensuring that risk management and internal control strategies, policies and arrangements are aligned with achieving objectives and evaluated on a regular basis.
2.2	Please explain why current controls and procedures do not effectively record and manage the risks identified to a tolerable level and explain why suitable
Corporate Governance Framework	6.2.1 Ensuring that risk management and internal control strategies, policies and arrangements are aligned with achieving objectives and evaluated on a regular basis.
2.3	1. Please explain why regular reviews are not undertaken and what needs to be done to rectify this.
Corporate Governance Framework	6.2.1 Ensuring that risk management and internal control strategies, policies and arrangements are aligned with achieving objectives and evaluated on a regular basis. 6.2.2 Ensuring additional assurance on the overall adequacy and effectiveness of the framework of governance, risk management and control is provided by
2.4	Please explain why the process(es) for escalation/communication to the relevant Risk Committees are inadequate.
Corporate Governance Framework	6.2.2 Ensuring additional assurance on the overall adequacy and effectiveness of the framework of governance, risk management and control is provided by the internal auditor. 6.2.3 Ensuring an audit committee or equivalent group/ function, which is independent of the executive and accountable to the governing body: provides a
2.5	Please explain where your arrangements were inadequate and the instances when they failed to support and promote the relevant policies or procedures to

Corporate Governance Framework	1.3.1 Demonstrating commitment to adherence to the rule of the law and regulations while ensuring individuals fulfil their responsibilities and optimise available powers to the benefit of all. 1.3.2 Dealing with breaches, corruption and misuse of power effectively.
2.6	Your resilience and business continuity arrangements should include:
Corporate Governance Framework	6.1.1 Ensuring that risk management is embedded and clearly allocated in decision making throughout the organisation. 6.2.1 Ensuring that risk management and internal control strategies, policies and arrangements are aligned with achieving objectives and evaluated on a regular basis.
Workforce Controls	
3	**Explanation**
3.1	Please explain why the arrangements your service area had in place did not ensure your service area's workforce resources were managed properly.
Corporate Governance Framework	6.4.1 Ensuring that financial management is integrated at all levels of planning and control, and supports the achievement of outcomes and short-term financial and operational performance.
3.2	Please explain why your service area's controls failed to effectively manage off-payroll workers/contractors.
Corporate Governance Framework	6.4.1 Ensuring that financial management is integrated at all levels of planning and control, and supports the achievement of outcomes and short-term financial and operational performance.
3.3	Please explain why your service area's recruitment arrangements failed to meet requirements.
Corporate Governance Framework	1.1.2 Ensuring this is reflected in policies and processes that are regularly reviewed and monitored for compliance.
3.4	Please explain why your service area's controls failed to effectively manage new starts, movers and leavers.
Corporate Governance Framework	1.1.2 Ensuring this is reflected in policies and processes that are regularly reviewed and monitored for compliance.
3.5	Please explain why your service area's controls failed to ensure that statutory workforce requirements were met e.g. PVG/disclosure checks, statutory
Corporate Governance Framework	1.3.1 Demonstrating commitment to adherence to the rule of the law and regulations while ensuring individuals fulfil their responsibilities and optimise available powers to the benefit of all. 5.2.1 Ensuring clarity on roles, responsibilities and expectations for members and officers in terms of relationships and decision making.
3.6	Please explain why your service area's arrangements have failed to effectively manage staff health and wellbeing.
Corporate Governance Framework	5.2.4 Ensuring arrangements are in place to support and maintain the health and wellbeing of the workforce.
3.7	Please explain why the arrangements your service area had in place failed to ensure the effective delivery of staff training and development.
Corporate Governance Framework	5.2.2 Developing the capability of members and officers through the encouragement and provision of appropriate training and continued professional development tailored to their respective roles.
3.8	Please explain why your service area's arrangements failed to support and manage staff performance.
Corporate Governance Framework	5.2.3 Ensuring arrangements are in place to consider leadership effectiveness and staff performance.
3.9	Please explain why your service area's arrangements failed to ensure compliance with the Council's HR Policies and procedures including:
Corporate Governance Framework	1.1.2 Ensuring this is reflected in policies and processes that are regularly reviewed and monitored for compliance.
3.10	Please explain why yourservice area failed to consult and engage with recognised trade unions on a regular basis.

Corporate Governance Framework	2.2.1 Ensuring effective engagement with clarity of purpose, objectives and intended outcomes.
Council Companies	
4	**Explanation**
4.1	Please explain why your service area's arrangements failed to effectively provide oversight and monitoring of Council companies.
Corporate Governance Framework	4.2.2 Establishing effective KPIs and capacity to generate performance information that allows for the quality of services and projects to be assessed/measured regularly. 7.3.1 Ensuring that when working in partnership, arrangements for accountability are clear and the need for wider public accountability has been recognised
4.2	Please explain why appropriate agreements were not in place with the ALEOs you are responsible for.
Corporate Governance Framework	7.3.1 Ensuring that when working in partnership, arrangements for accountability are clear and the need for wider public accountability has been recognised and met. 7.3.2 Ensuring that internal and external audit arrangements provide assurance on governance arrangements and risks from 3rd party service delivery and
Policy	
5	**Explanation**
5.1	Please explain why your service area's arrangements do not ensure staff awareness and understanding.
Corporate Governance Framework	1.1.3 Ensuring the organisation's ethical standards permeate all aspects of the organisation's culture and operation and are reflected in its policies and procedures
5.2	Please explain why your service area's arrangements failed to ensure the annual review of the policies owned by your service area.
Corporate Governance Framework	1.1.2 Ensuring this is reflected in policies and processes that are regularly reviewed and monitored for compliance.
Governance and Compliance	
6	**Explanation**
6.1	Please explain why your service area's arrangements are not sufficient to ensure compliance with the framework, e.g.
Corporate Governance Framework	5.2.1 Ensuring clarity on roles, responsibilities and expectations for members and officers in terms of relationships and decision making 6.2.2 Ensuring additional assurance on the overall adequacy and effectiveness of the framework of governance, risk management and control is provided by the internal auditor.
6.2	Please explain why your service area was not fully compliant with the relevant Scottish, UK and EU legislation and regulations and any mitigating
Corporate Governance Framework	1.3.1 Demonstrating commitment to adherence to the rule of the law and regulations while ensuring individuals fulfil their responsibilities and optimise available powers to the benefit of all. 1.3.2 Dealing with breaches, corruption and misuse of power effectively.
Information Governance	
7	**Explanation**
7.1	Please explain why your staff were not fully aware of their responsibilities and how this has impacted on compliance.
Corporate Governance Framework	6.3.1 Ensuring that data is properly managed, accurate and of a good quality.
7.2	Please explain why your service area is not fully compliant.
Corporate Governance Framework	6.3.1 Ensuring that data is properly managed, accurate and of a good quality. 7.3.1 Ensuring that when working in partnership, arrangements for accountability are clear and the need for wider public accountability has been recognised and met.
Health & Safety	
8	**Explanation**
8.1	Please explain why your service area's arrangements failed to ensure your staff were (1) fully aware of their H&S responsibilities and (2) trained appropriately.

Corporate Governance Framework	1.1.1 Developing a leadership culture based on values, integrity and public interest that is communicated and understood by all and forms the basis of a framework for decision making and action. 1.1.2 Ensuring this is reflected in policies and processes that are regularly reviewed and monitored for compliance.
8.2	Please explain how your service area failed to have the necessary H&S controls and procedures in place.
Corporate Governance Framework	5.2.4 Ensuring arrangements are in place to support and maintain the health and wellbeing of the workforce.
8.3	Please explain how your arrangements failed to ensure all applicable H&S laws and regulations were complied with.
Corporate Governance Framework	5.2.4 Ensuring arrangements are in place to support and maintain the health and wellbeing of the workforce.
8.4	Please explain the weaknesses you have identified in the governance and reporting structure for H&S in your service area.
Corporate Governance Framework	5.2.4 Ensuring arrangements are in place to support and maintain the health and wellbeing of the workforce.
Performance	
9	**Explanation**
9.1	Please explain why the required arrangements were not in place.
Corporate Governance Framework	1.1.3 Ensuring the organisation's ethical standards permeate all aspects of the organisation's culture and operation and are reflected in its policies and procedures. 4.1.1 Supporting decision makers to take decisions based on objective information and rigorous analysis, whilst considering best value, risk, stakeholder views
9.2	Please explain why the required arrangements were not in place.
Corporate Governance Framework	2.3.2 Developing effective communication methods that encourage, collect and evaluate views and experiences while ensuring inclusivity.
Commercial and Contract Management	
10	**Explanation**
10.1	Please explain where your service area's procurement activities failed to comply with the Council's Contract Standing Orders.
Corporate Governance Framework	1.2.1 Ensuring the organisation's ethical standards are understood and upheld by external providers of services. 1.3.1 Demonstrating commitment to adherence to the rule of the law and regulations while ensuring individuals fulfil their responsibilities and optimise available powers to the benefit of all.
Change and Projects	
11	**Explanation**
11.1	Please explain where your service area failed to have the appropriate arrangements in place for any of it's projects or programmes, including:
Corporate Governance Framework	4.1.1 Supporting decision makers to take decisions based on objective information and rigorous analysis, whilst considering best value, risk, stakeholder views and future impacts. 4.2.1 Establishing and implementing robust planning and control cycles that take into account stakeholder input, risks and are adaptable to changing
Financial Control	
12	**Explanation**
12.1	Please explain where your service area's financial controls failed to ensure compliance.
Corporate Governance Framework	6.3.1 Ensuring that data is properly managed, accurate and of a good quality. 6.4.1 Ensuring that financial management is integrated at all levels of planning and control, and supports the achievement of outcomes and short-term financial and operational performance.
12.2	Please explain (1) why your service area's monitoring arrangements could not be relied upon to identify any problems or variances and, (2) if any, what these
Corporate Governance Framework	4.2.3 Ensuring that budgeting and resource planning is informed by realistic revenue and capital estimates and aims to deliver objectives, strategies and plans in a sustainable manner.

12.3	Please explain (1) why your service area did not to have the required arrangements in place, and (2) the details of any material commitments or contingent
Corporate Governance Framework	4.3.1 Ensuring that the budgeting process and financial strategy are sustainable whilst considering objectives, service priorities, affordability and medium/long-term plans.
12.4	Please explain why your service area did not have the required arrangements in place.
Corporate Governance Framework	6.1.1 Ensuring that risk management is embedded and clearly allocated in decision making throughout the organisation. 6.4.1 Ensuring that financial management is integrated at all levels of planning and control, and supports the achievement of outcomes and short-term financial and operational performance.
12.5	Please explain why your service area did not have the required arrangements in place.
Corporate Governance Framework	6.2.2 Ensuring additional assurance on the overall adequacy and effectiveness of the framework of governance, risk management and control is provided by the internal auditor.
12.6	Please explain why (1) your service area did not have the required arrangements in place, and (2) if there were any issues that could have affected the Annual
Corporate Governance Framework	6.2.2 Ensuring additional assurance on the overall adequacy and effectiveness of the framework of governance, risk management and control is provided by the internal auditor.
Group Accounts (Resources only)	
13	**Explanation**
13.1	Please explain why (1) your service area did not have the required arrangements in place, and (2) if there were any issues that could have affected the Group
Corporate Governance Framework	6.4.1 Ensuring that financial management is integrated at all levels of planning and control, and supports the achievement of outcomes and short-term financial and operational performance.
13.2	Please explain why (1) your service area did not have the required arrangements in place, and (2) if there were any issues that could have affected the Group
Corporate Governance Framework	6.2.1 Ensuring that risk management and internal control strategies, policies and arrangements are aligned with achieving objectives and evaluated on a regular basis.
National Agency Inspection Reports	
14	**Explanation**
14.1	Please explain why your service area did not have the required arrangements in place and provide detail on any issues that could have an impact on the
Corporate Governance Framework	6.2.3 Ensuring an audit committee or equivalent group/ function, which is independent of the executive and accountable to the governing body: provides a further source of effective assurance regarding arrangements for managing risk and maintaining an effective control environment; and that its recommendations are listened to and acted upon.
14.2	Please explain why your service area did not have the required arrangements in place.
Corporate Governance Framework	6.2.3 Ensuring an audit committee or equivalent group/ function, which is independent of the executive and accountable to the governing body: provides a further source of effective assurance regarding arrangements for managing risk and maintaining an effective control environment; and that its recommendations are listened to and acted upon.
Internal Audit, External Audit & Review Reports	
15	**Explanation**
15.1	Please explain why your service area did not have the required arrangements in place.
Corporate Governance Framework	6.2.2 Ensuring additional assurance on the overall adequacy and effectiveness of the framework of governance, risk management and control is provided by the internal auditor. 6.2.3 Ensuring an audit committee or equivalent group/ function, which is independent of the executive and accountable to the governing body: provides a
Progress	
16	**Explanation**
16.1	Please describe and detail any outstanding issues or recommendations.

Corporate Governance Framework	Not Applicable

Assurance Statement				
Ref	**Statement**	**Response**	**If no, please explain**	**Actions to be taken**
1	**Internal Control Environment**	**Assessment of compliance**	**If not fully compliant, please explain**	**Improvement actions**
1.1	I have internal controls and procedures in place throughout my service area that are proportionate, robust, monitored and operate	Compliant		
1.2	I have controls and procedures in place to manage the risks in delivering services through council companies, partners and third parties.	Compliant		
1.3	My internal controls and procedures and their effectiveness are regularly reviewed and the last review did not identify any weaknesses that could have an impact on the Annual Accounts.	Partially compliant	Internal controls and procedures are in place but to ensure that these remain robust in the light of changes in the structure (and also to reflect best practice) a formal review of arrangements should be undertaken.	A formal review of internal controls should be undertaken given changes to the divisional responsibilities.
1.4	The monitoring process applied to funding/operating agreements has not identified any problems that could have an	Compliant		
2	**Risk and Resilience**	**Assessment of compliance**	**If not fully compliant, please explain**	**Improvement actions**
2.1	I have risk management arrangements in place to identify the key risks to my service area (and	Compliant		
2.2	I have effective controls and procedures in place to record and manage the risks identified above to a tolerable level or actions are put in	Compliant		
2.3	The robustness and effectiveness of my risk management arrangements is regularly reviewed and the last review did not identify	Compliant		
2.4	There is appropriate escalation/communication to the directorate Risk Committee and CLT Risk Committee (as appropriate) of significant	Compliant		
2.5	I have arrangements in place to promote and support the Council's policies and procedures for staff to raise awareness of risk concerns,	Compliant		
2.6	My service area has appropriate resilience arrangements in place and my service area's business continuity plans and arrangements mitigate the business continuity risks facing our essential activities.	Compliant		Although I would assess us as compliant, these should be subject to regular review. It would be worthwhile formally reviewing existing business continuity plans and considering the need for any further such plans.
3	**Workforce Control**	**Assessment of compliance**	**If not fully compliant, please explain**	**Improvement actions**
3.1	I have arrangements in place to ensure workforce resources are managed properly, including compliance with payroll policies, overtime controls, absence management and	Compliant		

