Notice of meeting and agenda

City of Edinburgh Council

10.00 am Thursday, 24th October, 2019

Main Council Chamber - City Chambers

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

Contacts

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1. Order of business

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

2. Declaration of interests

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

3. Deputations

3.1 If any

4. Minutes

4.1	The City of Edinburgh Council of 19 September 2019 – submitted for approval as a correct record	13 - 58

5. Questions

5.1	By Councillor Miller - Leaf Sweeping – for answer by the Convener of the Transport and Environment Committee	59 - 60
5.2	By Councillor Osler - Parking in Front of Communal Bins – for answer by the Convener of the Transport and Environment Committee	61 - 62
5.3	By Councillor Osler -Gully Checking after Road Resurfacing – for answer by the Convener of the Transport and Environment Committee	63 - 64
5.4	By Councillor Corbett - Loss of Green Space – for answer by the Convener of the Planning Committee	65 - 66
5.5	By Councillor Mowat - City's Global Reputation – for answer by the Convener of the Culture and Communities Committee	67 - 68
5.6	By Councillor Brown - Climate Change Event Friday 20th September 2019 – for answer by the Convener of the Education,	69 - 70

Children and Families Committee

5.7 By Councillor Laidlaw - Local Authority Brexit Funding – for answer by the Leader of the Council — 71 - 72

5.8 By Councillor Brown - Lampposts Wraps – for answer by the Convener of the Transport and Environment Committee — 73 - 74

6. Leader's Report

6.1 Leader’s report — 75 - 76

7. Appointments

7.1 Appointments to Committees etc – Report by Chief Executive — 77 - 80

8. Reports

8.1 Edinburgh and South East Scotland City Region Deal Annual Report, Annual Conversation and Regional Growth Framework Update – Report by Chief Executive — 81 - 140

8.2 International Travel and Conferences – Report by Chief Executive — 141 - 156

8.3 Audited Annual report 2019 of the Lothian Pension Fund and Scottish Homes Pensions Fund Including Annual Report by External Auditor – referral from the Pensions Committee — 157 - 418

8.4 City of Edinburgh Council - 2018/19 Annual Audit Report to the Council and the Controller of Audit – referral from the Finance and Resources Committee — 419 - 644

8.5 Bustracker - Contract Award - referral from the Finance and Resources Committee — 645 - 654

9. Motions

9.1 By Councillor Gardiner - Edinburgh World Heritage

“Council notes that:

a) Edinburgh World Heritage (EWH) is currently celebrating its 20th year anniversary, since being established on 31 March 1999. EWH inherited the tradition of work undertaken by two previous bodies:

i) Edinburgh New Town Conservation Committee: established in 1970 to tackle the economic and physical problems that threatened the Georgian New Town at that time; and

ii) Edinburgh Old Town Committee for Conservation and Renewal (which changed its name to Edinburgh Old Town Renewal Trust): established in 1985 with an emphasis on renovation and re-development of the Old Town appropriate to its then near-derelict and depopulated state.

b) The City's leading heritage charity continues to be involved in a number of local and international projects:

i) Continuing work from the 1970s, over 1,500 local projects across Edinburgh have been undertaken covering; conservation, learning and planning.

ii) Seven initiatives taking place around the globe.

c) EWH are keen to use the milestone of their 20th year and reach 1,500 projects as a platform to; (i) raise awareness about their work, (ii) fundraise for future projects.

d) Reflecting the City's enduring connection with EWH, Council requests that the Lord Provost, mark in an appropriate way."

9.2 By Councillor Fullerton - Hutchison Vale Football Club - 80th Anniversary

"Hutchison Vale Football Club will be celebrating its 80th Anniversary in 2020.

Based in a wee hut in Fords Road, this Club has had success after success with the players who have been part of it since youngsters. To name a few - Leigh Griffiths, Allan McGregor, Marc McNulty, Darren Fletcher, John Collins, Peter Cormack, Michael Stewart and the list goes on.

Hutchie Vale have also had a very successful women's team since 1991 and can count Lizzie Arnot and Claire Emslie among their successes who played for Scotland.

The Club is led by Tam Smith who has been Club Leader since 1989 but been involved for 33 years, which is a remarkable contribution for a volunteer.

Whether players have gone on to join Hearts, Hibs or Manchester United or gone on to other careers, they never forget their roots and allegiance to one of the best clubs in the city and still visit the Club frequently.

Given this is a significant anniversary, Council requests the Lord Provost to mark this occasion in the appropriate manner."

9.3 By Councillor Bird – Respectful Political Debate

"Council condemns the pejorative and inflammatory language that has been heard in the House of Commons over the past weeks.

Regrets that dangerous rhetoric of this kind threatens to widen division in our society and encourage hate speech, verbal abuse and the threat of physical violence, including that faced by politicians at both a local and national level.

Notes the President of COSLA's recent letter to the Speaker of the House of Commons raising these concerns, and Cllr Watt's motion on Threatening Behaviour Towards Councillors from May's meeting of full council.

Welcomes the robust debate and close cross party working that is central to our role as elected members.

Agrees however, that it is also our responsibility to set a respectful tone both in and out of the chamber.

Requests an update to Policy and Sustainability committee on the work done to date on the protocol referred to in Cllr Watt's motion."

9.4 By Councillor Mary Campbell - Transgender Day of Remembrance

"Council notes:

That Transgender Day of Remembrance falls on November 20th every year since 1999, when it was founded by Gwendolyn Ann Smith, a trans woman, to memorialize the murder of Rita Hester in Massachusetts. A day observed as a memorial for the trans people who have been murdered as a result of transphobia, which is unfortunately a continuing reality for trans people. It is also a day to draw attention to the violence that trans people experience in their lives.

The trans community in Edinburgh, including our trans colleagues working across the CEC, are currently facing a difficult time connected to the Scottish Government's ongoing commitment to reform the Gender Recognition Act 2004. This is primarily due to dis-information and the mis-reporting of stories on social media and in the mainstream media, leading to trans and non-binary people experiencing abuse, hatred and ridicule daily, simply because of who they are.

In this context, it is more important than ever that Edinburgh Council shows support for the trans community, not just for days of celebration, but for days that mark a sad reality - that transphobia kills people.

Council agrees to mark this day by flying the trans pride flag at the City Chambers on 20 November 2019 as a symbol of our remembrance for the lives lost to transphobia.

Council also agrees to recognise its ongoing support for Transgender Day of Remembrance in future years by flying the trans pride flag on 20 November hereafter."

9.5 By Councillor Mitchell - Transgender Day of Remembrance

"Council:

Notes that Wednesday 20 November is Transgender Day of Remembrance, a day first recognised in 1999 by the transgender community and their allies in recognition of those who had their lives taken from them for being transgender.

Therefore, agrees to support this day by flying the transgender and pride flags above the City Chambers on Wednesday 20 November 2019, and thereafter on 20 November, as a symbol of support and remembrance for the transgender community of

Edinburgh."

9.6 By Councillor Barrie – Proposed Amendments to Committee Terms of Reference and Delegated Functions

"Council recognises that committee membership is designated based on proportionality. Council further recognises that the current COMMITTEE TERMS OF REFERENCE AND DELEGATED FUNCTIONS fails to recognise councillors who are independent of political party affiliation when calculating proportionality.

Council therefore seeks that the Chief Executive produces a report within one cycle with recommendations to amend COMMITTEE TERMS OF REFERENCE AND DELEGATED FUNCTIONS as described below. This report shall also include recommendations for any consequential changes as required.

Current	Proposed Amendment
3. Committee Membership 3.1 Committee membership will be proportionate according to the elected representation of political parties unless expressly agreed otherwise at a meeting of the full Council.	**3. Committee Membership** 3.1 Where all elected members are members of political parties committee membership will be proportionate according to the elected representation of political parties. Where there are elected members, who are independent of political party membership these members will be aggregated and treated as a single group for proportional purposes when deciding committee membership. Where all independent members decline to take a

	place on any committee there shall be a recalculation of committee membership using only the numbers of those members who are members of political parties.
5. Substitutes 5.1. Where permitted by law and where specified in these Committee Terms of Reference, a member may, subject to paragraph 5.2 below appoint a substitute member from his or her political group to attend a meeting of the committee in his or her place, by email to the Clerk in advance of the meeting.	**5. Substitutes** 5.1. Where permitted by law and where specified in these Committee Terms of Reference, a member may, subject to paragraph 5.2 below appoint a substitute member from his or her political group, or in the case of independent members, another independent member, to attend a meeting of the committee in his or her place, by email to the Clerk in advance of the meeting.

9.7 By Councillor Gloyer - Civic Reception for Edinburgh Film Guild

"Council congratulates the Edinburgh Film Guild as it begins its 90th consecutive season. The oldest continuously-running film society in the world, the Edinburgh Film Guild organised and curated the first Edinburgh Film Festival. In recognition of its contribution to the cultural life of the city, Council requests the Lord Provost to mark this 90th anniversary with a civic reception."

9.8 By Councillor Rae - Capping Private Hire Car Licences

"Council:

Notes that there is presently no cap on the number of private hire licenses in the city as there is with Taxis.

Notes that Unite's Edinburgh Cab Section has called for an over provisioning survey to cap Private Hire Licenses in Edinburgh;

Notes that City of Glasgow council has introduced a cap on

PHCs;

Therefore calls for a report to Regulatory Committee on capping Private Hire Car licenses in the City."

9.9 By Councillor Mowat - Film Charter and Principles

"Council:

Council notes the recent filming of Fast and Furious and Eurovision in the City and the Council's commitment to filming as detailed in the Film Charter; that this filming is happening after a busy summer which saw a number of streets closed and that this filming then required further street closures.

Calls for a report in two cycles detailing the impacts including: -

1) costs of this filming on the City including roads closed, businesses who had to close, impacts on public transport and bus routes;

2) any benefits accrued from filming."

9.10 By Councillor Mowat – Claim for an Award of Expenses in the Appeal PPA-230-2207

"Council:

Notes with concern the decision against the Council in the Claim for an Award of Expenses in the Appeal PPA-230-2207 which found that: -

- "the council has acted in an unreasonable manner resulting in liability for expenses,
- although the committee report is correct it does not fairly or accurately reflect the terms of the application,
- it was unreasonable for the council not to advise members of the purpose for which the greenbelt land was included and in short this was a case that should have never come to appeal"

Considers this an extremely serious finding against the Council and calls for a report detailing planning appeals for major sites which have been allowed; and for an independent review of these decisions to determine whether the Council’s approach to determining these sites aligns with national and local policy.”

Laurence Rockey

Head of Strategy and Communications

Information about the City of Edinburgh Council

The City of Edinburgh Council consists of 63 Councillors and is appointed by the City of Edinburgh Council. The City of Edinburgh Council 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 Gavin King, Committee Services, City of Edinburgh Council, Business Centre 2.1, Waverley Court, 4 East Market Street, Edinburgh EH8 8BG, Tel 0131 529 4239, email gavin.king@edinburgh.gov.uk.

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

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

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Minutes

The City of Edinburgh Council

Edinburgh, Thursday 19 September 2019

Present:-

LORD PROVOST

The Right Honourable Frank Ross

COUNCILLORS

Robert C Aldridge
Scott Arthur
Eleanor Bird
Chas Booth
Mark A Brown
Graeme Bruce
Steve Burgess
Lezley Marion Cameron
Ian Campbell
Jim Campbell
Kate Campbell
Mary Campbell
Maureen M Child
Nick Cook
Gavin Corbett
Cammy Day
Alison Dickie
Denis C Dixon
Phil Doggart
Scott Douglas
Catherine Fullerton
Neil Gardiner
Gillian Gloyer
George Gordon
Ashley Graczyk
Joan Griffiths
Ricky Henderson
Derek Howie
Graham J Hutchison
Andrew Johnston
Callum Laidlaw
Lesley Macinnes
Melanie Main
John McLellan
Amy McNeese-Mechan
Adam McVey
Claire Miller
Max Mitchell
Joanna Mowat
Rob Munn
Gordon J Munro
Hal Osler
Ian Perry
Alasdair Rankin
Cameron Rose
Neil Ross
Jason Rust
Stephanie Smith
Alex Staniforth
Mandy Watt
Susan Webber
Iain Whyte
Donald Wilson
Norman J Work
Louise Young

1 Edinburgh Transformation - referral from the Transport and Environment Committee

a) Deputation- Spokes

The deputation were supportive of the Council's proposed city centre transformation and felt that it was a programme for people with benefits for all. They stressed that it would revolutionise the city centre and make it a place that people would want to be and could be truly proud of.

The deputation felt that the programme needed to be progressed swiftly and asked that more clarity be provided on key roads to be included in the strategy. They also looked forward to the introduction of secure on-street bike storage facilities.

The deputation urged the Council to speed up delivery of the programme and to consider expanding it more widely across the city.

b) Report by the Transport and Environment Committee

The Transport and Environment Committee had referred a report on the finalised strategy for the programme to transform central Edinburgh with an aim to improve its public realm; prioritise sustainable travel on foot, by bike and public transport; and through these changes enable a wider range of sustainable development and public health outcomes, to the Council for consideration.

Motion

1) To note the outcome of public consultation on Edinburgh City Centre Transformation's (ECCTs) Proposed Strategy and draft Environmental Report and how this had influenced the finalised strategy.

2) To note the proposed outcome-based performance measures included in the finalised strategy and the development of a ten year Programme Delivery Plan (PDP) including a funding strategy and resourcing requirements.

3) To note the early actions in the PDP, in particular those to implement selected traffic free streets in the Old Town, to reduce traffic displacement and to strengthen alignment between city centre projects.

4) To note the funding award of £0.520m from Sustrans Scotland's 'Places for Everyone' grant scheme in order to progress the following projects identified in the PDP:

   i) To support creation of a pedestrian priority zone in the Old and New Towns of Edinburgh by undertaking a feasibility study of filtered permeability for vehicle traffic.

   ii) To develop outline concept designs for street space re-allocation on Lothian Road to create a multi-modal boulevard.

   iii) To explore options for routing a new pedestrian and cycle bridge across the Waverley valley.

5) To approve the finalised ECCT Strategy and PDP to guide the future design, operation and management of the city centre.

6) To agree that progress updates would be reported to Transport and Environment Committee every six months with key gateway PDP reviews in years 3, 5, 7 and 10.

7) To note the requests from members of the public for clearer information about how the strategy would meet its stated principle of "inclusive and accessible".

8) To note that as ECCT moved forward there would be opportunities to increase inclusivity and accessibility through detailed proposals.

9) To request a suite of communications in a variety of accessible media and formats which consolidated all of the relevant information from the strategy about how inclusivity and accessibility would be protected and improved.

10) To agree that the draft City Mobility Plan, due before the committee in December 2019, should detail how the ECCT commitment to prioritise public transport would be delivered. Specifically, this plan should address;

   (i) The importance of bus connections running to, from and through the city centre.

   ii) The accessibility of such bus services within the city centre.

- moved by Councillor Macinnes, seconded by Councillor Arthur

Amendment

1) To note the report recommendations.

2) To recognise the merits of a programme to transform central Edinburgh, in particular: to improve its public realm; prioritise sustainable travel on foot, by bike and public transport; and through these changes enable a wider range of sustainable development and public health outcomes, all while seeking to make use of a joined-up approach to city centre management.

3) To nonetheless express disappointment and concern at the continued lack of specifics around many elements of ECCT - many of which remained purely aspiration in nature and consider this unacceptable for what was termed a ‘finalised strategy’.

4) To note the lack of detail around bus service changes particularly concerning, given the additional pressure the council had already placed on Lothian Buses and the huge inconvenience lesser services could have on Edinburgh’s working population and their families - the numbers of which could not be catered for by a ‘hopper bus’.

5) To note that Lothian Buses had formally voiced its concerns in respect of the above and the resulting consequences for the firm’s financial viability.

6) To note that, despite assurances full funding details would be provided, little fresh financial detail was provided, with the report acknowledging huge uncertainty around later stage projects, which were deliverable only ‘as and when’ funding might have theoretically become available.

7) To agree for a revised, focused and detailed plan to come back to committee which progressed with a management and operations centre and to seek to demonstrate that the Council could complete - within agreed budgets and timescales - the following flagship place making projects: George Street and First New Town Project, a refreshed Royal Mile Action Plan and the CCEW cycle link. All projects would include robust monitoring and impact assessments to inform future decision making.

8) To agree that Open Streets required to run in its current iteration for far longer to enable meaningful data gathering and stakeholder engagement which could also be used to inform future place making project decisions.

- moved by Councillor Nick Cook, seconded by Councillor Hutchison

Voting

The voting was as follows:

For the motion	-	39 votes
For the amendment	-	17 votes

(For the motion: The Lord Provost, Councillors Aldridge, Arthur, Bird, Booth, Burgess, Cameron, Ian Campbell, Kate Campbell, Mary Campbell, Child, Corbett, Day, Dickie, Dixon, Fullerton, Gardiner, Gloyer, Gordon, Graczyk, Griffiths, Henderson, Howie, Macinnes, McNeese-Mechan, McVey, Main, Miller, Munn, Munro, Osler, Perry, Rankin, Neil Ross, Staniforth, Watt, Wilson, Work and Young.

For the amendment: Councillors Brown, Bruce, Jim Campbell, Cook, Doggart, Douglas, Hutchison, Johnston, Laidlaw, McLellan, Mitchell, Mowat, Rose, Rust, Smith, Webber and Whyte)

Decision

To approve the motion by Councillor Macinnes:

(References – Transport and Environment Committee 12 September 2019 (item 6); referral from the Transporat and Environment Committee, submitted)

Declaration of Interests

Councillor Arthur declared a non-financial interest in the above item as a member of Spokes.

2 Minutes

Decision

To approve the minute of the Council of 22 August 2019 as a correct record.

3 Questions

The questions put by members to this meeting, written answers and supplementary questions and answers are contained in Appendix 1 to this minute.

4 Leader's Report

The Depute Leader presented his report to the Council. He commented on:

- Fire in Fountainbridge – thanks to Council officers for their response
- Edinburgh Festival and filming in the City
- Tourism Levy
- Saughton Park – improvements
- Climate Change march
- Congratulations to Councillor Laidlaw on his recent marriage

The following questions/comments were made:

Councillor Whyte	-	Riding of the Marches – Purple Poppy day
	-	External Auditors – Long term financial strategy
Councillor Main	-	Block of the use of Princes Street for climate change march – reassurance of no arrests
Councillor Aldridge	-	Advantages of an SNP led Council Administration with an SNP led Scottish Government
Councillor Bird	-	EU Nations - Registrations
Councillor Munro	-	Request for meeting with Scottish Government - response
Councillor Jim Campbell	-	Financial settlement from Scottish Government for investment in schools
Councillor Staniforth	-	Funding for replacement schools
Councillor Neil Ross	-	Filming in City Centre – re-imbursment
Councillor Kate Campbell	-	Edinburgh's retail strength
Councillor McLellan	-	Transport issues – Lothian buses
Councillor Wilson		St Nicholas Church/Sighthill Parish Church – congratulations for 80 years involvement in the local community
Councillor Fullerton		Council officer response times to members enquiries
Councillor Johnston		Police Scotland – spend levels
Councillor Bruce		Currie High School
Councillor Webber		Scottish Government support
Councillor Hutchison		Coalition financial long term strategy
Councillor Brown		Community centres activity arrangements within the city
Councillor Doggart		Delays at the opening of the new Sick Children's Hospital

Councillor Cook	Directly elected Mayors for Scotland's cities

5 Appointments to Outside Organisations etc

Appointments were required for a number of outside organisations and a Council Committee.

Decision

1) To appoint Councillor Mitchell as a member of the Board of the Edinburgh Police Fund for Children in place of Councillor Graczyk.

2) To appoint Councillor Watt in place of Councillor Cameron on Edinburgh Living LLP.

3) To appoint Councillor Griffiths in place of Councillor Cameron on the Personnel Appeals Committee.

4) To appoint Councillor Watt in place of Councillor Cameron on the Corporate Body for Housing LLP

(References: Act of Council No 8 of 29 June 2017; report by the Chief Executive, submitted)

6 Appointment to the Board of Transport for Edinburgh

There were currently two vacancies of the Board for Non-Executive Directors and approval was sought for the appointment of Dr George Hazel OBE to the Board of Transport for Edinburgh with effect from 30 September 2019.

Decision

To approve the appointment of Dr George Hazel OBE to the Board of Transport for Edinburgh with effect from 30 September 2019 for a period of three years.

(References – Act of Council No 6 of 2 May 2019; report by the Executive Director of Place, submitted.)

Declaration of Interests

Councillors Laidlaw and Miller declared a non-financial interest in the above item as members of Transport for Edinburgh.

7 Amendments to Shareholder Agreement and Articles of Association: Transport for Edinburgh Ltd and Edinburgh Trams Ltd

Details were provided on proposed changes to the Shareholder Agreement between the Council and Transport for Edinburgh and the Articles of Association of each of Edinburgh Trams and Transport for Edinburgh, which would allow each of the companies to issue ordinary B shares. This was required following to changes to the Operating Agreement between the Council and Edinburgh Trams which had been approved by the Transport and Environment Committee on 6 December 2018.

Decision

1) To authorise the amendments to the Shareholder Agreement and the Articles of Association of Transport for Edinburgh Ltd (TfE) allowing the company to issue non-voting ordinary B shares.

2) To authorise amendments to the Shareholder Agreement and the Articles of Association of Edinburgh Trams Ltd (ET) allowing the company to issue non-voting ordinary B shares.

(References: Transport and Environment Committee 6 December 2018 (item 19); report by the Executive Director of Place, submitted.)

Declaration of Interests

Councillor Macinnes declared a non-financial interest in the above item as Chair of Transport for Edinburgh.

Councillors Laidlaw declared a non-financial interest in the above item as a member of Transport for Edinburgh.

8 Blue Badge Scheme – Motion by Councillor Whyte

The following motion by Councillor Whyte was submitted in terms of Standing Order 16:

"Council:

1) Welcomes the decision by the UK Government's Department of Transport on 30th August 2019 to extend the eligibility criteria for Blue Badges to those people who have non-visible conditions, such as autism, dementia, Parkinson's and arthritis.

2) Instructs the Director of Place report back to the Policy and Sustainability Committee within one cycle detailing how the Council will implement these

changes locally within the Blue Badge Scheme and how it can assist in publicising these positive changes to those who are now eligible.“

Motion

To approve the motion by Councillor Whyte

- moved by Councillor Whyte, seconded by Councillor Johnston

Amendment

Council:

Accepts paragraph 1 of the motion by Councilllor Whyte and welcomes these recent developments, while acknowledging that the Department of Transport policy changes refer to the position in England and Wales from 30 August 2019.

Acknowledges that Transport Scotland recognised the need to widen the eligibility criteria for the Scottish scheme to those with a wider definition of disability, including cognitive disability, and that they ran a successful pilot scheme in 2016.

Acknowledges that the eligibility criteria were then reviewed and our policy was amended in 2018.

Acknowledges that CEC administer this scheme but works with the EIJB to deliver assessments of eligibility where required.

Agrees to request the Chief Officer, Edinburgh Health and Social Care Partnership to further publicise the wider eligibility criteria in Edinburgh.

- moved by Councillor Bird, seconded by Councillor Day

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

Decision

1) To welcome the decision by the UK Department of Transport on 30th August 2019 to extend the eligibility criteria for Blue Badges to those people who had non-visible conditions, such as autism, dementia, Parkinson’s and arthritis and welcome these recent developments, while acknowledging that the Department of Transport policy changes referred to the position in England and Wales from 30 August 2019.

2) To acknowledge that Transport Scotland recognised the need to widen the eligibility criteria for the Scottish scheme to those with a wider definition of

disability, including cognitive disability, and that they ran a successful pilot scheme in 2016.

3) To acknowledge that the eligibility criteria were then reviewed and the Council's policy amended in 2018.

4) To acknowledge that the City of Edinburgh Council administer this scheme but works with the Edinburgh Integrateion Joint Board to deliver assessments of eligibility where required.

5) To request the Chief Officer, Edinburgh Health and Social Care Partnership to further publicise the wider eligibility criteria in Edinburgh.

9 Greening the Fringe - Motion by Councillor Rae

The following motion by Councillor Rae was submitted in terms of Standing Order 16:

"Council:

Notes:

That though the city's festivals have been focussing on reducing the environmental damage they cause, several specific environmental issues remain including the use of single-use plastics, using gas fuel at pop-up venues, increased vehicle use and a lack of recycling facilities in public spaces.

That some venues are unaware that it is entirely legal and safe for them to refill a customer's personal, reusable pint glass or equivalent as long as taps do not touch the glass.

Therefore:

Calls on the Convener of the Culture and Communities Committee to write to the relevant Scottish Government ministers to encourage the introduction of a charge on single-use plastic cups similar to the plastic bag charge.

Will produce a good practice guide for licensed premises explaining how they can incorporate personal reusable cups/glasses and deposit schemes into their operation.

Calls for officers to investigate the possibility of hardwired power in public spaces to allow pop-up venues to use reusable electric energy instead of having to opt for gas power and report back to the Culture and Communities Committee within three cycles.

Asks waste services to reconsider the level of recycling provision in public spaces, during festival season in particular. Calls for a report on how the council can encourage car sharing schemes during the primary festival season in August to return to the Transport and Environment Committee within three cycles."

Motion

To approve the motion by Councillor Rae.

- moved by Councillor Staniforth, seconded by Councillor Miller

Amendment

To accept the motion by Councillor Rae with the following amendments:

Paragraph 1 – replace the word 'cause' with 'can exacerbate' and remove the word 'remain'

Paragraph 4 – replace with the following:

"The letter to the Scottish Government should include a request to investigate production of a good practice guide for licensed premises explaining how they can incorporate personal reusable cups/glasses and deposit schemes into their operation, so Scotland can lead the way in reduction of global plastic waste."

Paragraph 5 – replace with the following:

"Calls for officers to investigate the possibility of hardwired power in public spaces to allow pop-up venues to use energy from renewable sources instead of having to opt for gas power and report back to the Transport and Environment Committee within three cycles."

- moved by Councillor McNeese-Mechann seconded by Councillor Wilson

In accordance with Standing Order 21(11), the amendment was adjusted and accepted as an addendum to the motion.

Decision

To approve the following adjusted motion by Councillor Rae:

1) To note that though the city's festivals had been focussing on reducing the environmental damage they could exacerbate several specific environmental issues including the use of single-use plastics, using gas fuel at pop-up venues, increased vehicle use and a lack of recycling facilities in public spaces.

2) To note that some venues were unaware that it was entirely legal and safe for them to refill a customer's personal, reusable pint glass or equivalent as long as taps did not touch the glass.

3) To call on the Convener of the Culture and Communities Committee to write to the relevant Scottish Government ministers to encourage the introduction of a charge on single-use plastic cups similar to the plastic bag charge. The letter to the Scottish Government should include a request to investigate production of a good practice guide for licensed premises explaining how they could incorporate personal reusable cups/glasses and deposit schemes into their operation, so Scotland could lead the way in reduction of global plastic waste.

4) To produce a good practice guide for licensed premises explaining how they could incorporate personal reusable cups/glasses and deposit schemes into their operation.

5) To call for officers to investigate the possibility of hardwired power in public spaces to allow pop-up venues to use energy from renewable sources instead of having to opt for gas power and report back to the Transport and Environment Committee within three cycles.

6) To ask waste services to reconsider the level of recycling provision in public spaces, during festival season in particular.

7) To call for a report on how the council could encourage car sharing schemes during the primary festival season in August to return to the Transport and Environment Committee within three cycles.

Declaration of Interests

Councillor Mitchell declared a financial interest in the above item as an employee at a fringe venue.

10 Scottish Hockey - Motion by Councillor Doggart

The following motion by Councillor Doggart was submitted in terms of Standing Order 16:

"Council:

1) Congratulates Scottish Hockey on the achievements of its teams over the summer from Under 15 to Over 55;

2) Recognises the dedication and unseen hard work of players, coaches, umpires and other support staff that lies behind the successful achievements;

3) Applauds, in particular, the contribution of those selected for national teams who have learned, or ply, their hockey skills in Edinburgh;

4) Accepts responsibility for not doing as much for hockey in the City as could be done, due to the lack of pitches that meet the highest standards for top level hockey;

5) Recognises the contribution of Edinburgh University and Fettes College in providing such pitches and offering their use to clubs around the city."

Motion

To approve the motion by Councillor Doggart

- moved by Councillor Doggart, seconded by Councillor Webber

Amendment

To accept paragraphs 1-3 and 5 of the motion by Councillor Doggart and delete paragraph 4.

- moved by Councillor Wilson, seconded by Councillor McNeese-Mechan

Voting

The voting was as follows:

For the motion	-	22 votes
For the amendment	-	34 votes

(For the motion: Councillors Aldridge, Brown, Bruce, Jim Campbell, Cook, Doggart, Douglas, Gloyer, Hutchison, Johnston, Laidlaw, McLellan, Mitchell, Mowat, Osler, Rose, Neil Ross, Rust, Smith, Webber, Whyte and Young.

For the amendment: The Lord Provost, Councillors Arthur, Bird, Booth, Burgess, Cameron, Ian Campbell, Kate Campbell, Mary Campbell, Child, Corbett, Day, Dickie, Dixon, Fullerton, Gardiner, Gordon, Graczyk, Griffiths, Henderson, Howie, Macinnes, McNeese-Mechan, McVey, Main, Miller, Munn, Munro, Perry, Rankin, Staniforth, Watt, Wilson and Work.)

Decision

To approve the following amendment by Councillor Wilson:

1) To congratulate Scottish Hockey on the achievements of its teams over the summer from Under 15 to Over 55;

2) To recognise the dedication and unseen hard work of players, coaches, umpires and other support staff that lies behind the successful achievements;

3) To applaud, in particular, the contribution of those selected for national teams who have learned, or ply, their hockey skills in Edinburgh;

4) To recognise the contribution of Edinburgh University and Fettes College in providing such pitches and offering their use to clubs around the city.

Declaration of Interests

Councillors Bruce, Dixon, Osler, Staniforth and Wilson declared a non-financial interest in the above item as members of Edinburgh Leisure.

11 Sports Pitches - Motion by Councillor Doggart

The following motion by Councillor Doggart was submitted in terms of Standing Order 16:

“Council:

1) Recognises the benefit of organised physical activity provided by sports clubs for adults and children;

2) Appreciates the health of the city is improved by the operation of the clubs;

3) Values the many hours of unpaid effort by coaches, parents and players;

4) Understands it has a responsibility to the clubs and participating residents to provide the paid for facilities in as good a condition as possible;

5) Accepts responsibility for marking pitches to ensure fixtures can be completed; removing all grass cuttings from, and adjacent to, sports pitches and cutting grass to an appropriate length to enable fixtures and training to proceed;

6) Instructs officers to provide a report to the Culture and Communities Committee within one cycle setting out the following:

   a) the extent to which pitches have not met playing standards in the winter sport seasons up to the date of the report;

   b) establishing an action plan to prevent future standards falling below those required by the playing clubs; and

   c) a feasibility study into providing a “trusted keyholder” system for clubs.”

Motion

To approve the motion by Councillor Doggart

- moved by Councillor Doggart, seconded by Councillor Brown

Amendment 1

To welcome the motion by Councillor Doggart and add:

Notes further the Green budget proposal of February 2018 to allocate £90k a year for grounds maintenance equipment to reduce the time lost in repair workshop and seeks a progress update.

Recognises that, as well as condition of pitches, availability is also a major concern, both for playing and training, and notes that Edinburgh's independent schools sector has considerable scope to open up fuller access to playing fields and sports facilities for wider community benefit; and so, agrees that the feasibility study in 6c above be extended to look at how private schools can work in partnership to improve access to their playing and training facilities.

- moved by Councillor Staniforth, seconded by Councillor Corbett

Amendment 2

To accept paragraphs 1,2 and 3 of the motion by Councillor Doggart and replace paragraphs 4,5 and 6 with the following:

4) Understands it has a responsibility to the clubs and participating residents who use Council owned and/or operated facilities to provide those facilities to an acceptable playing standard, including marking pitches to ensure fixtures can be completed; removing all grass cuttings from, and adjacent to, sports pitches and cutting grass to an appropriate length to enable fixtures and training to proceed;

5) Instructs officers to provide a report in relation to the Council owned and/or operated facilities referred to above to Culture and Communities within one cycle setting out the following:

   (a) the extent to which pitches have not met playing standards in the winter sport seasons up to the date of the report;

   (b) establishing an action plan to prevent future standards falling below those required by clubs; and

   (c) a feasibility study into providing a “trusted key-holder” system for clubs.

- moved by Councillor Osler, seconded by Councillor Neil Ross

In accordance with Standing Order 21(11) the motion was adjusted at Paragraphs 5 and 6a), Amendment 1 was accepted as an addendum to the motion and Amendment 2 was withdrawn.

Decision

To approve the following adjusted motion by Councillor Doggart:

1) To recognise the benefit of organised physical activity provided by sports clubs for adults and children;

2) To appreciate the health of the city was improved by the operation of the clubs;

3) To value the many hours of unpaid effort by coaches, parents and players;

4) To understand it had a responsibility to the clubs and participating residents to provide the paid for facilities in as good a condition as possible;

5) To accept responsibility for marking council operated pitches to ensure fixtures could be completed; removing all grass cuttings from, and adjacent to, sports pitches and cutting grass to an appropriate length to enable fixtures and training to proceed;

6) To instruct officers to provide a report to the Culture and Communities Committee within one cycle setting out the following:

    a) the extent to which council operated pitches had not met playing standards in the winter sport seasons up to the date of the report;

    b) establishing an action plan to prevent future standards falling below those required by the playing clubs; and

    c) a feasibility study into providing a “trusted keyholder” system for clubs.

7) To notes further the Green budget proposal of February 2018 to allocate £90k a year for grounds maintenance equipment to reduce the time lost in repair workshop and seek a progress update.

8) To recognise that, as well as condition of pitches, availability was also a major concern, both for playing and training, and note that Edinburgh's independent schools sector had considerable scope to open up fuller access to playing fields and sports facilities for wider community benefit; and so, agree that the feasibility study in 6c) above be extended to look at how private schools could work in partnership to improve access to their playing and training facilities.

Declaration of Interests

Councillors Bruce, Dixon, Osler, Staniforth and Wilson declared a non-financial interest in the above item as members of Edinburgh Leisure.

12 Parking in the City Chambers Quadrangle - Motion by Councillor Miller

The following motion by Councillor Miller was submitted in terms of Standing Order 16:

“Council:

1) Notes that drivers routinely use the quadrangle of City Chambers to park vehicles for prolonged periods of time.

2) Agrees that vehicle usage of the quadrangle should be restricted and that, as of a date not later than 1 November 2019, motorised vehicles will no longer be permitted to park in the quadrangle.”

Motion

To approve the motion by Councillor Miller

- moved by Councillor Miller, seconded by Councillor Corbett

Amendment 1

Council:

Accepts paragraph 1 of the motion by Councillor Miller.

Replaces paragraph 2 of the motion as follows:

“Instructs officers to provide a report to Finance and Resouces Committee recommending a policy to cover the continued parking for appropriate vehicles as well as an update on the review of Councillors free parking passes from 14 March 2019 Council.”

- moved by Councillor Rankin, seconded by Councillor Cameron

Amendment 2

Accepts point (1) of the motion by Councillor Miller, and point (2) up to “restricted” then replaces the rest so that it reads:

2) agrees that vehicle usage of the quadrangle should be restricted to legitimate and reasonable use, and asks council officers to prepare a report for CP&S on the following:

   a) What criteria exist to permit vehicle access to the quadrangle and, if different, the criteria to be allowed to park there;

   b) To what extent the quadrangle is being used for long periods (i.e. more than 1-2 hours) or on a regular basis (i.e. more than once a week) by particular categories of users; and

   c) Proposals on how access and parking could be better managed/restricted to ensure only legitimate and reasonable use.

- moved by Councillor Young, seconded Councillor Aldridge

In accordance with Standing Order 21(11), Amendment 1 was withdrawn and Amendment 2 was adjusted.

Voting

For the Motion	-	7 votes
For Amendment 2 (as adjusted)	-	47 votes

(For the motion: Councillors Booth, Burgess, Mary Campbell, Corbett, Main, Miller and Staniforth

For Amendment 2 (as adjusted): The Lord Provost, Councillors Aldridge, Arthur, Bird, Brown, Bruce, Cameron, Ian Campbell, Jim Campbell, Kate Campbell, Child, Cook, Day, Dickie, Dixon, Doggart, Douglas, Fullerton, Gardiner, Gloyer, Gordon, Graczyk, Griffiths, Henderson, Hutchison, Johnston, Laidlaw, Macinnes, Mclellan, McNeese-Mechan, McVey, Mitchell, Mowat, Munn, Munro, Osler, Perry, Rankin, Rose, Neil Ross, Rust, Smith, Watt, Webber, Whyte, Wilson, Work and Young.)

Decision

To approve the following adjusted Amendment 2 by Councillor Young:

1) To note that drivers routinely used the quadrangle of City Chambers to park vehicles for prolonged periods of time.

2) To agree that vehicle usage of the quadrangle should be restricted to legitimate and reasonable use, and asks council officers to prepare a report for the Finance and Resources Committee on the following:

   a) What criteria existed to permit vehicle access to the quadrangle and, if different, the criteria to be allowed to park there;

b) To what extent the quadrangle was being used for long periods (i.e. more than 1-2 hours) or on a regular basis (i.e. more than once a week) by particular categories of users; and

c) Proposals on how access and parking could be better managed/restricted to ensure only legitimate and reasonable use.

d) The report to include an update on the review of Councillor free parking passes as requested at the March Council meeting.

13 Council Welfare Accreditation - Motion by Councillor Main

The following motion by Councillor Main was submitted in terms of Standing Order 16:

"Council notes that:

1) Council officers have estimated that there is roughly £82 million of UK welfare benefits that are unclaimed by Edinburgh residents in one year.

2) The Scottish National Standards for Information and Advice Providers 2009 provides a framework for accreditation at three levels: signposting, case work and representation.

3) Edinburgh Council is not accredited under the national scheme, and there is therefore no assurance that best practice is in place across Council departments offering advice to citizens.

Therefore Council agrees to receive a report to Policy and Sustainability Committee within 2 cycles laying out the current status, and options and timetable for receiving full accreditation for the Council under the Scottish Standards."

Motion

To approve the motion by Councillor Main.

- moved by Councillor Main, seconded by Councillor Booth

Amendment

To agree paragraphs 1) and 2) of the motion by Councillor Main.

To replace paragraph 3) with the following:

"3) Edinburgh Council is not accredited under the national scheme currently, but has been in contact with Scottish Legal Aid board to seek accreditation.

Edinburgh Council is on a waiting list for auditing and is likely to be audited in Spring 2020."

To add 4 as follows:

"4) Notes that all staff are fully trained to a high standard and able to fulfil the tasks and responsibilities of their role. This is monitored through supervision and internal auditing of cases."

To refer to Housing, Homelessness and Fair Work Committee

- moved by Councillor Kate Campbell, seconded by Councillor Watt

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

Decision

To approve the following adjusted motion by Councillor Main:

1) To note that Council officers had estimated that there was roughly £82 million of UK welfare benefits that were unclaimed by Edinburgh residents in one year.

2) To note that the Scottish National Standards for Information and Advice Providers 2009 provided a framework for accreditation at three levels: signposting, case work and representation.

3) To note that Edinburgh Council was not accredited under the national scheme currently, but had been in contact with Scottish Legal Aid board to seek accreditation. Edinburgh Council was on a waiting list for auditing and was likely to be audited in Spring 2020.

4) To note that all staff were fully trained to a high standard and able to fulfil the tasks and responsibilities of their role. This was monitored through supervision and internal auditing of cases

5) Therefore Council agrees to receive a report to Policy and Sustainability Committee within 2 cycles laying out the current status, and options and timetable for receiving full accreditation for the Council under the Scottish Standards and thereafter refers the report to the Housing, Homelessness and Fair Work Committee.

14 National Adoption Week - Motion by Councillor Mary Campbell

The following motion by Councillor Mary Campbell was submitted in terms of Standing Order 16:

“Council notes that National Adoption Week 2019 will take place from the 14th to 20th October. This annual campaign aims to find adoptive homes for those children who need them.

The focus for 2019 will be on the adopter, and the campaign plans to use real life stories to highlight the qualities and attributes that make a great adopter and the joys and challenges they face.

Council agrees to mark National Adoption Week through promotion of the Edinburgh fostering and adoption service on social media channels and asks the Lord Provost to consider marking the week in an appropriate fashion.”

Councillor Mary Campbell adjusted her motion as submitted in paragraph 2 to amend the wording “great adopter” to “forever families”.

- moved by Councillor Main, seconded by Councillor Booth

Decision

To approve the following adjusted motion by Councillor Mary Campbell:

To that note that National Adoption Week 2019 would take place from the 14th to 20th October. This annual campaign aimed to find adoptive homes for those children who needed them.

The focus for 2019 would be on the adopter, and the campaign planned to use real life stories to highlight the qualities and attributes that make forever families and the joys and challenges they faced.

To agree to mark National Adoption Week through promotion of the Edinburgh fostering and adoption service on social media channels and ask the Lord Provost to consider marking the week in an appropriate fashion.

15 Boroughmuir Rugby Club Centenary - Motion by Councillor Cameron

The following motion by Councillor Cameron was submitted in terms of Standing Order 16:

“Boroughmuir Rugby Club was established 100 years ago, playing their first match in the autumn of 1919.

Boroughmuir’s first XV have been Scottish League Champions three times; and have won the Scottish Cup four times.

The club has become a thriving sports club within the community, with thousands of adults and children pursuing sports activities at Meggetland. Neighbours and visitors are also welcome into the clubhouse seven days a week.

Boroughmuir Rugby Club teams have played on City of Edinburgh Council owned facilities throughout the club’s existence.

To mark the centenary of Boroughmuir Rugby Club, its achievements and the contribution to promoting the health and wellbeing of adults and children, Council agrees to the hosting of a Civic Reception to take place before the end of 2019.”

- moved by Councillor Cameron, seconded by Councillor Day

Decision

To approve the motion by Councillor Cameron.

Appendix 1

(As referred to in Act of Council No 3 of 19 September 2019)

QUESTION NO 1

By Councillor Webber for answer by the Convener of the Finance and Resources Committee at a meeting of the Council on 19 September 2019 (this was continued from the meeting on 2 May 2019 to allow the information to be compiled)

Can the Convener please confirm;

Question **(1)** Council expenditure on taxis for each Elected Member since May 2017 to date?

a) Of this what has been deemed personal use and therefore repaid via salary deduction/payroll by each Elected Member during this period?

Answer **(1)** See table below

Question **(2)** For each Elected Member how many journeys during this period were from home address to City Chambers?

Answer **(2)** See table below

Supplementary Question

Thank you Lord Provost. I'm trying to find the answer and it's taken a while to get the answer as you know, so thank you for that. It's unsurprising that I do have a supplementary but first of all I'd just like to read a extract - there will be a question but to context the question you need to understand this bit here thank you. We've waited a number months for this so I think you can give me the opportunity "entitlement to use of taxis - elected members are authorised to use a taxi where no public transport is reasonably available it should not be regarded as a normal means of transport and a contract taxi must be used for Council business purposes only and not for personal travel due to the personal tax implications for benefits in kind" and just by HMRC and ICAS Institute, I used to work as a Director of tax at ICAS, personal use is from home to your place of work which would count as the city chambers. So what appears to be what I would suggest as our questionable record keeping, given its taking so long to get this and the clearly varied interpretation of the Council's policy, specifically for elected Members, as some seem to have repaid, some haven't, some have more use than others for many different reasons that I have been lobbied about over the last few days, it certainly led to this complexity of collating information and the months in delay in its production. So we have in front of us some quite interesting data. Would the Convener be minded to scrap the current arrangements and instruct all councillors to pay for every taxi journey and claim back via their expenses where it was a relevant and appropriate journey thank you.

Supplementary Answer	Thank you very much Lord Provost and I thank Councillor Webber for her supplementary. There has been a review in terms of putting the data all in one place where, and thanks to your question, that's something which has now happened and I am grateful for that, and that's the way that this data will be continued to be collated in future, at one source, and the sort of information you have in front of you now will be available in future should anybody wish to see it. I don't think this is quite the time to go for something as radical as you suggest, I'm not going to say that this is something I would commit to off the top of my head in a meeting at the moment. I think there is scope for discussion around this certainly and I understand that the payroll team are already looking at revising the guidance for elected members on these expenses and better guidance will be provided to elected Members, providing additional clarity in due course. So once everyone gets to see that, I think that would be the time to have a further discussion if that's what you wish to do and for the proposal that you mentioned to be considered further.
Comments by Councillor Booth	Point of Order Lord Provost, in terms of item 14 in Standing Orders, could the Lord Provost clarify, I understand what Councillor Webber just said is factually incorrect, that for the purposes of our place of work as councillors, that is regarded as our home. Could the Lord Provost rule on that please?

Response by the Lord Provost	I have been advised by officers that that is in fact correct, for councillors the place of work is identified as your home.

Elected Members' Taxi Expenditure Table: 1 May 2017 - 31 March 2019

Councillor	Total Expenditure £	Salary Deductions £	Home Address to City Chambers Journeys
Eleanor Bird	22.67	22.67*	0
Claire Bridgman	11.59		0
Steve Burgess	60.20		0
Lezley Marion Cameron	1,449.74		12
Ian Campbell	876.38		48
Jim Campbell	12.44		0
Kate Campbell	5.57		0
Cammy Day	53.17		0
Alison Dickie	374.72	307.64*	0
Phil Doggart	38.43		0
Catherine Fullerton	75.24		2
George Gordon	524.53		3
Ashley Graczyk	2.30		0
Joan Griffiths	144.72		3
Derek Howie	1,052.56		2
Callum Laidlaw	17.77		0
Lesley Macinnes	7.81		0
Amy McNeese-Mechan	241.74		0
Adam McVey	39.85	26.22*	0
Ian Perry	378.12	7.22	4
Susan Rae	814.09		37
Alasdair Rankin	32.25		0
Frank Ross	34.63		0
Jason Rust	49.48		0
Mandy Watt	18.72		0
Susan Webber	22.27		1
Iain Whyte	12.21		0
Donald Wilson	151.84		0

*indicates where members chose to reimburse the Council for business journeys through salary deduction

QUESTION NO 2

By Councillor Neil Ross for answer by the Convener of the Transport and Environment Committee at a meeting of the Council on 19 September 2019

Question **(1)** The Budget for this year included a proposal to cut £250,000 from the current maintenance spend on staffing public toilets with the objective of improving public toilets. Has this proposal been implemented and, if so, what is the impact on the daily maintenance of public toilets in the city?

Answer **(1)** The budget proposal was to change the way in which public toilet services were staffed in 2019/20, alongside investigating options to extend the Community Toilet Scheme and to look at other opportunities for public convenience provision in the city which would continue into 2020/21. To implement the staffing changes, a formal consultation has recently concluded and the management proposal for the future of this service is being to be revised to take account of the feedback received from staff. Once this has been finalised, the changes to the staffing arrangements will be implemented.

Question **(2)** If it has not yet been implemented, what plans are being drawn up with a view to implementation?

Answer **(2)** As described above the resourcing proposal is being revised following consultation with the affected staff. Once the proposal has been refined to take account of the feedback received, implementation will begin. Alongside this, work is ongoing on the potential to extend the Community Toilet Scheme and to investigation alternative opportunities for public convenience provision in the city.

Question **(3)** In what ways has this proposal led to improvements to public toilets in the city?

Answer	**(3)**	The proposal for 2019/20 was to realign the staffing arrangements for the maintenance of existing public conveniences. Improvements in the provision of public conveniences in the city are anticipated to be progressed in 2020/21.
Question	**(4)**	There was also a related proposal to increase the uptake of the Community Toilet Scheme. Has any progress been made with this and, if so, what?
Answer	**(4)**	We are still investigating the feasibility of extending the Community Toilet Scheme, whereby businesses receive an annual payment for allowing customers to use their facilities and looking at alternative models of public toilet provision.
Question	**(5)**	When will a report on the above matters be made to the relevant committee?
Answer	**(5)**	It is expected that a report on these matters will be presented to the Transport and Environment Committee in Spring 2020.
Supplementary Question		Thank you Lord Provost and I'd like to thank the Convener for the answers to the four-part question. By way of supplementary question, for clarification, given that the intention of the proposal is to save £250,000 in this financial year, and we are now almost half way through the year, how you propose to achieve the savings envisaged?
Supplementary Answer		Thank you Councillor Ross, I share your concern about it, but I will point out that it's actually the responsibility of senior officers to make that saving having been given the instruction from here. Clearly however there is opportunity to roll that forward, you've seen from the detailed response here about the actions that have been taken towards achieving that aim. I have instructed senior officers to put the foot on the gas, if you'll excuse a further motoring reference and I am looking forward to seeing some degree of progress on that, thank you.

QUESTION NO 3

By Councillor Mowat for answer by the Convener of the Transport and Environment Committee at a meeting of the Council on 19 September 2019

Question

To ask the Convener of Transport and Environment what discussions the Council has had with the Chief Executive, Chairman our Operational Director of Lothian Buses about

a) the number of tour buses operated by Lothian Buses,

b) the frequency of these buses in the context of discussions about reducing congestion in the city.

Answer

Any licensed bus operator can register a service and operate from any bus stops they choose on the public road network, including tour buses (which are also registered services). The local authority (or authorities in which the service will operate) will review the proposal and check that it does not have any fundamental errors such as operating through an area where buses are not permitted, wrong way running on a one-way street, or where we may need to create new stops or implement parking restrictions. However, without any major error or issue, the Council has no authority to intervene or delay the registration process. The Council can, however, highlight concerns.

In the case of tour buses operating from Waverley Bridge officers have met with both the Traffic Commissioner's office and the tour bus operators using on Waverley Bridge. The operators agreed to work together to minimise the impact of the recent increase in the number of buses operating at this location.

Lothian Buses have been involved in the development of the Edinburgh City Centre Transformation proposals and will continue to be involved in the on-going development of the Low Emission Zone and City Mobility Plans.

Supplementary Question	Thank you Lord Provost and thank you for the answer, which talks more about the context than addressing. Can I just ask that, in the context of the last debate we've just had which is all predicated upon a 30% reduction in vehicular traffic coming into the city which feeds into your last paragraph about the development of city centre transformation proposals and the low emission zone and city mobility plan, are you looking for a concomitant reduction on tour buses of 30%?
Supplementary Answer	Do you actually expect me to make and business decisions on behalf of operators in this Chamber doesn't seem likely. What sits within the city centre transformation, indeed some of the wider transportation policies, is a general desire to achieve those kinds of levels of vehicle reduction. How we reach there will be the subject of very many conversations and certainly will not be incorporated in an answer to a single council question, thank you.

QUESTION NO 4

By Councillor Johnston for answer by the Convener of the Transport and Environment Committee at a meeting of the Council on 19 September 2019

Question	**(1)**	What discussions has the Transport Convener had with Edinburgh Trams regarding their recent (welcome) announcement to scrap the minimum card spend at ticket machines?
Answer	**(1)**	This is an operational matter which did not require any formal discussion between the Convener and Edinburgh Tram. It is a welcome development which will no doubt benefit the public.
Question	**(2)**	Can the Transport Convener advise if this change will have an impact on Edinburgh Trams running costs and what the potential implications are?
Answer	**(2)**	As a commercial matter it would be for Edinburgh Tram to ascertain and to understand after a period of implementation.

QUESTION NO 5

By Councillor Mitchell for answer by the Convener of the Regulatory Committee at a meeting of the Council on 19 September 2019

Please could the Convener confirm:

Question **(1)** How much the Licensing Department has charged in fees related to taxis and PHCs -

(i) so far this year, and

(ii) over each the previous five years?

Answer **(1)**

(i) The information for 2019/20 has not yet been collated. This information will not be available until the end of this financial year.

(ii) See table below:

2013/14	£1,055,149
2014/15	£1,150,126
2015/16	£1,405,278
2016/17	£1,716,236
2017/18	£1,772,797
2018/19	£2,042,642

Question **(2)** How much the Licensing Department spent in relation to enforcement of taxis and PHCs -

(i) so far this year, and

(ii) over each the previous five years?

Answer **(2)** The Licensing Service does not separate an individual cost of enforcement within its budget breakdown. There has never been an operational requirement to do so as all roles in Licensing and the Cab Office undertake operational and enforcement duties and are not accounted for by time.

Question **(3)** How many enforcement actions have been taken in relation to taxis and PHCs -

(i) so far this year, and

(ii) over each the previous five years?

Answer **(3)** The Licensing Service does not maintain a record of the number of enforcement actions taken and has interpreted 'enforcement action' as number of complaints.

Records can be provided for the number of complaints received against taxi and private hire drivers and operators in the current and previous financial year.

Period	Total
1 April 2018 – 31 March 2019	1,184
1 April 2019 – 31 August 2019	662
Total	1,846

- All complaints are rigorously investigated by Police Scotland and Council officers by working in partnership on a daily basis.
- The increase in complaints against PHC can be directly attributed to complaints made from the taxi trade.
- The increase in complaints against the taxi trade can be attributed to those received from members of the public.

A sample of these the above has been taken and identified as the most serious categories of complaints.

Category	**PHC**	**Taxi**	**Total**
Aggressive behaviour	139	150	289
Mobile Phone Use	8	20	28
Sexual	6	8	14
'Seagulling'	157	0	157

Supplementary Question	Thank you Lord Provost and thank you very much Convener for the answer. I'm not one to indulge myself Lord Provost, but hopefully you might indulge me on this occasion when I seek clarity, although it may sound like separate questions. In your response Convener, you say that you don't register enforcement actions and I was wondering if you could maybe clarify why and I think in doing that it would be clear on how those are then followed up and how you do enforce them, and I have other questions that maybe I'd get to with you another time.
Supplementary Answer	Thank you Councillor Mitchell for your supplementary. I will provide you with the information, in fact I'll give you a one to one session on enforcement. Enforcement is the whole lot of the Licensing Sub-Committee from the application right through to the end result, but we'll go through that. I'm disappointed however that you didn't come to me as Convener, or even ask the Committee for answers to your questions. I think perhaps you maybe need to go back and get some more training, as a member of the Licensing Sub-Committee you really should be au fait with all these answers, however I will arrange something.
Comments by Councillor Mitchell	I did ask the questions Convener, but the department didn't answer.
Comments by the Lord Provost	Can I just remind members not to debate with each other. Direct questions and comments through the Chair.

QUESTION NO 6

By Councillor Booth for answer by the Convener of the Housing, Homelessness and Fair Work Committee at a meeting of the Council on 19 September 2019

Question

Will the Convener please give the number of placements for homeless people in temporary accommodation that have been in breach of the Unsuitable Accommodation Order in each of the last 12 quarters?

Answer

No of households in Unsuitable Accommodation breach

Quarter	Homeless Households
Jul-Sep 2016	35
Oct-Dec 2016	50
Jan-Mar 2017	98
Apr-Jun 2017	134
Jul-Sep 2017	121
Oct-Dec 2017	104
Jan-Mar 2018	99
Apr-Jun 2018	167
Jul-Sep 2018	106
Oct-Dec 2018	111
Jan-Mar 2019	95
Apr-Jun 2019	60

Supplementary Question

Thank you Lord Provost and I thank the Convener for her answer. Will the Convener clarify that what we are talking about by unsuitable accommodation, is bed-and-breakfast hostels for homeless people and families, which is the most expensive and provides the least support for homeless families. Does she agree these breaches are unacceptable, and what further action is the Council taking to end them?.

Supplementary Answer

Thank you very much Councillor Booth for your question and for your supplementary. Unsuitable accommodation orders or breaches are when we are placing a household in accommodation that is unsuitable for meeting their needs, so in the vast majority of cases that will be where a family becomes homeless and we would look to what would be considered appropriate accommodation for them. Suitable would be a temporary furnished flat and as you know, because of the pressures on the service, there are times we're not able to do that and some families would be placed in B&B and once they have been in a B&B for seven days then that would be considered a breach because we would aim to move them into suitable accommodation as soon as possible. I think for me, I mean, I found this actually a very helpful question in the way that was set out because looking at the breaches quarter by quarter actually gives us quite a good view of what's happened and for me one of the particularly shocking things was that the first quarter after we had seen the benefit cap reduced to £20,000 we saw an increase of breaches, it almost doubled from 50 to almost 100 and that trend continued to increase. I think it's quite clear, and if anyone's not certain if that's the reason, Scottish Government data shows there were around 80 households that had their benefits capped prior to the reduction to £20,000 and after that reduction, across Scotland 3,500, so it almost quadrupled and I think that shows the amount of pressure that was put upon the service. Again to back up, that that will have had an impact in terms of homelessness, the characteristics of those households, 89% have children, 77% have three or more children, 64% were lone parents and 86% were female. So I think we can see very clearly that there is a connection between the benefits cap being reduced to £20,000 and then the increased pressure on homeless services and actually the number of children in temporary accommodation doubled in the two years after that cap was introduced. So I think we understand and that's obviously against a backdrop of significant pressures on housing, increased rents, short-term lets and we understand all of these pressures. I think what's also helpful in that data is to see that where we have made interventions you can see that they have had an impact on bringing on the 45 flats from housing, turning them into temporary furnished flats did have an impact. The 96 flats that came from Link again and the various other interventions we've made around access to mid-market rents, increasing PSL and also the rent deposit scheme, and we're going to carry on doing those things and keeping making those interventions, and they will make a difference and we can see that clearly in the data that's coming forward, but I also think we have to recognise that there are wider pressures and we need to tackle both the pressures and also find the interventions to really have a successful impact in reducing the number of breaches. Absolutely agree that we want no breaches and any number of breaches is unacceptable.

QUESTION NO 7

By Councillor Burgess for answer by the Convener of the Education, Children and Families Committee at a meeting of the Council on 19 September 2019

Question	Following the decision of Education, Children and Families to grant authorised absence to children and young people to take part in the Global Climate Strike on 20th September, how did the council ensure that this information reached all parents and pupils.
Answer	Revised letter went to all Headteachers on Thursday 22nd August asking them to forward to all parents and carers. We encouraged them to put the letter on the school website. We did not communicate directly to pupils. Schools may have done this independently.
Supplementary Question	I thank the Education Convener for his answer. Can the Education Convener clarify whether parents and pupils from all schools have actually been informed that there is an authorised absence from school tomorrow for the Young People's global climate strike and if he can't give that assurance, is the Convener willing to ask officers to urgently today, clarify the situation for parents and pupils in writing including by e-mail or text, that tomorrow is definitely an authorised absence from school for the global climate strike.
Supplementary Answer	Thank you very much for that supplementary, I'm making the assumption that that's happened, nobody's come back to me in the Chamber to say it's not. If you are suggesting that has not happened in some schools, because the way we do this is to communicate to the Head Teacher, the Head Teacher then takes responsibility for the further communication, it's not done centrally, but if you have any indication that head teachers have not done this, if you speak to me after the meeting I'll make sure it's done.

QUESTION NO 8

By Councillor Main for answer by the Convener of the Education, Children and Families Committee at a meeting of the Council on 19 September 2019

At recent meetings with young people at Boroughmuir High School, James Gillespies High School and James Gillespies Primary School, they shared common concerns about schools being too hot, schools lights being kept on when not needed and the lack of good recycling facilities and processes.

Can the Convener provide:

Question **(1)** For each primary and secondary school in Edinburgh, heating and lighting costs for the last 2 years and this year's budget, including any off-set from school renewable projects.

Answer **(1)** It is not possible to accurately separate out heating and lighting costs across schools; however, electricity and gas costs for schools can be provided as per the attached spreadsheet.

The attached cost data includes any associated metering costs and PV payments (such as to Edinburgh Community Solar Co-operative).

Question **(2)** Details of the temperature that schools are heated to and how that is controlled.

Answer **(2)** It is the Council's policy to heat schools in line with best practice guidance. The current targeted temperature range for spaces in schools during the heating season is 18°-21°.

The main heating plant across the majority of Council schools are controlled via centralised control systems called Building Energy Management Systems (BEMS). These systems monitor internal temperatures and adapt the flow of heating to a space in line with temperature set points. The Council is in the process of upgrading heating controls across its estate to improve the performance, comfort and energy efficiency. Under this programme, systems that operate on local controls are reviewed to assess the value in bringing them under central control. This is often driven by both comfort and energy efficiency objectives. As with any control system, there is a need for continued overview and maintenance. The Council's facilities management team have active programmes underway to review and improve on both internal comfort and energy efficiency. Any complaint regarding overheating is investigated.

In many of the Council's schools there will be limitations on the level of control within the properties due to either the condition or zoning of heat distribution equipment. For example, a Victorian primary school may operate as a single heating zone making it difficult to maintain uniform heat across the classrooms i.e. some areas may need to be warmer to allow other areas to reach required temperatures.

During the warmer months, unwanted heat gains, such as solar gain, can contribute to higher temperatures in schools. Unless there has been a controls failure, summer overheating is more commonly associated with building orientation and fenestration.

Question **(3)** For each primary and secondary school in Edinburgh, details of the quantity of landfill, food waste and recycling for the last two years, and the quantities to date this year.

Answer **(3)** The Council does not specifically calculate the amount of waste and recycling generated at an individual site level as number of bins, weight of bin, type of bins, and frequency of collection are all influencing factors as is the fact that schools waste is collected on the same rounds as household waste.

Question **(4)** Details of the recycling facilities in schools, what is provided for schools and how good practice in recycling is maintained.

Answer	**(4)**	The Council supplies external bins and collections for schools including general waste, food waste, mixed recycling and, with limited use in schools, glass collections. An audit of bins at each site is currently underway. In addition, sites can request a review of provision at any time. Changeworks, on behalf of the Council, provide a waste education programme for schools free of charge (https://www.changeworks.org.uk/). In addition, Council officers will be developing joint guidance for sites on the correct use of services and how to maximise recycling opportunities and to minimise the amount of waste sent to Energy from Waste
Supplementary Question		Thank you Lord Provost and thank you Convener for the responses and the detailed information. There are several points that I would like clarification on, but since these questions have come from the young people in the schools themselves, I wonder if the Convener would commit to organising for the appropriate staff to go into the schools and talk to the young people and give them the clarification themselves.
Supplementary Answer		Thanks very much for the supplementary, I think that's a good idea, but I think the first thing we should do is organise a meeting with the director to try and find out what is happening in schools, and then take it from there, and clearly you'll be invited to that meeting as well.

	Electricity 2017/18	Electricity 2018/19	Electricity Budget 2019/20	Gas 17/18	Gas 18/19	Gas Budget 2019/20
ABBEYHILL PRIMARY SCHOOL	£ 15,716	£ 16,430	£ 18,353	£ 13,669	£ 15,430	£ 16,002
BALERNO COMMUNITY HIGH SCHOOL	£ 45,144	£ 37,744	£ 41,455	£ 63,599	£ 70,704	£ 79,546
BALGREEN NURSERY SCHOOL	£ 1,942	£ 1,638	£ 1,831	£ 2,056	£ 1,976	£ 1,915
BALGREEN PRIMARY SCHOOL	£ 14,339	£ 18,041	£ 17,830	£ 15,475	£ 18,836	£ 12,116
BLACKHALL PRIMARY SCHOOL	£ 38,526	£ 28,957	£ 40,403	£ 5,022	£ 5,352	£ 5,418
BONALY PRIMARY SCHOOL	£ 22,880	£ 25,376	£ 27,992	£ 17,822	£ 19,012	£ 18,474
BOROUGHMUIR HIGH SCHOOL	£ 123,980	£ 114,706	£ 122,629	£ 86,874	£ 59,995	£ 61,832
BROUGHTON HIGH SCHOOL	£ 111,142	£ 123,945	£ 138,773	£ 55,071	£ 59,601	£ 59,371
BROUGHTON PRIMARY SCHOOL	£ 24,834	£ 24,733	£ 27,515	£ 23,380	£ 25,018	£ 21,660
BRUNSTANE PRIMARY SCHOOL	£ 15,783	£ 18,909	£ 21,075	£ 11,143	£ 11,889	£ 13,342
BRUNTSFIELD PRIMARY SCHOOL	£ 19,313	£ 22,741	£ 22,551	£ 24,499	£ 24,840	£ 25,283
BUCKSTONE PRIMARY SCHOOL	£ 17,611	£ 15,219	£ 14,063	£ 14,323	£ 16,727	£ 19,160
BUN-SGOIL TAOBH NA PAIRCE	£ 12,575	£ 13,374	£ 14,383	£ 18,996	£ 19,816	£ 19,798
CALDERGLEN NURSERY SCHOOL	£ 3,311	£ 3,569	£ 4,097	£ 2,492	£ 3,512	£ 3,352
CAMERON HOUSE NURSERY	£ 867	£ 1,083	£ 1,029	£ 1,497	£ 1,488	£ 1,553
CANAL VIEW PRIMARY SCHOOL	£ 16,891	£ 20,663	£ 22,606	£ 15,977	£ 15,848	£ 15,571
CARRICK KNOWE PRIMARY SCHOOL	£ 27,535	£ 29,656	£ 31,629	£ 18,536	£ 18,911	£ 19,122
CASTLEBRAE HIGH SCHOOL	£ 38,898	£ 45,629	£ 51,294	£ 44,502	£ 42,726	£ 42,852
CLERMISTON PRIMARY SCHOOL	£ 18,533	£ 30,420	£ 26,189	£ 19,737	£ 19,556	£ 19,580
CLOVENSTONE PRIMARY SCHOOL	£ 17,125	£ 15,659	£ 16,150	£ 13,453	£ 13,901	£ 13,845
COLINTON PRIMARY SCHOOL	£ 9,212	£ 8,925	£ 9,256	£ 7,430	£ 7,595	£ 7,561
CORSTORPHINE PRIMARY SCHOOL	£ 17,386	£ 24,409	£ 24,520	£ 14,737	£ 15,593	£ 15,669
COWGATE UNDER 5 CENTRE	£ 2,401	£ 2,594	£ 2,048	£ 3,713	£ 3,529	£ 3,710
CRAIGENTINNY PRIMARY SCHOOL	£ 13,104	£ 11,376	£ 8,870	£ 15,946	£ 17,677	£ 19,715
CRAIGLOCKHART PRIMARY SCHOOL	£ 15,025	£ 15,709	£ 17,765	£ 17,782	£ 19,645	£ 18,946
CRAIGROYSTON HIGH SCHOOL	£ 98,934	£ 105,345	£ 115,362	£ 52,674	£ 51,374	£ 51,910
CRAMOND PRIMARY SCHOOL	£ 16,508	£ 16,145	£ 17,414	£ 23,419	£ 25,995	£ 26,822
CURRIE HIGH SCHOOL	£ 52,764	£ 51,688	£ 55,217	£ 69,291	£ 73,507	£ 75,851
CURRIE PRIMARY SCHOOL	£ 19,767	£ 22,968	£ 22,593	£ 14,047	£ 16,145	£ 14,815
DALMENY PRIMARY SCHOOL	£ 8,491	£ 6,363	£ 6,960	£ 3,329	£ 4,283	£ 4,279
DALRY PRIMARY SCHOOL	£ 15,270	£ 13,825	£ 15,791	£ 16,578	£ 16,671	£ 18,507
DAVIDSON'S MAINS PRIMARY SCHOOL	£ 29,494	£ 26,416	£ 25,456	£ 16,152	£ 15,634	£ 15,570
DEAN PARK PRIMARY SCHOOL	£ 28,637	£ 29,727	£ 29,750	£ 22,113	£ 19,617	£ 28,300
DUDDINGSTON PRIMARY SCHOOL	£ 21,059	£ 19,018	£ 20,679	£ 15,704	£ 15,363	£ 16,269
EAST CRAIGS PRIMARY SCHOOL	£ 8,584	£ 22,943	£ 17,334	£ 12,336	£ 13,798	£ 14,951
ECHLINE PRIMARY SCHOOL	£ 15,765	£ 15,486	£ 16,875	£ 9,045	£ 10,545	£ 11,006