3.2	I have robust controls in place to manage off-payroll workers/contractors, including agency workers and consultants, ensuring approved framework contracts have been used and that those engaged are wholly compliant with the	Partially compliant	There was one identified control gap by procurement Reiterated need to follow procdure and speific issue followed up on	
3.3	I ensure that recruitment and selection is only undertaken by appropriately trained individuals and is fully compliant with Council	Compliant		
3.4	I have robust controls in place to manage new starts, movers and leavers, including induction and mandatory training, IT systems security (access and removal) and access to buildings	Compliant		
3.5	I have robust controls in place to ensure that statutory workforce requirements are met.	Compliant		
3.6	I have arrangements in place to manage staff health and wellbeing; ensuring that sickness absence, referral to occupational health and stress risk assessments is managed in	Compliant		
3.7	I ensure compliance with essential training requirements and support learning and development appropriately, including	Compliant		
3.8	I have arrangements in place to support and manage staff performance e.g. regular 1:1/supervision meetings,	Compliant		
3.9	I ensure compliance with the Council's HR policies and procedures across my service area.	Compliant		
3.10	I regularly consult and engage with recognised	Compliant		
4	**Council Companies**	**Assessment of compliance**	**If not fully compliant, please explain**	**Improvement actions**
4.1	I have arrangements in place for the oversight and monitoring of the Council companies I am responsible for, that give me adequate assurance over their operation and delivery for the Council.	Compliant	Worth noting that this should more properly be categorised as 'Not Applicable' as Strategy and Communications has no responsibility for individual ALEOs.	
4.2	I have an appropriate Service Level Agreement, or other appropriate legal agreement, in place for each Arm's Length External Organisation that I am responsible for.	Compliant	Worth noting that this should more properly be categorised as 'Not Applicable' as Strategy and Communications has no responsibility for individual ALEOs.	
5	**Policy**	**Assessment of compliance**	**If not fully compliant, please explain**	**Improvement actions**
5.1	I have arrangements in place to ensure all service area staff are made aware of and fully understand the implications of all relevant	Compliant		

5.2	I have arrangements in place for the annual review of policies owned by my service area, via the relevant executive committee, to ensure these comply with the Council's policy framework.	Partially compliant	A review of divisional policies should be undertaken to ensure that these are relevant, appropriate and necessary. These should be consolidated and streamlined wherever possible.	Divisional policies should be reviewed to ensure that these are necessary and appropriate.
6	**Governance and Compliance**	**Assessment of compliance**	**If not fully compliant, please explain**	**Improvement actions**
6.1	I ensure service area staff are aware of their responsibilities in relation to the Council's governance framework and that the authority, responsibility and accountability levels within my service area are clearly defined, with proper officer designation delegated, recorded,	Compliant		
6.2	I ensure my service area's activities are fully compliant with relevant Scottish, UK and EU	Compliant		

7	Information Governance	Assessment of compliance	If not fully compliant, please explain	Improvement actions
7.1	I ensure service area staff are made aware of their responsibilities in relation to the proper management of Council information, including the need to adhere to relevant legislation, Council policies, procedures and guidance around: information governance; records management; data quality; data breaches and	Compliant		
7.2	I ensure data sharing arrangements with third parties are recorded, followed and regularly	Compliant		
8	**Health and Safety**	**Assessment of compliance**	**If not fully compliant, please explain**	**Improvement actions**
8.1	Service area staff are made aware of their responsibilities under relevant H&S policies and procedures and I have appropriate arrangements in place for the identification	Compliant		
8.2	I have the necessary arrangements in place to establish, implement and maintain procedures for ongoing hazard identification, risk assessment and the determination of	Compliant		
8.3	I have competencies, processes and controls in place to ensure that my service area, and other areas of responsibility, operate in compliance	Compliant		
8.4	I have a robust governance and reporting structure for H&S in my service area.	Compliant		
9	**Performance**	**Assessment of compliance**	**If not fully compliant, please explain**	**Improvement actions**
9.1	I have arrangements in place for reporting to CLT, Committee and/or Council when performance monitoring identifies inadequate service delivery or poor value for money and	Compliant		
9.2	I have appropriate arrangements in place throughout my service area for recording, monitoring and managing customer service	Compliant		
10	**Commercial and Contract Management**	**Assessment of compliance**	**If not fully compliant, please explain**	**Improvement actions**
10.1	I ensure all goods, services and works are procured and managed in compliance with the	Compliant		
11	**Change and Project Management**	**Assessment of compliance**	**If not fully compliant, please explain**	**Improvement actions**
11.1	All projects and programmes have a clear business justification, as a minimum this should articulate outcomes and benefits; have appropriate governance in place to support delivery; effective controls in place to track delivery progress and to take corrective action	Compliant		
12	**Financial Control**	**Assessment of compliance**	**If not fully compliant, please explain**	**Improvement actions**
12.1	The operation of financial controls in my service area is effective in ensuring the valid authorisation of financial transactions and	Compliant		

12.2	I am confident that the arrangements in place to monitor expenditure/budget variances would identify control problems or variances	Compliant		
12.3	I have arrangements in place to ensure all material commitments and contingent liabilities (i.e. undertakings, past transactions or events resulting in future financial liabilities)	Compliant		
12.4	I have arrangements in place to review and protect assets against theft, loss and unauthorised use; identify any significant losses; and, ensure the adequacy of insurance	Compliant		
12.5	I have arrangements in place for identifying any weaknesses in my service area's compliance with Council financial policies or	Compliant		
12.6	I have arrangements in place for identifying any internal control, risk management or asset valuation problems within my service area's	Compliant		
13	**Group Accounts (Resources only)**	**Assessment of compliance**	**If not fully compliant, please explain**	**Improvement actions**
13.1	I have arrangements in place for identifying and reviewing any developments during the year that should lead to additions, deletions or	Compliant	I have detailed as Compliant in the absence of 'not applicable'.	
13.2	I have arrangements in place to identify and review any internal control, risk management or asset valuation problems with Council	Compliant	I have detailed as Compliant in the absence of 'not applicable'.	
14	**National Agency Inspection Reports**	**Assessment of compliance**	**If not fully compliant, please explain**	**Improvement actions**
14.1	I have arrangements in place to identify any reports relating to my service area and can confirm that there were no inspection reports	Compliant		
14.2	I have arrangements in place that adequately monitor and report on the implementation of	Compliant		
15	**Internal Audit, External Audit and Review Repo**	**Assessment of compliance**	**If not fully compliant, please explain**	**Improvement actions**
15.1	I have arrangements in place to ensure that all recommendations from any internal audit, external audit or review report published during the year, that have highlighted high, medium or significant control deficiencies,	Compliant	A greater focus and prioritisation has been given to monitoring recommendations from internal audits.	
16	**Progress**	**Assessment of compliance**	**If not fully compliant, please explain**	**Improvement actions**
16.1	All outstanding issues or recommendations arising from this exercise, commissioned reviews, committee reports and other initiatives in previous years have been addressed satisfactorily.	Partially compliant	Arrangements for addressing recommendations from audit reports have been strengthened. Project management arrangements are now robust. Divisional policies should also be reviewed. A formal review of internal controls should be undertaken given changes to the divisional responsibilities.	A formal review of internal controls should be undertaken given changes to the divisional responsibilities. It would be worthwhile formally reviewing existing business continuity plans and considering the need for any further such plans. Divisional policies should also be reviewed.

		Improvement actions	Action Owner	Action Deadline
1	**Internal Control Environment requirements**			
1.1	I have internal controls and procedures in place throughout my service area that are proportionate, robust, monitored and operate effectively.	0		
1.2	I have controls and procedures in place to manage the risks in delivering services through council companies, partners and third parties.	0		
1.3	My internal controls and procedures and their effectiveness are regularly reviewed and the last review did not identify any weaknesses that could have an impact on the Annual Accounts.	A formal review of internal controls should be undertaken given changes to the divisional responsibilities.		
1.4	The monitoring process applied to funding/operating agreements has not identified any problems that could have an impact on Annual or Group Accounts.	0		
2	**Risk and Resilience**			
2.1	I have risk management arrangements in place to identify the key risks to my service area (and the Council).	0		
2.2	I have effective controls and procedures in place to record and manage the risks identified above to a tolerable level or actions are put in place to mitigate and manage the risk.	0		
2.3	The robustness and effectiveness of my risk management arrangements is regularly reviewed and the last review did not identify any weaknesses that could have an impact on the Annual Accounts	0		

2.4	There is appropriate escalation/communication to the directorate Risk Committee and CLT Risk Committee (as appropriate) of significant issues, risks and weaknesses in risk management.	0		
2.5	I have arrangements in place to promote and support the Council's policies and procedures for staff to raise awareness of risk concerns, Council wrongdoing and officer's misconduct.	0		
2.6	My service area has appropriate resilience arrangements in place and my service area's business continuity plans and arrangements mitigate the business continuity risks facing our essential activities.	Although I would assess us as compliant, these should be subject to regular review. It would be worthwhile formally reviewing existing business continuity plans and considering the need for any further such plans.		

3	Workforce			
3.1	I have arrangements in place to ensure workforce resources are managed properly, including compliance with payroll policies, overtime controls, absence management and performance e.g. home/remote working.	0		
3.2	I have robust controls in place to manage off-payroll workers/contractors, including agency workers and consultants, ensuring approved framework contracts have been used and that those engaged are wholly compliant with the provisions of IR35 Council guidance and procedures.	0		
3.3	I ensure that recruitment and selection is only undertaken by appropriately trained individuals and is fully compliant with Council policies and procedures, including vacancy approvals and controls.	0		
3.4	I have robust controls in place to manage new starts, movers and leavers, including induction and mandatory training, IT systems security (access and removal) and access to buildings and service users' homes.	0		
3.5	I have robust controls in place to ensure that statutory workforce requirements are met	0		
3.6	I have arrangements in place to manage staff health and wellbeing; ensuring that sickness absence, referral to occupational health and stress risk assessments is managed in compliance with the Council's HR policies.	0		

3.7	I ensure compliance with essential training requirements and support learning and development appropriately, including professional CPD requirements.	0		
3.8	I have arrangements in place to support and manage staff performance e.g. regular 1:1/supervision meetings, performance/spotlight conversations.	0		
3.9	I ensure compliance with the Council's HR policies and procedures across my service area.	0		
3.10	I regularly consult and engage with recognised trade unions.	0		
4	**Council Companies**			
4.1	I have arrangements in place for the oversight and monitoring of the Council companies I am responsible for, that give me adequate assurance over their operation and delivery for the Council.	0		
4.2	I have an appropriate Service Level Agreement, or other appropriate legal agreement, in place for each Arm's Length External Organisation that I am responsible for.	0		
5	**Policy**			
5.1	I have arrangements in place to ensure all service area staff are made aware of and fully understand the implications of all relevant existing and new council policies and procedures.	0		
5.2	I have arrangements in place for the annual review of policies owned by my service area, via the relevant executive committee, to ensure these comply with the Council's policy framework.	Divisional policies should be reviewed to ensure that these are necessary and appropriate.		
6	**Governance and Compliance**			

6.1	I ensure service area staff are aware of their responsibilities in relation to the Council's governance framework and that the authority, responsibility and accountability levels within my service area are clearly defined, with proper officer designation delegated, recorded, monitored, revoked and reviewed regularly to ensure ongoing compliance with the Scheme of Delegation.	0		
6.2	I ensure my service area's activities are fully compliant with relevant Scottish, UK and EU legislation and regulations.	0		
7	**Information Governance**			
7.1	I ensure service area staff are made aware of their responsibilities in relation to the proper management of Council information, including the need to adhere to relevant legislation, Council policies, procedures and guidance around: information governance; records management; data quality; data breaches and privacy impact assessments; information rights; information compliance; information security; and ICT acceptable use.	0		
7.2	I ensure data sharing arrangements with third parties are recorded, followed and regularly reviewed throughout my service area.	0		

8	**Health and Safety**			
8.1	Service area staff are made aware of their responsibilities under relevant H&S policies and procedures and I have appropriate arrangements in place for the identification and provision of H&S training necessary for all job roles, including induction training.	0		
8.2	I have the necessary arrangements in place to establish, implement and maintain procedures for ongoing hazard identification, risk assessment and the determination of necessary controls to ensure all H&S risks are adequately controlled.	0		
8.3	I have competencies, processes and controls in place to ensure that my service area, and other areas of responsibility, operate in compliance with all applicable H&S laws and regulations.	0		
8.4	I have a robust governance and reporting structure for H&S in my service area.	0		
9	**Performance**			
9.1	I have arrangements in place for reporting to CLT, Committee and/or Council when performance monitoring identifies inadequate service delivery or poor value for money and ensure that improvement measures to address these issues are implemented and monitored.	0		
9.2	I have appropriate arrangements in place throughout my service area for recording, monitoring and managing customer service complaints and customer satisfaction.	0		
10	**Commercial and Contract Management**			

10.1	I ensure all goods, services and works are procured and managed in compliance with the Contract Standing Orders.	0		
11	**Change and Project Management**			
11.1	All projects and programmes have a clear business justification, as a minimum this should articulate outcomes and benefits; have appropriate governance in place to support delivery; effective controls in place to track delivery progress and to take corrective action if required; have a robust benefits management framework in place; and ensure that a formal closure process is undertaken.	0		

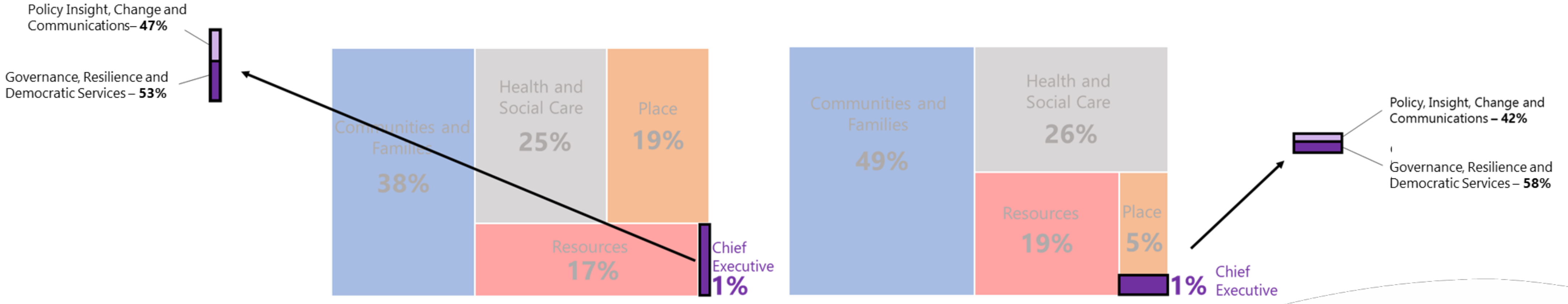
12	**Financial Control**			
12.1	The operation of financial controls in my service area is effective in ensuring the valid authorisation of financial transactions and maintenance of accurate accounting records.	0		
12.2	I am confident that the arrangements in place to monitor expenditure/budget variances would identify control problems or variances that could have an effect on the Annual Accounts.	0		
12.3	I have arrangements in place to ensure all material commitments and contingent liabilities (i.e. undertakings, past transactions or events resulting in future financial liabilities) are notified to the Chief Financial Officer.	0		
12.4	I have arrangements in place to review and protect assets against theft, loss and unauthorised use; identify any significant losses; and, ensure the adequacy of insurance provision in covering the risk of loss across my service area.	0		
12.5	I have arrangements in place for identifying any weaknesses in my service area’s compliance with Council financial policies or statutory/regulatory requirements.	0		
12.6	I have arrangements in place for identifying any internal control, risk management or asset valuation problems within my service area that could affect the Annual Accounts.	0		
13	**Group Accounts (Resources only)**			

13.1	I have arrangements in place for identifying and reviewing any developments during the year that should lead to additions, deletions or amendments to the companies included in the Group Accounts.	0		
13.2	I have arrangements in place to identify and review any internal control, risk management or asset valuation problems with Council companies that could affect the Group Accounts.	0		
14	**National Agency Inspection Reports**			
14.1	I have arrangements in place to identify any reports relating to my service area and can confirm that there were no inspection reports that could impact on the signing of the Annual Governance Statement.	0		
14.2	I have arrangements in place that adequately monitor and report on the implementation of recommendations.	0		
14	**Internal Audit, External Audit and Review Reports**			
15.1	I have arrangements in place to ensure that all recommendations from any internal audit, external audit or review report published during the year, that have highlighted high, medium or significant control deficiencies, have been (or are being) implemented and that this is monitored effectively.	0		
16	**Progress**			

16.1	All outstanding issues or recommendations arising from this exercise, commissioned reviews, committee reports and other initiatives in previous years have been addressed satisfactorily.	A formal review of internal controls should be undertaken given changes to the divisional responsibilities. It would be worthwhile formally reviewing existing business continuity plans and considering the need for any further such plans. Divisional policies should also be reviewed.		

Strategy and Communications Division

We are a small collection of services at the heart of the Council reporting directly to the Chief Executive.
The **policy unit support the development of strategic policies** by providing **detailed analysis from our insight, performance and data teams**.
Our research has supported the development of polices **in areas as diverse as the Poverty Commission to the transient visitor levy**.
The **committee and elected member services** support the democratic infrastructure of the Council facilitating hundreds of committee and sub-committee meetings every year **to ensure that decision making is robust**, efficient, open and transparent.
We take responsibility for **information governance and our compliance** with the General Data Protection Regulation (GDPR), this includes answering thousands of Freedom of Information and Subject Access Requests each year.
Through **our communications team**, we engage with residents, staff and other key stakeholders. We **make sure our communications are clear, visible, accessible and reach as much of the population as we can**.
We developed a Change Strategy which has set the direction for the Council for the next four years, but it's not just about planning, we also help to deliver. The division has led a step-change in project and portfolio management across the Council. A small delivery team oversee and report on a **dynamic array of more than 50 projects** covering areas ranging from service improvement to major capital spend



Gross Budget
£10.7 million

Net Budget
£9 million

EDINBVRGH
THE CITY OF EDINBURGH COUNCIL

Policy, insight, change and communications

£4.3m (net budget) | £9m (net budget)

Chief Executive

We **support the organisation** and frontline staff to deliver services. The **policy and insight** team develop new work and make the case for change, such as the Transient Visitor Levy. They also lead on **public consultations and engagement**. The **change team** ensure delivery of significant projects such as the replacement of our social work database SWIFT. They also play a key role in developing the **Change Strategy**. The **data, performance and business planning** team manage all the council's data, and ensure we can take decisions based on evidence. The team also leads and coordinates Edinburgh's role in the **City Deal and city and regional partnership** working. Our **communications team** covers campaigns, media and internal communications, graphic design and social media.

By working alongside care services, a targeted campaign to increase the number of foster carers in 2018 resulted in finding **45 new foster carers**

Target: 25

Foster Carers recruited: 45

Each new foster placement saves us roughly £20,000 in agency/residential costs. As well as **providing stable care for vulnerable children**, this campaign helped **save nearly £1 million**.

In total, the campaign **cost roughly £100,000**

89 Staff (84 Full Time Equivalent) — **£5m**

Supplies and services — **£300k**

What we spend — £5.3 million

Funding and income — £1 million

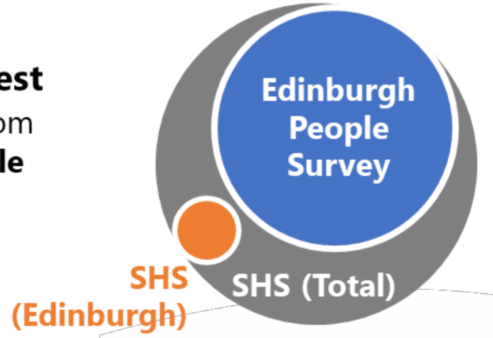
Third party funding — **£490k**

City Deal — **£268k**

Re-charging services for project management — **£170k**

The **delivery team** is monitoring a **portfolio of 49 projects** totalling **£166m of investment**. These are in areas as diverse as health and social care, culture and income maximisation

The Insight team's **Edinburgh People Survey** is the **largest single-city survey in the UK**, canvassing opinions from more than **5,000 residents** with approximately **300 people from each of the 17 wards taking part.** For comparison, the Scottish Government's **Scottish Household Survey** has roughly **200 respondents in Edinburgh** and **10,000 respondents in total**



EDINBVRGH
THE CITY OF EDINBURGH COUNCIL

Governance, resilience and democratic services

£5.1m (net budget)

Chief Executive

£9m (net budget)

Committee services support the democratic infrastructure of the organisation, ensuring that decision making is open, honest and transparent. The **member services team support elected members** through organising meetings, committees and distributing reports.
Other teams fulfil statutory roles including **Freedom of Information requests** and information control and security, keeping the organisation **compliant with GDPR** and providing a **statutory data protection officer**. **When elections are called**, we co-ordinate the seconding of hundreds of staff to run polling stations, count votes and to validate and declare results. Through our **resilience team**, we also **help services prepare for unexpected eventualities** from **extreme weather** to **counter-terrorism**

68 Staff (65 Full Time Equivalent)

Elected member pay, allowances and expenses	**£1.8m**
Committee services and member support	**£700k**
COSLA levy	**£300k**
What we spend	**£5.9 million**

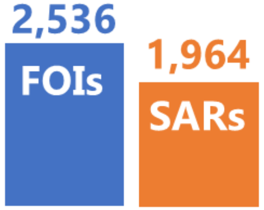
£3.1m

Funding and income	**£0.8 million**
Government election funding	**£218k**
Re-charging services for archiving services, FOI and resilience	**£500k**

Reports written in 2018 for Council and committees meetings compared to those written in 2017

Over the last five years, the **Elections team has co-ordinated seven major votes** (2 UK Parliament, 1 Scottish Parliament, 1 Local Government, 1 European Parliament, the Scottish Independence referendum and the EU referendum) Each has involved, on average **1,200 staff** working across **328 polling stations** and have, in total, **counted 1.7 million votes** to return 91 elected officials

Last year we supported services in responding to **2,536 Freedom of Information** (FOI) Requests and **1,964 Subject Access Requests.**
That's roughly 17 requests per day



EDINBVRGH
THE CITY OF EDINBURGH COUNCIL

EDINBVRGH
THE CITY OF EDINBURGH COUNCIL

Year ahead 2019/20

Strategy and Communications

May 2019

THE CITY OF EDINBURGH COUNCIL

Introduction from Laurence

We achieved a great deal last year. We established and settled into our new teams – and, for many, new roles. Communications joined the division. We set our vision and values and, while we still have work to embed them, we are increasingly delivering on them.

Quality and consistency

Despite the huge amount of change, we have, as a division, kept up and, indeed, improved upon the quality and consistency of our work. For example, we facilitated and clerked hundreds of committees, answered thousands of freedom of information requests, responded to countless media enquiries - continuing to ensure the council communicate effectively with its people and the city across a huge range of issues and channels.

Having an impact

In addition, we made the case and won the argument for the introduction of a Transient Visitor Levy. We agreed an economic strategy for the city, created a step change in culture regarding project management across the council and launched a Change Strategy that sets direction for the council for the next four years.

Your feedback

However, in this year's staff survey you have told me and the rest of the management team that we're not always clear enough on our collective priorities. You also want to understand more about how your work fits into these broader objectives and how we can better bring our work together. You have also fed back that you have concerns regarding the volume of work and the resources available to you to do your job.

Setting out our priorities

We're going to act on this feedback and this document is a first step. Firstly, I'm going to set out my priorities for the division for the year ahead. This list is not exhaustive. Everything we do has an important purpose, and I value all your hard work to ensure the council has a high-quality corporate service and support – day in, day out. It's important, however, that we set additional priorities. Secondly, building on the work on our vision and values I have described in one place what I believe we are collectively trying to achieve as a division. Finally, I am going to set out all the actions we are going to take to respond to your feedback in the Staff Survey.

Our purpose

We agreed our Vision as a Division last year and I am keen we build on it. Strategy and Communications is a highly-skilled end-to-end support function for the council. We support and lead the development of policy through not only first-class policy development skills but also through the provision of detailed analysis from the insight, performance and data teams.

Once policy has been formulated, we facilitate the democratic process by ensuring the council's decision-making is robust, efficient and transparent to the public.

We then ensure those decisions are effectively communicated with residents, staff and other key stakeholders. We do this by using the latest techniques and approaches making sure the information is as succinct and informative as possible. The performance and insight information we produce to enable these decisions to be made are then crucial in ensuring accountability and public awareness and understanding of our output.

Finally, the hard work is not over because we also lead on delivery. We manage and support major change across the council ensuring that not only are priorities delivered, but also that savings targets are achieved. We do this directly through specific projects whilst also promoting best practice, ensuring that colleagues are held to account through the monthly Change Board.

Through this work, we ensure:

- Elected Members have considered and rounded advice to help them make informed decisions;
- that we empower communities and the public as widely as possible by working in partnership to ensure they are aware, engaged and can have trust in the decisions taken; and
- that the delivery of those decisions is as strong as possible and that there is maximum accountability for them.

I have developed a diagram that tries to show this in one place and I believe is a strong reminder of our mission statement:

Providing leadership, support and analysis to help the council achieve its aims and the city to realise its ambitions.

What is all of this trying to achieve?

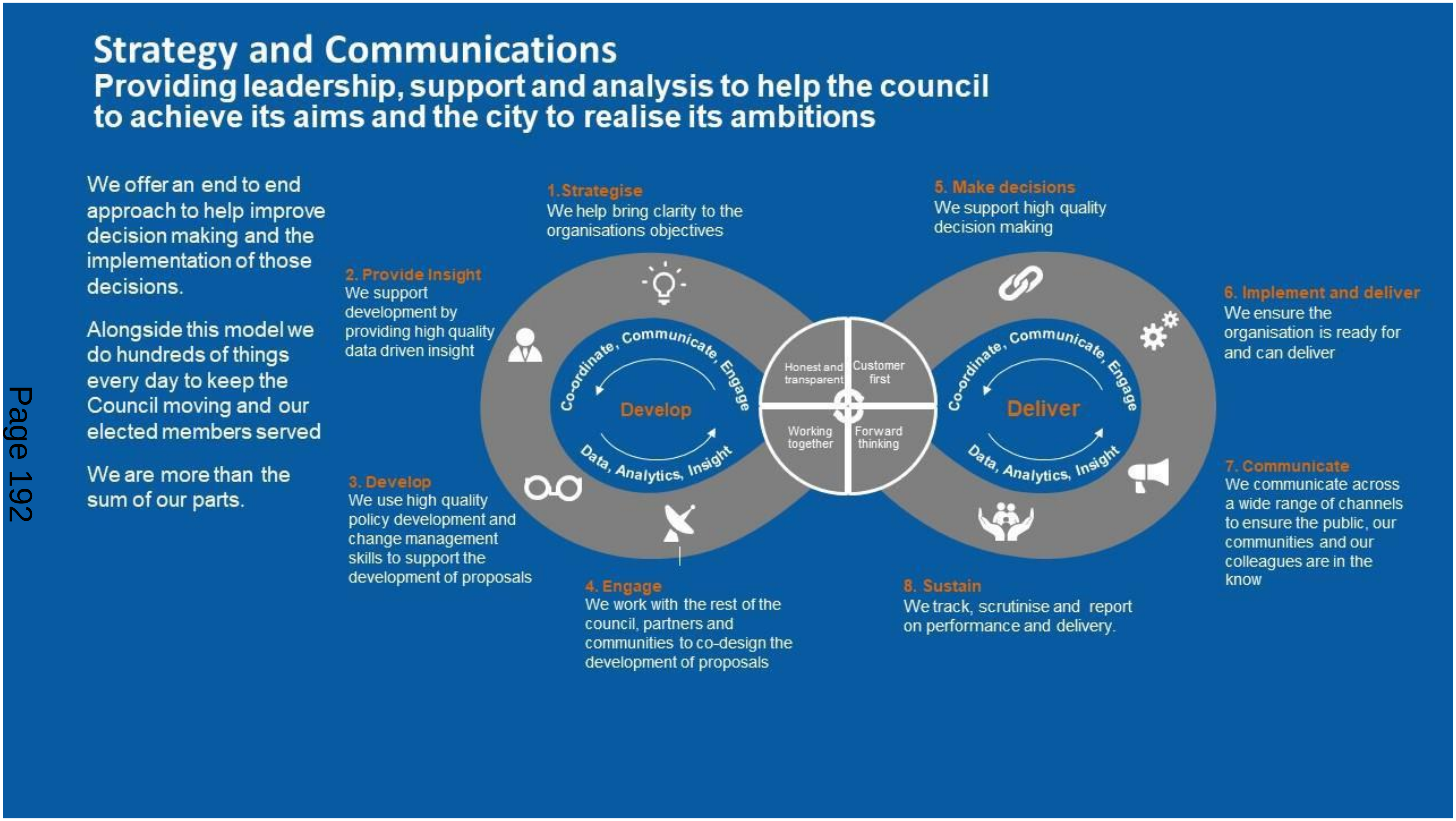
The administration's overarching ambition is to ensure that everyone benefits from Edinburgh's success. We are all aware and have discussed before the fact that despite the success of Edinburgh's economy in the city today, there are still 1 in 4 children living in poverty.

To address the complex challenges that lie behind these statistics, the city needs a strong and forward-thinking council; a council that can innovate to address the complex challenges it faces, to improve outcomes but also respond to factors beyond its control – particularly regarding funding. Our job as a division is to help find solutions to these challenges. I therefore want us to have an unapologetic focus on supporting the organisation and city to change this year – focusing our efforts as much as possible to deliver better outcomes to the people we serve.

For example: the important policy work we are doing on sustainability, poverty and homelessness must feed into the council change strategy, which we must play our part in delivering. This work must also be communicated effectively to ensure the public better understand what we are trying to achieve and the need for change. This, of course, can only be achieved by working in partnership across the third and private sectors.

By bringing all the skills we have across the division with a team ethic and can-do attitude, I believe we can add enormous value to the organisation and the city.

I am excited about this and am looking forward to what we can achieve together this year.