FERRYHILL PRIMARY SCHOOL	£ 26,011	£ 25,584	£ 27,805	£ 10,854	£ 12,561	£ 11,734
FLORA STEVENSON PRIMARY SCHOOL	£ 26,057	£ 28,092	£ 27,968	£ 17,598	£ 17,758	£ 16,978
FORRESTER/ST AUGUSTINE'S HIGH SCHOOL	£ 192,519	£ 209,568	£ 233,787	£ 116,974	£ 126,925	£ 126,168
FOX COVERT ND & RC PRIMARY SCHOOLS	£ 39,359	£ 27,648	£ 24,918	£ 10,013	£ 10,858	£ 11,441
GILMERTON PRIMARY SCHOOL	£ 13,913	£ 13,351	£ 14,608	£ 16,158	£ 15,842	£ 16,653
GORGIE MILLS SCHOOL	£ 17,592	£ 20,055	£ 22,442	£ 11,808	£ 12,252	£ 12,570
GRACEMOUNT PRIMARY SCHOOL	£ 5,942	£ 31,486	£ 22,350	£ 19,659	£ 21,871	£ 24,850
GRANTON PRIMARY SCHOOL	£ 13,312	£ 18,879	£ 19,194	£ 16,766	£ 16,659	£ 17,253
GREENGABLES NURSERY SCHOOL	£ 3,072	£ 3,443	£ 3,271	£ 2,661	£ 3,910	£ 4,671
GYLEMUIR PRIMARY SCHOOL	£ 16,840	£ 18,807	£ 21,398	£ 21,616	£ 23,254	£ 23,553
HERMITAGE PARK PRIMARY SCHOOL	£ 14,728	£ 14,043	£ 15,999	£ 12,057	£ 12,394	£ 14,140
HILLWOOD PRIMARY SCHOOL	£ 6,444	£ 6,820	£ 5,556	£ 12,525	£ 12,802	£ 13,701
HOLY CROSS PRIMARY SCHOOL	£ 9,945	£ 10,754	£ 11,916	£ 11,807	£ 11,547	£ 12,135
HOLYROOD HIGH SCHOOL	£ 114,993	£ 120,571	£ 131,160	£ 52,562	£ 52,238	£ 53,686
HOPE COTTAGE NURSERY SCHOOL	£ 3,033	£ 2,662	£ 2,937	£ 2,735	£ 2,987	£ 3,046
JAMES GILLESPIE'S HIGH SCHOOL	£ 117,526	£ 95,853	£ 117,430	£ 95,449	£ 100,382	£ 99,547
JAMES GILLESPIES NURSERY	£ 25,249	£ 18,252	£ 26,527	£ 1,035	£ 957	£ 11,026
JUNIPER GREEN PRIMARY SCHOOL	£ 24,766	£ 27,521	£ 30,301	£ 10,147	£ 15,128	£ 13,815
KAIMES SPECIAL SCHOOL	£ 19,369	£ 20,269	£ 22,813	£ 13,236	£ 15,907	£ 15,340
KIRKLISTON NURSERY SCHOOL/KIRKLISTON COMM CENTRE	£ 13,268	£ 11,489	£ 13,145	£ 3,542	£ 2,828	£ 2,746
KIRKLISTON PRIMARY SCHOOL	£ 32,933	£ 28,003	£ 35,570	£ 16,049	£ 15,576	£ 15,499
LEITH ACADEMY	£ 77,222	£ 76,715	£ 82,611	£ 81,449	£ 85,929	£ 85,264
LEITH PRIMARY SCHOOL	£ 22,440	£ 25,336	£ 28,480	£ 20,193	£ 17,776	£ 20,241
LEITH WALK PRIMARY SCHOOL	£ 15,821	£ 13,540	£ 14,403	£ 18,425	£ 19,409	£ 19,136
LIBERTON HIGH SCHOOL	£ 42,599	£ 49,912	£ 55,450	£ 52,247	£ 57,657	£ 57,186
LIBERTON NURSERY SCHOOL	£ 2,317	£ 2,373	£ 2,018	£ 2,776	£ 3,275	£ 3,299
LIBERTON PRIMARY SCHOOL	£ 14,747	£ 16,465	£ 17,247	£ 15,947	£ 18,730	£ 18,012
LOCHRIN NURSERY SCHOOL	£ 935	£ 1,069	£ 1,238	£ 2,934	£ 2,899	£ 2,966
LONGSTONE PRIMARY SCHOOL	£ 14,160	£ 10,275	£ 9,576	£ 18,707	£ 19,306	£ 20,643
LORNE PRIMARY SCHOOL	£ 9,495	£ 9,517	£ 8,257	£ 11,400	£ 10,933	£ 10,955
MOFFAT EARLY YEARS CAMPUS	£ 1,844	£ 2,086	£ 2,088	£ 2,564	£ 2,797	£ 2,797
MURRAYBURN PRIMARY SCHOOL	£ 10,148	£ 10,988	£ 12,053	£ 23,036	£ 25,044	£ 26,655

NETHER CURRIE PRIMARY SCHOOL	£ 20,183	£ 9,041	£ 20,721				Metering issues leading to low electricity charges in 2018/19
NEWCRAIGHALL PRIMARY SCHOOL	£ 6,270	£ 5,771	£ 6,174	£ 6,701	£ 6,164	£ 6,326	
NIDDRIE/ST FRANCIS COMBINED PRIMARY SCHOOL	£ 41,437	£ 47,135	£ 52,386	£ 20,590	£ 23,204	£ 21,438	
OAKLANDS SPECIAL SCHOOL	£ 29,134	£ 37,102	£ 39,341	£ 23,546	£ 25,415	£ 25,051	
PARSONS GREEN PRIMARY SCHOOL	£ 52,203	£ 49,601	£ 56,053	£ 830	£ 858	£ 1,026	
PENTLAND PRIMARY SCHOOL	£ 19,950	£ 22,677	£ 25,015	£ 12,730	£ 11,517	£ 13,171	
PILRIG PARK SPECIAL SCHOOL	£ 11,697	£ 10,389	£ 11,719	£ 7,865	£ 8,375	£ 8,425	
PORTOBELLO HIGH SCHOOL	£ 121,553	£ 122,533	£ 134,276	£ 96,063	£ 75,163	£ 73,289	
PRESTON STREET PRIMARY SCHOOL	£ 7,832	£ 6,804	£ 7,226	£ 5,925	£ 5,564	£ 6,137	
PRESTONFIELD PRIMARY SCHOOL	£ 26,370	£ 21,316	£ 25,471	£ 3,152	£ 513	£ 282	
PROSPECT BANK SPECIAL SCHOOL	£ 6,316	£ 9,250	£ 7,978	£ 9,556	£ 13,745	£ 15,492	
QUEENSFERRY HIGH SCHOOL	£ 62,537	£ 64,829	£ 71,264	£ 57,070	£ 58,465	£ 60,211	
QUEENSFERRY PRIMARY SCHOOL	£ 17,427	£ 22,799	£ 23,720	£ 16,770	£ 16,736	£ 17,357	
RATHO PRIMARY SCHOOL	£ 13,575	£ 13,493	£ 14,570	£ 12,953	£ 10,995	£ 11,857	
ROSEBURN PRIMARY SCHOOL	£ 11,750	£ 11,176	£ 12,234	£ 11,715	£ 12,728	£ 12,714	
ROYAL HIGH PRIMARY SCHOOL	£ 13,810	£ 14,839	£ 16,597	£ 20,135	£ 16,707	£ 19,163	
ROYAL MILE PRIMARY SCHOOL	£ 10,407	£ 9,961	£ 11,027	£ 17,396	£ 18,980	£ 19,307	
SCIENNES PRIMARY SCHOOL	£ 24,666	£ 20,931	£ 20,648	£ 14,804	£ 26,719	£ 25,991	
SIGHTHILL PRIMARY SCHOOL	£ 12,332	£ 9,960	£ 12,794	£ 13,680	£ 10,802	£ 13,591	
SOUTH MORNINGSIDE PRIMARY SCHOOL	£ 21,439	£ 15,279	£ 16,172	£ 13,676	£ 11,959	£ 13,502	
SPINNEY LANE NURSERY SCHOOL	£ 7,859	£ 7,009	£ 7,742				
ST CATHERINE'S PRIMARY SCHOOL	£ 10,445	£ 7,287	£ 8,395	£ 7,946	£ 7,712	£ 7,472	
ST CRISPINS SPECIAL SCHOOL	£ 20,433	£ 21,949	£ 24,281	£ 17,450	£ 17,672	£ 17,474	
ST CUTHBERT'S RC PRIMARY SCHOOL	£ 15,730	£ 11,667	£ 14,250	£ 9,555	£ 10,322	£ 9,934	

ST DAVIDS PRIMARY SCHOOL - RSR Building Only	£ 820	£ 81	£ 24,271				High 2019/20 budget to account for historic underbilling on electricity. Annual forecast cost circa £5k/annum
ST JOHN VIANNEY RC PRIMARY SCHOOL	£ 11,142	£ 9,641	£ 10,312	£ 17,921	£ 18,375	£ 18,330	
ST JOHN'S RC PRIMARY SCHOOL	£ 10,188	£ 39,499	£ 40,711	£ 8,618	£ 5,228	£ 7,181	
ST LEONARD'S NURSERY SCHOOL	£ 1,238	£ 1,393	£ 1,700	£ 3,108	£ 3,444	£ 3,615	
ST MARGARET'S PRIMARY SCHOOL	£ 4,804	£ 4,639	£ 5,005	£ 8,172	£ 7,583	£ 7,755	
ST MARK'S RC PRIMARY SCHOOL	£ 9,211	£ 8,136	£ 10,144	£ 7,475	£ 7,253	£ 7,276	
ST MARY'S PRIMARY SCHOOL (ELONDON)	£ 20,264	£ 8,475	£ 13,453	£ 15,408	£ 16,797	£ 16,861	
ST MARYS PRIMARY SCHOOL (LEITH)	£ 10,740	£ 12,988	£ 14,909	£ 12,051	£ 12,517	£ 12,645	
ST NINIANS PRIMARY SCHOOL	£ 10,225	£ 10,648	£ 11,720	£ 13,334	£ 15,303	£ 15,855	
ST THOMAS OF AQUINS	£ 45,139	£ 47,486	£ 53,021	£ 48,169	£ 47,199	£ 48,613	
STANWELL NURSERY (DR BELL'S)	£ 2,128	£ 2,278	£ 2,289	£ 2,509	£ 2,727	£ 2,689	
STENHOUSE PRIMARY SCHOOL	£ 7,967	£ 7,721	£ 9,415	£ 17,243	£ 15,634	£ 16,605	
STOCKBRIDGE PRIMARY SCHOOL	£ 40,449	£ 53,360	£ 53,425				
TOLLCROSS PRIMARY SCHOOL	£ 11,641	£ 11,363	£ 10,727	£ 16,548	£ 15,975	£ 15,767	
TOWERBANK PRIMARY SCHOOL	£ 17,269	£ 24,867	£ 23,172	£ 13,423	£ 15,381	£ 15,346	
TRINITY ACADEMY	£ 51,442	£ 56,306	£ 64,502	£ 69,400	£ 70,875	£ 71,249	
TRINITY PRIMARY SCHOOL	£ 18,138	£ 22,318	£ 19,923	£ 873	£ 842	£ 1,024	
TYNECASTLE HIGH SCHOOL	£ 103,143	£ 101,792	£ 112,383	£ 25,753	£ 34,049	£ 37,152	

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TYNECASTLE NURSERY		£ 5,859	£ 12,696			
VICTORIA PRIMARY SCHOOL	£ 8,757	£ 8,701	£ 9,367	£ 9,564	£ 10,720	£ 10,834
WARDIE PRIMARY SCHOOL	£ 29,902	£ 27,783	£ 31,250	£ 16,654	£ 16,972	£ 16,803
WESTER HAILES EDUCATION CENTRE	£ 133,254	£ 99,354	£ 105,212	£ 123,991	£ 157,581	£ 150,794
WOODLANDS SCHOOL MLD	£ 14,235	£ 15,490	£ 16,751	£ 9,774	£ 9,496	£ 9,936

Nursery demolished. Now forms part of Tynecastle stadium. Utility charges have therefore changed.

QUESTION NO 1

By Councillor Miller for answer by the Convener of the Transport and Environment Committee at a meeting of the Council on 24 October 2019

Question	**(1)**	Please list by month the number of requests received (via any channel) since September 2018 to clear leaves from footpaths and cycle paths.
Answer	**(1)**	
Question	**(2)**	Please provide the dates when footpaths and cycle paths have been swept or cleared since September 2018
Answer	**(2)**	
Question	**(3)**	Has the council's new web site been updated to explicitly allow residents to report concerns re leaf sweeping?
Answer	**(3)**	
Question	**(4)**	Has an equalities assessment identified which groups are more impacted by the condition of footpaths and cycle paths?
Answer	**(4)**	

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QUESTION NO 2

By Councillor Osler for answer by the Convener of the Transport and Environment Committee at a meeting of the Council on 24 October 2019

Question

How many cars have been either fined or towed for parking in front of a communal bin. Break down by Ward?

Answer

QUESTION NO 3

By Councillor Osler for answer by the Convener of the Transport and Environment Committee at a meeting of the Council on 24 October 2019

Question After road resurfacing what checks are done of the gullies to make sure that they are not blocked by loose chippings?

Answer

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QUESTION NO 4

By Councillor Corbett for answer by the Convener of the Planning Committee at a meeting of the Council on 24 October 2019

Question

On 14 October the Centre for Ecology and Hydrology published a study which showed that, on average, Edinburgh is losing 11.3 hectares of green space annually as gardens are paved over or built on. In light of climate breakdown forecasts of increased and more intense rainfall, what steps does the convenor propose as regards policy and guidance to ensure that the rate of loss is reversed?

Answer

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QUESTION NO 5

By Councillor Mowat for answer by the Convener of the Culture and Communities Committee at a meeting of the Council on 24 October 2019

Question

What independent evidence did you have when you warned of “a steady and unstoppable decline for the city’s global reputation if it started to turn away promoters and organisers” and why imposing “a cap or upper limit” on what the gardens could be used for would send out the wrong message?

Answer

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QUESTION NO 6

By Councillor Brown for answer by the Convener of the Education, Children and Families Committee at a meeting of the Council on 24 October 2019

Question

Can the Convener advise of the total numbers, per school and as a percentage of school roll, how many school children across Edinburgh were granted authorised absence by Parents / Guardians to attend the Climate Change event on 20th September 2019?

Answer

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QUESTION NO 7		**By Councillor Laidlaw for answer by the Leader of the Council at a meeting of the Council on 24 October 2019**

Question	**(1)**	What business case has the City of Edinburgh Council put forward to secure additional funding from the £99m made available by the UK Government to the Scottish Government for distribution to Local Authorities to help prepare for the UK leaving the European Union?
Answer	**(1)**	
Question	**(2)**	How much additional funding has been secured for City of Edinburgh Council to be best prepared for leaving the European Union? And have these funds been received?
Answer	**(2)**	

QUESTION NO 8

By Councillor Brown for answer by the Convener of the Transport and Environment Committee at a meeting of the Council on 24 October 2019

Question

Can the Convener of the Transport and Environment Committee confirm the lead times in place for Council related lampposts wraps to be removed following the date of the event advertised?

Answer

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October 2019

Trams to Newhaven: construction timetable now live

Earlier this month we announced the [full construction timetable for taking trams to Newhaven], with work getting under way on Constitution Street from mid-November, alongside enabling works on Leith Walk to prepare for the main construction work there next April.

As a local Leith councillor, I know that there's a real sense of anticipation in the community as we embark on this exciting new chapter for the area. It's daunting when major works are in the pipeline, of course, but the project team has been unstinting in their open, transparent approach, putting residents' and businesses' needs at the heart of their plans so that we can keep disruption to an absolute minimum.

Trams will deliver a safe, sustainable, high-capacity and modern transport link to unlock the full potential of Leith and North Edinburgh and connect local communities to major centres of employment in the city – all without impacting on other council budgets.

It's fascinating to think of what may be unearthed by the archaeologists as work progresses, revealing hitherto hidden aspects of Leith's rich history. We're very much looking forward to inviting members of the public along to the dig to explore Leith's dramatic past as we progress our plans to build the area a bright and connected future.

Supporting thousands of EU nationals to stay in Edinburgh post-Brexit

Colleagues from across the Council have been preparing for many months to minimise the impact Brexit might have on our core services and on the residents we serve. But many factors simply remain beyond our control and "no deal" is yet to be ruled out. We will continue to work hard to protect our Capital as best we can – whatever the outcome we're subjected to.

We're home to almost 40,000 EU nationals – more than any other city in Scotland – and our European residents add so much to our city's cultural identity. It's one of the many reasons why we authorised up to £25,000 from the Council's Priorities Fund to support our registration services, and to make sure the right help was in place despite the uncertainty of Brexit.

It's encouraging then that, according to the latest figures from COSLA, more than 1 in 5 people in Scotland who have registered for settled status have done so in order to stay in Edinburgh. That's more than 11,000 out of the 50,000 who have signed up and I'm pleased that we've now directly registered more 1,500 through the Council.

Our EU nationals are a key part of our Capital's current and future social and economic growth and, no matter what, Edinburgh is their home.

Boosting sustainability and tackling poverty with our budget

When we set our budget earlier this year, we committed to creating a fairer and more inclusive Edinburgh by investing in more affordable new homes, a revamped Meadowbank sports centre, major infrastructure works and much needed new schools. We agreed to protect services which support our most vulnerable residents and drive forward our climate change goals.

It's really encouraging, then, to see all of these big issues we've been prioritising over the last eight months take another step forward with a commitment from councillors to keep on [prioritising poverty and sustainability] in the future budget decisions we take.

As we look ahead to our budget-setting exercise in February and beyond, we're drawing on feedback from residents to shape opportunities for investing in the future well-being of our city and of our people. And we'll be doing this by looking at all of the decisions we take through the lenses of poverty and sustainability – ensuring that everyone has the opportunity to share in our city's success.

Success of City Region Deal sparks partnership working

It's just over a year since we signed up to the £1.3bn transformative 15-year [Edinburgh and South East Scotland City Region Deal] with an inclusive programme to help grow and share our success right across the region.

An incredible amount of work has been done since then with huge progress being made, including £704m of spending being approved in the first 12 months for housing, transport, innovation, skills and employability, and culture.

This investment is helping us towards our target of becoming a global powerhouse in data-driven innovation. Already we have over 20 industry partners in residence at the brand new innovation hub at the Bayes Centre, and £49.4m approved for the Fife Industrial Innovation Investment Programme.

This partnership approach has led to a cross-regional working group being set up to ensure we have economic development and infrastructure policies in place to underpin the success of the projects being delivered on the ground.

A framework will be produced by summer 2020 to help shape new regional and national policy and set the strategic direction for inclusive and sustainable economic growth in the city region as a whole.

Initial evaluation demonstrates 20's plenty for Edinburgh

When we first began to roll out a network of 20mph roads across the Capital in 2016 - becoming Scotland's first 20mph city - we envisioned safer, calmer and more welcoming streets, encouraging walking and cycling and increasing social interaction.

I'm delighted therefore to see that slower speed limits are already having a real impact on the safety and well-being of our residents and visitors, as reported to Transport and Environment Committee earlier this month. Public support for the scheme is up, with 65% of those polled in household survey, now in favour (24% of whom, strongly) compared to 58% (20% strongly) before the rollout. People who walk and cycle report doing so much more frequently now streets are calmer and respondents feel Edinburgh's traffic speeds are "very safe" for cycling.

Speeds are falling across the city, with significantly fewer people driving at 30mph+ and a rise in drivers travelling below 20mph. With an estimated 6% reduction in accidents for every 1mph drop in speed, these figures speak for themselves.

Of course, there's more to be done to encourage compliance and, with the roll-out of 20mph only completed last year, it's still bedding in. But, with new drivers passing their tests every day with 20mph as the norm, communities across the city calling for more streets to be added to the network and support for the scheme growing, I'm confident that we'll see more and more people adhering to speed limits, helping deliver the many benefits that safer, calmer streets can bring.

It's (almost) the most wonderful time of the year

The full programmes for this year's Winter Festivals were unveiled earlier this month and it promises to be another fantastic festive season.

As well as the return of the popular Edinburgh's Christmas market and attractions, new highlights include Community Christmas, a fun and free celebration which will see 12 locally significant buildings, across all four localities, come alive with festive projections over 12 consecutive nights.

In a great new partnership for 2019, 25p from every ticket sold to the Christmas Tree Maze will be donated to Edinburgh and the Lothians Greenspace Trust's Tree Time project, which means as much as £15,000 could be raised to help replant or plant new trees in Edinburgh.

The Winter Festivals continue to bring new entertainment and attractions to the city but they also honour our long-held traditions. So whether you join us at Light Night, take part in the Edinburgh's Hogmanay Torchlight Procession, spend your midnight moment at the street party as part of the best "bucket list festival in the world" or launch into the next decade with a brave Loony Dook, Edinburgh really has something for everyone.

Looking further ahead, we want residents to be right at the heart of shaping the future of our Winter Festivals, so we'll be launching a public consultation in the New Year – watch this space!

Taking the lead on Dog-Friendly Thursdays

Don't be surprised if you come across four-legged friends in the Central Library over coming Thursdays. George IV Bridge library is one of three (including Stockbridge and Oxgangs) taking part in our three-month pilot 'Dog-Friendly Thursdays'.

Allowing dogs in encourages people who may not have done so before to visit libraries – as shown on the first day when a woman signed up as a brand new library member precisely because she could bring her dog – and acknowledges the role that dogs play in providing support, companionship and the help they can give people in social situations. As with all our pilots, feedback is always welcome.

And that leads very nicely on to welcoming the newest recruit to the full Council fold… Cllr Howie's new assistance dog, Gucci. I'm sure everyone will give Gucci a warm welcome as she makes her debut in the Council Chamber, following in her predecessor Lloyd's well-practised pawsteps.

Get involved

Keep up to date with all council news via our news section online. You can watch live council and committee meetings via our webcast service and join the debate on Twitter using #edinwebcast. If you wish to unsubscribe, please email us.

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The City of Edinburgh Council

10.00am, Thursday, 24 October 2019

Appointments to Committees etc

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

1. Recommendation

1.1 To nominate a member to SEStran's Performance and Audit Committee.

1.2 To appoint a vice-convener to the Finance and Resources Committee with the accompanying Senior Responsibility Allowance of £26,207.

Andrew Kerr

Chief Executive

Contact: Louise Williamson, Committee Services

Email: louise.p.williamson@edinburgh.gov.uk | Tel: 0131 529 4264

Report

Appointments to Committees etc

2. Executive Summary

2.1 Council is asked to appoint a vice-convener for the Finance and Resources Committee and nominate a member to SEStran's Performance and Audit Committee.

3. Main report

3.1 A vacancy has arisen for the vice-convener position to the Finance and Resources Committee. Council is asked to appoint a new vice-convener with the accompanying Senior Responsibility Allowance of £26,207.

3.2 On 2 May 2019 the Council made five appointments to SEStran (the South East of Scotland Regional Transport Partnership). On 27 June 2019 an adjustment to membership was agreed.

3.3 The current Council membership comprises five members: - Councillors Cook, Doran, Key, Macinnes and Miller.

3.4 A request has now been received from SEStran to nominate a member to the Performance and Audit Committee. The Performance and Audit Committee meets quarterly, two weeks in advance of each Partnership Board meeting. The date for the next meeting is 22 November 2019. Meeting dates for 2020 will put to the next Partnership Board for approval.

3.5 Council is invited to nominate a member from its current membership.

4. Next Steps

4.1 Any nomination will be communicated to SEStran.

5. Financial impact

5.1 None.

6. Stakeholder/Community Impact

6.1 None

7. Background reading/external references

7.1 None.

8. Appendices

8.1 Performance and Audit Committee Terms of Reference.

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The City of Edinburgh Council

10.00am, Thursday 24 October 2019

Edinburgh and South East Scotland City Region Deal Annual report, Annual Conversation and Regional Growth Framework Update

Executive/routine
Wards All
Council Commitments 1, 2, 4, 6, 7, 10, 18, 19

1. Recommendation

1.1 To note the summary findings of the first annual report and annual conversation for the Edinburgh and South East Scotland City Region Deal.

1.2 To note the decision of the Edinburgh and South East Scotland City Region Deal Joint Committee on 3 September 2019 to approve a project brief for officers to commence the production of a Regional Growth Framework. There will be regular consultation with members through briefings, consultation and workshops. The process will be overseen by an Elected Member Oversight Committee. The development of a Regional Growth Framework is expected to take until June 2020 and would be reported to each constituent authority for their consideration.

1.3 To note that Elected Member briefing sessions took place on the 21 and 22 October 2019.

1.4 To agree to the recruitment of a Programme Director to oversee the development of the Regional Growth Framework and that the recruitment is overseen by the Edinburgh and South East Scotland City Region Deal Joint Committee. Discussions are taking place with the Scottish and UK Governments about the resourcing requirements of the Programme Director role.

Andrew Kerr
Chief Executive
Contact: Andy Nichol
E-mail: andy.nichol@edinburgh.gov.uk | Tel: 0131 529 4461

Report

Edinburgh and South East Scotland City Region Deal Annual Report, Annual Conversation and Regional Growth Framework Update

2. Executive Summary

2.1 This report summarises the key findings from the appended City Region Deal Annual Report (published on 28 August 2019 and approved by the City Region Deal Joint Committee on 3 September); and the annual conversation between UK Government, Scottish Government and City Region Deal partners that took place on 12 September.

2.2 This report also summarises progress to date on the development of a Regional Growth Framework. The development of a Regional Growth Framework is expected to take until June 2020 and would be reported to each constituent authority for their consideration. The Report seeks authority for the Joint Committee of the Edinburgh and South East Scotland City Region Deal (ESESCRD) to appoint a Programme Director to oversee the development of the Regional Growth Framework.

2.3 The Regional Growth Framework is not in itself a Spatial Strategy but the two are inextricably linked. The Regional Spatial Strategy and the Regional Growth Framework will align as part of a fully integrated Place Based policy approach.

3. Background

3.1 The Edinburgh and South East Scotland City Region Deal was signed by the First Minister, Prime Minister and City Region Leaders on 7 August 2018.

3.2 Each year City Region Deal partners are required to produce an annual report to assess how well the City Region Deal is aligning towards the overall vision and inclusive growth outcomes for the city region. The first Annual Report was approved by Government and published on 28 August 2019. Its findings were noted by the City Region Deal Joint Committee on 3 September 2019.

3.3 On 3 September, the City Region Deal Joint Committee approved a report outlining a project brief to guide the production of a Regional Growth Framework.

3.4 On 12 September 2019, the first Annual Conversation took place between the Scottish Government, UK Government and Scotland Office and City Region Deal partners at senior level.

3.5 Cross Party Elected Member briefing sessions took place on the 21 and 22 October 2019.

4. Main report

Annual Report – published 28 August 2019

4.1 The Annual Report for 2018 is an overall progress report for the City Region Deal programme between 7 August 2018 and 31 July 2019, with the exception of the Financial Statement which contains financial information for the Financial year 2018/19.

4.2 It contains a City Region Deal overview, Financial Statement, Governance Statement, a summary of partners' approach and plans for Monitoring and Evaluation, and a short summary of progress on each project and programme.

4.3 The report demonstrates significant progress across the 24 projects and programmes within the City Region Deal:

4.3.1 Nine projects are classified as Stage 1: "Define" (business cases still to be approved by Government and Joint Committee)

4.3.2 13 have reached Stage 2: "Implement" (business cases have been approved by Government and Joint Committee but projects are not yet operational)

4.3.3 Two have reached Stage 3: "Deliver" (projects are operational).

4.4 £49.0 million of Government money was drawn down in the 2018/19 financial year for the first projects to be approved: the Bayes Centre, National Robotarium Edinburgh Futures Institute, Edinburgh Living and the Sheriffhall Roundabout Upgrade. Grant allocation for 2019/20 is £50.73 million.

4.5 Significant progress has been made in establishing the new Governance Structure. At the time of publishing the Annual Report, the Joint Committee had approved eight business cases and seven project propositions, worth £704 million or 53% of the 15-year programme; the Regional Enterprise Council has been established and is taking an active role in ensuring that the benefits of the Deal flow to the region's communities and businesses; and thematic boards are meeting to set the strategic direction across Data-Driven Innovation, Skills, Transport and Housing themes.

4.6 Regional Partners are working with Government on a Monitoring and Evaluation Framework that will track the progress and impact of City Region Deal projects. The framework is programmed for consideration by the Joint Committee in December 2019.

4.7 Looking ahead to 2020, significant developments in project delivery are programmed including:

4.7.1 Central Borders Innovation Park, two industrial estate generation sites in Fife and of homes in several of the strategic housing sites; and

4.7.2 piloting skills projects in Housing and Construction Infrastructure, Data-Driven Innovation, and Intensive Family Support.

Annual Conversation – 12 September

4.8 The Annual Conversation was chaired by Jonathan Pickstone – Deputy Director and Joint Chair of the Scottish City Region Deal Delivery Board at the Scottish Government. Rebecca Hackett represented the Scotland Office at Deputy Director level, and the UK Government was represented by Donald Bogle, Senior Policy Advisor, Devolution Strategy, Cities & Local Growth Unit.

4.9 Andrew Kerr and Angela Leitch (Current chair and vice chair of the Executive Board) represented the City Region Deal, alongside Hugh Edmiston (Higher and Further Education consortium), Hugh Dunn (Accountable Body) and colleagues from the Programme Management Office.

4.10 At the Annual Conversation, both Governments indicated that they were encouraged with the progress made within the Deal.

4.11 The main strengths identified were:

4.11.1 The comprehensive business cases that have been approved;
4.11.2 the work of the Programme Management Office, together with Government so far in developing the inclusive growth and monitoring and evaluation framework;
4.11.3 the work of the Accountable Body in establishing systems to ensure that money is able to flow effectively from Government to the Accountable Body to partners; and
4.11.4 the symbiotic relationships that the Deal is helping to create and strengthen.

4.12 Areas that require more focus and attention include:

4.12.1 Improving communications on the progress of the City Region Deal to business communities and the general public; and
4.12.2 developing the Regional Growth Framework to ensure that there is a consistent regional approach to Planning, Housing, Transport and Economic Development in line with the latest Government policy.

Regional Growth Framework

4.13 Regional partners are also developing a Regional Growth Framework and accompanying Regional Spatial Strategy to inform the Scottish Government's National Planning Framework 4 and Strategic Transport Projects Review 2 by the summer of 2020. This will also set the strategic direction for regional partners to work together to accelerate inclusive growth outcomes through the emerging City Region Deal programme, and across related housing, planning, transport and economy policy areas. The project brief for this was approved by Joint Committee on 3 September. The development of a Regional Growth Framework is expected to take until June 2020 and would be reported to each constituent authority for their consideration.

4.14 The City Region Deal document, noted and approved in advance by Council on 28 June 2018 ahead of formal signing by the First Minister, Prime Minister and regional partners on 7 August 2018, identified new and more collaborative ways that regional partners would work with UK and Scottish Governments to deliver transformational change to the city regional economy. The Deal document noted that the governance bodies within the Deal, notably the Transport Appraisal Board and Regional Housing Board, would work closely with Government to influence and formalise any future regional partnership working which might emanate from the moves to Regional Economic Partnerships as well as land use planning aligning with the outcomes of parliament's consideration of the Planning Bill.

4.15 Section 5 of the 2019 Planning Act includes a new duty for a planning authority or authorities to produce regional spatial strategies which identify the need for strategic development, the outcomes which will contribute to priorities for delivery and proposed locations which are to be shown in the form of a map or diagram and be subject to consultation with stakeholders and the public. These do not require to be approved by Scottish Ministers though are subject to consultation and engagement processes. Section 5 additionally provides that the National Planning Framework is to have regard to adopted regional spatial strategies.

4.16 In response to the success of the City Region Deal collaboration combined with uncertainty over planning and transport at national and regional scales (e.g. Ministerial Rejection of SESplan SDP2 on 31 May 2019), the City Region Deal Political Leaders recommended that officers develop a proposition outlining a regional framework for growth which would inform a regional spatial strategy. This recommendation recognised the need for the region to take a holistic, joined-up approach across transport, planning, housing and economic development.

4.17 The interdependence between local partners has never been greater, with increased mobility of workers and people choosing to live, work and invest in locations across the region irrespective of local authority boundaries.

4.18 Recognising this interdependence, the Edinburgh and South East Scotland City Region Deal Joint Committee, comprising the political leaders from the six local authorities (City of Edinburgh, East Lothian, Fife, Midlothian, Scottish Borders and West Lothian); a representative from the Further and Higher Education Consortium; and representatives from the private and third sectors (as chair and vice-chair of the Regional Enterprise Council) approved a Regional Growth Framework report at the Joint Committee meeting on 3 September 2019.

4.19 The report outlines an approach to deliver greater alignment across economic development, housing, planning and transport under a set of simpler governance arrangements to deliver a streamlined approach to regional planning, housing, transport and economic development to manage growth and maximise regional inclusive growth outcomes.

4.20 Work to date has been developed iteratively with input from Directors and Chief Executives from the six local authorities; SESplan Joint Committee; the Regional Enterprise Council; Scottish Government; and Scottish Enterprise. Regional partners, Government and agencies will continue to work collaboratively to co-produce the Regional Growth Framework.

4.21 At the ESESCRD Joint Committee meeting, it was agreed that a project team would be established to commence the project in September initially running for 10 months up to June 2020. It is intended that the Regional Growth Framework informs key local, regional and national policy developments including the next National Planning Framework (NPF4). The Regional Growth Framework would be reported to each constituent authority for their consideration.

4.22 On 2 October, SESplan Joint Committee agreed clarifications on the relationship between the Regional Growth Framework and the Regional Spatial Strategy. The Joint Committee agreed that the SESplan Officer Board will act as a strategic spatial planning consultative board in respect of progressing a Regional Growth Framework, Regional Spatial Strategy and informing NPF4.This will complement the Regional Housing Board and Transport Appraisal Board constituted as part of the City Region Deal governance. These Boards will feed into the Elected Member Oversight Committee which is to be established and which will consist of two elected members per local authority area within the City Region Deal. The Elected Member Oversight Committee will oversee the Regional Growth Framework and Regional Spatial Strategy development and will advise the City Region Deal Joint Committee.

4.23 A sustainable approach to managing growth will be a core aspect of the Regional Growth Framework and consideration will be given how the Framework can lead the way in Scotland's response to the Global Climate Emergency, ensuring a positive contribution to the Scottish Government's Climate Change Bill and for reaching net-zero emissions. The Regional Growth Framework should align to local sustainability, energy and low carbon plans and strategies.

4.24 Partners have identified staff to form a team to ensure that the essential disciplines are factored into consideration in an integrated and holistic manner in the development of a Regional Growth Framework. A Programme Director is, however, required to oversee the co-ordination of this work. Discussions are taking place with the Scottish and UK Governments about the resourcing requirements of the Programme Director role.

5 Next Steps

5.1 Key priorities for the year ahead are summarised in Section 7 of the Annual Report and copied below:

City Region Deal Expected Milestones until Summer 2020

Date	Milestone
Autumn 19	• Shared vision and approach to Community Benefits and Social Benefits Through Innovation agreed
Autumn 19	• Data-driven Innovation and Housing and Construction infrastructure and targeted Skills Gateways provision operational
6 Dec 19	• Joint Committee meeting where the following items are expected to be considered: ○ Dunfermline Strategic Housing Site Business Case

	○ Monitoring and Evaluation Framework (including Community Benefits Strategy)
6 Mar 20	• Easter Bush Business case expected to be considered by Joint Committee.
Mar 20	• The Fife Industrial Investment Innovation Programme will break ground on two sites, in Glenrothes and Dunfermline.
April 20	• Commencement of construction of Grade Separated Junction at Queen Margaret University Food and Drink Innovation Campus.
Spring 20	• Intensive Family Support Service pilots commence
5 Jun 20	• Joint Committee meeting to consider business case for Edinburgh Innovation Park (Queen Margaret University)
Jul 20	• Construction of the National Robotarium commences
Summer 20	• All IRES Programme projects operational
Summer 20	• Regional Growth Framework published.

6 Financial impact

6.1 There is no financial impact relating to the Annual Report and Annual Conversation for the City of Edinburgh Council. The Financial Statement shows that £49.0 million of Government money was drawn down in 2018/19. This included over £5 million for the Edinburgh Living housing partnership.

6.2 The approved 2018/19 five-year Capital Investment Programme includes a budget provision of £5 million as a contribution to support delivery of Dunard Centre and a £16 million budget provision to support the delivery of public transport improvements detailed in the West Edinburgh Transport Appraisal. No financial contribution will be required from the City of Edinburgh Council within the innovation and the integrated regional skills programme themes.

6.3 The £50m predominantly private sector housing infrastructure loan fund, managed and administered by Scottish Government, is proving of limited interest to the private sector due to the commercial terms of the loan. The need for continued financial innovation and collaboration to develop new infrastructure funding and delivery models is recognised. Further discussion is required with UK and Scottish Government to explore future housing and infrastructure funding and delivery options. These matters will be considered at the Regional Housing Board and reported to the Joint Committee.

6.4 Discussions are taking place with the Scottish and UK Governments about the resourcing requirements Programme Director role to co-ordinate the development of the Regional Growth Framework.

7 Stakeholder/Community Impact

7.1 Inclusion is a key driver for the City Region Deal, and scores have been included for each project. Business cases for projects included demonstrate how they will reduce inequalities and tackle the inclusion challenges specific to the city region.

7.2 A Monitoring and Evaluation Framework is being developed for the programme, which will incorporate clear indicators to align with the Scottish Government's Inclusive Growth Framework, also under development. The impact on equalities, human rights, poverty and sustainability are also being incorporated into the framework. The framework is expected to be complete by December 2019.

8 Background reading/external references

8.1 City Region Deal Document (August 2018)

8.2 Annual Report – report to City Region Deal Joint Committee (September 2019)

8.3 Regional Growth Framework Proposition – report to City Region Deal Joint Committee (September 2019)

8.4 Previous Joint Committee Papers and webcast link

9 Appendices

9.1 Appendix 1 - City Region Deal Annual Report

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Publication date: Wednesday 28 August 2019

Executive Summary

The Edinburgh and South East Scotland City Region Deal, signed on 7 August 2018, sets out a compelling vision that builds on the city region's unique strengths to deliver a number of transformational programmes and projects across Innovation, Skills, Transport, Culture and Housing themes that will deliver a step-change in inclusive growth to benefit the city region, Scotland and the United Kingdom.

Over £1.3 billion is being invested into the city region over the next 15 years. UK and Scottish Governments will each contribute £300 million, with the remainder coming from partners: the six member authorities - The City of Edinburgh, East Lothian, Fife, Midlothian, Scottish Borders and West Lothian Councils; the city region's universities and colleges; and the private and third sectors.

This annual report summarises progress for the first year of the programme. Of the 24 projects and programmes within the City Region Deal:

- 9 are classified as Stage 1: "Define"
- 13 have reached Stage 2: "Implement"
- 2 have reached Stage 3: "Deliver"

£49.0 million of Government money was drawn down in the 2018/19 financial year for: the Bayes Centre, National Robotarium, Edinburgh Futures Institute, Edinburgh Living and the grade separation at Sheriffhall Roundabout. This is expected to significantly increase for 2019/20 as projects progress towards delivery.

Significant progress has been made in establishing the new Governance Structure. Ten Boards are now fully-formed and meet as required. The Joint Committee has approved eight business cases and seven project propositions, worth £704 million or 53% of the 15-year programme; the Regional Enterprise Council is actively shaping the emerging regional growth framework and community benefits programme; thematic boards are meeting to set the strategic direction across Data-Driven Innovation, Skills, Transport and Housing themes; and Programme Management Office resources have been enhanced to manage the emerging programme.

Looking ahead towards 2019/20, significant developments are expected, including:

- **Projects:**
  - construction at Dunard Centre, Central Borders Innovation Park, two industrial estate generation sites in Fife and of homes in several of the strategic housing sites; and
  - piloting skills projects in Housing and Construction Infrastructure, Data-Driven Innovation, and Intensive Family Support.
- **Monitoring and Evaluation:**
  - Regional Partners are working with Government on a Monitoring and Evaluation Framework that will track the progress and impact of City Region Deal projects. Partners aim to have the framework agreed by the end of 2019.
- **Regional Growth Framework:**
  - Regional partners are also developing a Regional Growth Framework and accompanying Regional Spatial Strategy to inform the Scottish Government's National Planning Framework 4 and Strategic Transport Projects Review 2 by the summer of 2020. This will also set the strategic direction for regional partners to work together to accelerate inclusive growth outcomes through the emerging City Region Deal programme, and across related housing, planning, transport and economy policy areas.

1. Foreword

Cllr Adam McVey
Convener of the Edinburgh and South East Scotland City Region Deal Joint Committee

Together with regional partners, the First Minister of Scotland and Prime Minister of the United Kingdom, I signed the Edinburgh and South East Scotland City Region Deal on 7 August 2018. The City Region Deal brings together, the Scottish Government, the UK Government, six local authorities, four universities and six colleges in a partnership to accelerate sustainable and inclusive economic growth across the region. Over £1.3 billion will be invested over the next 15 years across the themes of innovation, skills, transport, culture and housing to help realise this ambition.

The Deal signing was the culmination of several years' hard work identifying challenges and opportunities, developing an effective response, and shaping the business cases and governance structure that articulates how we will implement our ideas. As the first Convener of the Joint Committee, I am delighted to have seen the partnership continue to strengthen and progress throughout the first year of implementation and delivery.

Since the signing our Deal, the Joint Committee has approved eight programme and project business cases and seven skills project propositions worth £704 million or 53% of the 15-year programme.

The investment through the City Region Deal will deliver a real difference to communities across the region. The Deal will create around 21,000 jobs; it will promote world-leading research, development and innovation in our universities and new employment hubs; it will develop a skilled workforce to meet demands in emerging sectors, initially focusing on data and construction, and help tackle the inequalities that exist in some of our industrial sectors. The Deal enables the first purpose-built music venue Edinburgh for 100 years with Dunard Centre; it will improve regional transport infrastructure; and it will enable the construction of much-needed new housing, including affordable housing. Inclusion is at the heart of the Deal; while we are boosting our engine for economic growth, we are working hard to ensure that the benefits of this growth are shared by all our citizens throughout Edinburgh and South East Scotland.

Leeann Dempster

Chair of Regional Enterprise Council

As Chair of the Regional Enterprise Council (REC), I am delighted with the progress that has been made in Year 1 of the City Regional Deal.

The Regional Enterprise Council was formed in November 2018, and is here to advise the Deal's decision-making body, the Joint Committee, on the delivery of projects across the region. Alongside Vice Chair Claire Pattullo of the Edinburgh Social Enterprise Network, I sit on the Joint Committee.

While the REC is not decision-making body, it has a significant role in shaping strategic direction and supporting the implementation of the Deal to ensure that the benefits flow to our region's businesses and communities.

An early win will be the joint work with partners on a new regional growth framework, to provide the economic resilience that is much needed by our businesses and third sector organisations in the face of current and future uncertainty and help position the region to more effectively exploit future inclusive growth opportunities and maximise the value of City Region Deal investments.

With a climate emergency recently declared, sustainable place-making must be at the heart of new developments that will come through over the next 15 years of the Deal. Housing must be of the highest standard; there must be excellent public and active travel links; Fair Work practices must become commonplace, and new developments must be thought of as communities from the outset with residential, work, health and education amenities all accessible.

We are also pleased to see that a pro-active and coordinated approach to securing community or social benefits from partner activities has been agreed. This will strengthen and simplify the process for organisations bidding for tenders and ensure that a big difference can be made to our communities most in need. We look forward to working with local authorities and universities and colleges as we shape the emerging community benefits strategy.

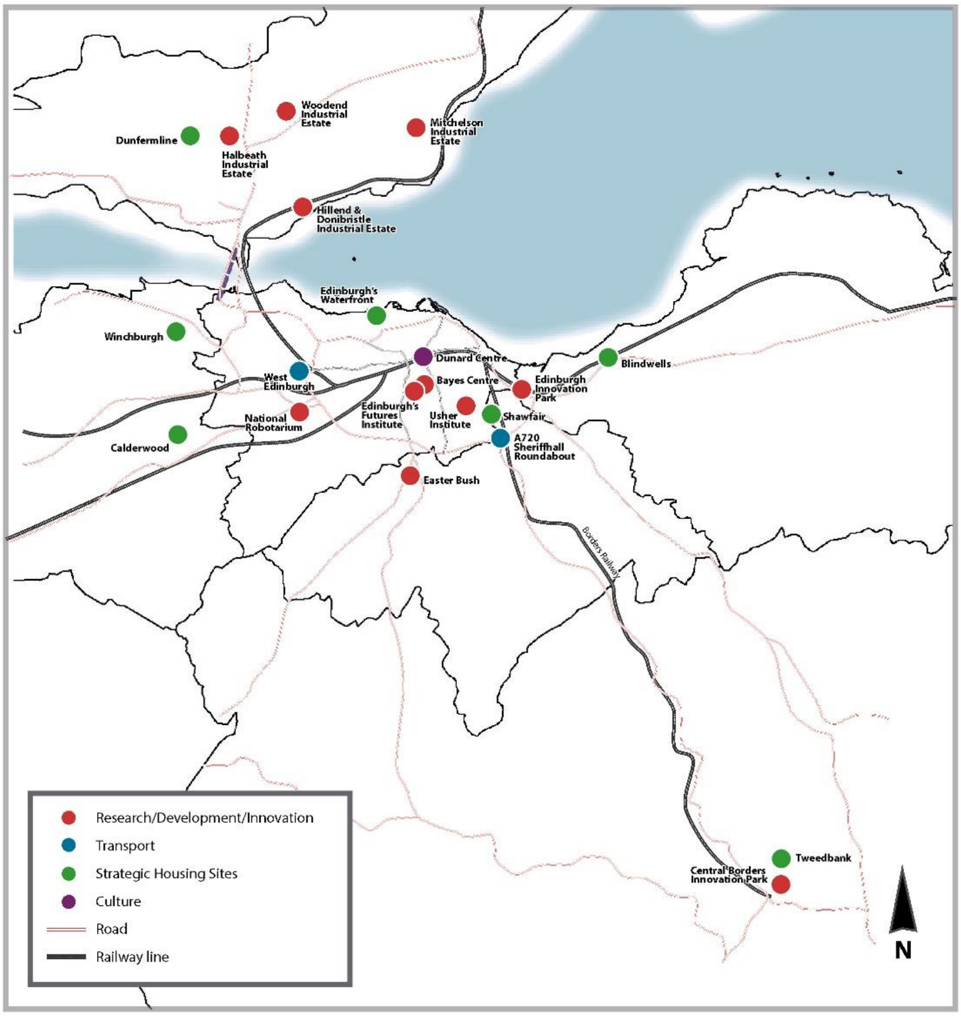
By working together, we can deliver the coordinated, strategic improvements needed to help the entire South East of Scotland achieve its full potential.

2. City Region Deal Overview

The Edinburgh and South East Scotland City Region Deal is a £1.3 billion, 15-year programme aimed at driving productivity and reducing inequalities through five key themes:

- Research, Development and Innovation: £791 million
- Integrated Regional Employability and Skills: £25 million
- Transport: £156 million
- Culture: £45 million
- Housing: £313 million

The map below shows where the projects are located across the region:



The City Region Deal projects are listed in the table below. More detail on the projects can be found within the Deal Document, and, if published, its business case.

Summary of Programmes and Projects

Theme/Programme/Project	Location	(Expected) Business Case Approval	Stage	On Time?	On Budget?
Research, Development and Innovation					
World Class Data Infrastructure	Edinburgh/ Midlothian	Dec 18	2. Implement		
Bayes Centre	City of Edinburgh	Dec 18	3. Deliver		
National Robotarium	City of Edinburgh	Dec 18	2. Implement		
Edinburgh Futures Institute	City of Edinburgh	Mar 19	2. Implement		
Usher Institute	City of Edinburgh	*Sep 19*	1. Define		
Easter Bush	Midlothian	*Dec 19*	1. Define		
Edinburgh Innovation Park (Food and Drink Innovation Hub)	East Lothian	*Jun 20*	1. Define		
Fife Industrial Innovation Investment	Fife	Mar 19	2. Implement		
Central Borders Innovation Park	Scottish Borders	Mar 19	2. Implement		
Integrated Regional Employability and Skills	*Cross-Regional*	Dec 18	2. Implement		
• *Integrated Knowledge Systems*	*Cross-Regional*	Jun 19	2. Implement		
• *Labour Market Analysis and Evaluation*	*Cross-Regional*	Jun 19	2. Implement		
• *Integrated Employer Engagement*	*Cross-Regional*	Jun 19	2. Implement		
• *Intensive Family Support*	*Cross-Regional*	Mar 19	2. Implement		
• *Data-Driven Innovation Skills Gateway*	*Cross-Regional*	Mar 19	2. Implement		
• *Housing and Construction Infrastructure Skills Gateway*	*Cross-Regional*	Mar 19	2. Implement		
• *Workforce Mobility*	*Cross-Regional*	Jun 19	2. Implement		
Transport					
West Edinburgh	City of Edinburgh	TBC	1. Define		
A720 (Sheriffhall Roundabout)	City of Edinburgh/ Midlothian	TBC	1. Define		

Culture					
Dunard Centre	City of Edinburgh	Dec 18	2. Implement		
Housing					
Affordable housing programme	Cross-regional	TBC	1. Define (and 3. Deliver)		
Strategic sites	Cross-regional	TBC	1. Define (and 2. Deliver)		
Innovation and skills	Cross-regional	TBC	1. Define		
Infrastructure, funding and land assembly	Cross-regional	TBC	1. Define		
Housing company	Cross-regional	TBC	3. Deliver		

Legend:

Project Stages

Stage no.	Definition
1. Define	Business case being developed, and not yet approved by Thematic Board and Joint Committee.
2. Implement	Business case has been approved by Thematic Board and Joint Committee, and is being implemented. In a capital project, this may be construction; for skills projects this may be establishing a course or system.
3. Deliver	Project is in place and monitoring and evaluation is in framework to assess if it is achieving its objectives.
4. Legacy	Project has resulted in mainstreaming or improvements to business as usual (impact) that is generated beyond the funded period

Red, Amber, Green

T: Status against **timeline** set out in business case/implementation plan; **B:** Status against **budget** set out in financial plan

RAG Status	Definition - Timeline	Definition - Budget	Action Required
Green	In line with business case/implementation plan	In line with financial plan.	No management action required
Amber	Delay is considered acceptable by PMO.	Within acceptable range.	Management action is in place by senior management to address issues, and project is being closely monitored.
Red	Delay is significant.	Outwith acceptable range.	Immediate action is required by senior management and relevant Boards as appropriate to address issues. Issues must be highlighted to Government.

3. Financial Statement

This transformative City Region Deal identifies new and more collaborative ways that partners will work with UK Government and Scottish Governments to deliver transformational change to the city regional economy. The Governments will jointly invest £600 million over the next 15 years and regional partners committed to adding in excess of £700 million, overall representing a deal worth £1.3 billion. A summary of the City Region Deal total over a fifteen-year period is shown in the table below:

Edinburgh and South-East Scotland City Region Deal Financial Summary

Project	Scot Govt contribution (£m)	UK Govt contribution (£m)	Partner contribution (£m)	Total amount (£m)
Research, Development and Innovation	60.00	290.00	441.12	791.12
Bayes Centre	2.24	30.31	68.50	101.05
National Robotarium	1.43	21.04	-	22.47
Edinburgh Futures Institute	2.24	55.68	131.38	189.30
Usher Institute	0.73	48.46	35.40	84.59
World Class Data Infrastructure	0.67	78.93	111.03	190.63
Easter Bush	1.27	16.10	25.23	42.60
Easter Bush Link Road	-	10.90	19.10	30.00
Food and Drink Innovation Campus	1.42	28.58	22.00	52.00
Business Innovation – Fife	35.00	-	14.43	49.43
Business Innovation – Scottish Borders	15.00	-	14.05	29.05
Total Integrated Regional Employability and Skills(IRES)	25.00	-	-	25.00
IRES	25.00	-	-	25.00
Total Transport	140.00	-	16.00	156.00
Sheriffhall Roundabout Upgrade*	120.00	-	-	120.00
West Edinburgh Public Transport Infrastructure	20.00	-	16.00	36.00
Culture	10.00	10.00	25.00	45.00
Dunard Centre	10.00	10.00	25.00	45.00
Total Housing	65.00	-	248.00	313.00

New Housing Partnership (Edinburgh Living)	15.00	-	248.00	263.00
Housing Infrastructure	50.00	-		50.00
GRAND TOTAL	*300.00*	*300.00*	*730.11*	*1,330.11*

**Includes £120m for Sheriffhall roundabout to be delivered by Transport Scotland*

The Edinburgh and South-East Scotland City Region Deal Financial Summary for the period of April 2018 to March 2019 is set out in Table 2. Total expenditure and grant claimed for the year, amounts to £46.40 million.

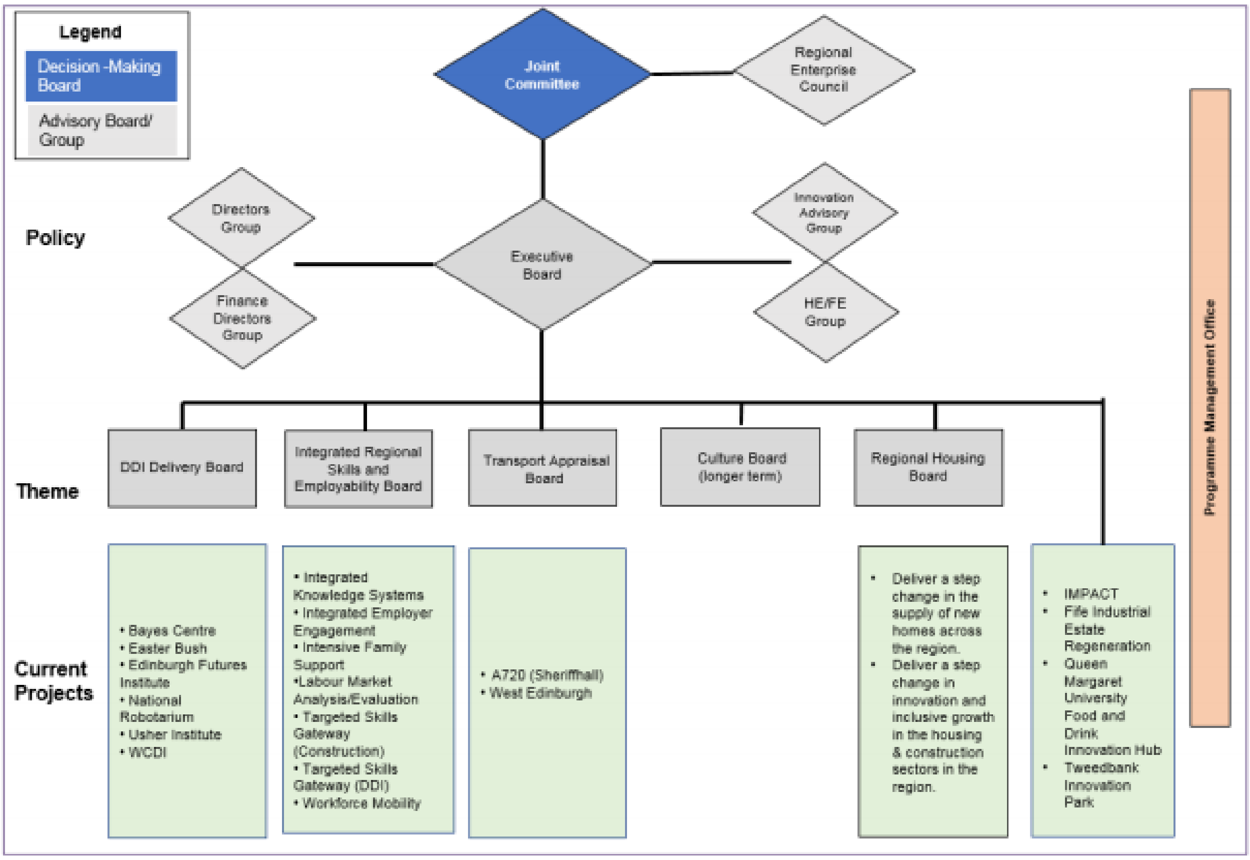
Edinburgh and South-East Scotland City Region Deal Drawdown from Governments 2018-19

Project	Lead Partner	2018-19 Spend (£'000)	CRD Grant claimed £000	CRD Grant % claimed
Research, Development and Innovation		41,344.00	41,344.00	
Bayes Centre	U of E	22,412.00	22,412.00	68.86%
National Robotarium	Heriot-Watt/ U of E	70.00	70.00	0.31%
Edinburgh Futures Institute	U of E	18,862.00	18,862.00	32.57%
Usher Institute	U of E	-	-	-
World Class Data Infrastructure	U of E	-	-	-
Easter Bush	U of E	-	-	-
Easter Bush Link Road	Midlothian Council	-	-	-
Food and Drink Innovation Campus	East Lothian Council / QMU	-	-	-
Business Innovation – Fife	Fife Council	-	-	-
Business Innovation – Scottish Borders	Scottish Borders Council	-	-	-
Integrated Regional Employability and Skills Programme		-	-	-
Integrated Regional Employability and Skills	IRES partners	-	-	-
Transport		2,600.00	2,600.00	-
Sheriffhall Roundabout Upgrade	Transport Scotland	2,600.00	2,600.00	2.17%

West Edinburgh Public Transport Infrastructure	City of Edinburgh Council	-	-	-
Culture		-	-	-
Dunard Centre	IMPACT Scotland	-	-	-
Housing		5,060.00	5,060.00	
Housing Infrastructure		-	-	-
New Housing Partnership (Edinburgh Living)	City of Edinburgh Council	5,060.00	5,060.00	33.73%
Grand Total		**49,004.00**	**49,004.00**	**-**

4. Governance Overview

The Deal Document, signed on 7 August 2018, included a proposed Governance Framework. The summary diagram is copied below:



The document stated that the structure will be reviewed to determine its continuing relevance by the Edinburgh Joint Committee on an annual basis as part of the Annual Report.

Much of this governance structure has now been implemented:

- The **HE/FE Group**, **Executive Board and Directors Group** were formed prior to the Deal's signing and have continued to meet. The Executive Board and Directors' Group now meet monthly, rather than quarterly as stated in the Deal Document. The **Finance Directors' Group** has been formed and meet bi-annually.
- The **Joint Committee** was formed in November 2018, where Standing Orders were agreed. It comprises: Leaders of the six local authorities, Peter Mathieson, Principal and Vice Chancellor of the University of Edinburgh (representing all the region's Higher and Further Education Sector), and the Chair and Vice Chair of the Regional Enterprise Council (Leeann Dempster,

Chief Executive of Hibernian Football Club and Claire Pattullo, Chief Executive of the Edinburgh Social Enterprise Network). It has now met four times and has approved eight programme/project business cases and seven skills project propositions worth £704 million or 54% of the Deal.

- Recruitment for the **Regional Enterprise Council** was completed in October 2018. The group has now met three times and is focusing on shaping the emerging Regional Growth Framework and Community Benefits strategy in particular. The group has a direct link with the Joint Committee, on which its chair and vice chair sit.
- The **Integrated Employability and Skills (IRES) Board** was formed in December 2018 and has scrutinised and approved all seven of the IRES project propositions, prior to Joint Committee approval and each are now being implemented. Headline achievements and forthcoming milestones can be found on pp. 38-42
- The **Data-Driven Innovation Executive Governance Group** was formed, in anticipation of the City Region Deal approval, in May 2018, and formally sat for the first time in August 2018. It has since scrutinised and approved four DDI Business Cases (of the six that make up the DDI Programme) prior to approval by the City Region Deal Joint Committee.
- The **Transport Appraisal Board** was formed in March 2019 and has met three times. It is the Board through which Transport Scotland engages directly with the City Region Deal projects. As well as overseeing the two City Region Deal Transport projects (A720 and West Edinburgh) it considers transport elements of other City Region Deal projects, particularly in the Housing and Innovation themes. It also provides input as a region into other regional strategic projects as appropriate; such as, the National Transport Strategy and Strategic Transport Project Review 2.
- The **Regional Housing Board** was formed in April 2019 and has met three times and oversees the regional housing programme which aims to: deliver a step change in: innovation and inclusive growth in the housing and construction sectors; and in the supply of new homes across the South East of Scotland. The Board agreed that regional partners undertake a series of workshops in June 2019 to secure wider engagement and input to shape development of the regional housing work programme. Headline achievements and forthcoming milestones can be found on pp. 49-51
- Since signing the Deal, the **Programme Management Office** has been enhanced from a core team of two individuals to five, with increasing input from project leads within partner organisations as required. This has helped the PMO to manage the rising demand of servicing new Boards, to administer progress and financial reporting of approved projects, to develop a monitoring and evaluation framework, and to manage communications. The enhanced resources, and stronger collaboration and partnership working through the City Region Deal

governance structure is also helping partners to resource emerging areas of work that are strongly linked to the City Region Deal, including a new regional growth framework and a community benefits strategy.

- The **Innovation Advisory Board and Culture Board** have not yet formed, as there has been not yet been a requirement for these. Longer term, as regional collaboration continues and links and interdependencies between projects and programmes become apparent, these Boards may be formed.

5. Monitoring and Evaluation

The Deal Document commits partners to producing a quarterly Risk and Performance Monitoring Reports.

Project and programme business cases that have been approved all contain key milestones and suggestions for how programmes and projects will be monitored and evaluated. In addition, a Progress Report and Risk Register is shared regularly with Government and are standing items for consideration at all Board meetings.

From Spring 2019 City Region Deal Project Leads and the PMO have worked in collaboration to develop, for Government approval, a City Region Deal Monitoring and Evaluation Plan. This is an important document for the City Region Deal as it establishes the framework for Government to monitor activities and progress towards securing outputs and impacts. Both Governments attended key workshops and were consulted and supportive of progress to date.

The next steps are:

- **August 2019:** Agree and address outstanding issues (including finalising data requirements and selecting evaluation approaches);
- **September 2019:** Identify Monitoring and Evaluation resources and governance arrangements;
- **December 2019:** Approval by Governments and Joint Committee of Monitoring and Evaluation Plan; and,
- **January 2020:** Monitoring and Evaluation implementation.

6. The Deal – Summary of Progress

This section summarises the themes, programmes and projects within the City Region Deal. It details the progress that has been made in line with the Implementation Plan and highlights any current risks.

Quarterly performance reports are shared between the PMO and Governments throughout the year.

Research, Development and Innovation

Data-Driven Innovation (DDI)

The vision for the DDI Programme is to establish the city region as the **Data Capital of Europe** by supporting SMEs and high growth companies scale, drawing in inward investment, fuelling entrepreneurship and ensuring inclusive economic growth through five (“TRADE”) activities:

- **Talent:** to meet data skills demands in the City Region, Scotland and the UK through a range of undergraduate, post graduate and CPD programmes;
- **Research:** by expanding the city region’s leading DDI research activities to meet industry and other sectors future data needs;
- **Adoption:** through increasing the practical use and adoption of DDI by the public, private and third sectors in the city region and beyond;
- **Data:** by providing the secure data storage, analytical capacity and data accessibility to underpin all DDI Programme activities; and,
- **Entrepreneurship:** enabling city region based and other entrepreneurs to develop new DDI based businesses through support in commercialising research.

The DDI Programme consists of a Programme Office and five Innovation Hubs namely the **Bayes Centre**, **Easter Bush Campus, Edinburgh Futures Institute** (**EFI**), **National Robotarium** and **Usher Institute.** The **World Class Data Infrastructure** (**WCDI**) complex data and analytical services will support the operation of these hubs and delivery of the ‘TRADE’ themes above.

Headline Achievements in 2018/19

- **October 2018:** The opening of the Bayes Centre by HRH, The Princess Royal.
- **December 2018:** Government and Joint Committee approval of the Bayes Centre, National Robotarium and WCDI business cases

- **March 2019:** Government and Joint Committee approval of the Edinburgh Futures Institute business case
- Consequent build starts for all of these facilities and set up of associated TRADE activities (as detailed in the next sections of this report).

Next Milestones

Final approval of Easter Bush and Usher Institute business cases, embedding Programme monitoring and evaluation framework and range of new and enhanced hub specific TRADE projects and programmes (again highlighted in each Hub/WCDI section).

Key Risks

Risk	Mitigation
Significant cost and timing overruns in relation to programme implementation.	Built in adequate contingencies and applying good procurement practices.
Market requirements assumptions prove to be incorrect and/or new market opportunities emerge.	On-going market engagement and business development to address existing and emerging needs at both Hub and Programme levels.
Negative PR associated with City Deal expenditure.	Highlighting benefits of DDI to City Region citizens and communities in line with inclusive growth objectives and as part of overall programme communications and marketing.

Alignment with Wider Programme

The DDI Programme is aligned to the City Region Deal's Skills and Employability theme to improve citizens' digital skills through work with schools, colleges, employers and training providers. In the village of Newbattle, seven miles south of Edinburgh, Midlothian Council has set up the first in a series of knowledge sharing schools within the city region. As a Digital Centre of Excellence, Newbattle aims to lead the sector in the use of digital technologies to educate children and create innovative learner journeys that will equip students to thrive in the digital economy.

The project feeds into wider skills innovation through a coherent curriculum from nursery upwards based on inspiring materials delivered by teachers who are confident and competent in data education. In the spirit of the City Region Deal's partnership approach, the project is fostering productive collaborations with other city region schools, staff and students at the University of Edinburgh, local employers and other social partners.

Bayes Centre

Bayes Centre Building

The Bayes Centre is the DDI Hub for Data Science and Artificial Intelligence (AI). A community of over four hundred internationally recognised scientists, PhD students, leading industry experts (from across 20 external organisational tenants) and innovation support professionals, work together across disciplines and sectors to advance data technology and apply it to real-world challenges.

The technical strengths brought together in Bayes build on academic excellence in the mathematical, computational, engineering, and natural sciences in the University's College of Science and Engineering. As part of the DDI Programme, the Bayes Centre is focused on supporting various industry sectors including Digital Technology, Space and Satellites and – in collaboration with the National Robotarium – Robotics and Autonomous Systems.

Headline Achievements in 2018/19

Since opening in September 2018, the Bayes Centre has delivered a range of activities and outputs. These include development of a Data Ethics MOOC (Massive Open Online Courses) in collaboration with the Data Lab, supporting the establishment of the Edinburgh Hub of the Alan Turing Institute and an expanded accelerator offering by adding an early-stage start-up/incubation programme based on the ConceptionX model to the Wayra portfolio.

Next Milestones (2019/20)

Establishing an academically mentored student internship programme around external adoption challenge projects through a "matchmaking" and delivery support service entrepreneurship pipeline and developing a "deep tech" pre-incubation academic pathfinder support strategy for academic intellectual property that requires prototyping or R&D financing to boost availability of entrepreneurship opportunities for scientists.