Strategy and Communications
Providing leadership, support and analysis to help the council to achieve its aims and the city to realise its ambitions
We offer an end to end approach to help improve decision making and the implementation of those decisions.
Alongside this model we do hundreds of things every day to keep the Council moving and our elected members served
We are more than the sum of our parts.
1. Strategise
We help bring clarity to the organisations objectives
2. Provide Insight
We support development by providing high quality data driven insight
3. Develop
We use high quality policy development and change management skills to support the development of proposals
4. Engage
We work with the rest of the council, partners and communities to co-design the development of proposals
5. Make decisions
We support high quality decision making
6. Implement and deliver
We ensure the organisation is ready for and can deliver
7. Communicate
We communicate across a wide range of channels to ensure the public, our communities and our colleagues are in the know
8. Sustain
We track, scrutinise and report on performance and delivery.
Co-ordinate, Communicate, Engage
Develop
Data, Analytics, Insight
Co-ordinate, Communicate, Engage
Deliver
Data, Analytics, Insight
Honest and transparent
Customer first
Working together
Forward thinking

Our objectives 2019-20

Ensuring everyone benefits from Edinburgh's success

1. Deliver the existing Change Strategy and develop the next phase ahead of the Budget setting process for the next financial year.
2. Establish a new Sustainability programme within the council and agree a new strategy to achieve a carbon neutral city 2037 by the end of the calendar year.
3. Strengthen and improve the council's approach to community planning, empowerment and engagement working with the third sector and the Edinburgh Partnership. Clear roadmap for a step change by the end of March 2020.
4. Deliver the independent Poverty Commission by the end of the year and ensure an implementation plan can be taken forward as part of the council's change strategy by the end of March 2020
5. Implement the communications improvement strategy by the end of the calendar year, with a particular focus on our tone of voice, creating richer more engaging news content and more and better planning. With more thought given to how we engage and consult with the public. Reassess where we are within progress in Q1 2020.
6. Implement fully balanced score cards and external reporting by Q3 2019. Develop longer term strategy for improving the use of the city's data by Q2 2020.

Creating the best possible conditions for the Council to perform well

1. Major change project delivery continues to improve, and project management approach continue to be embedded more widely. All internal audit actions completed by end of the calendar year.
2. Deliver a step change in data led decision making through implementing the Business Intelligence Programme. New BI tool to be live by Q3 2019.
3. Audit Scotland Self-Assessment completed by Q3 2019.
4. Implement new Committee system (Modern Gov) first phase by Q3 and fully implemented and imbedded by Q1 2020.
5. Deliver review of political management arrangements Q3 2019.
6. Ensure all elected members continue to receive a high-quality support offer on an ongoing basis.
7. Inspirational and engaging 2050 City Vision launched by Q3 2019.
8. Continue to mature and strengthen the council's approach to Information governance. Have fully implemented latest internal audit by Q1 2020.
9. New Council internet and intranet live by Q3 2019.
10. Class leading Tram communications plan development and live Q3 2019

Our development

1. Staff survey response – actions agreed and delivered, with ongoing feedback with teams by Q3 2019
2. Sense of purpose nurtured through ongoing focus on performance, learning and development and identity L&D day held as part of this and next phase of Division building underway. Q1 2020.

Colleague survey action plan

Please note: The following provides examples of actions which are happening across Strategy and Communications. Full action plans are being developed based on consultation with colleagues and will sit within each of the wider teams.

Theme for improvement	Action	Date/Timescale	Progress
Leadership	Staff objectives and team workplans will be driven by a clear S&C division plan, detailing the 'how' and 'what' of delivering the division vision and values.	April/May 2019	Complete
	Increase the visibility & accessibility of senior management, following feedback from teams. Extended management team will be reinstated. SMT will join team meetings more regularly and offer more 1-1 informal catch ups.	June 2019	Begun but need to sustain
	Set up workstreams to define the role of each team within S&C which each colleague can relate to with confidence	From June 19	In progress
Learning and Development	Improve shadowing or mentoring opportunities across the division, either internally or externally, and encourage all colleagues have the opportunity to take up opportunities. We have begun to offer opportunities for staff to work in short placements in other parts of the Council, and to work across our teams on specific projects, to develop new skills and foster greater strategic cohesion.	Ongoing	In progress
	Hold Divisional Learning and Development Day to provide real focus on our learning and development	Summer	Being arranged
	Development needs, identified in the looking back and forward conversations with colleagues, will be used to shape the Divisional L&D plan and Council's L&D strategy going forwards. Based on this, team managers have been asked what they would consider 'essential learning' for teams and this will be passed on to the Learning and Development team.	From Mar 19	Complete
	Explore and invite training opportunities for individuals, maximising free and inhouse opportunities.	From Apr 19	

	Hold coffee and learn style sessions with a programme of events for discussion. This will cover work in the team, but also work happening across the council and the city.	Ongoing	In progress
	Planned time out for ‘lessons learned’ sessions, on areas/pieces of work that staff have found particularly difficult or frustrating, to identify actions we can take to improve those processes going forwards.	Ongoing	In progress
Change Management	Laurence will continue to send weekly emails to all colleagues to keep everyone up-to-date with work happening across the division, including budget and change processes, further strengthening communications across Division	Jan 2019	In progress - ongoing
Communication and Engagement	Weekly Huddle: Work priorities, budget and change processes and general updates will be shared and discussed as part of the weekly face-to-face meeting between all colleagues and Laurence. Topics discussed at the huddle will include workstreams/projects during development stage and not just completed projects.	Ongoing	In progress - ongoing
	Brief all colleagues on the Colleague Survey results during the weekly Huddle providing an opportunity to feedback. Follow this up with an email of the briefing report to all colleagues.	5 Dec 2018	Complete
	Team managers will be responsible for having discussions of results at team meetings and collecting feedback to inform priorities for action and to agree ways of working. Priorities and an action plan will be developed based on feedback received.	Early 2019	In progress
	Management continue to show appreciation and acknowledge the value of individual and team contribution throughout the year.	From Dec-18	In progress - ongoing

Our vision:

Providing leadership, support, and analysis to help the council to achieve its aims and, the city to realise its ambitions

Delivering a democratic and well governed city

Providing evidence to support robust council decisions

Strengthening community voices at the heart of our decision making

Creating challenging policy that tests the status quo

Leading and guiding strategic change and large change projects

Preserving the records of our city and our people

Brokering data, knowledge and insight from across the organisation and the city

Facilitating active and inclusive collaboration, connection and communication

Communicating our plans, ambitions and activities to colleagues, partners and citizens

Ensuring city safety and resilience by maintaining critical services and responding to emergencies

Our values:

We are always open, honest and upfront with each other

We share our ideas and creativity and we check with each other for understanding

We participate in the division and we actively listen to and respect different viewpoints We encourage constructive feedback on our work and the way we behave

We value each other's skills and expertise and we help and support each other to develop We recognise our mistakes and use them as an opportunity to learn

We keep communication lines clear and simple

We celebrate our success

EDINBVRGH
THE CITY OF EDINBURGH COUNCIL

This page is intentionally left blank

Governance, Risk and Best Value Committee

10.00am, Tuesday 18 February 2020

The EDI Group – Update Report – referral from the Housing, Homelessness and Fair Work Committee

Executive/routine
Wards
Council Commitments

1. For Decision/Action

1.1 The Housing, Homelessness and Fair Work Committee has referred the attached report to the Governance, Risk and Best Value Committee for consideration.

Laurence Rockey

Head of Strategy and Communications

Contact: Sarah Stirling, Committee Services

E-mail: sarah.stirling@edinburgh.gov.uk | Tel: 0131 529 3009

Referral Report

The EDI Group – Update Report

2. Terms of Referral

2.1 On 20 January 2020, an update was provided to the Housing, Homelessness and Fair Work Committee on the progress of the transition strategy for the EDI Group Limited, which aimed to close the group and its subsidiary companies and bring their projects and assets into the Council.

2.2 The Housing, Homelessness and Fair Work Committee agreed:

2.2.1 To note the report.

2.2.2 To agree that an updated copy of the chart at Appendix 2 which showed the delays in the projected timeline would be circulated.

2.2.3 To refer the report to the Governance, Risk and Best Value Committee for consideration.

3. Background Reading/ External References

3.1 Minute of the Housing, Homelessness and Fair Work Committee of 20 January 2020

3.2 Housing, Homelessness and Fair Work Committee of 20 January 2020 – Webcast

4. Appendices

4.1 Appendix 1 – Report by the Executive Director of Place

Housing, Homelessness and Fair Work Committee

10.00am, Monday, 20 January 2020

The EDI Group – Update report

Executive/routine	Executive
Wards	All
Council Commitments	**1, 2, 10, 50**

1. Recommendations

1.1 It is recommended that Committee notes the report and refers it to the Governance, Risk and Best Value Committee for consideration.

Paul Lawrence

Executive Director of Place

Contact: David Cooper, Service Manager - Development

E-mail: david.cooper@edinburgh.gov.uk | Tel: 0131 529 6233

Report

The EDI Group – Update report

2. Executive Summary

2.1 This report updates members on the progress of the transition strategy for The EDI Group Limited which aims to close it and its subsidiary companies and bring their projects and assets into the Council.

3. Background

3.1 The EDI Group Limited ("EDI") is an arm's length company of the City of Edinburgh Council. On 7 February 2017 and 23 February 2017, the Economy Committee and the Finance and Resources Committee respectively agreed to close EDI and its subsidiaries and bring certain activities and assets in-house. On 2 November 2017, the Housing and Economy Committee agreed a transition strategy for the closure.

3.2 Progress reports are being provided on a six-monthly basis.

4. Main report

4.1 The transition strategy continues to be implemented. All ongoing projects are now being delivered by Council officers and most EDI assets have transferred to the Council or otherwise been disposed of.

4.2 The EDI Board, which as previously noted now comprises only elected members, continues to meet quarterly. A scheme of delegation has been agreed which enables minor and routine decisions to be taken by Council officers.

4.3 Appendix 1 provides updates on each project/subsidiary company. The majority of these still have a green RAG status as there has been no change in circumstance and the remain on track for closure in line with the original strategy. In three cases projects have been moved to an amber RAG status.

4.4 The first is the Market Street Hotel project where financial settlement has not yet been reached and as such the date for closure of this company has been delayed. The profit from this project is also likely to be less than originally envisaged and the projected special dividend to the Council has been revised down accordingly.

4.5 The second is Craigmillar/PARC where a final offer from Places for People is awaited in relation to Plots K and L. This process has been delayed as a result of difficulties finalising title boundaries with Registers of Scotland. This process is now complete and will allow Places for People to finalise its offer. At the current time this is an impact on programme only as the amount being offered for the site is not yet known.

4.6 The third is Fountainbridge where there is still work in progress (WIP) that may be of value to the Council's development partner once appointed, and as such the corporate closure has been delayed allowing any potential payment for the WIP to take place. This is a pragmatic delay and has an impact on programme only.

4.7 The programme in terms of projects transferring into the Council and estimated corporate closure dates is set out in Appendix 2. This reflects the changes identified above. While it is now envisaged that some projects/subsidiaries will take longer to close that originally thought, the overall timescales for full corporate closure remain unchanged at Q3 2022.

4.8 The audited consolidated financial statements for The EDI Group Limited for the year ended 31 December 2018 were approved by the EDI Board on 8 August 2019. The overall financial performance was a net loss of £0.46m (compared to a loss of £2.9m in 2017) and retained earnings of £1.4m (compared to £1.9m in 2017). This is in line with transition strategy assumptions. The independent auditor opined that the statements gave a true and view of the state of the company and were properly prepared in line with International Financial Reporting Standards and the requirements of the Companies Act 2006. The directors' report and consolidated financial statements (including the independent auditor's report) are attached as Appendix 3.

5. Next Steps

5.1 The company activities will continue through to full corporate closure and update reports will be provided to the Committee.

5.2 This report will be referred to Governance, Risk and Best Value Committee so the year-end financial position can be reviewed.

6. Financial impact

6.1 This report is for noting and there are no financial impacts directly arising from this decision.

6.2 The projected special dividend to the Council from closing EDI is currently £8.225m. This is lower than the £8.5m previously reported to the Committee, largely due to lower-than-projected profits on the Market Street hotel development.

7. Stakeholder/Community Impact

7.1 Consultation and engagement with local communities and delivery partners is ongoing as part of individual projects.

8. Background reading/external references

8.1 "The EDI Group Ltd – Transition Strategy" – report to the Housing and Economy Committee, 2 November 2017 (B agenda)

8.2 "The EDI Group – Update Report – report to the Housing and Economy Committee, 6 June 2019

9. Appendices

9.1 Appendix 1 – Project updates

9.2 Appendix 2 – Project timelines

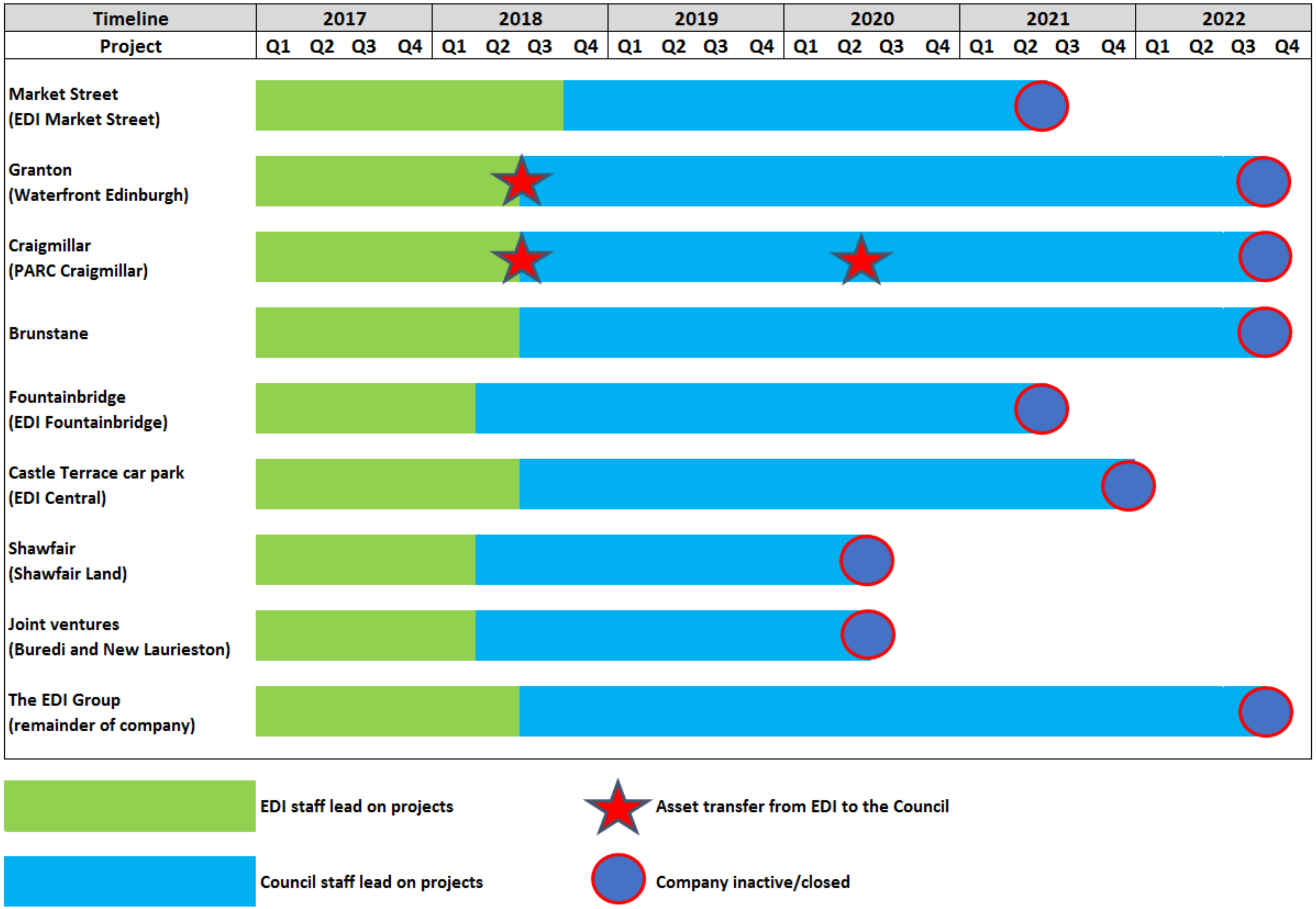
9.3 Appendix 3 – The EDI Group Limited: Directors' report and consolidated financial statements for the year ended 31 December 2018