Key Risks

Risk	Mitigation
Market requirements assumptions prove to be incorrect and/or new market opportunities emerge.	On-going market engagement and business development to address existing and emerging needs at both Hub and Programme levels.
Existing process and systems insufficient to respond to City Deal demands (e.g. recruitment).	Programme structure and processes in place to address.
Negative public and government perception towards automation, productivity and the future of work.	Develop communications strategy in line with and as part of overall CRD Programme communications and marketing.

Case study: Support for business start-ups

The Bayes Centre is home to a business accelerator partnership which picks up to ten new companies for a six-month programme of mentoring in technical and commercial know-how to help their businesses take off. Working together to support these new companies and promote Scotland's credentials in tech investment are the University of Edinburgh, Scottish Enterprise, and Wayra UK - run by global telecoms giant Telefonica. The three partners provide a gateway to world-class academic expertise to allow young companies to develop and communicate their core product or service to a range of business audiences including investors.

World Class Data Infrastructure (WCDI)

Achieving the aims of the DDI programme requires a powerful, high-capacity and flexible data infrastructure capable of responsive and secure delivery of an expanding range of complex and bespoke data and analytical services. These activities also demand a level of service (e.g. resiliency to the loss of power, redundancy of equipment to mitigate the impact of sudden failures) that is not normally required for research computing applications and is not currently supported by existing facilities.

WCDI Computer Racks

The WCDI consequently consists of four complementary components:

- **WCDI computer room** – a new high resiliency computer room at the Edinburgh Parallel Computer Centre's Advanced Computing Facility to complement the other three computer rooms that are focussed on supercomputing system provision for research users;
- **Data and software infrastructure** – the underlying private cloud computing and data infrastructure to support the DDI programme. As part of this component, both Open Source and paid-for advanced data analytics and other software infrastructure will be delivered;
- **Internet of Things (IoT) infrastructure** – a regional IoT network for the City Region will be created. This part of the WCDI hub is the responsibility of the University's Information Services Group; and
- **Regional Data Haven** – a regional data haven for local public data, sourced initially from City Region Deal partners, will be created to support a smart public data generation infrastructure.

Headline Achievements in 2018/19	Next Milestones 2019/20
Dec 18: Completion and approval of the WCDI Business Case by Government and Joint Committee procurement on-going.	Work with the contractor to deliver the new Computer Room 4 building and install a new ACF Data Centre network / fabric to underpin the WCDI with a world leading data network.
Ongoing: Procurement and commitments to maximise community benefits for City Region Deal partners	Work closely with City Region Deal Local Authorities to develop a regional data haven plan and prepare for the next phase of development of the IoT Service to enable expansion of the LoRaWAN IoT network beyond the City of Edinburgh.

Case study: Internet of Things network

A key component of the WCDI Internet of Things (IoT) service will be a regional sensor network. An early case study of how this can be used is provided by the ParkLife Project. This project is a collaboration between the University of Edinburgh and the City of Edinburgh Council. It is funded by Nesta through a grant from the Big Lottery Fund and the Heritage Lottery Fund. The aim of the ParkLife project is to understand how people use and value Edinburgh's parks. The goal of the project is to produce an open source toolkit which will enable park managers, stakeholders and users to collect, analyse, interpret and share data that will support engagement with parks and their long-term sustainable development.

The Meadows, Edinburgh

National Robotarium

National Robotarium Building (Artist's Impression)

The National Robotarium will be co-located on the Heriot-Watt University campus, having access to the resources of both Heriot-Watt and the University of Edinburgh. It will meet existing and future industrial need by accelerating the generation of knowledge and flow of technologies into the economy through targeted research, industry collaboration, living laboratories, and demonstrator and incubation facilities. The National Robotarium will provide state of the art facilities to co-locate researchers, engineers, entrepreneurs and educators to deliver the UK's leading international centre for the generation of new smart robotics companies.

The activities proposed build on the established partnership with University of Edinburgh through the Edinburgh Centre for Robotics.

Headline Achievements in 2018/19	Next Milestones 2019/20
Jan 19: Internal Governance agreed and in place	Appointment of National Robotarium leadership team
Feb 19: Architect-led Stakeholder Workshops	Formation of International Advisory Board
Mar 19: Finalised Architect Brief	Technical Design signed off by Project Executive Board
Jul 19: Appointment of Project Design team complete	Focussed Industry Engagement

Key Risks

Risk	Mitigation
Recruitment and retention of UK and international academic leaders to deliver objectives set out in business case.	Heads of Schools will produce and own plan. Project Team have been empowered to drive plan as part of TRADE themes. Recruitment plans and targets monitored and reported to the University Executive. Senior management commitment to provide a stimulating and supportive working environment that allows individuals to achieve their career aspirations
The project outcomes do not integrate with University's operational processes and ways of working.	The correct stakeholders have been identified for the Project Board to represent Schools and Services. The Board includes Heads of School and Deputy Principals.

Alignment with wider programme

The development of the National Robotarium is aligned with the strategic focus of both Universities and with the Data-driven innovation theme. The core strategic focus of Heriot-Watt University is:

Strengthen research intensity in fields of economic and societal benefit; Provide truly global education while maintaining our Scottish roots; and Deliver excellent student experience and highly employable graduates.

Robotics and Autonomous Systems are transforming industry and our personal lives worldwide. This cuts across all aspects of life from Healthcare to Construction, Financial Services to Agriculture. As part of the business plan we will study the industry landscape and identify areas of focus.

Edinburgh Futures Institute (EFI)

The EFI will deliver multi-disciplinary, challenge-based DDI research and teaching through thought-leadership in cultural, ethical, managerial, political, social and technological DDI issues to transform the application, governance and benefits delivered from the use of data. It will do this by bringing together a range of academic disciplines, with external partners across financial services, cultural industries and the public sector.

Edinburgh Futures Institute (Artist's Impression)

Across all of the above there will be a particular emphasis on the ethical implications of big data analytics and machine learning, as well as the critical infrastructure needed to drive social, economic and cultural inclusion as defined within the five inclusive growth objectives of the City Region Deal.

Headline Achievements in 2018/19	Next Milestones 2019/20
Mar 19: Completion and approval of the Institute Business Case by Government and Joint Committee.	Running the first flagship postgraduate programme on Finance, Technology and Policy.
Jun 19: Foundation of a Baillie Gifford Chair of Ethics of Data and Artificial Intelligence.	Recruitment of business development and adoption teams.
	Piloting of entrepreneurship programmes.

Key Risks

Risk	Mitigation
Significant cost and timing overruns in relation to programme implementation.	Build in adequate contingencies and apply good procurement practices.
EFI market requirements assumptions prove to be incorrect and/or new market opportunities emerge.	On-going market engagement and business development to address existing and emerging needs.
Negative PR associated with City Deal expenditure.	Highlighting benefits of EFI to city region citizens and communities in line with inclusive growth objectives and as part of overall programme communications and marketing.

Case Study: Reducing fuel poverty

Castlerock Edinvar, Cairn and Scottish Borders Housing Associations are working with Dr Kate Carter, Senior Lecturer in Architecture, Technology and Environment, on using digital data to reduce fuel poverty in social housing. The challenge of identifying and helping those tenants who cannot afford to heat their own homes lies in bringing together complex and fragmented datasets from a range of sources. Collaboration between Architecture and Design Informatics and the three housing associations may be the key to a new, more holistic and joined up approach in tackling this pressing social issue.

Usher Institute

The Usher Institute vision is to create a world-leading innovation hub where public, private and third sectors collaborate to enable data-driven advances in the delivery of health and social care.

Usher Institute Building (Artist's Impression)

This will be facilitated by the co-location of the Usher Institute's academics and researchers with partner organisations from the public, private and third sectors, in a purpose-built Institute that will encourage interdisciplinary collaboration, transformative research, education, knowledge exchange and innovation.

Health and social care innovation at scale will be delivered by integrating the activities of clinicians, life scientists and data scientists to identify new, co-produced insights in key challenge areas. These will be passed on to health and social care providers to improve products and services, ultimately enhancing the health and wellbeing of patients. The programme will be underpinned by a comprehensive data storage repository (DataLoch) hosted by the World Class Data Infrastructure (WCDI) that will securely link all data assets from primary, secondary and social care, and can be interrogated by accredited researchers for any acute or chronic condition, care pathway or service.

The Institute will draw on Scotland's mature and world-leading health data assets and well-established National Health Service and Scottish Government governance and data-sharing protocols.

Headline Achievements in 2018/19	Next Milestones
Jun 19: Completion and submission for assessment (by Governments and the CRD Joint Committee) of the Institute Outline Business Case	Complete work on the design and development of the building including moving through RIBA Stage 3 and obtaining planning and building warrant approval
	Development and embedding of a data skills in modern (bio-medical) apprenticeships.
	Alpha stage deployment of the DataLoch programme.
	The development of data science capability in the MBChB undergraduate medicine programme.
	Accelerator programme to support start-ups.

Key Risks

Risk	Mitigation
Significant cost and timing overruns in relation to programme implementation.	Built in adequate contingencies and applying good procurement practices.
NHS and Local Authority data providers cease to partner with Usher Institute.	Ensure integrity of personal data use and ensure delivery of high value outputs.
Major data loss from Usher.	Ensure adequate security precautions and limit damage via data encryption.

Case Study: Helping patients with heart disease

Specialists at the Usher Institute have harnessed data to develop a new approach to heart disease treatment with the potential to cut hospital admissions and deliver major benefits for patients and the healthcare service. With the help of Abbott Diagnostics routinely collected data from across the region were linked to assess a new method for diagnosis and risk assessment of patients in A&E suspected of heart attacks. Researchers showed that introducing new tests into routine practice allowed better targeted treatments and improved survival rates.

This led to the break-through finding that previous blood tests were under-diagnosing heart attacks in women contributing to inequalities in treatment. With the help of linked datasets these changes have cut the hospital stay of patients coming to A&E with chest pain by a third. Beyond the city region, the research has changed how heart attacks are diagnosed, and influenced national and international guidelines.

Easter Bush

Easter Bush Campus

An efficient agriculture sector is critical to social wellbeing: by 2050 world agricultural production will need to increase by 50% to feed a growing global population. By applying data technologies, that enable farmers and related industries to improve food production, digital agriculture (Agritech) will be critical to meeting this need.

The current project proposals aim to leverage the existing world-class research institutes and commercialisation facilities at Easter Bush to become a global location of Agritech excellence. To achieve this Easter Bush will work with the Bayes, EFI, Usher and WCDI hubs within the DDI programme, along with InnovateUK, Innovation Centres AgriEpi and CIEL, commercial partners, food processors, retailers and consumers.

Through innovation in data acquisition (learning from Usher Institute), storage (WCDI), analysis and interpretation – including the application of AI (with the Bayes Centre) and accessible digital delivery (with EFI) to multiple and diverse stakeholder communities - Easter Bush will provide leadership towards a sustainable food supply chain.

The resultant development on campus wide is contingent on new and improved transport infrastructure, specifically the: A701 relief road, A702 link road, improvement of the A702/Bush Loan junction and new measures to promote and facilitate active travel.

Headline Achievements in 2018/19	Next Milestones 2019/20
Jan 19: Completion of ground investigation survey of route of new A701 relief road and A702 link road.	Finalisation and submission for approval of Easter Bush Campus Outline Business Case (including preferred option for improvement of A702/Bush Loan junction and proposals for the creation of an active travel corridor with priority for pedestrians, cyclists, and public transport).
	Move ahead with projects to transfer DDI knowledge in Agritech (for example, the Centre for Animal and Plant Breeding and engagement with farmers through expansion of the Cool Farm Tool).
	Completion of option appraisal for improvement of A702/Bush Loan junction.
	Issue of civils management contract for the A701 relief road and A702 link road.

	Completion of proposals for the creation of an active travel corridor (priority for pedestrians, cyclists, and public transport).

Key Risks

Risk	Mitigation
Significant cost and timing overruns in relation to programme implementation.	Build-in adequate contingencies and apply good procurement practices.
Major data loss from Easter Bush.	Ensure adequate security precautions and limit damage via data encryption.
Delay in implementing the essential transport infrastructure.	Midlothian Council taking the lead in commissioning work to ensure good progress through the survey, design and construction processes.

Alignment with Wider Programme

The Easter Bush Science Outreach Centre (EBSOC) is a purpose-built laboratory and the first of its kind in Scotland. The Centre delivers high quality science experiences for school pupils, teachers and community groups with a widening participation focus on reaching and engaging hard-to-reach audiences. All workshops/experiences are hands on and linked to the SQA Curriculum for Excellence (and include basic DDI skills training) with ongoing consultations with primary and secondary schools and strong relationships and partnerships with the education teams of local Councils. Since it opened, in January 2018, 3000 people have taken part in an EBSOC school workshop or community outreach events. The aim is – through working with all City Regional Deal partners - to increase participation in 2019/20 across the city region area.

School pupils at Easter Bush Science Outreach Centre

In addition, the provision of the essential transport infrastructure directly removes a physical barrier to major Data-Driven Innovation development at Easter Bush, thereby facilitating economic growth within the region.

Edinburgh Innovation Park (Food and Drink Innovation Campus)

The Food and Drink Innovation Campus, known as Edinburgh Innovation Park (EIP) will located next to Queen Margaret University, in Craighall, by Musselburgh, East Lothian

The EIP will deliver, as Phase 1, a flexible 7,200 m^2 GIA Innovation Hub for the food and drink sector in Scotland. The hub will build on the University's existing expertise including Dietetics, Nutrition and Biological Sciences. The Innovation Hub will be the catalyst for subsequent phases of the wider EIP.

Indicative design of Innovation Hub/EIP

This state-of-the-art Innovation Hub will drive company growth, supporting and developing existing businesses and creating sustainable new businesses to access a global market for healthy and functional food. The development will allow the Queen Margaret University, along with businesses, to form and grow a business sector that will harness the potential of translational medicine in food and drink. This will in turn support the diversification of the food and drink industry towards preventative, therapeutic and rehabilitative applications of expertise in genomics. The Innovation Hub will be the catalyst for subsequent phases of the wider EIP. It will provide resources for national and global players and provide access to expertise to develop new opportunities and solutions that will drive company growth.

The EIP is also part of a significant development of land adjacent to the Queen Margaret University campus which encompasses a new grade separated junction, 1,500 homes, a new primary school and community facilities. A commercial zone will also be created within the existing Queen Margaret University campus that will support the evolution of the community and the newly developed businesses

Key Risks

Headline Achievements in 2018/19	Next Milestones
Jun 18: Appointed the Project Lead Officer: **Mar 19**: Complete the land assembly for the Junction:	**Jul 19:** S75 for the planning permission in principle concluded/ procure external expertise for further progression of the Full Business Case
	Jul 19: S75 for the planning permission in principle concluded/ procure external expertise for further progression of the Full Business Case
Mar 19: Planning permission in principle approved:	**Aug 19:** Planning permission in principle issued for the whole development
Apr 19: Detailed design for the proposed grade separated Junction agreed:	**Oct 19:** Planning permission issued for the Grade Separated Junction to improve access
May 19: Planning permission for the Junction submitted and validated:	**Feb 20:** Commencement of construction of Grade Separated Junction
	Jun 20: Approval of full business case by Joint Committee.

- Increase in the cost of project at (1) design stage, (2) contractor tendering stage, (3) during, construction of the Junction, Innovation Hub and the EIP.
- Operating costs of the Innovation Hub are higher than forecast, resulting in financial loss.
- Failure to deliver the operational business plan resulting in unoccupied business space within the Innovation Hub.

Alignment with wider programme

- The Innovation Hub forms a key part of an ecosystem of Innovation themed projects promoted by the Edinburgh South East Scotland City Region Deal aimed at delivering inclusive growth across the region.
- The project will contribute to job density improvement for the city region and create new jobs for graduates/local people by making available infrastructure/construction opportunities and employment opportunities within the Innovation Hub and the EIP.
- The Innovation Hub will generate job opportunities through the innovation led growth of the businesses located there, and through providing access to the space, facilities and services for food and drink start-up companies/SME's and local businesses.
- Ongoing collaboration and partnership working between East Lothian Council and Queen Margaret University.
- The project will facilitate the harnessing of community benefits through the procurement

Case Study: Fodilicious

Lauren Leisk graduated from QMU in 2016 with a BA Hons (1st Class) Business Management. At the age of 20, Lauren discovered that she had irritable bowel syndrome (IBS). She struggled to find readily available food products that were suitable for her diet and discovered a gap in the market. In September 2017, Lauren set up Fodilicious, an innovative and UK exclusive food manufacturing business providing convenient, healthy meal options following the low FODMAP diet, (IBS-friendly) helping IBS sufferers to live a better-quality lifestyle. Their products are also gluten-free and dairy-free too, effectively positioning Fodilicious in the fast growing 'free from' food market. The company has grown very quickly and is now selling through their website directly to consumers and to several food service and hospitality clients. They have outsourced production and of both their meals and snack product and are in discussions with major retailers.

Lauren engaged with the Scottish Centre for Food Development and Innovation team from QMU's Scottish Centre for Food Development and Innovation (SCFDI) who helped her to develop and launch new range of Cookie Buttons, the UK's first FODMAP friendly certified snack product.

Lauren also joined QMU's Business Innovation Zone in 2017 where she has access to desk space and business support from the on-campus Business Gateway service and the Universities Research and Knowledge Exchange Development Unit.

Fife Industrial Investment Innovation

The Fife Industrial Innovation Investment Programme (Fi3P) is a £49.4 million, ten-year programme delivered by Fife Council. The investment will deliver new business premises and immediately available serviced land. The new business accommodation will be located within existing business clusters in mid and south Fife, adjacent to growth corridors (M90 and A92). It will facilitate more joint working between the region's universities and Fife businesses, drive productivity and deliver higher value, skilled, permanent jobs from data driven innovation. The new industrial and commercial stock will ensure that Fife' s industrial estates provide flexible space for innovative manufacturing industries with cutting-edge digital and energy capabilities. Four sites will be developed in Glenrothes, Kirkcaldy, Lochgelly and Dunfermline over the next three years. Seven hectares of new serviced employment land will be available for private sector investment.

New units Flemington, Glenrothes (Artist's impression)

Headline Achievements in 2018/19	Next Milestones
Mar 19: Full Business Case agreed by Edinburgh and South East of Scotland City Region Joint Committee	**Q3 19/20:** Planning Approval for Fife Interchange, Dunfermline.
Jun 19: Planning Approval Flemington, Glenrothes	**Q3/4 19/20:** Tenders awarded for sites at Fife Interchange, Dunfermline and Flemington, Glenrothes.
	Mar 2020: Construction underway at Fife Interchange, Dunfermline and Flemington, Glenrothes
	Q4 19/20: Planning approvals for sites in Kirkcaldy and Lochgelly

Key Risks

- Programme underspend due to delay with site acquisitions and /or servicing.
- Cost increases due to higher construction inflation than assumed in the Business Case, with consequent reduction in outputs.
- Changes in the wider policy environment that impact on the delivery requirements of the programme (planning, building control, environment, etc) and increase costs.

Alignment with Wider Programme

The Fife Industrial Innovation Investment Programme will:

- Provide important investment in progressive industrial modernisation that will encourage more businesses to grow and locate within Fife.
- Support the creation/safeguarding of 1,000 skilled permanent jobs, with almost 600 short-term construction jobs.
- Attract up to £30m of further investment by the private sector.
- Facilitate the adoption of data driven innovation by Fife based organisations and wider partnership working with City Deal partners including Scottish Borders Council and the Universities.
- Contribute to a regional step-change in economic performance by balancing growth across the region – targeting areas where much-needed investment will create new jobs.

Central Borders Innovation Park

Artist's Impression of Central Borders Innovation Park

The Central Borders Innovation Park, situated next to the Borders Railway terminus at Tweedbank, will deliver much-needed high quality business space to the Scottish Borders. Costing £29 million, the programme will stimulate business growth and associated job creation. It will enhance the area's inward investment offer, particularly to high-value sectors, as well as assisting existing businesses to improve their competitiveness. It will also help to address inequalities in the area through providing access to better quality, higher paid jobs.

Headline Achievements in 2018/19	Next Milestones
Jun 18: Council approval of Outline Business Case	2019/20: Phase 1 construction
Jan 19: Council approval of Full Business Case:	
Mar 19: Full Business Case approved by Joint Committee and Scottish Government:	

Key Risks

- Failure to ensure the programme has the appropriate level of funding.
- Individual projects go over budget.
- Marketing fails to attract inward investment.

Alignment with Wider Programme

Scottish Borders Council is working with strategic partners, particularly Fife Council and the University of Edinburgh, to maximise the benefits of data-driven innovation and its potential to increase the number of innovation-active businesses, both regionally and locally. As a participant in the City Region Deal Housing, Construction and Infrastructure (HCI) Skills Gateway, the Council will look to develop new talent through utilising the construction opportunities during the build phases of the innovation park.

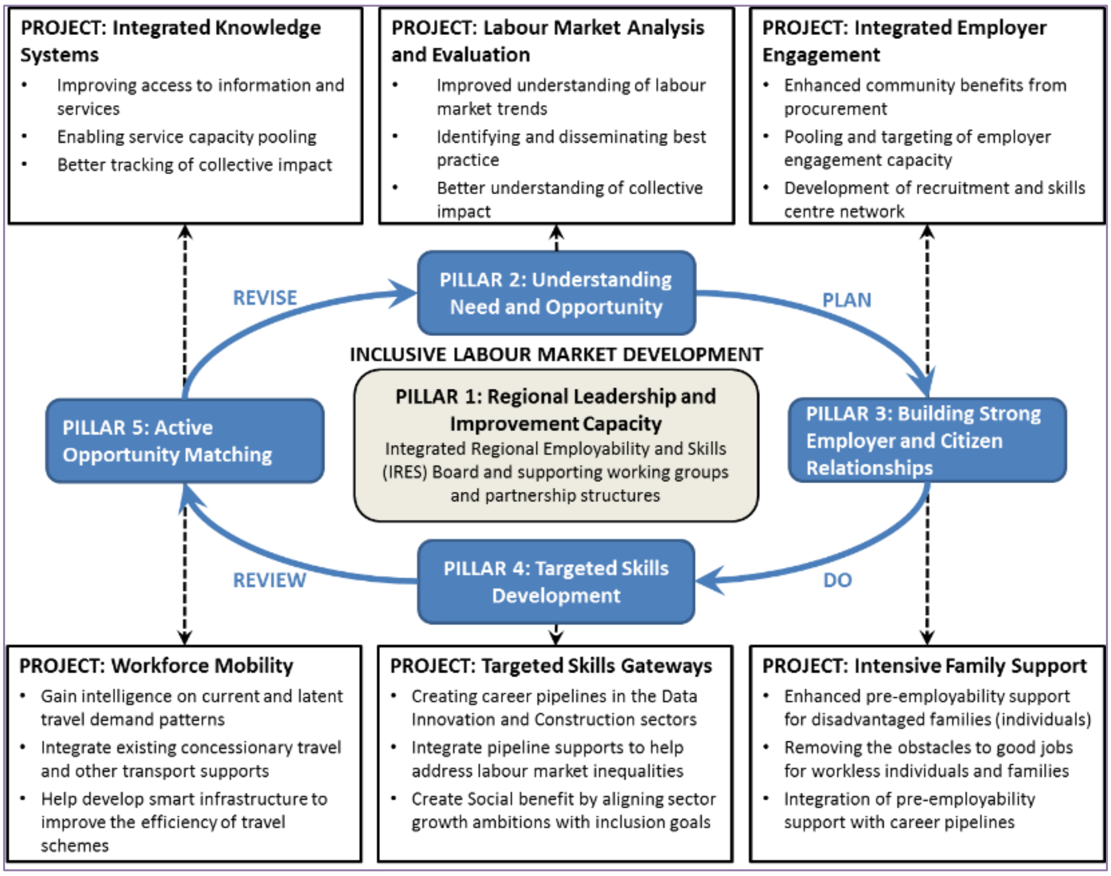
Integrated Regional Employability and Skills

The Integrated Regional Employability and Skills (IRES) Programme and its underpinning cross-sector partnership seeks to evolve regional labour market policy and practice to help drive Inclusive Growth. It aims are to:

- Increase the visibility of opportunities and put in place tailored support to help citizens flourish with a focus on; people with a disability, the workless or working poor, disadvantaged young people, minority ethnic communities, and gender imbalances
- Open-up new and diverse talent pools to business that help minimise skills gaps and promote an inclusive approach to recruitment and workforce development
- Evolve, streamline, and integrate the region's employability and skills system to enhance our capacity and capability to drive inclusive growth and create added value for stakeholders.

The programme focuses on five improvement pillars with seven initial projects targeting known areas of weakness or opportunity. These activities and the £25 million (over 8 years) change fund available to the partnership will deliver an additional 14,700 skill improvements and 5,300 people into employment.

Summary of IRES Programme



Headline Achievements in 2018/19	
Phase 1: Establish • Ratify IRES Board's remit and membership and then establish the Board along with any supporting structures and processes: Complete Nov 18. • (IRES Board first met in Dec 18 and initially met monthly. Since June 19 meets in a quarterly programme and project oversight development cycle.) • Finalise the IRES Programme Business Case with Government, ratify with IRES Board, and approved by Joint Committee: Complete Dec 18. • All seven proposed IRES projects developed in detail and approved by Joint Committee (Mar and Jun 19). • Back to back grant agreements now being finalised.	**Phase 2: Programme Delivery (on-going)** • IRES Board quarterly progress and annual review process linked to wider City Region Deal M&E framework established to track progress. • Soft launch events for Skills Gateways: • Data Town: complete June 19, • Building Success through Diversity and Inclusion: complete July 19. • Project delivery structures put in place and recruitment processes initiated. • Tourism sector skills research completed July 19 to inform developments. • IRES Board reflection day planned for Nov 19 to inform next stage programme development. • Advisory Boards being established for major projects to ensure expert input and strategic direction.

Next Milestones: Phase 2 Programme Delivery	
Programme • Review intelligence from programme activity and labour market research to identify progress against targets, changes to funded activity, next step projects, service adjustments, or other changes. • Raise awareness of IRES ambitions and strengthen the linkages and integration with "Business as Usual".	
Integrated Knowledge Systems • Test the suitability of the new SDS Data Hub in supporting multi-partner client journey tracking ambitions and agree the scope of big data and visualisation pilot project. **Labour Market Analysis and Evaluation**	**Integrated Employer Engagement** • Virtual regional delivery team in place to oversee developments for regional common employer offer, community benefits from procurement and social benefit. **Intensive Family Support**

• Planned workshop session Autumn 19 to establish a virtual team to plan, implement, and refine the labour market analysis and evaluation activities of the partnership **DDI and HCI Skills Gateways** • Pilot activities commenced including HCI inclusive Advanced Skills MSc and FE accelerated into-work (e.g. bricklaying for housebuilding) pilots. • Shared equalities and inclusion post for Skills Gateways (in partnership with EQUATE) in place.	• Agree ESF match funding for regional IFS activity • Pilot regional IFS activity co-produced, specified, commissioned and delivering activity, with ESF funding secured. **Workforce Mobility** • Project team recruited and pilot projects agreed and progressing to implementation.

Key Risks

Key Risks	Mitigations
• Programme fit, cohesion, and impact • The programme does not secure sufficient stakeholder buy-in and control to ensure an integrated set of interventions and satisfactory progress towards long term inclusive growth and system change (value for money) goals.	• Robust programme management structures in place including Joint Committee and Executive Board providing strong senior level leadership and support of programme goals. • Early establishment of an empowered IRES Board with strategic oversight and links to Scottish Government Cities team overseeing developments. • Project working groups established to drive development and mainstreaming informed by improved labour market analysis, quarterly, annual and mid-programme evaluations.
• Performance and good practice learning. • IRES is expected to deliver significant inclusive growth impacts across the whole City Region however detailed monitoring frameworks are still being developed.	• City Region Deal PMO to develop the IRES programme as a rolling programme with additional detail on activity developed as required to ensure satisfactory progress against outcomes and measure to ensure value for money. • IRES Partnership structures and engagement communication activity will support, capture and disseminate information for mainstreaming learning.
• Disadvantaged citizens and low-income families • Disadvantaged citizens and families do not see tangible long-term benefits from the programme.	• Work with the Scottish Government Cities team on developing and implementing the Inclusive Growth Framework to ensure project propositions and implementation plans detail how delivery targets will be assured.

	• The Intensive Family Support Service and Workforce Mobility projects prioritize vulnerability and connect into the opportunities being made available in the region.
• Availability of public finance • Potential loss of ESF funding arising from Brexit and restraints in public sector funding eroding capacity of partners to fund essential services.	• Work with the partners to quantify the potential risk and seek strategies to minimize this, accepting there will be no recourse to additional CR funding to plug such gaps. • The costs of the projects will be delivered within the agreed cash envelope with opportunities to lever additional resources being exploited.
• Private sector investment and support for inclusion cannot be achieved	• Stakeholder Engagement Strategy being developed in parallel with the Business Case ensuring alignment with potential investors.

Alignment with wider programme

The IRES Programme will incrementally strengthen and streamline regional delivery to achieve better outcomes for all the region. It is aimed at supporting those people facing significant disadvantages to securing and sustaining meaningful, high quality employment- delivering better impact from existing public, private and third sector investments.

Links have already been developed between City Region Deal theme structures to identify and collaborate on boundary issues. This includes joint working with DDI Delivery Board and Housing Board on the two “Targeted Skills Gateway Projects” and the Transport Board on the “Workforce Mobility.

Case Study 1: Data Town

The Data Education in Schools project held three 'Data Town' events in May / June 2019 which brought together young people from across the City to consider what a 'Data Town' of the future might be like. The purpose of the day was to take learners through a series of events in an imagined 'Data Town' to explore how data can play a part in our lives and in that of our communities. The event was part of the first phase of the Data Education in Schools project aiming to support the development of a data curriculum across primary and secondary schools in the city region.

The workshops ran in three locations: Waid Academy, Anstruther, Fife; Kelso High School, Scottish Borders, and the University of Edinburgh Pollock Halls. Over 150 primary and secondary-aged pupils from twenty schools across the city region attended the workshops.

The 'Data Town' event at the University on 3 June was also the launch event for the DDI Skills Gateway. The young people had the opportunity to see the way that data-driven innovation is being used to support medical education and to research the use of robotics for elderly care.

School children at the Data Town Event

Case Study 2: Building Success Through Diversity and Inclusion:
Women in Engineering, Construction and Property – June 2019

As industry and public sector and proactively encourage women's career pathways, this City Region Deal event, run in partnership with Hays recruitment, Equate Scotland and Edinburgh Napier University, brought together industry professionals, key stakeholders and ambassadors who are committed to help achieve these aims.

120 individuals from industry, public sector and education registered for event. Speakers included Scottish Government Cabinet Secretary for Communities and Local Government Aileen Campbell and key industry and equality and diversity champions.

Delegates at the Diversity and Inclusion event

Transport

West Edinburgh

West Edinburgh is recognised by the Scottish Government as a key national economic asset and perhaps the most important gateway to Scotland. National Planning Policy (NFP3) sets the long-term vision for development and investment across Scotland and cites West Edinburgh as a significant business investment location with potential to be internationally competitive. In recognition of its key gateway function Edinburgh Airport and adjoining land is identified as a national development.

The vision for West Edinburgh, in NPF3 can only be delivered through the investment in a strategic package of transportation improvements. These improvements include a core package of A8/A89 sustainable transportation measures that provide long term resilience and support strong connectivity between neighbouring authorities. Most importantly this will help enable the supply of labour from the surrounding area to meet the growing labour market demand required to realise the full potential for West Edinburgh.

The Scottish Government has committed £20 million for investment to support public transport infrastructure improvements identified by the West Edinburgh Transport Appraisal (WETA), and the City of Edinburgh Council has committed £16 million. Partners recognise that the WETA package currently amounts to £108 million of infrastructure. The scope of WETA will therefore be prioritised in line with this funding, and in consideration of how much funding can be secured by the private sector and developer contributions.

Headline Achievements in 2018/19	Next Milestones
Summer 19: Project Delivery Plan completed. This includes a phasing strategy, high level programme, project level governance and reporting structures.	**Dec 19:** Procurement of Design and Delivery consultants.
Summer 19: City Region Deal funded projects within West Edinburgh were prioritised; through the further development of the WETA cost attribution model,	**Jun 20:** Ongoing development of individual Project Business Cases complete.
	2021: Detailed design of projects, site investigations, attainment of necessary statutory powers in order to implement improvements:
	TBC: Procurement of Contractors
	TBC: Construction of Transport Improvement Projects

Key Risks

- Failure to secure sufficient funding to carry out all transport improvements identified in the WETA.
- Difficulties in prioritising transport interventions within WETA.
- Programme underspend due to delays in consultancy work or securing funding.
- Cost increases in construction due to external economic factors.

Alignment with wider programme

This project will eventually be procured as a construction project, and links with the Housing and Construction Infrastructure Skills Gateway will be established. The improvement of public transport provision in this area has the potential to unlock housing development opportunities and ease congestion in the corridor between West Lothian and Edinburgh City Centre.

A720 (Sheriffhall)

Sheiffhall Roundabout

The Sheriffhall Roundabout is currently the only junction on the A720 Edinburgh City Bypass that is not grade separated, which means the City Bypass is at the same level as the A7 and A6106 local approach roads. This at-grade, six-way junction, often experiences significant queuing, especially during peak hours. The Scottish Government's commitment through the Edinburgh and South East Scotland City Region Deal includes up to £120 million to support improvements to the A720 Edinburgh City Bypass for the grade separation of Sheriffhall Roundabout. The project is being delivered by Transport Scotland and is subject to Transport Scotland's normal governance procedures.

Headline Achievements in 2018/19	Next Milestones
May 2018: Completion of detailed Ground Investigation works.	**Later in 2019:** Completion of the development and detailed assessment of the preferred option with a view to publishing draft Orders for formal comment. Progress on the delivery of the scheme itself can only commence when the scheme is approved under the statutory procedures and thereafter a timetable for construction can be determined.
Throughout 2018/19: Significant progress with development and detailed assessment of the preferred option through the Design Manual for Roads and Bridges (DMRB) Stage 3 Assessment.	
Throughout 2018/19: Stakeholder workshops. Extensive consultation with active travel stakeholders regarding provision for non-motorised users, including cyclists in scheme proposals.	

Key Risk

- The nature and extent of historical mine workings and/or complex ground conditions prove more onerous than identified through extensive detailed ground investigation works and adversely impact delivery programme and/or scheme cost.

Alignment with wider programme

- Support future development in the region, including the South East Wedge development.
- Contribute towards the requirement to provide Community Benefits, in line with the requirements of the Procurement Reform (Scotland) Act 2014.
- Support wider skills development in the construction sector.

Culture

Dunard Centre

Dunard Centre, supported by Royal Bank of Scotland, will be a new music venue located in the heart of Edinburgh. It will sit just off St Andrew Square, behind and linked to the Bank's historic head office, Dundas House. The project is led by a charitable organisation, IMPACT Scotland, and is supported by Dunard Fund, a long-term funder of the arts and music in Scotland.

Dunard Centre, St Andrew Square (Artist's Impression)

Dunard Centre will be Edinburgh's first purpose-built music venue in 100 years and will offer world class acoustics in a 1,000-seat auditorium, together with a 200-seat studio for performance, rehearsal and recording. A range of rooms and spaces will enable substantial community outreach and education and provide for conferences. The site will be enhanced by an open foyer with café/bar facilities and opportunities for all-day music and performance.

It will be the new home for the Scottish Chamber Orchestra, the only Edinburgh-based National Performing Arts Company, and a principal venue for the Edinburgh International Festival. It will make a significant contribution to the ongoing success of Edinburgh's cultural and festival offerings.

Headline Achievements in 2018/19	Next Milestones
Dec 18: City Region Deal Joint Committee Approval of Business Case	**Q4 19/Q1 20** Existing building at rear of Dundas House demolished.
Apr 19: Planning permission granted by The City of Edinburgh Council	**Q1 20:** Completion of pre-construction services agreement with preferred contractor and receipt of tenders from principal sub-contractors.
Apr 19: Official naming - Dunard Centre, supported by Royal Bank of Scotland	**Mid 20:** Commencement of construction of Dunard Centre.

Key Risks

- Potential judicial review of planning approval could cause indeterminate delay.
- Capital project risks.
- Continued site access opposition from neighbouring developers – potential to frustrate planned construction timetable.

Alignment with wider programme

Through a significant period of construction, the project will add to the Deal-wide growth in employment opportunities, including the targeting of inclusive employment practices.

On completion and operation, Dunard Centre will contribute to the economic growth of the region and help protect the £300 million plus generated by the Edinburgh festivals.

As an all-day, purpose-built venue, in an accessible location, Dunard Centre will provide a range of social benefits for the community. By working with partners, the venue will provide a focal point to develop new audiences, increase participation through outreach programmes and act as a springboard for community outreach work across Edinburgh and the wider region. A wide range of programmes will inspire young people and help target groups under-represented as participants and audiences, supporting the cultural sector to build audiences which accurately reflect the diverse nature of society.

Regional Housing Programme

The regional housing programme aims deliver a step change in innovation and inclusive growth in the housing and construction sectors; and deliver a step change in the supply of new homes across the South East of Scotland.

3,450 homes at Winchburgh unlocked agreement between West Lothian Council, Scottish Government and West Coast Capital.

Headline Achievements in 2018/19

In December 2018, The City of Edinburgh Council, National Galleries of Scotland, National Museums of Scotland, Edinburgh College, Scottish Government and Scottish Futures Trust signed a joint agreement to work together to create a new vibrant, city quarter in Granton Waterfront, a key part of one of the seven strategic sites.

In January 2019, Winchburgh, one of the seven strategic sites, secured a tripartite agreement (West Lothian Council, Scottish Government and developer) to enable the delivery of nearly 3,500 homes.

In January 2019, Edinburgh Living, a new housing company (City of Edinburgh Council and Scottish Futures Trust) established as part of the Deal, delivered its first wave of new homes with around 1,500 new affordable homes to be delivered through the initiative over the next five years.

In March 2019, the Joint Committee approved the establishment of a Regional Housing Board with membership from the six local authority partners; Scottish Government; Scottish Enterprise; Scottish Futures Trust; Edinburgh Napier University; and the Regional Enterprise Council.

- To drive forward the work programme four key workstreams have been identified by the board:
  - Affordable housing
  - Innovation and skills
  - Strategic sites
  - Infrastructure and land
- In June 2019, regional partners ran a series of workshops with over 60 key stakeholders to explore high level opportunities and constraints and to activate further collaborative working. This feedback has been used to develop an outline regional housing work programme.
- In September, a report will be considered by the Joint Committee which outlines an ambitious regional housing work programme shaped by local, regional and national partners with input from key stakeholders.

Next Milestones

Key areas to be progressed in the year ahead under each of the four key workstreams are outlined below:

Affordable housing

- Partners will work to develop a 20-year regional housing delivery plan in collaboration with Scottish Government to align to their ongoing work on the 2040 vision for housing in Scotland.
- Explore opportunities for new partnerships and joint ventures with public sector partners to develop sites and deliver a range of outcomes, including affordable housing.
- Consider development of new investment and delivery models to unlock private and public sector sites and accelerate delivery of affordable housing.

Innovation and skills

- Collaboration with Government, agencies and academia to explore how the region can benefit from expertise in this field and to consider collaboration approaches and projects which can maximise the potential benefits of offsite construction.
- Link construction programmes, contractors and developers to Housing Construction and Infrastructure (HCI) Skills Gateway programme.
- Enhanced engagement with industry.

Strategic sites

- Continue business case development for each of the strategic sites. Taken together, these sites will deliver over 45,000 new homes.
- Establish a Strategic Sites Lead Officers Group to share learning; best practice; models; and identify collaboration opportunities to leverage investment and resource.
- Develop a strong, ambitious regional vision across the seven sites demonstrating their ability to be economic drivers of change in South East Scotland.

Infrastructure and land

- Consider formation of a Regional Infrastructure Forum comprising key infrastructure providers. It would seek to align through collaborative working a delivery plan for infrastructure that will enable, accelerate and support inclusive growth across the region, which is developed and aligned alongside future national and regional development and infrastructure strategies and investment decisions.

- Explore emerging work on an Edinburgh Land Commission. There may be scope to consider whether this model should and could be rolled out across the region or separately for each local authority area.

Housing company

Thirty-three homes have been purchased by Edinburgh Living MMR LLP to date, the latest being 11 homes at the Hailesland Place development, a mix of social rent and mid-market rent homes. The next homes will be purchased at Greendykes (56) and Pennywell Town Centre (12) over the coming months.

Key Risks

- The development and delivery of a successful regional housing work programme requires commitment and resource from across regional partners, national agencies and Scottish and UK Government.

Alignment with wider programme

- Housing is a key social, economic and environmental driver. Greater integration across these drivers and City Region Deal policy themes is essential to support the growth requirements of the region and to deliver new communities which deliver the quality of place that ensures the South East of Scotland is a desirable place for people to live and for businesses to invest.
- Regional housing partners have developed a work programme that has synergies between work being developed through thematic areas of the Deal: IRES Programme; Transport Appraisal Board (TAB); Innovation; and the emerging Regional Growth Framework.
- Linking construction programmes, contractors and developers to Housing Construction and Infrastructure (HCI) Skills Gateway programme. Ensuring that regional skills shortages are tackled, and employment opportunities are directed to communities within the city region and that individuals facing disadvantages in the labour market are targeted.

7. The Year Ahead

Key milestones that are expected in 2019/20 are shown in the table below:

Date	Milestone
3 Sep 19	• Joint Committee meeting where the following items will be considered: • Business case for the Usher Institute. • Regional Growth Framework proposition. • Updates from the Housing and Transport Programmes.
Autumn 2019	• Shared vision and approach to Community and Social Benefits agreed
Autumn 2019	• Data-driven Innovation and Housing and Construction infrastructure and targeted Skills Gateways provision operational
6 Dec 19	• Joint Committee meeting where the following items are expected to be considered: • Dunfermline Strategic Housing Site Business Case • Monitoring and Evaluation Framework.
Feb 20	• Commencement of construction of Grade Separated Junction at Queen Margaret University Food and Drink Innovation Campus.
6 Mar 20	• Easter Bush Business case expected to be considered by Joint Committee
Mar 20	• The Fife Industrial Investment Innovation Programme will break ground on two sites, in Glenrothes and Dunfermline.
Spring 2020	• Intensive Family Support Service pilots commence
5 Jun 20	• Joint Committee meeting to consider business case for Edinburgh Innovation Park (Queen Margaret University)
Jul 20	• Construction of the National Robotarium commences
Summer 2020	• All IRES Programme projects operational
Summer 2020	• Construction at Dunard Centre commences.

Contacts and Further Information

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Further Information

- Keep up to date with the latest news and join our mailing list at www.acceleratinggrowth.org.uk
- Data-Driven Innovation website
- Download all Joint Committee reports including approved business cases at the City of Edinburgh Council Committee library website.
- Visit the webcast library to view recordings of each Joint Committee meeting.

The City of Edinburgh Council

10:00am, Thursday, 24 October 2019

International Travel and Conferences

Executive/routine
Wards
Council Commitments

1. Recommendations

1.1 To agree the process for elected member and officer international travel as set out in paragraph 4.2 of the report.

1.2 To agree that conference attendance by elected members that incur no cost to the Council can be approved by the Chief Executive.

1.3 To delegate authority to the Chief Executive to make any such changes as necessary to the Scheme of Delegation to Officers as required to implement the decision of the Council in relation to this report.

1.4 To note that the Council Business Travel and Accommodation Guidance is currently being reviewed with a view to reducing the overall carbon impact of the Council's International travel.

1.5 To agree that that the overall carbon impact of the Council's International travel is reported annually to the Policy and Sustainability Committee.

Andrew Kerr

Chief Executive

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Report

International Travel and Conferences

2. Executive Summary

2.1 This report sets out the approval process and financial and carbon thresholds for international travel by elected members and officers. The approval process for conference attendance by elected members is also clarified.

3. Background

3.1 In August 2019 the Policy and Sustainability Committee agreed a report on international activity. It was agreed that a further report would be provided on the monetary and carbon thresholds for international travel.

3.2 The approval process for international travel and conferences was last revised by the Finance Committee on 30 July 1996.

4. Main report

Conferences

4.1 Currently elected members require approval to attend any conference whether it is based domestically or internationally. This was introduced to ensure that the potential costs of attendance were monitored and kept within reasonable levels of expenditure. It is proposed that this requirement is maintained, except where there is no cost to the Council. Approval of all conferences that require expenditure should be agreed at the Policy and Sustainability Committee, to ensure a corporate overview of elected member conference attendance.

International Travel

4.2 Committee approval is required for all elected member overseas travel, while officers' overseas travel is approved by officers under delegated authority. It is proposed that the approval process for elected member and officer international travel is consolidated. This would mean changing the approval process so that international travel which costs over £3000 per person or £5000 for any one trip involving more than one person was approved by the Policy and Sustainability Committee and any below the threshold was approved by the Chief Executive under delegated authority. This would apply equally to elected members and officers.

4.3 International travel will only be agreed in line with the principles detailed in the report to the Policy and Sustainability Committee on 6 August 2019.

Civic Hospitality

4.4 The Civic Hospitality policy was approved in August 2019. This policy is attached as an appendix for information.

Carbon Thresholds

4.5 The Council's Business Travel and Accommodation Guidance published in August 2018 recognises that there is a need to travel to carry out Council business but states that travel outside the UK should on principle, only be taken in exceptional circumstances. Carbon impact is currently considered as part of the overall cost benefit assessment. Decisions must be taken on a case by case basis rather than setting a carbon threshold.

4.6 Within this process, the Council must be clear; that the business travel is necessary; the type of transport used is the most efficient; and that we have tried to minimise the environmental impact.

4.7 The guidance further states that the Council will always seek to make sustainable transport choices by prioritising low emission modes of transport. This mean that in addition to an assessment of cost and journey times, C02 emissions are quantified and considered when choosing the type of transport.

4.8 The guidance is currently being reviewed and will take account of this report. It will also consider extending its scope to include elected members to ensure a consistent Council approach.

4.9 It is further suggested that the cumulative carbon impact of the Council's international travel is reported in the annual update on international activity considered by the Policy and Sustainability Committee.

5. Next Steps

5.1 The new arrangements will be issued to all elected members and executive directors.

6. Financial impact

6.1 The financial cost of international travel and conference attendance will be required to be contained within the appropriate budgets.

7. Stakeholder/Community Impact

7.1 The carbon impact of international travel and conference attendance will be required in future reporting to the Policy and Sustainability Committee using UK Governments Conversation Factors for greenhouse gas reporting.

8. Background reading/external references

8.1 Policy and Sustainability Committee 6 August 2019 – Edinburgh International Activity Report

8.2 Finance Committee 30 July 1996 – Members' Expenses

9. Appendices

Appendix One – Civic Hospitality Policy

Appendix two – Council's Business Travel and Accommodation Guidance

Civic Hospitality Policy

Implementation date:

Control schedule

Approved by	
Approval date	
Senior Responsible Officer	Gavin King, Democracy, Governance and Resilience Senior Manager
Author	Gavin King, Democracy, Governance and Resilience Senior Manager
Scheduled for review	

Version control

Version	Date	Author	Comment
0.6	29.10.15	Gavin King	Approved by Finance and Resources Committee
0.7	01.10.19	Gavin King	Consideration by the Policy and Sustainability Committee

Committee decisions affecting this policy

Date	Committee	Link to report	Link to minute

Civic Hospitality Policy

Policy statement

1.1 This policy sets out how expenditure on civic hospitality should be managed and agreed.

Scope

2.1 This policy applies to all civic hospitality provided by the Council, whether on its own initiative or in response to an application. It does not apply to general hospitality which for example would include tea and coffee for meetings or training events.

Definitions

3.1 Civic Hospitality can be provided for a variety of reasons and is provided on behalf of the Council, a particular Council committee or the Lord Provost. Civic Hospitality should not be provided for political purposes. When deciding whether to approve civic hospitality, consideration should be given as to whether it is in line with the Council’s strategic priorities. Additionally, civic hospitality should only take place for one or more of the following reasons:

3.1.1 To welcome distinguished visitors to the City;

3.1.2 To mark special achievements and/or present awards;

3.1.3 To celebrate the major anniversaries of organisations which have contributed to the general wellbeing of the City;

3.1.4 Hospitality in connection with the civic services at St Giles Cathedral;

3.1.5 Hospitality associated with Edinburgh’s festivals;

3.1.6 Hospitality in connection with prestigious conferences, events or festivals taking place within the City; or

3.1.7 To promote the Council’s strategic priorities or a committee’s objectives or policies.

Policy content

4.1 Civic hospitality should, wherever practical, be held on Council premises. If accommodation on Council premises is not available or is insufficient then alternative locations may be agreed by the Chief Executive.

4.2 The Lord Provost, Deputy Convener or nominated Baillie will host the majority of civic receptions. The appropriate committee convener or his/her nominee will host civic receptions when the hospitality is being provided on behalf of a particular committee.

4.3 Where an applicant specifically requests use of a venue outwith Council premises for the convenience of their event, a civic hospitality grant may be awarded. The grant should be limited to the equivalent cost of holding the reception in Council premises.

4.4 Funding for civic hospitality will be met by the Lord Provost's civic hospitality budget unless it is for receptions on behalf of a particular committee which will be met by the relevant service area.

4.5 The Council will provide the venue for receptions associated with externally hosted conferences if appropriate and will negotiate with the applicant a suitable financial arrangement to meet the cost of food and drink provided.

4.6 The celebration of major anniversaries should normally be restricted to multiples of 25 years up to 100 years and thereafter multiples of 50 years. It is also hoped that increasingly more lasting confirmation, such as scholarships, can be proposed which will replace receptions in some cases.

4.7 General hospitality providing for example tea and coffee for meetings and training events are not covered by this policy.

Implementation

5.1 If approved this policy will be published on the Council's website and made available to the appropriate officers to ensure any reporting is undertaken appropriately.

Roles and responsibilities

6.1 The Chief Executive has delegated authority to approve expenditure on civic hospitality up to £10000, in consultation with the Lord Provost or the appropriate convener if the hospitality is provided on behalf of a Council committee. Approval should be sought from the Finance and Resources Committee on individual items of expenditure which costs £10000 and above. This approval should be brought in the form of a report to the Finance and Resources Committee.

6.2 Any amount spent on hospitality that is outwith the relevant allocated budget requires approval by the appropriate committee, which is the Finance and Resources Committee for the civic hospitality budget within the Lord Provost's area.

6.3 The Office of the Lord Provost will co-ordinate the organisation and administrative arrangements for all civic hospitality unless it is mutually agreed that another service area will do so.

6.4 Executive Directors and the Chief Executive are responsible for ensuring expenditure on civic hospitality is contained in their respective budgets.

Related documents

7.1 Scheme of Delegation to Officers.

Equalities impact

8.1 There are no equalities issues arising from this policy.

Sustainability impact

9.1 There are no sustainability issues arising from this policy.

Risk assessment

10.1 This policy was refreshed in October 2015 and was amended with job title changes in August 2019.

Review

11.1 In line with the Council’s policy framework, this policy will be reviewed annually or more frequently if appropriate and submitted to the relevant Council committee.

Business Travel and Accommodation Guidance

Council statement on business travel

We recognise that you may need to travel to carry out Council business. As a public body, we need to demonstrate that all business travel's necessary, that the type of transport used is the most efficient and that we have tried to minimise the environmental impact of the journeys made.

Author	Scope
Employee Relations, Human Resources	This guidance applies to all Council employees, including agency workers engaged to provide services for the organisation
Purpose	**Review period**
This document sets out our business travel ethos and the rules around travelling on Council business.	Human Resources will review this guidance periodically to ensure that it continues to be fit for purpose. Agreed November 2016 and reviewed June 2018.

1. Definitions 2
2. Principles 2
3. Compliance 2
4. Booking travel and accommodation 3
5. International travel 4
6. Transport options 4
7. Expenses 7

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1. Definitions

Term	Description
Business journey	A trip you must make to do your job or to attend or where it has been agreed for you to travel, e.g. to a development course
Mobile worker	Employees and agency workers who do not have a fixed place of work and travel from their home to their first appointment and from their last appointment to their home. Only mobile workers can claim mileage for their journeys from their home to their first appointment of the day and the end of the day, within the Edinburgh City boundary.
Commute	This is the journey you make from your home to your place of work. No employee can claim for their normal commute.

2. Principles

Term	Description
Necessity	You should only travel if it is necessary to carry out Council business and always seek to find alternatives that avoid the need to travel.
Transport choices and sustainability	You need to consider journey time, cost and CO_2 emissions when choosing your type of transport. To help you choose the most environmentally sustainable, cost effective and efficient travel options, please consider the Council's Sustainable Travel Plan. (See section 4.)
Booking travel	All travel tickets and accommodation must be booked through the Council's approved travel service provider. This means we will get the greatest benefit from our travel contract. If you don't use our travel service provider and make your own travel arrangements, then we will not reimburse your costs. In emergency circumstances where travel has been cancelled, e.g. a train, then contact the travel provider who will advise on any refunds and re-bookings

3. Compliance

All employees must follow this guidance and where this is abused, it may result in disciplinary action, up to and including dismissal.

Managers are responsible for ensuring that the guidance is applied correctly and ensuring that all travel they authorise is justified. Travel authorisation and spend may be subject to audit and therefore relevant evidence should be retained.

4. Booking travel and accommodation

You must book all business travel and accommodation online, through our approved travel provider. If you're travelling with colleagues, you can book your travel together, as you can book up to eight rail tickets and four air tickets in one booking. You can only book travel up to a certain price limit. The limits are noted below and depend on your grade.

This table sets out the steps that you must follow when you're considering making a business journey and when you want to book business travel or accommodation.

How to book travel

Task	Action	Remember
1. Identify the need to travel	✓ Purpose ✓ Dates and times	There are technology options, such as Skype, for having virtual meetings.
2. Get approval to travel	✓ Search the portal to see options available ✓ Consider the need for travel with indicative costs ✓ Get approval from your manager before you book travel	Before you book any business travel, discuss your plans with your manager. You need to get their approval before you can proceed. . This must be approved by a Head of Service.
3. Book travel online	✓ Look for the best value ✓ Book in accordance with the price ranges set out in the appendices ✓ Booking confirmation is received by email; retain this ✓ Ticket received by email or picked up at ticket office	

4.1 Booking travel guidance

All travel must be booked using our travel booking system.

Register
If you want to book business travel, you must register on the online portal and adhere to the terms outlined in the guidance.

Booking
The system flags up travel options as red, amber, or green. Those marked green are within your cost limit.

You can only book options that are flagged as amber in exceptional circumstances. If the only options available to you are amber, you will have to discuss that with your manager and get their approval before you book.

You will not be able to book options flagged as red.

Reporting
The travel system is reported on regularly for audit purposes and to monitor levels of activity. Where the verification process has not been followed, this will be reported to the relevant manager and any appropriate action taken in line with our disciplinary policy.

The Council's travel provider will send a weekly invoice along with a report of travel expenditure. This report will be uploaded to our accounting systems and departmental cost centres will be allocated their relevant expenditure.

5. International travel

You're only allowed to travel outside the UK in exceptional circumstances and pre-approval is required from The Chief Executive or relevant Executive Director. The Chief Executive is required to authorise international travel for Executive Directors.

All flight tickets must be the cheapest available and once selected, final approval is required by the relevant Executive Director.

It's your responsibility to make sure that you meet the entry requirements for any country that you visit on Council business, including any visas needed.

6. Transport options

6.1 Airplane

Destination	Details
UK	Domestic air travel is only allowed in exceptional circumstances, for example if it's not practical to travel by train; it is the least expensive option; or flying is the only way to get to your appointment and back in a day. You must get pre-approval from your Executive Director before you book any flights. Air travel must be on the lowest cost fare available.
International	As with domestic air travel, an Executive Director must approve all international air travel before you make book any tickets, and you should try to get the best deal possible.

6.2 Rail

Destination	Details
UK	Rail is the preferred travel mode for longer distance UK travel and it must be the lowest available fare i.e. off-peak; standard class. Please try to book rail travel as far in advance as possible to get the best price available. Rail travel by sleeper train is permitted and can be used where this is less expensive than an overnight stay and travel costs combined. Our preferred travel provider will be able to give you quotes. First class rail travel is only permitted if the cost is the same as a standard ticket, which can happen on occasion. Otherwise, first class travel is not permitted and will not be reimbursed by the Council if it is used.

6.3 Car

Type	Details
Private vehicles	You can only use your car and claim mileage for Council business if you are an authorised car user. There is information on the Orb about how to become an authorised car user. Use of private vehicles may only be considered if public transport is not available or unsuitable (e.g. you must transport equipment) or it's more cost-effective. Authorised users can claim mileage allowance, based on current HMRC mileage rates for business travel. The current rates are on the Orb. Mobile workers who do not have a fixed place of work can claim mileage for the journey from their home to their first appointment, as well as the rest of their journeys during the day. They can also claim for the journey from their last appointment back to their home at the end of their working day, within the city boundary or from the city boundary if you live out with. If you are travelling outside Edinburgh, you will only be able to claim up to the equivalent standard class rail journey cost. If there is no equivalent public transport available, HMRC mileage rates will apply to the whole journey. If you are an authorised car user, the vehicle you use for Council business must be kept in a roadworthy condition. This includes ensuring valid MOT/Vehicle Excise Licence, insurance which explicitly covers vehicle use for business purposes, and a valid and current, driving licence. Authorised car users must inform their line manager if they get any driving licence endorsements at the time they get them. Failure to do so may result in disciplinary action.
Pool cars	The Council has a car pool at Waverley Court. Information on costs and how to book a pool car can be found on the Orb. Pool cars can only be used within Edinburgh city boundaries. This is because breakdown/accident recovery is limited to within our boundaries.
City Car Club	The City Car Club is an independent car club operator. The Council has block booked many vehicles for Council use from 8am-6pm, Monday to Friday. If you are a member of the Car Club, you can use these vehicles at a cheaper rate than the public. You can find out more about the City Car Club on the ORB.
Hire cars	There are a small number of cars at Waverley Court that you can hire for a day or a half-day. You can get more information on this from the Orb. If you're travelling to other cities on business and need a car while you are there, you can book that in advance using MyTravel.

6.4 Taxis

Taxis should only be used where all other, less expensive modes of transport are unavailable or unsuitable. You need pre-approval from your Head of Service for all taxi journeys. Guidance on how to pre-book taxis is in Appendix 1.

The following are examples where it might be appropriate to use a taxi:

- ✓ if there's no other suitable means of public transport;
- ✓ if you have heavy luggage or equipment with you;
- ✓ if it's cheaper to take a taxi for either the whole journey or combined with other forms of transport;
- ✓ if there's no public transport available at the time you need to travel;
- ✓ if using a taxi is a reasonable adjustment in relation to a disability;
- ✓ where management agree that using a taxi is necessary for your health and safety.

Taxi	
Destination	**Details**
Edinburgh	Taxi journeys for travel within Edinburgh must be booked through the Passenger Operations during office hours. There is more information about this at Appendix 1. You will not be reimbursed for any taxi journeys that have not been booked through Passenger Operations unless your Head of Service has approved this.
Outside Edinburgh	If you are on Council business out with the city and a taxi is the only option, then this should be pre-approved and submitted through expenses, approved by Head of Service.

Bicycle	
Points to note	**Details**
Council business	If you want to use your bicycle to travel on Council business, you need to get your manager's approval and become an authorised bicycle user. Complete the form on the Orb and send that to your manager for them to approve. Only authorised bicycle users can claim bicycle mileage allowance. Details on this are on the Orb, including the current mileage rates.
Insurance	Personal injury, theft, or damage to bicycles whilst on Council business isn't covered by any Council insurance policy. You must make sure that you have the right cover yourself.

Bus and coach

Type	Details
Bus	Mobile workers who do not have a fixed place of work can claim for bus journeys they make from their home to their first appointment of the day, as well as the rest of the journeys they make for work during the day. They can also claim for the journey from their last appointment back to their home at the end of their working day. Managers of mobile workers can buy smart cards pre-loaded with 10 single journeys from Lothian Buses via Oracle, which they can give to their employees. If you travel regularly on business with National Express buses, you can now book that using MyTravel. If you are making multiple bus journeys, you can buy a carnet of single tickets, which saves you having to book single journeys every time want to travel.
Coach hire	Passenger Operations will arrange coach, bus, or minibus transport on request. Complete the Coach Hire Request form available on the Orb and send to transport.tender@edinburgh.gov.uk. They will obtain quotes from all the companies that are registered with us. Passenger Operations will advise you of the quotes, and if you wish to go ahead will make the booking on your behalf. On completion of the trip, the contractor will submit an invoice to Passenger Operations, and this will be paid against the oracle code given by the requester.

7. Expenses

Claiming expenses

Type	Details
Accommodation	You must book your accommodation through the Council's preferred travel provider and this needs to be pre-approved by your Head of Service. You can find the limits on how much you can spend on accommodation at Appendix 2.
Meals and other expenses	The Council will reimburse actual expenses you reasonably incur while travelling on Council business, provided you support your claim with receipts. You can only make a claim if you spend more than you normally would if you were not travelling on business. If you have been authorised to use a Council Payment Card, you should pay for meals and other expenses with that. If not, remember to retain you receipts so you are able to claim this back. In such exceptional circumstances, it is vital that you and your service area are aware of the Council's Anti-Bribery Policy and the Employee Code of Conduct, and ensure that the authorisation to purchase alcohol complies with Council policy.

City of Edinburgh Council

10:00am, Thursday 24 October 2019

Audited Annual Report 2019 of the Lothian Pension Fund and Scottish Homes Pensions Fund Including Annual Report by External Auditor - referral from the Pensions Committee

Executive/routine
Wards
Council Commitments

1. For Decision/Action

The Council is asked to note the Audited Annual Report 2019 of the Lothian Pension Fund and Scottish Homes Pensions Fund Including Annual Report by External Auditor.

Andrew Kerr

Chief Executive

Contact: Lesley Birrell, Committee Services

Email: lesley.birrell@edinburgh.gov.uk | Tel: 0131 529 4240

Referral Report

Audited Annual Report 2019 of the Lothian Pension Fund and Scottish Homes Pensions Fund Including Annual Report by External Auditor

1. Terms of Referral

2.1 On 25 September 2019, the Pensions Committee considered the attached report by the Executive Director of Resources setting out the Audited Annual Report 2019 of the Lothian Pension Fund and Scottish Homes Pensions Fund including the Annual Report by the External Auditor.

2.2 The Pensions Committee agreed:

2.2.1 To note the report by Scott Moncrieff "Lothian Pension Funds 2018-19 Annual Audit Report to Members and the Controller of Audit set out in Appendix 1 of the report.

2.2.2 To note the audited Annual Report for the year ended 31 March 2019 for the Lothian Pension Fund and the Scottish Homes Pension Fund set out in Appendix 2 of the report.

2.2.3 To note that the audited financial statements for the year ended 31 March 2019 of both the wholly owned companies, LPFE Limited and LPFI Limited had been approved by the respective Board of Directors in May 2019 set out in Appendices 3 and 4 of the report.

2.2.4 To thank Scott-Moncrieff for their work to the report.

2.2.5 To refer the audited Annual Report 2019 to the Council for noting.

2. Background Reading/ External References

Minute of the Pensions Committee of 25 September 2019.

3. Appendices

Appendix 1 – report by the Executive Director of Resources

Pensions Committee

2.00pm, Wednesday, 25 September 2019

Audited Annual Report 2019 of the Lothian Pension Fund and Scottish Homes Pension Fund, including Annual Report by External Auditor

Item number	**5.3**
Executive/routine	
Wards	**All**
Council Commitments	

1. Recommendations

The Pensions Committee is requested to:

1.1 invite the Pension Board to raise any relevant matters or concerns which the Committee should consider;

1.2 note the report by Scott-Moncrieff “Lothian Pension Funds 2018/19 Annual Audit Report to Members and the Controller of Audit” (at Appendix 1);

1.3 note the audited Annual Report for the year ended 31 March 2019 for the Lothian Pension Fund and the Scottish Homes Pension Fund (at Appendix 2); and

1.4 note that the audited financial statements, for the year ended 31 March 2019, of both the wholly-owned companies, LPFE Limited and LPFI Limited, were approved by the respective Board of Directors in May 2019. These statements are shown in full at Appendices 3 and 4.

Stephen S. Moir

Executive Director of Resources

Contact: John Burns, Chief Finance Officer, Lothian Pension Fund

E-mail: john.burns@edinburgh.gov.uk | Tel: 0131 469 3711

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Report

Audited Annual Report 2019 of the Lothian Pension Fund and Scottish Homes Pension Fund, including Annual Report by External Auditor

2. Executive Summary

2.1 The unaudited Annual Report for the year ended 31 March 2019 for the Lothian Pension Fund and Scottish Homes Pension Fund has now been considered by the external auditor, Scott-Moncrieff.

2.2 International Standard on Auditing (ISA) 260 requires the external auditor to communicate its findings to those charged with governance of the Funds. Accordingly, the Scott-Moncrieff "Lothian Pension Funds 2018/19 Annual Audit Report to Members and the Controller of Audit" is included at Appendix 1.

2.3 Scott-Moncrieff has provided "an unqualified opinion on the financial statements and other prescribed matters for Lothian Pension Fund and Scottish Homes Pension Fund within our independent auditor's report" and has also stated "that there were no matters which we were required to report by exception".

3. Background

ISA 260 annual report by External Auditor

3.1 Under statutory accounting guidance issued by the Scottish Government, Administering Authorities are required to issue a separate Annual Report covering the Local Government Pension Scheme (LGPS) funds that they are responsible for. These Annual Reports are subject to a separate external audit.

3.2 International Standard on Auditing (UK and Ireland) 260 (ISA 260) requires the External Auditor to communicate its findings to those charged with governance of the Funds. This summarises any matters arising from the audit of the financial statements prior to the formal signing of the independent auditor's report.

3.3 As part of the standard, the External Auditor is required to provide its view of the following:

3.3.1 Any significant qualitative aspects within the Funds' accounting practice;

3.3.2 Any significant difficulties encountered during the audit;

3.3.3 Any material weakness in the design, implementation or operating effectiveness of the system of internal control;

3.3.4 Any significant matters arising from the audit discussed with management;
3.3.5 Any representations that have been requested from management; and
3.3.6 Any other matter that is significant.

3.4 City of Edinburgh Council noted the Unaudited Annual Report 2019 for the Lothian Pension Fund and Scottish Homes Pension Fund at its meeting on 28 June 2019.

4. Main report

Scott-Moncrieff - Lothian Pension Fund and Scottish Homes Pension Fund 2018/19 Annual Audit report to Members and the Controller of Audit

4.1 The report by the external auditor on the financial statements is included at Appendix 1 – "Scott-Moncrieff - Lothian Pension Funds 2018/19 Annual Audit Report to Members and the Controller of Audit. This will be presented to Committee by Nick Bennett, Partner, Scott-Moncrieff.

4.2 Scott-Moncrieff has stated that its "work has been performed in accordance with the Audit Scotland Code of Audit Practice, International Standards on Auditing (UK and Ireland) and Ethical Standards".

4.3 Scott-Moncrieff has provided "an unqualified opinion on the financial statements and other prescribed matters for Lothian Pension Fund and Scottish Homes Pension Fund (collectively referred to as "the Funds") within our independent auditor's report" and has also stated "that there were no matters which we were required to report by exception".

4.4 The external auditor has commented that "We are pleased to report that our audit identified no material adjustments. In addition, we can confirm that there were no unadjusted errors relating to the 2018/19 financial statements. We identified some disclosure and presentational adjustments during our audit, which have been reflected in the final set of annual report and financial statements. The most significant disclosure change related to the present value of promised retirement benefits."