Appendix 1 – Project updates

Market Street (EDI Market Street)	
Description Subsidiary company of EDI set up to take forward a hotel development on Market Street.	
Position as of January 2020 The Market Street hotel achieved practical completion in November 2018, nine months behind the originally envisaged completion date. Council officers acting on behalf of EDI are continuing to negotiate with the contractor and the client to settle financial claims. The dissolution of EDI Market Street is now expected to be delayed until 2021.	
RAG status	Amber
Granton (Waterfront Edinburgh)	
Description Land and buildings at Granton along with shares in a joint venture with land in Granton.	
Position as of January 2020 The land and buildings wholly owned by Waterfront Edinburgh have been transferred to the Council and now form part of the wider Granton Waterfront regeneration project led by the Housing and Regeneration service. The Council's interest in the joint venture company is being managed by Council officers reporting to the EDI Board with work on an exit strategy ongoing. The projected company closure date remains 2022.	
RAG status	Green
Craigmillar (PARC Craigmillar)	
Description Land and buildings at Craigmillar.	
Position as of January 2020 The transfer of assets from PARC Craigmillar to the Council (including the loan book for shared equity properties) has been completed other than The White House, and the South Park, both of which should transfer in 2020. A final offer is awaited in relation to the sale of plots K and L in Greendykes South. The options agreement will be renounced once final transfers have taken place. The projected company closure date remains 2022.	
RAG status	Amber
Brunstane (The EDI Group)	
Description Housing development site with planning permission in place on land owned by EDI and option agreement in place with adjoining land owner. The Council also has an entitlement for profit share in relation to access rights.	
Position as of January 2020 The sale of the land is underway and is expected to be completed in early 2020.	
RAG status	Green
Fountainbridge (EDI Fountainbridge)	
Description Brownfield development site owned by the Council.	
Position as of January 2020 The Council is in the process of appointing a development partner to take forward the development of the site on behalf of the Council. It is anticipated that the partner will be appointed in Q1 2020. There is 'work in progress' within EDI Fountainbridge from which it is anticipated value can be realised via the development partner, so the dissolution of the company has been postponed until after the partner is appointed and final accounts have been submitted.	
RAG status	Amber

Castle Terrace car park (EDI Central)	
Description EDI Central is entitled to payments from NCP as settlement following a court case regarding a lease arrangement at the Castle Terrace car park.	
Position as of January 2020 One further payment is due in 2020; this will be paid up to The EDI Group and then on to the Council via a dividend. This is being overseen by the Council's Finance service. The projected company closure date has been brought forward to 2021.	
RAG status	Green
Shawfair (Shawfair Land)	
Description Shawfair Land formerly held a security over land at the South East Wedge.	
Position as of January 2020 Shawfair Land has released the security in return for a cash payment. Once final accounts for the company have been audited and submitted to Companies House, officers will proceed with winding-up the company. It is expected that the company will be wound-up during 2020.	
RAG status	Green
Joint ventures (Buredi and New Laurieston (Glasgow))	
Description Inactive joint venture companies that previously carried out private housing developments.	
Position as of January 2020 Agreement has been reached with joint venture partners to close the two companies. The Buredi joint venture has been wound-up. The winding-up of the New Laurieston (Glasgow) joint venture, which is being taken forward by The Miller Group, is slightly behind schedule but expected to be completed in early-2020.	
RAG status	Green
The EDI Group (remainder of company)	
Description The parent company of all subsidiaries.	
Position as of January 2020 Other than Brunstane, no projects sit directly within the parent company. The Council will oversee the repayment of loans and capital up to 2021 as PARC Craigmillar and EDI Central receive payments and pay these up to the parent company. The projected company closure date remains 2022.	
RAG status	Green

Appendix 2 – Project timelines at Jan 2020



Financial Statements

31 December 2018

EDIGROUP

THE EDI GROUP LIMITED

Directors' report and consolidated financial statements

For the year ended 31 December 2018

Contents

THE EDI GROUP LIMITED

Company information

For the year ended 31 December 2018

Board of directors	K Campbell L Cameron I Whyte	
Company registration	*Registered office:*	Waverley Court 4 East Market Street Edinburgh EH8 8BG
	Registered number:	SC110956
Bankers	The Royal Bank of Scotland plc Bank of Scotland plc	
Auditor	Scott-Moncrieff Chartered Accountants & Statutory Auditor Exchange Place 3 Semple Street Edinburgh EH3 8BL	

The Directors present their strategic report and audited financial statements for 2018 financial year.

Principal activities, business review and future developments

The EDI Group Limited (EDI) is a company limited by shares which is incorporated and domiciled in Scotland. It is a wholly owned subsidiary of the City of Edinburgh Council and run as an arm's length operation with the role of investing in the development of land and buildings which are surplus to the Council's operational requirements and leading on the property aspects of regeneration in specific areas of the City.

In February 2017 the Council conducted a review of its approach to the use of surplus land and its interactions with the property market. The Council concluded that the group will have no future pipeline of projects and therefore took the decision that the group and this company should begin a process of managed closure. The Council as shareholder has instructed the directors to begin this process.

The company has now ceased development activities other than the Market Street, Fountainbridge and Brunstane projects and the majority of the remaining land and buildings transferred to the Council in May 2018. There will be a reduced level of development and property related activity for the next few years. Non-property assets will be realised in accordance with their contractual terms and external liabilities and obligations will be settled in full. Financial projections for the closure process show that the group and each company will have sufficient funds to meet all external liabilities and obligations and to repay share capital in full. The intention is that each company will become dormant with a timespan covering 2 to 10 years.

Current development activity:

The Market Street hotel construction reached practical completion in November 2018 and negotiations on financial claims are in the final stages. The transfer of assets from PARC Craigmillar to the City of Edinburgh Council has been completed other than plots K and L, The Whitehouse and two park developments. The sale of land at Brunstane is expected to complete in 2019.

Our performance

The financial performance of the group in 2018 was a net loss of £0.46m compared to a loss of £2.9m in 2017. Retained earnings reduced to £1.4m from £1.9m. As anticipated, while the year's results have been influenced by the implementation of the closure strategy described above, the longer-term position remains in line with transition strategy assumptions.

The group had a cash balance of £2.3m (2017: £2.7m). The sales expected in 2019 will be profitable and cash balances are expected to be higher at the end of 2019. No dividend was proposed or paid in 2018 but a dividend of £1.047m was agreed by the Board on 25 June 2019 and as part of the closure strategy it is envisaged that dividends will be paid in 2020.

Risks and environment

Although the scope of our activity has reduced significantly, the risk factors influencing the remaining assets are a combination of the general economy of Edinburgh and the national housing market. The Shareholder and the directors recognise that the process of managing the completion of our current activities and transition of the remaining projects to Council control and management has brought specific financial, legal, administration and people risks and these have been managed.

This report was approved by the board on 8 August 2019 and signed on its behalf by:

L M Cameron
Director
4 East Market Street
Edinburgh
EH8 8BG

The directors present their annual report and audited financial statements for the year ended 31 December 2018.

Principal activities and business review

Details of principal activities, market circumstances and risk and performance indicator are included in the Strategic Report. The directors do not recommend payment of a dividend at the year-end (2017: £nil).

Directors

The directors who held office during the year, and subsequently, were as follow:

E Adair	- Resigned 30 May 2018
G Barrie	- Resigned 14 March 2018
K Campbell	- Appointed 27 March 2018
L Cameron	
H Rutherford	- Resigned 30 May 2018
I Whyte	

Political and charitable contributions

The company made no political or charitable contributions during the year.

Going concern

As described in the Strategic Report, the group's ultimate shareholder, The City of Edinburgh Council, has concluded that the group should begin a process of closure. The company has now ceased development activities other than the Market Street and Brunstane projects.

The opinion of the directors is that the decision of the shareholder and the active implementation of the decision will lead to the company ceasing to trade in the future and it is therefore not appropriate to prepare the accounts on a going concern basis.

The closure strategy approved by both the shareholder and the directors is that all land and buildings which are not actively in development will transfer to the Council at book value and all liabilities due to the Council will be settled at book value. Much of this activity has now concluded or is in the process of concluding. Third party financial assets will be realised and third party liabilities will be settled according to their contractual terms.

In these accounts each asset and liability will be valued to reflect the closure strategy intention for that asset or liability. The details are described in the notes.

The Company, and the Group, as part of a regular evaluation of liquidity risk, has modelled the principal risks and uncertainties in its cash flow projections for the envisaged closure strategy. After discussions with the shareholder and after assessing the availability of cash balances under a range of scenarios, the Directors have formed the opinion that the Company has sufficient resources to meet all external liabilities and obligations and to repay its share capital in full.

Responsibilities of the directors

The directors are responsible for preparing the directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group and parent company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Responsibilities of the directors (continued)

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and the company and of the profit or loss of the group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group and company's transactions and disclose with reasonable accuracy at any time the financial position of the company and the group and enable them to ensure that the financial statements comply with the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Disclosure of information to auditor

In so far as the directors are aware:

- there is no relevant audit information of which the company's auditor is unaware; and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

Auditor

The auditor, Scott-Moncrieff, is deemed to be reappointed under Section 487 (2) of the Companies Act 2006.

This report was approved by the board on 8 August 2019 and signed on its behalf by:

L M Cameron
Director
4 East Market Street
Edinburgh
EH8 8BG

Opinion

We have audited the financial statements of The EDI Group Limited for the year ended 31 December 2018 which comprise consolidated statement of profit or loss and other comprehensive income, consolidated and company statement of financial position, consolidated and company statement of changes in equity, consolidated and company statement of cash flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion, the financial statements:

- give a true and fair view of the state of the group and company's affairs as at 31 December 2018 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of matter – Basis of preparation

We draw attention to notes 2 and 2b in the financial statements, which describe the basis of preparation. The directors have prepared the financial statements using a non-going concern basis of accounting as they consider that the company is not a going concern. Our opinion is not modified in respect of this matter.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the Directors' Responsibilities Statement set out on pages 3 and 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs(UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Councils website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Nick Bennett

Nick Bennett, *Senior Statutory Auditor*

For and on behalf of Scott-Moncrieff, Statutory Auditor

Exchange Place 3
Semple Street
Edinburgh
EH3 8BL

Date: 8 August 2019

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2018

	Note	2018 £'000	2017 £'000
Continuing Operations			
Revenue	3	3,350	3,848
Cost of sales		(2,527)	(3,697)
Gross (loss)/profit		823	151
Government grant release	21	138	183
Administrative expenses		(1,280)	(2,512)
Work in progress written off		60	(2,681)
(Loss)/Profit from operations	4	(259)	(4,859)
Loss on disposal		(82)	(10)
Finance income	6	54	61
Finance costs	7	(152)	(218)
Other income	5	4	5
Loss/(gain) on settlement	26	(152)	733
Movement in fair value of investment property	11	-	80
(Loss)/profit before income tax expense		(587)	(4,208)
Income tax credit	8	128	1,264
(Loss)/profit for the year from continuing operations		(459)	(2,944)
Net (loss)/profit for the year		(459)	(2,944)
Attributable to:			
Equity holders of the parent		(459)	(2,944)
Other comprehensive income:			
Items that will be reclassified subsequently to profit and loss			
Increase in fair value of available for sale financial assets		-	14
Tax relating to items that will be reclassified	8	-	-
		-	14
Items that will not be reclassified subsequently to profit and loss			
Actuarial gain/(loss) on defined benefit pension scheme	26	-	591
Tax relating to items that will not be reclassified	8	-	(351)
		-	240
Other comprehensive income/(expenditure)		-	254
Total comprehensive (expenditure)/income for the year		(459)	(2,690)
Attributable to:			
Equity holders of the parent		(459)	(2,690)

The accompanying notes form part of these financial statements.

THE EDI GROUP LIMITED

Consolidated Statement of Financial Position

As at 31 December 2018

	Note	Consolidated Group 2018 £'000	2017 £'000
Non-current assets			
Property, plant and equipment	10	-	27
Investment property	11	220	430
Investments in joint ventures and associates	13	269	269
Available for sale financial assets	12	-	619
Deferred tax asset	22	-	-
Total non-current assets		489	1,345
Current assets			
Cash and cash equivalents	23	2,333	2,689
Trade and other receivables	15	5,167	8,195
Inventories	14	9,595	10,703
Total current assets		17,095	21,587
TOTAL ASSETS		17,584	22,932
Equity and Liabilities			
Equity attributable to equity holders of the parent			
Contributed equity	24	8,500	8,500
Retained earnings		1,442	1,901
Capital contribution reserve		-	-
Total equity		9,942	10,401
Liabilities			
Non-current liabilities			
Other financial liabilities	17	-	3,500
Retirement benefit obligation	26	-	567
Provisions	17	-	-
Total non-current liabilities		-	4,067
Current liabilities			
Trade and other payables	16	2,382	3,052
Current tax payable	16	-	2
Provisions	19	1,289	2,581
Other financial liabilities	18	3,971	2,691
Deferred income	21	-	138
Total current liabilities		7,642	8,464
Total liabilities		7,642	12,531
TOTAL EQUITY AND LIABILITIES		17,584	22,932

The financial statements were approved by the board of directors and authorised for issue on 8 August 2019 and are signed on its behalf by:

Lezley Marion Cameron, Director

K Campbell, Director

Company number: SC110956

The accompanying notes form part of these financial statements.

THE EDI GROUP LIMITED

Company Statement of Financial Position

As at 31 December 2018

	Note	Parent Entity 2018 £'000	2017 £'000
Non-current assets			
Property, plant and equipment	10	-	27
Investments in subsidiaries, joint ventures and associates	13	7,592	7,951
Deferred tax assets	22	-	-
Total non-current assets		7,592	7,978
Current assets			
Cash and cash equivalents	23	243	112
Trade and other receivables	15	4,557	5,858
Inventories	14	4,119	3,999
Total current assets		8,919	9,969
TOTAL ASSETS		16,511	17,947
Equity and Liabilities			
Equity attributable to equity holders of the parent			
Contributed equity	24	8,500	8,500
Retained earnings		2,573	4,111
Capital contribution reserve		30	30
Total equity		11,103	12,641
Liabilities			
Non-current liabilities			
Other financial liabilities	17	-	3,500
Retirement benefit obligation	26	-	567
Total non-current liabilities		-	4,067
Current liabilities			
Trade and other payables	16	3,168	435
Current tax payable	16	-	-
Other financial liabilities	18	2,240	-
Provisions	19	-	804
Total current liabilities		5,408	1,239
Total liabilities		5,408	5,306
TOTAL EQUITY AND LIABILITIES		16,511	17,947

The financial statements were approved by the board of directors and authorised for issue on 8 August 2019 and are signed on its behalf by:

Lezley Marion Cameron

Lezley Marion Cameron, Director

K Campbell, Director

Company number: SC110956

The accompanying notes form part of these financial statements.