4.5 After the Supreme Court denied the Government leave to appeal the McCloud and other associated cases on 27 June 2019, a written ministerial statement confirmed that as 'transitional protection' had been offered to members of all the main public service pension schemes, the difference in treatment would need to be remedied across all those schemes, including the Local Government Pension Scheme (LGPS). As the remedy will involve 'levelling up' member benefits, any future agreed outcome will serve to increase the cost of LGPS pensions.

4.6 Prior to the Supreme Court's determination, a contingent liability had been disclosed by Lothian Pension Fund in its unaudited financial statements 2018/19 (note 32).

4.7 The actuary has now carried out an assessment of the impact of the McCloud judgement on the Lothian Pension Fund. The actuarial value of promised retirement benefits at the accounting date, calculated in line with International Accounting

Standard 19 (IAS19) assumptions, is now estimated to be £9,435m, an increase of £102m. This is disclosed at Note 23 of the Financial Statements.

4.8 A revised IAS19 statement for LPFE Limited to incorporate the potential implications of the McCloud judgement was also sought. The actuary has estimated an increase of £255k to LPFE's defined benefit obligation. Whilst this has been declared by supplementary note, the group financial accounts have not been adjusted so as to remain consistent with LPFE Limited's audited financial statements.

4.9 For the Scottish Homes Pension Fund, the actuary has stated that the McCloud judgement has no impact because this Fund has no active employees.

4.10 Appendix 1 (“Appendix 1: Management action plan”, Pages 40 to 46 of that report) “details the control weaknesses and opportunities for improvement that we (Scott-Moncrieff) have identified during our audit”. Planned management actions by Lothian Pension Fund staff in relation to the points raised by the external auditor are also stated.

4.11 In addition to members of the Pensions Committee and Pensions Audit Sub-Committee, Scott-Moncrieff has also sent the report to the Controller of Audit and has advised that it will be published on the Audit Scotland web-site in due course.

Audited Annual Report 2019 for Lothian Pension Fund and Scottish Homes Pension Fund

4.12 With the completion of the work by Scott-Moncrieff, the Audited Annual Report 2019 for the Lothian Pension Fund and Scottish Homes Pension Fund has been finalised and is included at Appendix 2.

4.13 As part of the completion of the audit, the auditor seeks written assurances from the Chief Finance Officer, Lothian Pension Fund, on aspects of the financial statements and judgements and estimates made. A draft letter of representation under ISA580 is attached at Appendix 5.

Audited Financial Statements for the year ended 31 March 2019; LPFE Limited and LPFI Limited

4.14 The consolidated financial statements (within the Annual Report 2019) combine those of the Fund (the parent entity) and its controlled entities (the investment staffing company, LPFE Limited, and the investment services company, LPFI Limited), as defined in International Accounting Standard (IAS) 27. As reported to Pensions Committee in June 2019, the financial statements of both companies have been audited by Scott-Moncrieff and were approved by the respective Boards of Directors in May 2019. In the interests of governance transparency, these statements are shown in full at Appendices 3 and 4.

4.15 LPFE Limited is the employment vehicle for the Fund’s staff. It provides staffing services to the City of Edinburgh Council, LPFI Limited and to Falkirk Council. The company’s financial objective is “to make a modest trading surplus before adjustments required under International Financial Reporting Standards (IFRS)”. Such adjustments primarily relate to pension costs, as required by International Accounting Standard (IAS) 19, and the related deferred tax. For the year ended 31

March 2019, the underlying trading profit of the company was £88,926 (2018: £41,052).

4.16 LPFI Limited provides Financial Conduct Authority (FCA) regulated investment services, both to Lothian Pension Fund and other pension funds, but does not employ any staff directly. Its financial objective is "to make a modest trading surplus". For the year ended 31 March 2019, the underlying trading profit of the company was £59,396 (2018: £34,619).

4.17 A separate report on the two companies on this agenda provides a more detailed progress update.

5. Next Steps

5.1 Reflecting Audit Scotland guidance, the Annual Report should be referred to full Council. It is anticipated that City of Edinburgh Council should note the audited Annual Report 2019 at its meeting on 24 October 2019.

6. Financial impact

6.1 There are no direct financial implications arising from this report.

7. Stakeholder/Community Impact

7.1 The Pension Board, comprising employer and member representatives, is integral to the governance of the pension funds and they are invited to comment on the relevant matters at Committee meetings.

7.2 There are no adverse health and safety, governance, compliance or regulatory implications as a result of this report. The forward planning of the Committees' agendas should facilitate improved risk management and governance for the pension funds.

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

8. Background reading/external references

8.1 None.

9. Appendices

Appendix 1 – Scott-Moncrieff - Lothian Pension Fund and Scottish Homes Pension Fund 2018/19 Annual Audit Report to Members and the Controller of Audit, in accordance with International Standard on Auditing (UK and Ireland) 260 (ISA 260);

Appendix 2 - Audited Annual Report 2019 for the Lothian Pension Fund and Scottish Homes Pension Fund;

Appendix 3 - LPFE Limited – Financial Statements (Audited) for the year ended 31 March 2019;

Appendix 4 – LPFI Limited – Financial Statements (Audited) for the year ended 31 March 2019;

Appendix 5 – Letter of Representation (ISA 580) by Chief Finance Officer, Lothian Pension Fund

Scott-Moncrieff
business advisers and accountants

Appendix 1

Lothian Pension Fund and Scottish Homes Pension Fund

2018/19 Annual Audit Report to Members and the Controller of Audit

August 2019

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1. Key messages

Annual accounts audit

Lothian Pension Funds will approve the annual report and financial statements for 2018/19 on 25 September 2019. We intend to report unqualified opinions on the financial statements and other prescribed matters for Lothian Pension Fund and Scottish Homes Pension Fund (collectively referred to as the "Funds") within our independent auditor's report. We also intend to report that there were no matters which we were required to report by exception.

The annual report and financial statements and supporting schedules were of a high standard. Our thanks go to staff for their assistance with our work.

Wider scope audit

Financial sustainability

The Funds have effective arrangements in place to ensure the ongoing sustainability of the pension funds.

The focus of their investment strategy is to ensure a sufficient return over the long term to meet the funding objectives outlined by the Funding Strategy Statement. Performance over 5 years shows they are managing investment above benchmark.

There is an ongoing risk that the pension scheme is not affordable for admitted bodies and Lothian Pension Fund has reported an increase in the number of bodies leaving the Fund and an increase in the cessation liability following the 2017 triennial valuation.

Financial management

The Funds have effective arrangements in place for financial management and the use of resources

Lothian Pension Fund's investment performance increased in 2018/19 and was above the short term benchmark and national average.

The net assets of Lothian Pension fund have risen in 2018/19 and Scottish Homes Pension Fund assets have not moved. The promised retirement benefits have increased across all three funds.

Governance and transparency

Governance arrangements at the Funds are deemed to be appropriate.

Our assessment has been informed by a review of the corporate governance arrangements in place, the information provided to the Board and Committees as well as the risk management arrangements in place.

We identified a significant risk regarding the transfer of assets from Lothian Buses Pension Fund to Lothian Pension Fund. We have confirmed appropriate governance processes were in place during 2018/19 to ensure the transfer was in line with relevant regulations.

Value for money

The Funds have appropriate arrangements in place to secure value for money through appropriate monitoring of performance of investments and the administration of the Funds.

The Funds' investment performance is subject to regular review by the Pension Committee.

Conclusion

This report concludes our audit for 2018/19. Our work has been performed in accordance with the Audit Scotland Code of Audit Practice, International Standards on Auditing (UK) and Ethical Standards.

Scott-Moncrieff
August 2019

2. Introduction

This report is presented to those charged with governance and the Controller of Audit and concludes our audit of the Lothian Pension Funds for 2018/19.

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

We have designated the Pensions Committee as "those charged with governance" for the purposes of audit communication.

Introduction

1. This report summarises the findings from our 2018/19 audit of Lothian Pension Funds (the Funds).

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

- an audit of the 2018/19 annual report and accounts and related matters;
- a review of the Funds' arrangements for governance and transparency, financial management, financial sustainability and value for money; and
- any other work requested by Audit Scotland.

Exhibit 1: Audit dimensions within the Code of Audit Practice

3. The Funds are responsible for preparing an annual report and accounts which show a true and fair view and for implementing appropriate internal control systems. The weaknesses or risks identified are only those that have come to our attention during our normal audit work, and may not be all that exist. Communication in this report of matters arising from the audit of the annual report and accounts or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

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

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

Confirmation of independence

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

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

8. We set out in Appendix 1 our assessment and confirmation of independence.

Adding value through the audit

9. All of our clients demand of us a positive contribution to meeting their ever-changing business needs. Our aim is to add value to the Funds through our external audit work by being constructive and forward looking, by identifying areas of improvement and by recommending and encouraging good practice. In this way we aim to help the Funds promote improved standard of governance, better management and decision making and more effective use of resources.

Feedback

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

11. While this report is addressed to the Funds and the Controller of Audit, it will be published on Audit Scotland's website www.audit-scotland.gov.uk

3. Annual report and accounts

The Funds' annual report and accounts are the principal means of accounting for the stewardship of their resources and performance in the use of those resources.

In this section we summarise the findings from our audit of the 2018/19 annual report and accounts.

Annual report and accounts

An unqualified audit opinion on the annual report and accounts

The annual report and accounts for the year ended 31 March 2019 are due to be approved by the Pensions Committee on 25 September 2019. We intend to report unqualified opinions within our independent auditor's report. We did not identify any significant adjustments to the unaudited annual report and accounts.

The Funds' had good administrative processes in place to prepare the annual report and financial statements and the required supporting working papers.

Overall conclusion

An unqualified audit opinion on the annual report and accounts

12. The annual report and accounts for the year ended 31 March 2019 are due to be considered by the Pensions Committee on 25 September 2019. We intend to report within our independent auditor's report:

    - an unqualified opinion on the financial statements; and
    - an unqualified opinion on other prescribed matters.

13. We are also satisfied that there are no matters which we are required to report by exception.

Good administrative processes were in place

14. We received unaudited annual report and accounts and supporting papers of a good standard, in line with our audit timetable. Our thanks go to staff at the Funds for their assistance with our work.

Our assessment of risks of material misstatement

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

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

1. Management override

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

Excerpt from the 2018/19 External Audit Plan

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

17. While we have not identified any instances of management override from our testing we noted in 2017/18 that City of Edinburgh Council staff, with access to Oracle, have the ability to post journals to the Funds' financial ledger. This is an ongoing issue in 2018/19, however, we did not identify any instances where journals were posted by inappropriate users.

2. Revenue recognition

Under ISA (UK) 240– The auditors responsibilities relating to fraud in an audit of financial statements there is a presumed risk of fraud in relation to revenue recognition. The presumption is that the Funds could adopt accounting policies or recognise revenue transactions in such a way as to lead to material misstatement in the reported financial position.

Excerpt from the 2018/19 External Audit Plan

18. While we did not suspect incidences of material fraud and error, we evaluated each type of revenue transaction and documented our conclusions. We have reviewed the controls in place over revenue accounting and found them to be sufficient.

19. We have evaluated key revenue transactions and streams to gain assurance over the completeness and occurrence of income. We are satisfied income in fairly stated in the financial statements. We also carried out testing to confirm that the Funds' revenue recognition policies are appropriate and have been applied consistently throughout the year.

3. Risk of fraud in the recognition of expenditure

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

Excerpt from the 2018/19 External Audit Plan

20. At the planning stage of our audit cycle, we reported that we did not believe the risk of fraud in expenditure recognition was material to the financial statements and we therefore rebutted this risk. This position has been reviewed throughout this audit and this conclusion has remained appropriate.

21. We conducted our testing based on our approach to low inherent risk areas and we evaluated each type of expenditure transaction and documented our conclusions. We gained reasonable assurance over the completeness and occurrence of expenditure and are satisfied that expenditure is fairly stated in the annual accounts. To inform our conclusion we carried out testing to confirm that the Funds' policy for recognising expenditure is appropriate and has been applied consistently throughout the year.

4. Valuation of investments

The Funds held investments of £6.628 billion as at 31 March 2018, of which 33% (£2.184 billion) were classified as level 2 or level 3 financial instruments, meaning the valuation was not based on unadjusted quoted prices in active markets. Judgements are taken by the Investment Managers to value those investments whose prices are not publically available. Investments of this nature are complex, difficult to value and include a significant degree of judgement from the investment manager. The material nature of this balance means that any error in judgement could result in a material valuation error.

Excerpt from the 2018/19 External Audit Plan

22. In 2018/19, the value of level 2 and 3 investments rose by 13% to £2.639 billion (2017/18: £2.321 billion) increasing as a proportion of overall investments to 36% (34.7% in 2017/18). Fair values of investments of this nature are provided by fund managers and custodian using various bases selected by the investment manager or custodian. The base of investment values can include reference to similar companies or bid prices.

23. We have considered the valuation basis for a sample of investments and concluded that an appropriate base has been applied in each case. The custodian and investment managers are deemed to be management experts. In line with ISA (UK) 500 we have considered the competence, capability and objectivity of the experts used to inform the valuation. In addition we have reviewed auditor reports on the internal controls at the custodian and at each key investment manager. Our testing did not raise any issues regarding the qualifications of or work provided by the management experts employed by the Funds.

24. For a sample of hard to value investments we reviewed the assumptions and bases of the fair value. We challenged the Funds on the rationale for selecting the bases and assumptions and ensured we were satisfied they were appropriate.

25. The disclosures within the annual report and financial statements are consistent with the information provided by the custodian.

5. Lothian Buses Pension Fund Merger

In 2018/19 the assets and liabilities of Lothian Buses Pension Fund will be merged with Lothian Pension Fund. There is limited precedent for mergers of local government pension schemes and therefore, there is an increased risk of material misstatement due to the material and unusual nature of the transaction. There is a risk that the transfer of assets and liabilities from Lothian Buses Pension Fund is not accounted for in accordance with applicable accounting standards and/or statutory requirements.

Excerpt from the 2018/19 External Audit Plan

26. Lothian Buses Pension Fund was set up by way of a minute of agreement between Lothian Regional Council and Lothian Region Transport PLC dated 31 March 1987 (the Admission agreement). This agreement outlines that the Authority (Council) wishes to establish a 'further fund' in terms of regulation 3 of the Local Government Superannuation (Funds) (Scotland) Regulations 1986 in addition to the existing fund (i.e. Lothian Pension Fund).

27. Historically, Lothian Pension Fund has elected to present Lothian Pension Fund and Lothian Buses Pension Fund separately in the annual accounts. Following the decision to manage the Lothian Buses Pension Fund as part of the main Lothian Pension Fund in year, it was considered that the accounting policy of reporting the Funds separately in the accounts was no longer appropriate.

28. The accounting policy of reporting Lothian Buses Pension Fund as a separate fund was therefore changed in 2018/19. From 2018/19 Lothian Buses Pension Fund was included in the Lothian Pension Fund accounts. As this is a change in accounting policy, there is a requirement to retrospectively restate the 2017/18 figures in line with accounting standards. Consequently Lothian Pension Fund adjusted the prior year figures for comparative purposes.

29. We have considered the basis for the change in accounting policy and concluded that the judgements made by the Funds' management were appropriate. In addition we have reviewed the restated figures and confirmed that they are appropriate and accurately reflect the transactions which took place in 2017/18.

6. Governance statement

In 2017/18 Internal Audit provided a red[1] rated audit opinion meaning significant enhancements were required to the Funds' control environment.

The Funds' internal audit service is provided through the administering authority, City of Edinburgh Council. The 2018/19 internal audit plan was presented to the Pensions Committee and Pensions Audit Sub-Committee in March 2018. Within the plan, a total of 3 reviews were scheduled to take place during 2018/19 totalling 60 days.

All of the 2018/19 internal audit work is scheduled to take place between January and March 2019. Internal audit is a key source of assurance for the governance statement and there is pressure to ensure appropriate assurance is achieved prior to the year-end.

Excerpt from the 2018/19 External Audit Plan

30. The internal audit opinion was presented to the June Pensions Committee and provided an amber rating[2]. This opinion was based on the findings from three reports in year and the follow up of prior year recommendations.

31. All internal audit reports issued within 2018/19 gave adequate assurance over the control environment. The amber rating related to overdue 'high risk' items from 2017/18 audit work.

32. The issues in 2017/18 related to IT Business Resilience and disaster recovery, pensions tax and third party suppliers. Internal audit confirmed that three of four high risk items had been appropriately addressed by June 2019. The outstanding item relates to the methodology used by Aquila Heywood in the calculation of pension tax. The Funds are currently engaged with Aquila Heywood to update the methodology.

33. The City of Edinburgh Council has considered the internal audit findings and its Chief Executive and Head of Finance are satisfied that reasonable assurance can be placed upon the adequacy and effectiveness of Funds' systems of internal control.

34. We noted that in the draft accounts the Governance Statement still refers to a red rating which is out of line with the findings of internal audit. We have requested this be updated in the revised accounts.

Our application of materiality

35. The assessment of what is material is a matter of professional judgement and involves considering both the amount and the nature of the misstatement. This means that different materiality levels will be applied to different elements of the financial statements.

36. Our initial assessment of materiality for the financial statements is set out in the table below. On receipt of the 2018/19 draft financial statements, we reassessed materiality as outlined in the table below. We consider that our updated assessment has remained appropriate throughout our audit.

[1] Significant enhancements to the control environment required
[2] Generally acceptable but with enhancements required

	Lothian Pension Fund[3] Group[4] materiality £million	Lothian Pension Fund[1] Parent materiality £million	Scottish Homes materiality £million
Overall-planning	108	108	2.5
Overall-final	117	117	2.5
Dealings with members-planning	11.3	11.3	0.4
Dealings with members-final	12.0	11.9	0.4

37. Our assessment of materiality is set with reference to the Funds' net investment assets. We consider this to be one of the principal considerations for the users of the financial statements when assessing the financial performance.

38. As outlined in our External Audit Plan we considered transactions when dealing with members (i.e. contributions and expenditure incurred providing payments to pensioners) to also be of key interest to the users. This is reported in the first section of the Fund Account and contains information about the day to day operation of the Funds.

39. ISA 320 states that in certain circumstances it is appropriate to set a materiality amount for particular classes of transactions for which lesser amounts than the overall materiality could influence the decision of the users of the accounts. We have therefore set a separate materiality for transactions relating to dealings with members, based on the expenditure incurred for providing payments to pensioners.

Performance materiality

40. Performance materiality is the amount set by the auditor for each financial statement area, to reduce to an appropriately low level the probability that collectively any uncorrected and undetected misstatements are less than materiality for the financial statements as a whole.

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

	Area risk assessment £million		
	High	Medium	Low
Lothian Pension Fund[1] (Group[2] and parent)- overall	58.50	70.20	87.75
Lothian Pension Fund[1] (Group[2] and parent)- dealings with members	5.95	7.14	8.93
Scottish Homes Pension Fund-overall	1.25	1.50	1.88
Scottish Homes Pension Fund-dealings with members	0.18	0.21	0.27

42. We agreed with the Pensions Committee that we would report on all material corrected misstatements, uncorrected misstatements with a value in excess of 5% of overall materiality, as well as other misstatements below that threshold which, in our view, warranted reporting on qualitative grounds.

Group accounts

43. The Funds' annual report includes accounts for Lothian Pension Fund and Scottish Homes Pension Fund.

44. Lothian Pension Fund accounts are prepared on a group basis following the creation of two special purpose vehicles, LPFE Ltd and LPFI Ltd in October 2014. The companies are wholly owned and controlled by the City of Edinburgh Council.

45. We reviewed the consolidation process in 2018/19 and concluded the subsidiary companies had been

[3] From 2018/19 Lothian Pension Fund has merged with Lothian Buses Pension Fund and the materiality is based on the combined assets of the Funds.

[4] Lothian Pension Fund group comprises Lothian Pension Fund (incorporating Lothian Buses Pension Fund transactions and balances), LPFE Ltd and LPFI Ltd

correctly included in the group accounts of Lothian Pension Fund.

Audit differences

46. We are pleased to report that our audit identified no material adjustments. In addition, we can confirm there were no unadjusted errors relating to the 2018/19 financial statements.

47. We identified some disclosure and presentational adjustments during our audit, which have been reflected in the final set of annual report and financial statements.

48. The most significant disclosure change related to the present value of promised retirement benefits.

49. In 2018/19 there were 2 significant legal cases in relation to pension scheme's which we considered to have a potential financial impact on the Funds' present value of promised retirement benefits:

- **McCloud Judgement:** This case related to an employment tribunal ruling that transitional provisions impacting on a public sector final salary scheme were unlawfully age discriminatory. This was upheld in the Courts in December 2018 although the Government at that stage sought leave to appeal this judgement. The ruling has implications for all public service schemes including the LGPS funds. In June 2019, the Supreme Court has rejected the Government's request for a further appeal.
- **Guaranteed minimum pension (GMP)** was accrued by members of the Local Government Pension Scheme (LGPS) between 6 April 1978 and 5 April 1997. The value of GMP is inherently unequal between males and females for a number or reasons, including a higher retirement age for men and GMP accruing at a faster rate for women. However overall equality of benefits was achieved for public service schemes through the interaction between scheme pensions and the Second State Pension. The introduction of the new Single State Pension in April 2016 disrupted this arrangement and brought uncertainty over the ongoing indexation of GMPs, which could lead to inequalities between men's and women's benefits. As an interim solution to avoid this problem, GMP rules were changed so that the responsibility for ensuring GMPs kept pace with inflation passed in full to pension schemes themselves for members reaching state pension age between 6 April 2016 and 5 April 2021. This new responsibility leads to increased costs for schemes (including the LGPS) and hence scheme employers.

50. We requested the Funds' consider the likely implications for their financial statements and consult with their actuary on whether a revised estimate was required. The advice from the actuary was that the GMP impact was likely to be immaterial and that McCloud may have more significant consequences. This was in line with our understanding of the sector and therefore revised figures were only requested to show the impact of the McCloud judgement. The disclosures in note 23 in the accounts have been updated to show a present value of promised retirement benefits of £9,435 million, an increase of £102 million against the amount disclosed in the draft accounts.

51. Lothian Pension Fund group accounts disclose the actuarial valuation of the pension liability for LPFE Ltd. The actuary provided revised figures taking into consideration the McCloud judgement. The impact on the liability is £0.282 million. Management has considered the movement and elected not to adjust the accounts on the basis of materiality and to reflect that the figures used are from LPFE's audited accounts. Full details of the adjustment are included in appendix 3.

An overview of the scope of our audit

52. The scope of our audit was detailed in our External Audit Plan, which was presented to the Pensions Committee in March 2019. The plan explained that we follow a risk-based approach to audit planning that reflects our overall assessment of the relevant risks that apply to the Funds. This ensures that our audit focuses on the areas of highest risk. Planning is a continuous process and our audit plan is subject to review during the course of the audit to take account of developments that arise.

53. At the planning stage we identified the significant risks that had the greatest effect on our audit. Audit procedures were then designed to mitigate these risks.

54. Our standard audit approach is based on performing a review of the key financial systems in place, substantive tests and detailed analytical procedures. Tailored audit procedures, including those designed to address significant risks, were completed by the audit fieldwork team and the results were reviewed by the audit manager and audit partner. In performing our work we have applied the concept of materiality, which is explained earlier in this report.

Other matters identified during our audit

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

Other information in the annual report and accounts

56. "Other information" in the annual report and accounts comprises any information other than the financial statements and our independent auditor's report. We do not express any form of assurance conclusion on the "other information" except as specifically stated below.

Management Commentary

57. The management commentary is a requirement of the Local Authority Accounts (Scotland) Regulations 2014 and is intended to assist readers in understanding the financial statements and provide an overview of the organisation and its performance.

58. Guidance issued by the Scottish Government (Local Government Finance Circular 5/2015 also provides a guide as to the minimum required disclosures in the management commentary including:

- The context of the annual report and financial statements;
- Insight into the priorities of the Funds' and strategies adopted to achieve these priorities and objectives;
- Information on future plans;
- KPIs which measure the investment performance of the Funds'; and
- Information on the principal risks and uncertainties facing the authority.

59. We have concluded that the management commentary has been prepared in line with the regulations and Scottish Government guidance and is consistent with the financial statements.

Annual governance statement

60. We have reviewed the Funds' annual governance statement against the relevant guidance: Delivering Good Governance in Local Government.

61. We consider the coverage of the annual governance statement to be broadly in line with expectations.

62. We highlighted a minor disclosure issue within the governance statement at paragraph 34 in relation to the internal audit opinion. This will be updated in the revised accounts.

63. Subject to this adjustment we have concluded that the annual governance statement is in line with the required guidance and is consistent with the accounts and assurances provided in year.

Governance compliance statement

64. The Local Government Pension Scheme (Scotland) Regulations 2014 require all pension funds to prepare a Governance Compliance Statement. The purpose of this statement is to compare the Funds' governance arrangements with those standards set out in guidance from the Scottish Ministers.

65. We have reviewed the Governance Compliance Statement and we are satisfied the disclosures comply with guidance issued by Scottish Ministers and are not inconsistent with our knowledge of the arrangements in place at the Funds.

Remuneration and staff report

66. In February 2018 staff previously employed by the City of Edinburgh Council with responsibility for the Funds' were transferred to LPFE Ltd. From this point all new staff employed for roles with the Funds were employed by LPFE Ltd.

67. The Local Authority Accounts (Scotland) Regulations 2014 (the 2014 Regulations) require that where a local government body has a subsidiary the details of the Chief Executive's salary and any employee with remuneration over £0.150 million is included in a remuneration report.

68. The Funds' therefore produced a remuneration report for the first time in 2018/19. The Funds' met all statutory reporting requirements, however, the Funds' expressed concern that the revised disclosure has decreased the transparency of reporting with regards to senior manager pay costs. This is an area we will revisit in 2019/20 to establish if clarity and transparency can be improved while meeting the statutory disclosure requirements.

69. We have concluded that the audited part of the remuneration and staff report has been prepared in accordance with directions from Scottish Ministers and is consistent with the financial statements.

Legality

70. We have planned and performed our audit recognising that non-compliance with statute or regulations may materially impact on the annual report and accounts.

The Local Authority Accounts (Scotland) Regulations

71. As part of our audit we reviewed the Funds' compliance with the 2014 Regulations, in particular

with respect to regulations 8 to 10[5] as they relate to the annual report and financial statements.

72. In 2018/19 we received an objection to the notice of the public right to inspect. Upon review there was found to be a delay in displaying the hard copy of the public inspection notice which is required to be published prior to 17 June as outlined by the 2014 Regulations. The notice was published in the local newspaper and on the City of Edinburgh Council website by 17 June 2019, however, was not available at Council offices until 26 June 2019.

73. We highlighted issues with regards to the public inspection in 2017/18 and we would recommend the Funds make arrangements to ensure full compliance in 2019/20. We have noted that prior period issues in this area are ongoing in appendix 2.

74. Other than the above issue we concluded that appropriate arrangements are in place to comply with these Regulations.

Banking arrangements

75. It was highlighted during the course of our audit that the Pension Fund had not been operating its bank account in line with the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010. There is a requirement for administering authorities to hold a separate bank account for funds and this should be used to hold pension fund money.

76. The Funds use the Council bank account to ensure that no unfunded payments are taken from a pension fund bank account.

77. In 2018/19 the Funds have requested that "unfunded discretionary payments" be transferred to the Scottish Public Pensions Agency which would mitigate the requirement for the Funds' to use the Council's bank account. However, this had not been agreed by the year end.

78. If the transfer of unfunded discretionary payments is not possible the resolution of this issue would dependent on the procurement of a new ledger system which did not progress in 2018/19.

Qualitative aspects of accounting practices and financial reporting

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

[5] Regulations 8 to 10 relates to the preparation and publication of unaudited accounts, notice of public right to inspect and object to the accounts and consideration and signing of the audited accounts.

Qualitative aspect considered	Audit conclusion
The appropriateness of the accounting policies used.	We have reviewed the significant accounting policies which are disclosed in the annual report and financial statements of the Funds. We consider the policies to be appropriate to the Funds, however, we have noted that the Funds have departed from CIPFA Guidance in relation to investment management expenses. During 2015/16 CIPFA issued guidance stating that pension funds should only report the direct costs of using investment managers. The impact of this is that investment management costs associated with fund of funds transactions would not be reported. The Funds feel this would detract from the transparency of the accounts and have reported indirect costs of £5.062 million for Lothian Pension Fund (2017/18: £5.912 million). There were no indirect costs for Scottish Homes in either 2017/18 or 2018/19. The impact of this accounting treatment is to increase the investment management expense which is offset by an increase in the change in market value of investments. The net impact on the fund account is therefore zero.
The timing of the transactions and the period in which they are recorded.	We did not identify any concerns over the timing of transactions or the period in which they were recognised.
The appropriateness of the accounting estimates and judgements used.	The Funds have significant levels of accounting estimates and judgements used by management in preparing the financial statements. The principal areas of estimation concern the valuation of unquoted private equity and infrastructure investments and the actuarial valuation of promised retirement benefits. These estimates have been informed by advice from qualified, independent experts. We evaluated the competence, objectivity and capability of management experts in line with the requirements of ISA (UK) 500 and concluded that use of the expert is appropriate. We are satisfied with the appropriateness of the accounting estimates and judgements used in the preparation of the annual report and financial statements. We have considered the disclosures around the estimates, including sensitivity analysis and concluded that they are appropriate.
The appropriateness of the going concern assumption	We have reviewed the detailed financial forecasts for 2019/20. Our understanding of the legislative framework and activities undertaken provides us with sufficient assurance that the Funds will continue to operate for at least 12 months from the signing date.
The potential effect on the annual accounts of any uncertainties, including significant risks and related disclosures that are required.	We have not identified any uncertainties, including any significant risk or required disclosures, which should be included in the annual accounts beyond those already made.
The extent to which the annual accounts have been affected by unusual transactions during the period and the extent that these transactions are separately disclosed.	From the testing performed, we identified no significant unusual transactions in the period.

Qualitative aspect considered	Audit conclusion
Apparent misstatements in the annual report or material inconsistencies with the financial statements.	The annual report contains no material misstatements or inconsistencies with the financial statements.
Any significant annual accounts disclosures to bring to your attention.	There are no significant annual accounts disclosures that we consider should be brought to your attention. All the disclosures required by relevant legislation and applicable accounting standards have been made appropriately.
Disagreement over any accounting treatment or annual accounts disclosure.	While disclosure and presentational adjustments were made during the audit, there was no material disagreement during the course of the audit over any accounting treatment or disclosure.
Difficulties encountered in the audit.	There were no significant difficulties encountered during the audit.

4. Financial sustainability

Financial sustainability looks forward to the medium and longer term to consider whether the Funds' planning processes support the future delivery of services.

The Funds have effective arrangements in place to ensure the ongoing sustainability of the pension funds.

The focus of their investment strategy is to ensure a sufficient return over the long term to meet the funding objectives outlined by the Funding Strategy Statement. Performance over 5 years shows they are managing investment above benchmark.

There is an ongoing risk that the pension scheme is not affordable for admitted bodies and Lothian Pension Fund has reported an increase in the number of bodies leaving the Fund and an increase in the cessation liability following the 2017 triennial valuation.

There is an ongoing review of the structure of Local Government Pension Schemes in Scotland. This could have a significant impact on the Funds and will be monitored in 2019/20.

Significant audit risk

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

Financial sustainability: Market volatility

The Funds held investments of £6.628 billion as at 31 March 2018. Investment strategies are in place for each of the funds which outline the Funds approach to ensure that all members and their dependents receive their benefits when they become payable. The investment strategy was recently updated and approved by the Pensions Committee in December 2018.

The objective of the Funds is that over the short term the fund should perform better than its strategic allocation if markets fall significantly. The Investment Strategy Panel and the internal investment team monitor investment risks on a regular basis.

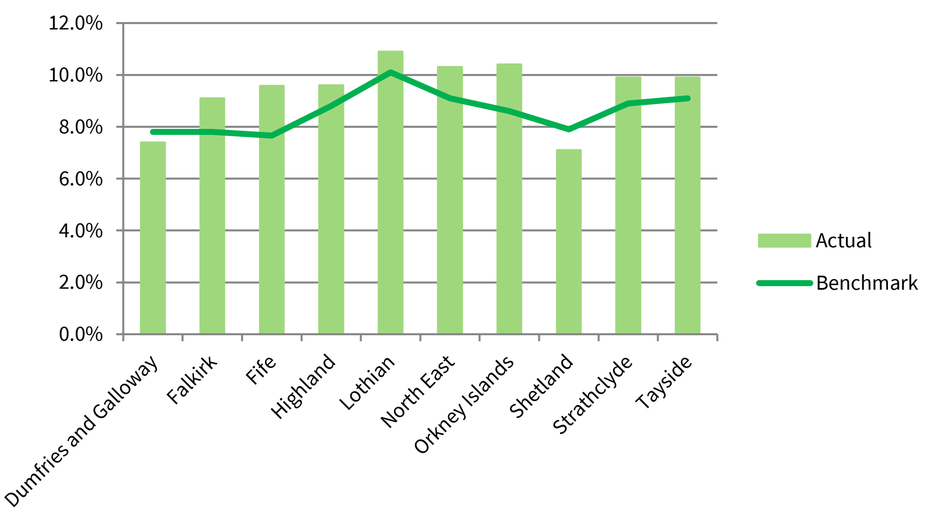
While it is noted that the Funds investment strategy is designed in such a way to withstand market volatility in the long term, we have noted that worldwide political events had a significant impact on the market in 2018 and volatility is expected to continue in 2019. There is a risk that the value of investments is significantly impacted by events within the wider political environment.

Excerpt from the 2018/19 External Audit Plan

80. Financial sustainability of the Funds relates to the performance over the longer term. The investment objective of the Funds is to achieve a return on the fund assets which is sufficient over the long term to meet the funding objectives outlined in the funding statement strategy.