Consolidated and Company Statement of Changes in Equity

As at 31 December 2018

Group

	Capital contribution reserve £'000	Contributed equity £'000	Retained earnings £'000	Total £'000
Balance at 1 January 2017	2,200	8,500	2,391	13,091
Release of capital contribution reserve	(2,200)	-	2,200	-
Loss from continuing operations	-	-	(2,944)	(2,944)
Other comprehensive income for the year	-	-	254	254
Balance at 31 December 2017	-	8,500	1,901	10,401
Balance at 1 January 2018	-	8,500	1,901	10,401
Release of capital contribution reserve	-	-	-	-
Loss from continuing operations	-	-	(459)	(459)
Other comprehensive income for the year	-	-	-	-
Balance at 31 December 2018	-	8,500	1,442	9,942

Company

	Capital contribution reserve £'000	Contributed equity £'000	Retained earnings £'000	Total £'000
Balance at 1 January 2017	870	8,500	2,195	11,565
Profit from continuing operations	-	-	836	836
Other comprehensive income for the year	-	-	240	240
Release of capital contribution reserve	(840)	-	840	-
Balance at 31 December 2017	30	8,500	4,111	12,641
Balance at 1 January 2018	30	8,500	4,111	12,641
Profit from continuing operations	-	-	(1,538)	(1,538)
Other comprehensive income for the year	-	-	-	-
Release of capital contribution reserve	-	-	-	-
Balance at 31 December 2018	30	8,500	2,573	11,103

The capital contribution reserve represents the excess of fair value over the amount paid for the shareholdings either gifted or sold to the group.

The accompanying notes form part of these financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	Note	2018 £'000	2017 £'000
Cash flow from operating activities			
Total comprehensive (loss)/profit for year		(459)	(2,690)
Adjustments for:			
Taxation credit		(128)	(913)
Depreciation		27	68
Interest received		(54)	(53)
Interest paid		152	218
Loss on disposal of available for sale assets		82	10
Net revaluations of non-current assets		-	(129)
Release of deferred grant income		(138)	(183)
Decrease in inventories		1,108	1,762
Decrease/(Increase) in receivables		3,028	(2,217)
(Decrease)/Increase in payables		(1,962)	1,516
Decrease in defined benefit obligation		(415)	(1,190)
Taxation received/(paid)		(26)	218
Net cash flows from operating activities		1,215	(3,583)
Cash flow from investing activities			
Purchase of plant, property and equipment		-	(17)
Proceeds from sale of available for sale assets		747	111
Interest received		54	53
Net cash flows from investing activities		801	147
Cash flow from financing activities			
(Decrease)/Increase in loan stock borrowings		(2,220)	1,590
Interest paid		(152)	(218)
Net cash flows from financing activities		(2,372)	1,372
Net decrease in cash and cash equivalents		(356)	(2,064)
Cash and cash equivalents at beginning of year		2,689	4,753
Cash and cash equivalents at end of year	23	2,333	2,689

The accompanying notes form part of these financial statements

1. Presentation of financial statements

The company's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006. The Company has taken advantage of the exemption available under section 408 of the Companies Act 2006 from presenting a Company Statement of Profit or Loss and Other Comprehensive Income.

New accounting standards adopted during the year

The company has adopted the following amended IFRS as of 1 January 2018:

- IAS 1 "Presentation of Financial Statements": this amendment arises from the issue of IFRS 9 and deals with the abolition of the available-for-sale category of financial assets, the presentation and disclosure of gains and losses arising on financial assets stated at amortised cost, and takes account of the revised reclassification rules under IFRS 9 as compared with IAS 39.
- IAS 39 "Financial Instruments: Recognition and Measurement": this amendment arises from the issue of IFRS 9 and primarily removes items from the scope of the standard, insofar as they dealt with by IFRS 9.
- IAS 40 "Investment Property": this amendment clarifies the requirement to transfer a property to or from investment property when (and only when) there is a change in use. This amendment has not had any impact on the company.
- IFRS 7 "Financial Instruments: Disclosures": this amendment arises from the issue of IFRS 9. The amendment reflects the replacement of the four categories of financial asset under IAS 39 with the three under IFRS 9. All of the IFRS 7 disclosures by category of financial asset have had to be altered to reflect the new categorisation.
- IFRS 9 "Financial Instruments": this standard replaces IAS 39, dealing with classification, recognition and measurement, de-recognition, impairment and hedge accounting (except for macro hedging) in relation to financial instruments. Parc Craigmillar Limited's available for-sale financial assets were therefore reclassified and held at fair value as of 1 January 2018 with movements being taken to profit-and-loss prior to their disposal during the year. Whilst this amendment has had a significant impact on the recognition and measurement of the company's financial instruments, there is not considered to be a material impact on the financial statements in the current or previous year.

Guidance in issue but not in force

IAS 8 requires disclosure of guidance in issue but not in force. The minimum disclosure relates to guidance issued by 31 December 2018, and with potential effect.

International Accounting Standards and Interpretations	Effective for periods beginning on or after
IFRS 16, Leases	1 January 2019
IAS 12, Income Taxes*	1 January 2019

* Not yet adopted for use in the European Union

The directors have reviewed the requirements of the new standards and interpretations listed above and they are not expected to have a material impact on the group's financial statements in the period of initial application.

1. Presentation of financial statements (cont'd)

New standards and interpretations issued and adopted early

The International Accounting Standards Board ("IASB") and IFRIC have also issued the following accounting standard, with an effective date for financial years beginning after the date of these financial statements, which has been adopted early:

International Accounting Standards and Interpretations		*Effective for annual periods beginning on or after*
IFRS 15	Revenue from contracts with customers	1 January 2018

The above accounting standard has been adopted with a date of initial application of 1 January 2015.

The adoption of the above accounting standard has had a significant impact on measuring revenue from contracts with customers. By early adopting this standard, revenue on contracts with customers has been recognised in line with the prescribed accounting treatment. See further details at the 'Revenue recognition' accounting policy in note 2 to these financial statements.

Whilst the adoption of the above accounting standard has a significant impact on measuring revenue from contracts with customers, there is not considered to be a material impact on the financial statements in the previous year. There have therefore been no transitional adjustments required to the financial statements.

2. Statement of significant accounting policies

The consolidated financial statements of The EDI Group Limited have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU), IFRIC Interpretations and the Companies Act 2006 applicable to companies reporting under IFRS.

The report is also prepared on an accruals basis and is based on historic costs and does not take into account changing money values or, except where specifically stated, current valuations of non-current assets.

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

The following significant accounting policies, which are consistent with the previous period unless otherwise stated, have been adopted in the preparation of this report:

a. Basis of consolidation

The consolidated financial statements are prepared by combining the financial statements of all the entities that comprise the economic entity, being the company (the parent entity) and its controlled entities as defined in accounting standard IAS 27 "Consolidated and Separate Financial Statements". A list of controlled entities appears in note 13 to the financial statements. Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements.

All inter-company balances and transactions between entities in the economic entity, including any unrealised profits or losses, have been eliminated on consolidation.

Where a controlled entity has left the economic entity during the year its operating results have been included until the date control ceased.

2. Statement of significant accounting policies (cont'd)

b. Going concern

The opinion of the directors is that the decision of the shareholder to cease development activities and the active implementation of that decision will lead to the company ceasing to trade in the future and it is therefore not appropriate to prepare the accounts on a going concern basis.

The closure strategy approved by both the shareholder and the directors is that all land and buildings which are not actively in development will transfer to the Council at book value and all liabilities due to the Council will be settled at book value. Third party financial assets will be realised and third party liabilities will be settled according to their contractual terms

In these accounts each asset and liability will be valued to reflect the closure strategy intention for that asset or liability. The details are described in the notes.

The Company, and the Group, as part of a regular evaluation of liquidity risk, has modelled the principal risks and uncertainties in its cash flow projections for the envisaged closure strategy. After discussions with the shareholder and after assessing the availability of cash balances under a range of scenarios, the Directors have formed the opinion that the Company has sufficient resources to meet all external liabilities and obligations and to repay its share capital in full.

c. Investments in associates and joint ventures

The group's share of its associates' / joint ventures' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the group's share of losses in an associate / joint venture equals or exceeds its interest in the associate / joint venture, including any other unsecured receivables, the group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate / joint venture.

Unrealised gains on transactions between the group and its associates / joint ventures are eliminated to the extent of the group's interest in the associates / joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the group.

d. Income tax

The charge for income tax expense for the year is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using tax rates that have been enacted or are substantively enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future profits will be available against which deductible temporary differences can be utilised.

The amount of benefit brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

2. Statement of significant accounting policies (cont'd)

d. Income tax (continued)

In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction which affects neither the tax profit nor the accounting profit.

e. Property, plant and equipment

Each class of property, plant and equipment is carried at cost less, where applicable, any accumulated depreciation.

Plant and equipment

The carrying amount of property, plant and equipment is reviewed annually by the directors to ensure it is not in excess of the recoverable amount from those assets. The recoverable amount is assessed on the basis of the expected net cash flows which will be received from the assets employment and subsequent disposal. The expected net cash flows have not been discounted to present values in determining recoverable amounts.

Depreciation

The depreciable amount of all fixed assets is depreciated on a straight line basis over their estimated useful lives to the company commencing from the time the asset is held ready for use.

Given the closure strategy outlined in Note 2b, the useful life of all classes of fixed assets was reassessed and adjusted in the prior year. The remaining life of all asset classes was assessed as being to 30 June 2018, to coincide with the vacation of the company's offices.

All fixed assets were therefore fully depreciated in the year.

Derecognition and disposal

An item of furniture or equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in statement of comprehensive income in the year the asset is derecognised.

f. Acquisition of assets

Assets acquired are recorded at the cost of acquisition, being the purchase consideration determined as at the date of acquisition plus costs incidental to the acquisition.

In the event that settlement of all or part of the cash consideration given in the acquisition of an asset is deferred, the fair value of the purchase consideration is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

g. Leases

Leases of fixed assets, where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership, are transferred to the entities within the economic entity are classified as finance leases. Finance leases are capitalised, recording an asset and a liability equal to the present value of the minimum lease payments, including any guaranteed residual values. Leased assets are depreciated on a straight line basis over their estimated useful lives where it is likely that the economic entity will obtain ownership of the asset or over the term of the lease. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

2. Statement of significant accounting policies (cont'd)

g. Leases (cont'd)

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

h. Inventories

Inventory is stated at the lower of cost and net realisable value. Cost relates to purchase costs and direct labour costs incurred in bringing the inventories up to a saleable state.

i. Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in income in the period in which they are incurred.

j. Impairment

The carrying value of all assets are reviewed for impairment at each reporting date, with the recoverable amount being estimated when events or changes in circumstances indicate that the carrying value may be impaired.

The recoverable amount of all assets is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which it belongs, unless the asset's value in use can be estimated to be close to its fair value.

An impairment exists when the carrying value of the asset or cash-generating units exceeds its estimated recoverable amount. The asset or cash-generating unit is then written down to its recoverable amount.

k. Employee entitlements and benefits

Provision is made for the company's liability for employee entitlements arising from services rendered by employees to the balance sheet date. Employee entitlements expected to be settled within one year together with entitlements arising from wages and salaries, annual leave and sick leave which will be settled after one year have been measured at their nominal amount. Other employee entitlements payable later than one year have been measured at an amount that is considered to approximate the present value of the estimated future cash outflows to be made for those entitlements.

The group contributes to a variety of money purchase schemes for employees and to a defined benefits scheme operated on behalf of local council employees. Contributions to the schemes are charged to the profit and loss account as they arise. The assets of the scheme are held separately from those of the company in independently administered funds. The group has fully adopted the accounting principles as required by International Accounting Standard 19 – Employee Benefits.

2. Statement of significant accounting policies (cont'd)

l. Financial instruments

Financial instruments are measured initially at cost, which is the fair value of what was paid or received to acquire or incur them.

After initial recognition, financial assets and liabilities may be classified into the following categories: financial assets or liabilities at fair value through profit or loss; held to maturity investments; available for sale financial assets; loans and receivables and other financial liabilities at amortised cost.

The company has the following categories of financial assets and liabilities:

Trade and other receivables

Trade and other receivables are initially measured at fair value, which is the original invoice amount, and subsequently measured at amortised cost, using the effective interest method. A provision for impairment is accounted for when management deems that specific receivable balances will not be collected. The amount of the impairment loss is recognised in the income statement. Bad debts are written off when they are identified as being irrecoverable.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand.

Trade and other payables

Trade payables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method, unless the effect would not be material.

m. Investment property

Investment property is property held to generate rental income and/or for capital appreciation. Investment property is initially measured at fair value and subsequently revalued annually to its fair value at the balance sheet date.

Gains or losses arising from changes in the fair value of investment property are included in net profit or loss for the period in which they arise.

n. Investments

Investments in subsidiary and associated undertakings are stated at cost less provision for permanent impairment.

o. Available for sale financial assets

Available for sale assets arise when the company sells a property under a shared equity scheme and represents a percentage of the value of the property sold.

Available for sale financial assets are initially measured at fair value and subsequently revalued annually at its fair value at the balance sheet date.

Gains or losses arising from changes in the fair value of available for sale financial assets are included in net profit or loss for the period in which they arise.

2. Statement of significant accounting policies (cont'd)

p. Revenue

Revenue is measured at the fair value of consideration received from income from the group's ordinary activities. Revenue is stated received net of discounts, sales and other taxes. Revenue from sales is recognised when persuasive evidence of an arrangement exists, the significant risks and rewards of ownership have been transferred to the buyer, the price is fixed and determinable and collectively probable.

Rentals receivable under operating leases are recognised in the income statement over the term of the lease on a straight line basis.

Revenue from dividend income is recognised when the rights of the shareholder to receive the payment are determined.

q. Critical accounting estimates and judgements

The Directors evaluate estimates and judgements incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and from within the group.

Revenue recognition

Under IFRS 15 there is a requirement to recognise revenue as and when a performance obligation is satisfied. The primary activity of the company is project management in relation to the construction of a hotel. Upon completion of this they will receive a fixed sum of £1.5m. As the performance obligation in relation to this is satisfied over time the attributable revenue should therefore be recognised in line with this. The directors have taken the view that the best estimation of attributable revenue is based on an output method measured by the stage of completion of the hotel at the year-end date, as this amounts to services rendered in completion of their performance obligation.

The output method is based on invoices received by independent contractors at the year-end which detail the value of completion to date. The amount of revenue to be recognised is then measured as a percentage of actual completion to date against the expected total cost of completion.

Given the company's experience in the sector, reliance can be placed on the budgeted cost of the project, therefore using this as a benchmark is deemed to be a faithful depiction of the stage of completion of the contract.

Transaction price allocated to the remaining performance obligations

	2018
	£
Project management of Market Street Hotel	-

The hotel was handed over to HMI on 23 November 2018.

r. Key estimates – impairment

The group assesses impairment at each reporting date by evaluating conditions specific to the group that may lead to an impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates.

2. Statement of significant accounting policies (cont'd)

s. Provisions

Provisions are recognised when the company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made.

Further details of the provisions recognised in the year can be found at note 19.

t. Value added tax

Revenues, expenses and assets are recognised net of the amount of value added tax (VAT), except:

i. Where the amount of VAT incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
ii. For receivables and payables, which are recognised inclusive of VAT.

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

Cash flows are included in the statement of cash flows on a gross basis. The VAT component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

u. Grants receivable

Grants are accounted for by the company when receivable.

Grants receivable in respect of contributions to fixed assets in course of construction and property development work in progress costs are credited to deferred income.

Where grants are given for a specific purpose they are released to the profit and loss account to match the cost of completed project

3. Revenue

An analysis of revenue is as follows:

	Consolidated Group		Parent Entity	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Rental income	5	47	-	-
Rendering of services	798	594	-	-
Property sales	2,547	3,207	1,050	-
	3,350	3,848	1,050	-

4. Profit from operations

	Consolidated Group		Parent Entity	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
After charging				
Auditor's remuneration:				
Audit	35	47	5	17
Non-Audit	7	12	2	7
Operating lease rentals:				
Plant and machinery	75	75	75	75
Depreciation and other amounts written off tangible fixed assets:				
Owned	27	68	27	68

5. Other income

	Consolidated Group		Parent Entity	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Rental income	4	5	-	-
	4	5	-	-

Rental income is from investment properties in relation to property development in Parc Craigmillar Limited.

6. Finance income

	Consolidated Group		Parent Entity	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Interest on bank deposits	-	8	-	-
Other interest received	54	53	3	-
Transfer pricing interest on group balances	-	-	16	2
	54	61	19	2

7. Finance costs

	Consolidated Group		Parent Entity	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
On secured loan stock held by the City of Edinburgh Council	152	205	179	203
Net return on pension assets	-	49	-	49
Gain on revaluation	-	(36)	-	-
	152	218	179	252

8. Income tax expense

	2018 £'000	2017 £'000
Current tax:		
- Adjustments in respect of prior periods		(218)
- Group relief receivable	(128)	(1,046)
Current tax credit for year attributable to the company and its subsidiaries	(128)	(1,264)
Total deferred tax	-	351
	(128)	(913)
The tax (credit)/charge is allocated in the financial statements as follows:		
Profit and loss account	(128)	(1,264)
Statement of comprehensive income	-	351

Domestic income tax is calculated at 19.00% (2017: 19.25%) of the estimated assessable profit for the year.

The charge for the year can be reconciled to the loss per the income statement as follows:

	2018 £'000	2017 £'000
Loss/(profit) on ordinary activities before taxation	(587)	(4,208)
Tax on (loss)/profit at the effective rate of corporation tax of 19% (2017 – 19.25%)	(111)	(810)
Effects of:		
Expenses that are not taxable for tax purposes	36	448
Non-taxable income	-	(971)
Utilisation of tax losses	-	-
Deferred tax asset not recognised	(24)	(60)
Fixed asset differences	-	-
Other timing differences	-	347
Accounting adjustments and transfers	(2)	-
Adjustments in respect of prior periods	-	(218)
Adjust deferred tax to average rate	(27)	-
Group relief surrendered	118	1,046
Group relief claimed	-	-
Losses surrendered	(118)	(1,046)
Current tax credit for year attributable to the company and its subsidiaries	(128)	(1,264)

9. Employee benefits expense

The average number of persons employed by the group (including directors) during the year was 7 (2017: 15), and at year end the group had no employees. The aggregate payroll costs of these persons, included within administrative expenses, were as follows:

	Consolidated Group		Parent Entity	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Wages and salaries	421	711	421	711
Social security costs*	40	107	40	107
Other pension costs*	87	406	87	406
Other staff costs	7	27	7	27
Net pension fund services gains	-	85	-	85
Redundancy salary costs*	4	494	4	494
	559	1,830	559	1,830

* As noted in note 2b, the group is ceasing to trade and redundancy costs were incurred in 2018 as a consequence. Due to the requirements of IAS 19 – Employee Benefits, the group determined that the conditions were met for the provision of redundancy costs in the prior year financial statements. The total redundancy costs were estimated at £804,000 (see note 19). Pension strain costs of £281,000 were included in 'Other pension costs' however only £186,000 of such costs were incurred during the year, with the remaining unused provision credited against administrative expenses. Employer's national insurance costs associated with the redundancy costs of £29,000 were included in 'Social security costs', with an additional £6,000 of national insurance payments incurred when the costs crystallised in the year. An additional £4,000 of redundancy salary costs were incurred when the costs crystallised in the year.

Directors' remuneration
Group and company

	2018 £'000	2017 £'000
Directors' emoluments	55	105
Pension contributions**	13	84
Redundancy salary costs**	1	83
	69	272
Highest paid director:		
Directors' emoluments	55	105
Pension contributions**	13	84
Redundancy salary costs**	1	83
	69	272

No remuneration is paid to non-executive directors.
Retirement benefits are accruing to one (2017: one) director under a defined benefit scheme. Directors' remuneration costs disclosed above exclude employer's national insurance costs of £15,000 (2017: £21,000).

** As outlined above provision was made for redundancy costs due to directors in the prior which were incurred in 2018 because of the closure process. Total redundancy costs relating to directors equalling £155,000 were provided for in the prior year. Included within 'Pension contributions' above was £65,000 of pension strain costs relating to redundancies, of which only £54,000 was incurred with the remaining provision credited to administrative expenses. Social security costs relating to redundancies for directors equal to £7,000 were provided for in the prior year and incurred in 2018. An additional £1,000 of redundancy salary costs were incurred when the costs crystallised in the year.

10. Property, plant and equipment

	Furniture and equipment £'000	Computer equipment £'000	Leasehold equipment £'000	Total £'000
Group				
Cost or valuation				
At beginning of year	58	82	64	204
Additions	-	-	-	-
At end of year	58	82	64	204
Depreciation				
At beginning of year	52	76	49	177
Charge for year	6	6	15	27
At end of year	58	82	64	204
Net book value				
At 31 December 2018	-	-	-	-
At 31 December 2017	5	6	15	27

	Furniture and equipment £'000	Computer equipment £'000	Leasehold equipment £'000	Total £'000
Company				
Cost or valuation				
At beginning of year	58	82	64	204
Additions	-	-	-	-
At end of year	58	82	64	204
Depreciation				
At beginning of year	52	76	48	177
Charge for year	6	6	16	27
At end of year	58	82	64	204
Net book value				
At 31 December 2018	-	-	-	-
At 31 December 2017	5	6	16	27

11. Investment property

	Investment property £'000
Group	
Valuation	
At 1 January 2018	430
Sale during the year	(210)
At 31 December 2018	220
Net book value	
At 31 December 2018	220
At 31 December 2017	430

An investment property owned by Waterfront Edinburgh Limited was valued at £210,000 at 31 December 2017. This investment property was sold on 23 May 2018. The related rental income up until the point of sale recognised in the income statement during the year was £1,124 (2017: £8,948) along with direct operating expenses of £4,332 (2017: £11,017).

An investment property owned by Parc Craigmillar Limited was valued at £220,000 at 31 December 2017 by Messrs GVA Grimley, Chartered Surveyors on the basis of open market value for existing use. The valuation was carried out in accordance with the Practice Statement in RICS Appraisal and Valuation Manual. The related rental income recognised in the Statement of Profit or Loss and Other Comprehensive Income was £nil (2017: £nil) along with direct operating expenses of £nil (2017: £nil).

The directors, who are not qualified surveyors, are of the opinion that the fair value of the investment property continues to be £220,000 on the basis that the City of Edinburgh Council have, since the year end, offered to purchase the property from the company at this value.

12. Available for sale financial assets

	Available for sale financial assets £'000
Group	
Cost	
At 1 January 2018	619
Sales	(619)
Increase in fair value	-
At 31 December 2018	-
Net book value	
At 31 December 2018	-
At 31 December 2017	619

Parc Craigmillar Limited has retained an interest of up to 25% in certain residential development properties which were sold under a shared equity scheme. These assets are disclosed as 'Available for sale financial assets'. During the year these assets were sold to the City of Edinburgh Council as part of the transition strategy.

13. Fixed asset investments

Group

	Joint Ventures & Associated Undertakings 2018 £'000	Joint Ventures & Associated Undertakings 2017 £'000
Post-acquisition reserves		
At 1 January and 31 December	269	269
Net book value		
Loans to and share of net assets in joint ventures and associated undertakings	269	269

Company

	Subsidiary undertakings £'000
Cost	
At 1 January 2018	7,951
Impairment charge	(359)
At 31 December 2018	7,592
Net book value	
At 31 December 2018	7,592
At 31 December 2017	7,951

13. Fixed asset investments (continued)

The directors assessed the recoverability of the investments in subsidiary undertakings and considered an impairment charge of £359,000 (2017: £919,000) was appropriate to write down the value of the investments in subsidiary undertakings.

The principal companies in which the company's interest is more than 10% are as follows:

	Principal Activity	Country of Registration	Percentage of Ordinary Share Capital Held
EDI (Industrial) Limited	Non-trading	Scotland	100%
Edinburgh Retails Investments Limited	Non-trading	Scotland	100%
EDI Central Limited	Property development	Scotland	100%
Shawfair Land Limited	Property development	Scotland	100%
Parc Craigmillar Limited	Regeneration	Scotland	100%
Parc Craigmillar Developments Limited (Subsidiary of Parc Craigmillar Limited)	Property development	Scotland	100%
Waterfront Edinburgh Limited	Property development and regeneration	Scotland	100%
Waterfront Edinburgh (Management) Limited (subsidiary of Waterfront Edinburgh Limited)	Non-trading	Scotland	100%
Caledonia Waterfront (Harbour Road) Limited (associate of Waterfront Edinburgh Limited)	Property development and letting of properties	Scotland	42.5%
New Laurieston (Glasgow) Limited	Property development	Scotland	45%
EDI Market Street Limited	Property development	Scotland	100%
EDI Fountainbridge Limited	Property development	Scotland	100%

All companies where greater than 50% of the share capital is held have been consolidated.

Where 50% or less of the share capital is held these companies have been consolidated using the equity accounting method. In the case of New Laurieston (Glasgow) Limited, The EDI Group's share of losses exceed the value of its interest in the company, and therefore no further losses have been recognised.

14. Inventories

	Consolidated Group		Parent Entity	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Development properties and associated costs	9,595	10,703	4,119	3,999

15. Trade and other receivables

	Consolidated Group		Parent Entity	
Current	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Trade receivables	1,217	1,298	-	-
Amounts owed by group & associated undertakings	150	1,073	4,463	5,685
Other debtors	2,018	1,422	11	71
Prepayments and accrued income	478	149	83	102
	3,863	3,942	4,557	5,858
Non-current				
Other debtors	1,304	4,253	-	-
	5,167	8,195	4,557	5,858

16. Trade and other payables

	Consolidated Group		Parent Entity	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Trade and other payables	304	1,174	39	64
Amounts due to group & associated undertakings	1,255	1,398	2,588	150
Other creditors	-	28	-	25
Corporation tax	-	2	-	-
Other taxation and social security	229	20	-	20
Accruals and deferred income	233	432	180	176
Retired benefit obligation	361	-	361	-
	2,382	3,054	3,168	435

17. Non-current liabilities

	Consolidated Group		Parent Entity	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Convertible unsecured loan stock (note 18)	-	-	2,240	3,500
Provisions (note 20)	-	-	-	-
	-	-	2,240	3,500

18. Convertible unsecured loan stock

The non-interest bearing loan stock is held by The City of Edinburgh Council, the company's ultimate parent undertaking. It bears no interest and is repayable on sale of associated land assets or cancellable on provision of community assets. Agreement has been reached with the Council that this loan stock will be settled as part of the closure process against the transfer of land and buildings to the Council.

The convertible unsecured loan stock is held by The City of Edinburgh Council, the company's parent undertaking. It bears interest at a variable rate and is repayable on 31 March 2018. The Council has agreed to the repayment being delayed and settled as part of the closure process against the transfer of land and buildings to the Council or in cash as assets are realised.

	Consolidated Group		Parent Entity	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Unsecured loan stock- non-interest bearing	1,731	2,691	-	-
Unsecured convertible loan stock 2018	2,240	3,500	2,240	3,500
	3,971	6,191	2,240	3,500

19. Provisions – current liabilities

	Consolidated Group		Parent Entity	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Infrastructure expenditure				
Balance brought forward	736	716	-	-
Increase in provision for the year	-	87	-	-
Decrease in provision for the year	(272)	(67)	-	-
	464	736	-	-
Consultancy expenditure				
Balance brought forward	640	-	-	-
Increase in provision for the year	-	640	-	-
Decrease in provision for the year	(640)	-	-	-
	-	640	-	-
Overspend on Market Street Project				
Balance brought forward	401	-	-	-
Increase in provision for the year	-	401	-	-
Decrease in provision for the year	424	-	-	-
	825	401	-	-
Redundancy costs				
Balance brought forward	804	-	804	-
Increase in provision for the year		804	-	804
Decrease in provision for the year	(804)	-	(804)	-
	-	804	-	804
	1,289	2,581	-	804

Provisions for infrastructure expenditure required for a completed project has been spent and released in the year.

Provisions for consultancy expenditure utilised in the year relates to advisory and agency fees relating to the India Quay development. The actual cost crystallised during 2018 at £580k with the remainder of the provision written back as it was no longer required.

Provisions for overspend on Market Street Projects recognised in the year relates to potential cost overruns on the project which are unlikely to be recoverable.

As discussed in note 9, a provision for expected redundancy costs totalling £804,000 was recognised in the previous year. All costs were paid in the current year and there were no remaining objections. The unspent element of the provisions was released.

20. Provisions – non-current liabilities

	Consolidated Group		Parent Entity	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Balance brought forward	-	500	-	-
Increase in provision for the year	-	-	-	-
Decrease in provision for the year	-	(500)	-	-
	-	-	-	-

The group previously had obligations for further development costs under section 75 of the Town and Country Planning (Scotland) Act 1997 in relation to Waterfront Edinburgh Limited. The group now considers these remaining obligations to be extinguished, and therefore the provision created has been released during the current year.

21. Deferred income

	Consolidated Group		Parent Entity	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Balance brought forward	138	321	-	-
New grants in year	-	-	-	-
Grants released to profit and loss	(138)	(183)	-	-
	-	138	-	-

22. Deferred tax assets

	Consolidated Group 2018 £'000	Consolidated Group 2017 £'000	Parent Entity 2018 £'000	Parent Entity 2017 £'000
Deferred tax				
At beginning of year	-	351	-	351
Charge/(credit) for the year	-	(351)	-	(351)
At end of year	-	-	-	-

The elements of deferred tax are as follows:

	Consolidated Group 2018 £'000	Consolidated Group 2017 £'000	Parent Entity 2018 £'000	Parent Entity 2017 £'000
Pension scheme deficit	-	-	-	-
	-	-	-	-
Included in the accounts as follows:				
- Non-current asset	-	-	-	-
Deferred tax asset	-	-	-	-

23. Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise the following at 31 December 2018.

	Consolidated Group 2018 £'000	Consolidated Group 2017 £'000	Parent Entity 2018 £'000	Parent Entity 2017 £'000
Cash at bank and in hand	2,333	2,689	243	112

24. Contributed equity

	Consolidated Group		Parent Entity	
	2018 £'000	**2017 £'000**	**2018 £'000**	**2017 £'000**
Allotted, called up and fully paid				
Ordinary shares of £1 each	8,500	8,500	8,500	8,500

The ordinary shares of £1 each carry one vote per share and participate in profits available for dividend pro rata.

25. Commitments

Commitments under non-cancellable operating leases are as follows.

Group and company	**2018**		**2017**	
	Land and Buildings £'000	**Other £'000**	**Land and Buildings £'000**	**Other £'000**
Payments due for operating leases:				
- Within one year	-	-	71	3
- Between one and two years	-	-	71	3
- Between two and five years	-	-	100	5
	-	-	242	11

26. Employee benefits

The EDI Group Limited ("the Employer") ceased as an employer in the Lothian Pension Fund ("the Fund") on 31 October 2018.

The employees of the company were eligible for membership of the Local Government Pension Scheme administered by Lothian Pension Fund. This is a pension scheme providing benefits based on final pensionable pay, contributions being charged to the profit and loss so as to spread the cost of pensions over employees' working lives with the company.

A qualified actuary determines the contributions. A formal actuarial valuation was performed at 31 March 2017. This was updated by the actuary on an IAS19 basis as of 31 December 2017. A subsequent actuarial valuation, in the current year, of the Employer was carried out to determine the liabilities that remained with the Fund on cessation and the final contribution due from the Employer (i.e. an adjustment to the Rates and Adjustments Certificate) as required under Regulation 62(2) of the Local Government Pension Scheme (Scotland) Regulations.

Funding position

		Valuation Results 31 December 2017 £'000	Cessation Results 31 December 2018 £'000
Liabilities			
	Active	2,155	-
	Deferred	1,146	1,763
	Pensioner	3,424	5,547
Total liabilities		6,725	7,311
Assets		6,158	6,950
Surplus/ (deficit)		(567)	(361)

As the assessed value of the past service liabilities on the cessation basis, valued on cessation 31 October 2018, is greater than the assessed value of the employer's asset share at the cessation date, a cessation deficit of £361,000 is payable to the Fund.

Pension costs

In the prior year the retirement benefit obligation was understood to be the final amount owed to the Fund, however the Cessation Valuation performed as at 31 October 2018 now reflects the fund deficit of the group:

	2018 £'000
Payments made during year	441
Cessation valuation deficit	361
Total amount payable to scheme	802
Release of unrequired provision	(83)
2017 Net pension liability	(567)
Loss on settlement of scheme	152

26. Employee benefits (cont'd)

The tables below compare the present value of the scheme liabilities based on the actuary's assumptions with the estimated employer assets for the year ended 31 December 2017.

The amounts recognised in the Statement of Financial Position are determined as follows:

	2017 £'000
Fair value of plan assets	6,450
Present value of scheme liabilities	(7,750)
Gain on settlement of scheme	733
Deficit in the scheme – pension liability	(567)
Net pension liability at 31 December 2017	(567)

Movement in defined benefit obligation during the year:

	2017 £'000
At 1 January 2017	7,822
Current service cost	195
Interest cost on obligation	212
Plan participants contributions	44
Benefits paid	(182)
Actuarial losses arising from change in financial assumptions	73
Other actuarial gains	(280)
Actuarial gains arising from change in demographic assumptions	(134)
At 31 December 2017	7,750

Movement in fair value of plan assets during the year:

	2017 £'000
At 1 January 2017	6,065
Benefits paid	(182)
Interest income on plan assets	163
Contributions by employer	110
Contributions by member	44
Return on assets excluding amounts included in net interest	250
At 31 December 2017	6,450

26. Employee benefits (cont'd)

The amounts recognised in the Statement of Profit or Loss are as follows:

	2017 £'000
Interest received on pension scheme assets	(163)
Interest cost on pension scheme liabilities	212
Finance cost	40
Current service cost	195
Gain on settlement of scheme	(733)
	489

The amounts recognised in other comprehensive income are as follows:

	2017 £'000
Actuarial gains/(losses) in the defined benefit obligation	341
Actuarial gains in the fair value of defined benefit assets	250
	591

Financial Assumptions

The main financial assumptions underlying the actuarial assumptions are as follows:

	2017 %	Cessation Assumptions 31 October 2018 %
Inflation/Pension increase rate	2.4	2.4
Salary increase rate	4.1	4.2
Discount rate	2.5	3.3

The valuation assumptions as for 2017 are those used for the most recent formal valuation of the Fund. For further information, please see the formal valuation report.

The cessation assumptions as at 31 October 2018 are those recommended by the Actuary for the valuation of the Employer on cessation from the Fund and are in line with the Fund's Funding Strategy Statement.

At the instruction of the City of Edinburgh Council, the cessation position was valued for the Employer using the Fund's ongoing funding assumptions rather than the more prudent assumptions that would ordinarily apply on cessation. The City of Edinburgh Council is acting as guarantor for the Employer's assets and liabilities post cessation and has agreed to this approach.

The cessation assumptions used are derived in the same manner as the previous formal valuation but updated to reflect market conditions as at 31 October 2018.

26. Employee benefits (cont'd)

Mortality Assumptions:

		2017	Cessation assumptions 31 October 2018
Current Pensioners			
	Male	21.7 years	21.7 years
	Female	24.3 years	24.3 years
Future Pensioners			
	Male	24.7 years	24.7 years
	Female	27.5 years	27.5 years

The valuation funding assumptions are those used for the previous formal valuation of the Fund. Further details on the derivation of these mortality assumptions can be found inthe Fund's formal valuation report.

Loss on settlement of scheme:

As noted in note 2b, the group has begun a process of closure. A redundancy programme occurred in 2018 and the group had no employees by the end of 2018, and the company's admission to the Lothian Pension Scheme ceased on 31 October 2018.

The difference of £235,000 between the 2017 liability of £567,000, the total of amounts paid to the scheme during the year and the final cessation valuation, has been recorded as a 'Loss on settlement of the pension scheme' through the Statement of Profit or Loss and Other Comprehensive Income.

27. Related party transactions

The key management personnel of the company are considered to be the directors. See note 9 for details of directors' emoluments. During the year group companies carried out the following transactions with related parties:

Related Party	Relationship	Group Company	Nature of Transaction	Value of transactions during year	Amount owed from/(to) at year end
				£	£
City of Edinburgh Council	Ultimate holding organization	The EDI Group Ltd	Loan stock	1,260,000	(2,240,000)
			Interest on loan	(151,829)	-
City of Edinburgh Council	Ultimate holding organisation	EDI Central Ltd	Rent and loan account	535,000	955,000
City of Edinburgh Council	Ultimate holding organisation	EDI Market Street Ltd	Profit element of construction contract	143,566	(31,834)
City of Edinburgh Council	Ultimate holding organisation	Parc Craigmillar Ltd	Loan for infrastructure works	-	(1,219,764)
City of Edinburgh Council	Ultimate holding organisation	Parc Craigmillar Ltd	Loan stock	1,452,846	(1,238,248)

28. Ultimate parent undertaking

The parent company is CEC Holdings Limited, a company registered in Scotland. The financial statements of the parent undertaking are available at their registered offices. The ultimate holding organisation is The City of Edinburgh Council.

29. Financial Risk Management

The group has the following categories of financial instruments at the balance sheet date:

	Consolidated group		Parent entity	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Financial assets				
Financial assets measured at amortised cost	6,886	9,642	254	183

	2018 £	2017 £	2018 £	2017 £
Financial liabilities				
Financial liabilities measured at amortised cost	4,015	6,176	2,505	3,765

Financial assets measured at amortised cost comprise cash at bank and in hand, trade receivables, accrued income, and other receivables (excluding VAT receivable balances, tax receivables and prepayments).

Financial liabilities measured at amortised cost comprise trade payables, accruals, provisions, other payables (excluding VAT payable balances,

Capital risk management
The company aims to manage its overall capital structure to ensure it continues to operate on an ongoing basis within the broad timescales set out in the transition strategy. The company's capital structure represents the equity attributable to the shareholders of the company together with cash equivalents. The Directors are closely involved I the running of the company and are therefore fully aware of the capital position of the company at any point in time and any changes that circumstances bring. As a result they are in a position to address any issues that may arise on a timely basis.

Risk management objectives
The Board is charged with the overall responsibility of establishing and monitoring the group's risk management policies and processes in order to identify, analyse and monitor the risks that are faced by group. The group does not enter into or trade financial instruments for speculative purposes.

The main risks that the group is exposed to through its financial instruments are market risk, credit risk and liquidity risk. These are managed as follows:

Market risk
Market risk is the risk that the value of the company's properties and sites under development may fall resulting in further write-ofs to the income statement. The company manages this risk by carrying out sensitivity analysis for fluctuations in the property market. Included in market risk is interest rate risk, which is the risk that the expected receipts from deposits may fluctuate due to market conditions. The company monitors this risk but it is very unlikely to affect the company's overall liquidity.

29. Financial Risk Management (continued)

Credit risk

Exposure to credit risk relating to financial assets arises from the potential non-performance by counterparties of contract obligations that could lead to a financial loss to the group. It arises from exposure to customers and for the parent company, also from amounts owed by group undertakings.

The maximum exposure to credit risk to recognised financial assets is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the balance sheet and notes to the financial statements.

Credit risk is reviewed regularly by the Board of Directors and monitored by actively assessing the rating quality and liquidity of counterparties as follows:

- Only banks and institutions with an acceptable credit rating are utilised;
- All potential customers are rated for credit worthiness taking into account their size, market position and financial standing;
- Customers that do not meet the groups credit policies may only purchase in cash or using recognised credit cards.

Liquidity risk

Liquidity risk arises from the possibility that the group might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities. The group manages that risk as follows:

- Preparing forward looking cash flow analysis; and
- Ensuring that adequate unutilised borrowing facilities are maintained.

Fair values

The directors consider that the carrying values of all the group's financial assets and liabilities approximate their fair values at the balance sheet date.

The only financial instruments measured at fair value are available for sale financial assets. These are valued annually by an independent valuer, GVA, in accordance with the Practice Statement in the RICS Appraisal and Valuation Manual.

The Directors therefore consider that the risk in relation to financial instruments at fair value is low.

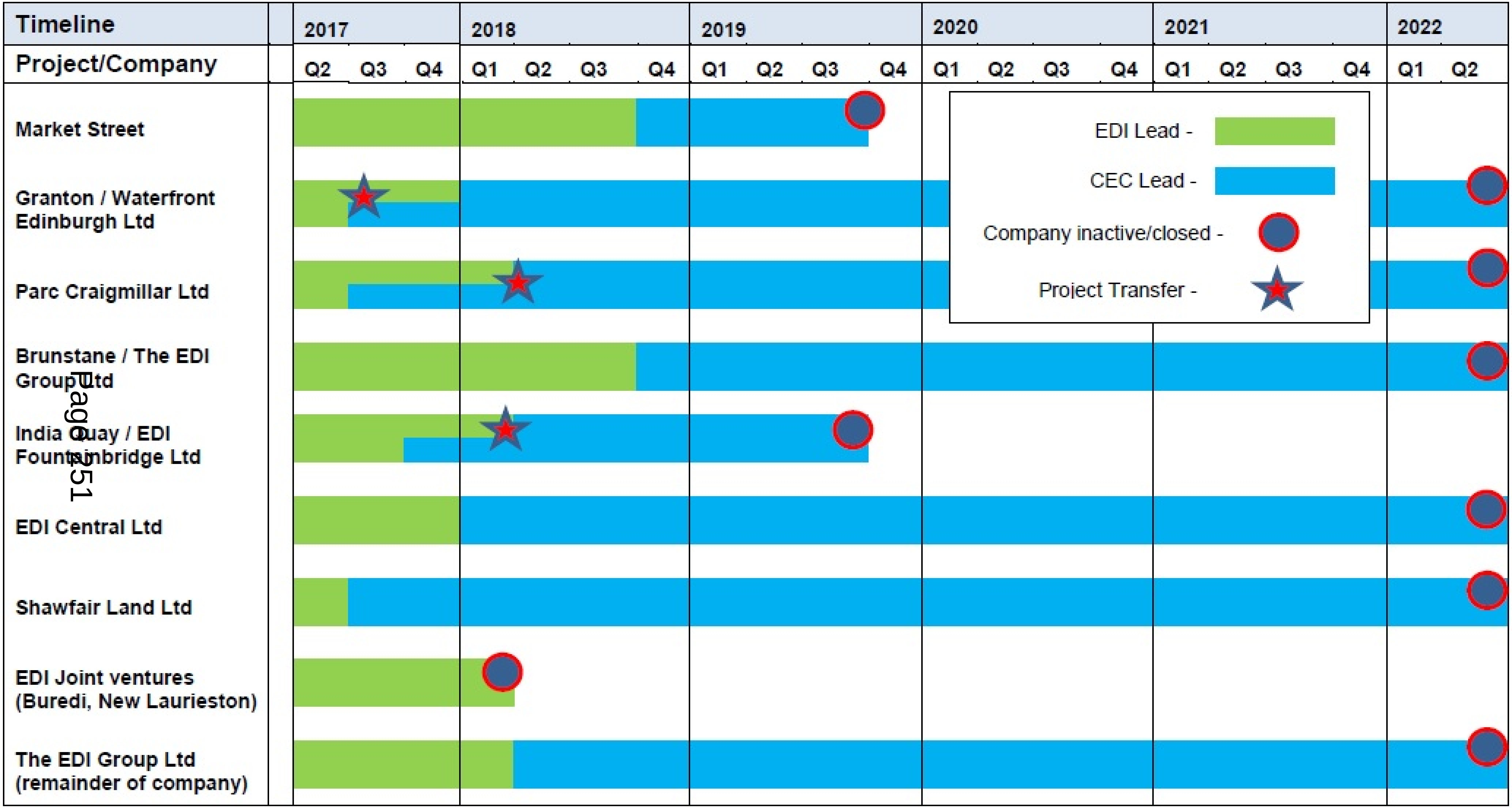
30. Post-Balance Sheet Events

The Group reached agreement on a payment of £1m in relation to the discharge of a agreement pertaining to land sold in 2012, with the monies received on 1 August 2019. The Group is selling land at Greendykes South with a settlement date to be determined but expected to be in Summer 2019. Agreement has also been reached to sell Greendykes plots K and L for £2.1m with the transaction again expected to conclude during Summer 2019.

31. Contingent liabilities

There exists a contingent liability attributable to the potential for the settlement with HMI to be higher than the provision of £825k which has been included in the financial statements. Any additional liability will be confirmed once the ongoing discussions between parties have concluded.

This page is intentionally left blank


Timeline
Project/Company
2017
2018
2019
2020
2021
2022
Q2 Q3 Q4 Q1 Q2 Q3 Q4 Q1 Q2 Q3 Q4 Q1 Q2 Q3 Q4 Q1 Q2 Q3 Q4 Q1 Q2
Market Street
Granton / Waterfront Edinburgh Ltd
Parc Craigmillar Ltd
Brunstane / The EDI Group Ltd
India Quay / EDI Fountainbridge Ltd
EDI Central Ltd
Shawfair Land Ltd
EDI Joint ventures (Buredi, New Laurieston)
The EDI Group Ltd (remainder of company)
EDI Lead -
CEC Lead -
Company inactive/closed -
Project Transfer -