81. When considering the risk over market volatility we have considered the performance over the longer term.

Exhibit 3: Annualised 5 year returns across LGPS Scotland Funds against benchmark



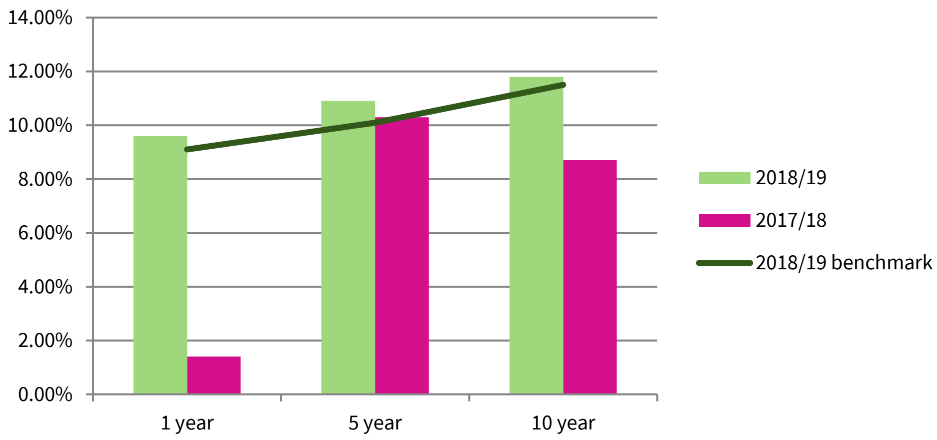
Source: Unaudited Pension Fund Annual Report and Accounts[6]

82. Lothian Pension Fund is reporting the highest annualised 5 year return and is one of eight funds reporting returns above the longer term benchmark.

[6] Scottish Borders Pension Fund do not publish their 5 year annualised return

83. Lothian Pension Fund performance in 2018/19 was consistently above benchmark across short, medium and long term and has improved since 2017/18. No benchmark was set for Scottish Homes Pension Fund as investments are mandated by the Scottish Government to be held in gilts.

Exhibit 4: Performance against benchmark and compared to prior year



Source: Unaudited Lothian Pension Fund Annual Report and Accounts

84. We have concluded that the Funds have an appropriate approach to managing investments; however, within the current political climate market volatility will continue to be a risk.

85. The Funds' have this as a risk on the risk register and it is currently rated green due to the predicted low impact on service delivery and likelihood of occurrence.

Employers within the scheme

86. A full actuarial valuation in 2017 highlighted that Lothian Pension Fund was behind the target level for funding (98% against a target of 100%). Both Lothian Buses Pension Fund and Scottish Homes Pension Fund were ahead of target.

87. Contribution rates across employers within Lothian Pension Fund generally increased leading to affordability issues.

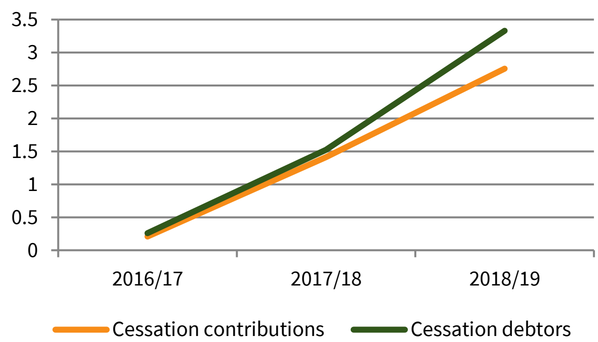
88. In recognition of this Lothian Pension Fund updated their Funding Strategy Statement with a requirement for employing bodies to confirm their commitment to meet the minimum contributions.

89. In 2018/19 three employers elected to leave the Fund and a further admitted body was wound up and left the Fund.

90. At the end of 2018/19 there were 13 ceased employees which have set up or are setting up funding agreements with Lothian Pension Fund.

91. The level of cessation contributions has increased by 1225% since 2016/17, with the long term debtors relating to ceased employers rising by a similar level.

Exhibit 5: Cessation contributions and debtors (£m)



Source: Lothian Pension Fund annual accounts

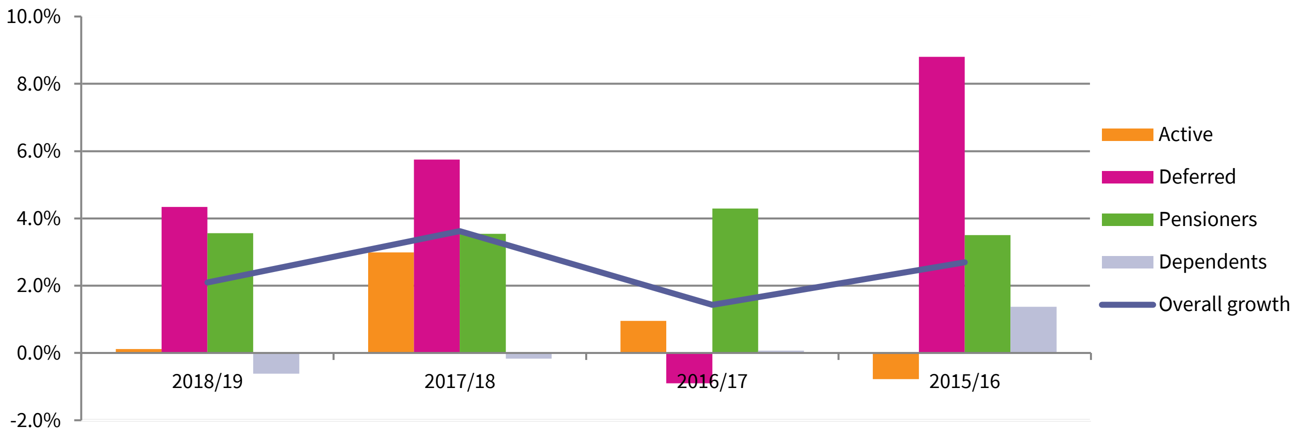
92. There is therefore an ongoing risk that an employer fails to pay contributions leading to increased contributions and pressure on other scheduled and admitted bodies.

Membership

93. Lothian Pension Fund is a multi-employer fund with 15 scheduled bodies, including 4 Councils, and 68 admitted bodies. The scheme has a significant membership profile with active members being the majority. This differs from Scottish Homes Pension Funds which is a single employer scheme and have a majority of inactive members (deferred, pensioners and dependents).

94. Analysis shows that although there is an overall increase in membership at Lothian Pension Fund, active members have been growing at a slower rate than deferred members and pensioners.

Exhibit 6: % year on year growth in members across categories



Source: Lothian Pension Funds Annual Report and Accounts

95. The fund relies on active members to meet the payments to pensioners and there is a risk that if growth in pensioners, increases at a faster rate than active members additional affordability pressures will be faced by Lothian Pension Fund.

96. It is, however, noted that active members have only decreased by 1.3% as a proportion of total members moving from 42.3% of members in 2015/16 to 41% of members in 2018/19. Pensioners have increased by 1.2% as a proportion of the total members and in 2018/19 make up 30% of the membership of Lothian Pension Fund. The movement is therefore slow and this is likely to be a low risk area with regards to financial sustainability.

LGPS Consultation

97. A review of the structure of the Scottish Local Government Pension Schemes was agreed with stakeholders and Scottish Government in 2015 when changes to the scheme and Scheme Advisory Board ('SAB') were introduced.

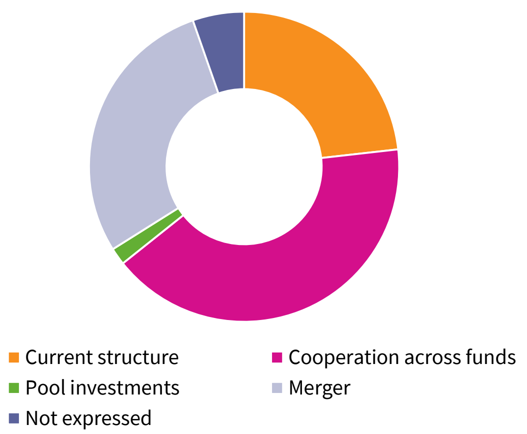
98. In February 2017, SAB produced a review report which highlighted 4 options for the future structure of the local government pension scheme in Scotland:

- Retain the current structure with 11 funds;
- Promote cooperation in investing and administration between the 11 funds;
- Pool investments between the 11 funds; and
- Merge the 11 funds into one or more new funds.

99. The consultation period opened in June 2018 and closed in December 2018. Responses were received from 56 bodies ranging from pension funds to professional bodies to individuals.

100. The results of the review to date are that there is general support for some change to the structure with the majority considering some form of co-operation as the best option

Exhibit 7: Responses to LGPS Scotland consultation



Source: Scheme Advisory Board

101. Lothian Pension Fund responded in favour of reform, specifically the creation of conditions in which like-minded schemes could seek to merge.

102. The draft report went to the Scheme Advisory Board on 24 April 2019 and further work on how to proceed is scheduled. We will continue to monitor the position in 2019/20.

5. Financial management

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

The Funds have effective arrangements in place for financial management and the use of resources

Lothian Pension Fund's investment performance increased in 2018/19 and was above the short term benchmark and national average.

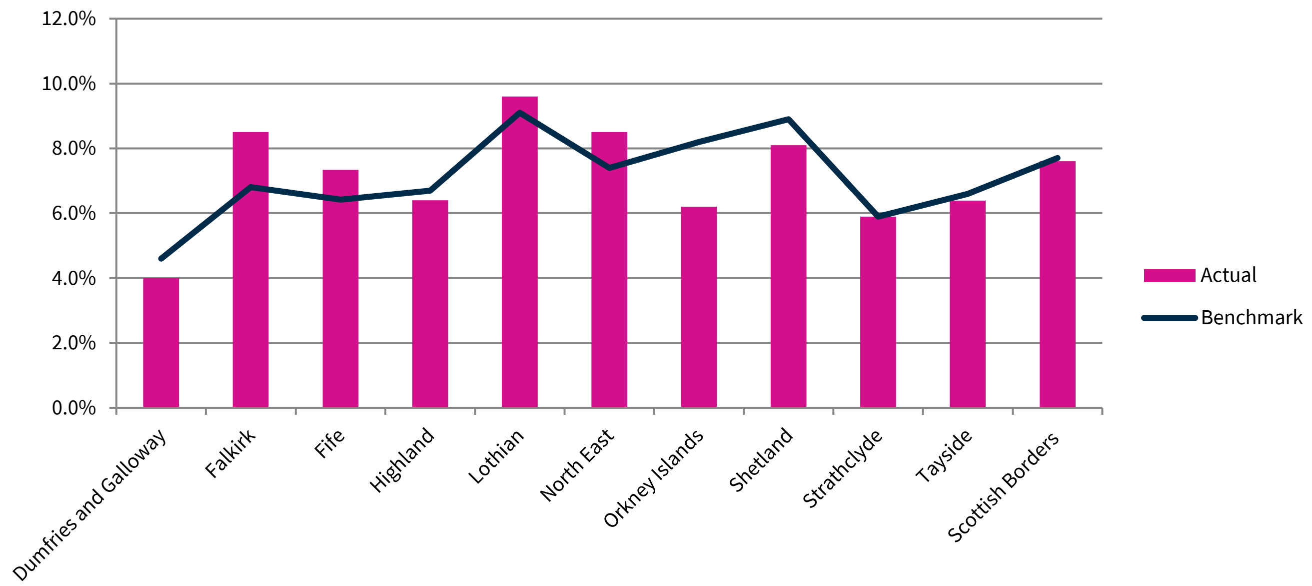
The net assets of Lothian Pension fund have risen in 2018/19 and Scottish Homes Pension Fund assets have not moved. The promised retirement benefits have increased across all three funds.

Investment performance

103. The Funds report their performance with regards to returns on investments as part of the annual report and financial statements. As shown in Exhibit 8 below Lothian Pension Fund, reported performance above the 1 year benchmark. This is an improvement from 2017/18 where performance was significantly behind benchmark.

104. Investment performance across LGPS in Scotland was generally stronger in 2018/19 than in 2017/18. The average return on investments in 2018/19 was 7.1% a small increase from 6.12% in 2017/18.

Exhibit 8: One year investment performance across LGPS Funds



Source: Unaudited LGPS Scotland Annual Report and Accounts

105. In contrast to 2017/18 Lothian Pension fund was above the national average in 2018/19 and was one of only four funds to outperform the benchmark.

106. We have highlighted in the past that the focus of the funds is long term stability and we have noted in the Financial Sustainability section that the longer term performance is also above benchmark.

107. The short and long term results indicate that the investment portfolio is being managed appropriately.

Financial position

108. The movement in net assets of the funds varied across each fund as shown in Exhibit 9. Both funds have reported a net withdrawal position from dealings with members, which is consistent with prior year. In 2018/19 the net return on investments at Lothian Pension Fund exceeded the withdrawals position leading to an overall increase in net assets. Scottish Homes Pension Fund return on investments met the net withdrawal meaning the level of net assets was maintained from 2017/18.

Exhibit 9: Lothian Pension Funds' Financial Position

	Net assets			Present value of retirement benefits		
	2018/19	2017/18	% Movement	2018/19	2017/18	% Movement
Lothian Pension Fund	7,819	7,174	8.99%	9,333	8,254	13.07%
Scottish Homes	164	164	0.00%	135	134	0.75%

Source: Lothian Pension Funds Annual Report and Accounts

109. Hymans Robertson provided an estimate of the present value of the promised retirement benefits. The discount rate applied increased to 2.7% from 2.4% in the previous year. This has a negative effect on the scheme obligation, resulting in an increase in the obligation. The net pension obligation also includes the impact of the McCloud judgement as explained at paragraphs 50 and 51.

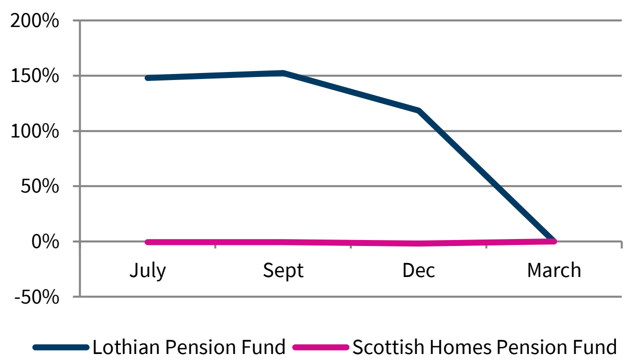
Financial Performance

110. As part of our audit we considered the Funds' systems of budgetary control and financial management and did not identify any significant deficiencies.

111. Service update reports are provided to each meeting of the Pensions Committee. The reports include forecasts to the year-end and explanations for any movements.

112. In year update reports highlighted that a net withdrawals position was expected, however, the forecasts were significantly above the year-end position.

Exhibit 10: Reported movement against the year-end position



Source: Pensions Committee Service Updates

113. The Lothian Pension Fund predicted position in December 2018 was 118.3% higher than the actual year-end position. This was due to employee and employer contributions being £10 million higher than anticipated and lump sums being £5 million lower than forecast. While the actual position is better than forecast, we would recommend the Funds investigate how forecasting information can be improved.

Action plan point 1

Systems of internal control

114. We have evaluated the Funds' key financial systems and internal financial controls to determine whether they are adequate to prevent material misstatements in the annual accounts. Our approach has included documenting the key internal financial controls and performing walkthroughs to confirm that they are operating as intended.

115. We identified three areas where there was an opportunity to improve the control environment:

- registers of interest compliance monitoring;
- review of bank reconciliations by a senior member of the finance team; and
- verification of all key details on transfers of individuals from the scheme.

116. Full details of the controls weaknesses and our recommendations are outlined in appendix 2.

Action plan points 2 to 4

117. We identified a number of areas for improvement in 2017/18 which were followed up at the year-end. We have reported progress against outstanding actions in appendix 2.

Prevention and detection of fraud and irregularity

118. Our audit was planned to provide a reasonable expectation of detecting material misstatements in the financial statements resulting from fraud and irregularity. Lothian Pension Fund was not required to participate in the National Fraud Initiative in 2018/19 but did so voluntarily.

119. We found the Funds' arrangements for the prevention and detection of fraud and other irregularities to be adequate and appropriate.

Standards of conduct

120. In our opinion the Funds' arrangements in relation to standards of conduct and the prevention and detection of bribery and corruption are adequate.

121. Our conclusion has been informed by a review of the arrangements for adopting and reviewing standing orders, financial instructions and scheme of delegation and for complying with national and local codes of conduct.

Internal audit

122. An effective internal audit service is an important element of the Funds' governance arrangements. The City of Edinburgh Council provide the Funds' internal audit service. During our audit we considered the work of internal audit wherever possible to avoid duplication of effort and make the most efficient use of the Funds' audit resource

123. In 2018/19 it was noted that the service did not fully comply with Public Sector Internal Audit Standards in relation to quality assurance reviews. The Pensions Committee were advised that the instances of non-conformance have had no direct impact on the quality of internal audit reviews completed for the Funds in 2018/19.

124. Internal audit has advised that quality assurance reviews will be reinstated with effect from 1 April 2019.

125. In 2018/19 we did not place formal reliance on the work of internal audit, however, we have considered their findings in respect of our wider scope responsibilities and we are grateful to the internal audit team for their assistance during the course of our work.

6. Governance and transparency

Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making and transparent reporting of financial and performance information.

Governance arrangements at the Funds are deemed to be appropriate.

Our assessment has been informed by a review of the corporate governance arrangements in place, the information provided to the Board and Committees as well as the risk management arrangements in place.

We identified a significant risk regarding the transfer of assets from Lothian Buses Pension Fund to Lothian Pension Fund. We have confirmed appropriate governance processes were in place during 2018/19 to ensure the transfer was in line with relevant regulations.

Significant audit risk

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

Governance and transparency: Lothian Buses Pension Fund merger

As noted in our financial statement section above, the Pensions Committee approved the transfer of the assets and liabilities of the Lothian Buses Pension Fund into the Lothian Pension Fund in March 2018, subject to the satisfactory completion of a revised admission agreement and shareholder guarantee. The transfer took place on 31 January 2019.

Mergers of local government pension schemes are highly unusual and therefore, there is significant risk around the governance, consultation and communication of the transfer.

Excerpt from the 2018/19 External Audit Plan

127. An investment strategy review in 2016 highlighted that Lothian Buses Pension Fund was defined in regulations as a sub-fund of Lothian Pension Fund. It was determined at this stage that there was an option for the Fund to be subsumed into Lothian Pension Fund. It was agreed at the meeting to begin exploring options to proceed with the merger.

128. As noted in the annual report and accounts section of the report, Lothian Buses Pension Fund was established under the Local Government Superannuation (Funds) (Scotland) Regulations 1986 (the 1986 Regulations). Regulation 8 of the 1986 Regulations outlines the process for dissolution of further funds. The administering authority may if they think fit dissolve a further fund and transfer the assets thereof, to the administering fund. Any entitlement to participate in the benefits of the further fund shall become an entitlement to participate in the benefits of the fund and the fund shall become the appropriate superannuation fund for those participants.

129. The administering authority may not dissolve a further fund unless they have given notice of not less than 28 days to the bodies whose employees are entitled to participate in that fund of their intention to dissolve the fund.

130. A transfer agreement ('the Deed of Transfer') was put in place between Lothian Buses and the City of Edinburgh Council in January 2019. This outlines terms and conditions for the transfer of the Fund to within the Main Fund.

131. Subsequent to this Lothian Buses and the City of Edinburgh Council entered into a revised admission agreement which states "The Authority and the Admission Body (together the "Parties") have agreed that the Authority shall transfer all of the assets and liabilities of the Lothian Buses Fund to the Main Fund, so that all benefits payable or prospectively payable under the Lothian Buses Fund will instead be payable under the Main Fund, with future contributions in respect of the Admission Body's participation in the Local Government Pension Scheme being paid into the Main Fund."

132. Following a review by the Funds actuary and legal advisers, it was determined that a guarantee would be required from the shareholders of Lothian Buses (City of Edinburgh Council; West Lothian Council; East Lothian Council and Midlothian Council).

133. We have concluded that Lothian Pension Fund has correctly assessed Lothian Buses Pension Fund as a 'further fund' as defined by the 1986 regulations and that appropriate confirmations from Lothian Buses and the City of Edinburgh Council were in place to allow the transfer to take place. In addition we have confirmed that revised admission

agreements and guarantees have been put in place in line with legal advice provided to the Funds.

Governance structure

134. The Pensions Committee, supported by an Audit Sub-Committee, has been delegated responsibility for governance by the City of Edinburgh Council, the administering authority.

135. As outlined by the City of Edinburgh Council Scheme of Delegation the Pensions Committee has responsibility for the administration, management and investment strategy for the Funds.

136. In line with the requirements of the Public Service Pension Act 2013 the Pensions Committee is supported by a Pensions Board.

137. The Pensions Board is responsible for establishing arrangements that ensure proper conduct of the affairs of the Board and meet quarterly on a concurrent basis with the Pension Committee.

138. The Funds complied with best practice and appointed an independent professional observer to the Board and Committee. The appointed independent observer resigned in February 2018 and a replacement was appointed in May 2018.

139. In line with legislation if more than half of the members of the Pension Board disagree with a decision of the Pension Committee then they can request in writing that the Pension Committee review that decision. There have been no requests to review decisions in 2018/19.

Training and development

140. Due to the specialised nature of the Funds, it is vital that members have the appropriate knowledge and understanding to provide appropriate challenge and operate effectively. Training is therefore seen as a fundamental requirement for all Committee and Board members.

141. Our review found that all current Pension Committee and Board members met the requirement to have a minimum of 21 hours training.

Joint Investment Strategy Panel

142. The Pensions Committee has delegated responsibility for investment strategy to the Executive Director of Resource who takes advice from a Joint Investment Strategy Panel made up of:

- Chief Executive, LPFI Ltd (until December 2018);
- Chief Investment Officer LPFI Ltd;
- Regulated investment advisor, LPFI Ltd (from December 2018); and
- two external independent investment consultants.

143. The joint Investment Strategy Panel covers joint working arrangement with Falkirk Pension Fund and Fife Pension Fund.

144. The Joint Investment Strategy Panel meets quarterly and considers the appropriate investment management structure required to implement the Funds' investment strategy. In addition it is responsible for:

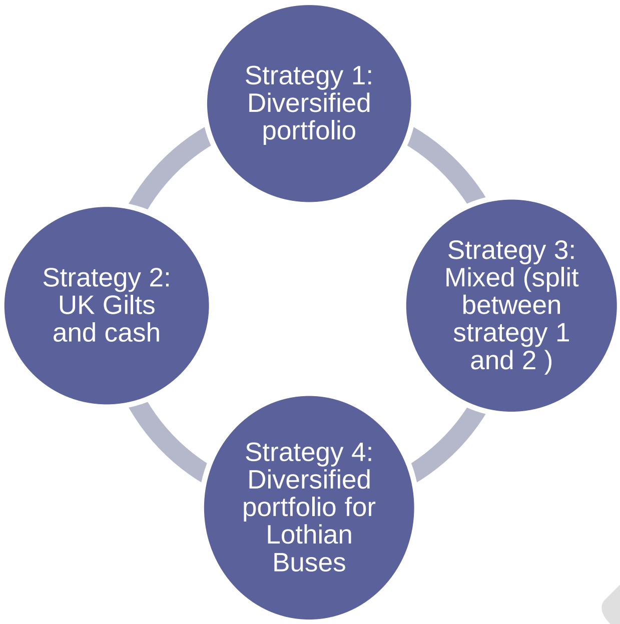
- making recommendations about investment strategy; and
- directing and monitoring strategy implementation and risk.

145. The primary focus of the panel during 2018/19 has been the implementation of existing strategies for Lothian Pension Fund, Lothian Buses Pension Fund (until merger with Lothian Pension Fund in February 2019) and Scottish Homes Pension Fund.

146. In addition to this following the merger of Lothian Buses Pension Fund with Lothian Pension Fund the Panel considered the Investment Strategy for the revised structure.

147. From December 2018, Lothian Pension Fund operated four investment strategies recognising the differing requirements of the various scheduled and admitted employers.

Exhibit 11: Lothian Pension Fund investment strategies



Source: Joint Investment Strategy Panel annual report

148. Scottish Homes Pension fund achieved full funding at the 2017 actuarial valuation and therefore the strategy is low risk and designed to protect from short term market changes. This is similar to Strategy 2 which focuses on investments in UK gilts and cash.

Openness & Transparency

149. Audit Scotland also cited a risk in relation to public sector organisations keeping pace with public expectations on openness and transparency.

150. In our opinion, the Funds demonstrates good practice with respect to openness and transparency in the following ways:

- Committee agendas and papers are published on the Funds' website in advance of meetings being held;
- Committee minutes and updates are available to the public;
- Key publications (including operational plan, results of annual review, annual accounts) are available on the Funds' website; and
- the quality of reports presented to the Pensions Committee is such that it supports the transparency of decision making.

In September 2018 the Pensions Committee considered a report as to whether their proceedings should be included as part of The council web-casting facility. It was agreed that the benefits arising from the existing format outweighed those that would arise from web-casting.

Impact of EU withdrawal

151. Audit Scotland has highlighted EU withdrawal as a significant risk facing public bodies across Scotland. Three streams of potential impact were identified:

- Workforce;
- Funding; and
- Regulation.

152. The Funds have considered the impact across all three areas, and have identified that this is an area of low risk for the pension fund. From an initial assessment of the workforce and funding streams no significant implications have been identified. This is in line with our understanding of the nature of the Funds'.

153. Regulations may have a more significant impact, however, the Funds consider that as a UK based pension Fund collaborating with other UK based funds the impact is expected to be limited

154. The primary consideration was the impact of the EU withdrawal on movement in investments and as outlined in the financial sustainability and value for money sections the Funds have tailored their objective and approach to focus on long term safeguarding of returns.

Key supplier dependency

155. Following the collapse of Carillion, it became apparent that public sector bodies face significant risks where suppliers are experiencing difficult trading conditions.

156. We have evaluated the Funds' key suppliers and considered the contract management arrangements as part of our work on expenditure and value for money

157. There are a number of areas where the Funds use one key supplier e.g. custodian, pensions administration and investment managers. However, we are aware appropriate contract management is in place and that there is a range of potential suppliers should a change be necessary. We therefore consider this to be low risk.

158. The Funds ICT environment is through the City of Edinburgh Council and their supplier. In 2018/19 the Funds have encountered delays and service disruptions across a number of ICT areas.

159. The ongoing issues are on the risk register and graded high risk and the Funds attend quarterly meetings with City of Edinburgh Council ICT officers and the supplier.

160. We consider the actions of the Funds with regard to key suppliers to be appropriate and proportionate to the level of risk.

7. Value for money

Value for money is concerned with the appropriate use of resources and ensuring continual improvement of services delivered

The Funds' investment performance is subject to regular review by the Pension Committee.

The Funds have appropriate arrangements in place to secure value for money through appropriate monitoring of performance of investments and the administration of the Funds.

Investment manager operations

161. Lothian Pension Fund operates two special purpose vehicles: LPFE Ltd and LPFI Ltd. Both companies are wholly owned and controlled by the Council.

162. The special purpose vehicles were established to support the investment programme of the in-house investment team by providing organisational arrangements consistent with the capability, systems and controls of authorised investment companies.

163. Effective leadership is key to the success of the Funds achievement of objectives. In 2018/19 there was a significant change to the leadership team at LPFI Ltd.

164. In June 2018 the Chief Executive announced her intention to leave the Funds with a planned leaving date of December 2018. A new Chief Executive was appointed and commenced his position in January 2019.

165. There has been no significant change to the operation of the Funds to date and the proportion of funds managed internally has remained steady at approximately 85% of investments since 2015/16.

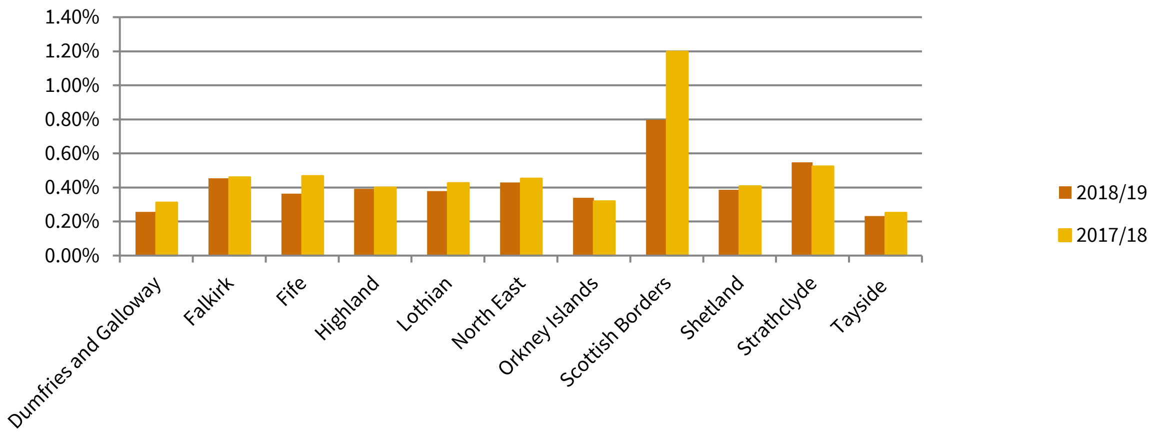
Management expenses

166. Lothian Pension Fund reported management expenses of £38.634 million in 2018/19, an increase of 1.8% from the prior year.

167. Management expenses are split into three main categories: administrative costs; investment manager expenses and oversight and governance costs. Investment management expenses account for 90% of total management expenses.

168. In year Lothian Pension Fund's investment manager expenses (excluding indirect expenses) fell marginally as a proportion of net assets. This is broadly in line with trends across the Local Government Pension Funds.

Exhibit 12: Lothian Pension Funds' Financial Position



Source: LGPS Scotland Unaudited Annual Report and Accounts

169. The analysis above does not include indirect investment management costs as CIPFA guidance states that only direct investment management costs i.e. those that the fund can control should be reported. Lothian Pension Fund reported £5.062 million of indirect manager expenses in 2017/18. It is not possible to benchmark the impact of indirect management costs across Scottish Local Government Pension Funds.

170. Investment manager expenses can vary due to a number of factors including actual returns on investments and the nature of the investments assets held.

171. The Funds undertake annual benchmarking exercises using externally provided data, covering 41 LGPS funds and a wider global universe of 346 funds.

172. Analysis of investment costs is carried out by an independent provider, CEM benchmarking Limited. In 2018/19 Lothian Pension Fund reported an actual investment cost of 0.43% of net assets which was below the benchmark of 0.55%.

173. The Funds credit the improved performance against benchmark to the high percentage of assets managed internally.

174. Analysis of pension administration costs was undertaken by the Chartered Institute of Public Finance Accountants. Pension cost per member was in 2018/19 £23.38, which is higher than the average cost of local authority funds of £21.74. The cost per member is broadly deemed to be in line with other local authority funds who operate within the range of costs of £11 to £61 per member.

175. The Funds have noted that there are restrictions over the comparability of the data and that the membership composition can have a significant impact on the cost. It is noted that there is a high degree of variation across the membership across LGPS Funds.

Monitoring investment performance

176. There is an annual review of investment performance in June for each of the Funds. The report provides a detailed analysis of each of the Fund's investment performance against its investment strategy. We concluded that Pension Committee and Board Members are engaged in monitoring the performance of investments.

177. In addition to monitoring at a Committee level the Funds' performance is calculated by an external provider on a monthly basis. The external provider compiles information covering monthly, quarterly, yearly, 3, 5, 10 since inception yearly performance measures. This information is presented to the Joint Investment Strategy Panel to allow for scrutiny investment performance of the Funds.

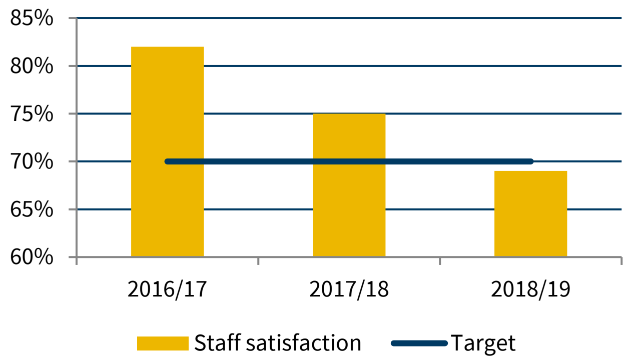
Administrative Performance

178. The Funds' have a Service Plan in place covering the period 2018- 2020. The Pensions Committee receive updates on the service plan at each meeting. The annual results for 2018/19 are presented in the Funds' Management Commentary.

179. The Performance Report highlights that the Funds are meeting the majority of their targets (90%) with only 1 area where performance was not in line with target levels:

180. The target for the staff engagement index was 70% but the Funds achieved a level of 69%. The funds recognise the importance of the workforce in achieving objectives and conduct an annual staff survey to monitor engagement.

Exhibit 13: Lothian Pension Funds' Financial Position



Source: Lothian Pension Funds unaudited annual report and accounts

181. The Funds have reported a decline over recent years and in 2018/19 they are below target.

Tendering for Services

182. The Funds make use of a range of service providers including investment managers, an actuary and a custodian. In order to ensure the Funds are achieving value for money it is good practice to tender for services at set intervals.

183. The Funds follow the City of Edinburgh Council procurement procedures and maintain a contract register.

184. A paper went to the Pensions Committee in December 2018 providing an update on the tender of custodian services.

185. We have concluded that contract arrangements in place at the Funds are appropriate.

8. Appendices

Appendix 1: Respective responsibilities of the Funds and the Auditor

Responsibility for the preparation of the annual report and accounts

It is the responsibility of the Pensions Committee and the Chief Finance Officer, as Accountable Officer, to prepare financial statements in accordance with the Local Government (Scotland) Act 1973 and directions made thereunder.

In preparing the annual report and accounts, the Pensions Committee and the Chief Finance Officer, as Accountable Officer are required to:

- apply on a consistent basis the accounting policies and standards;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards as set out in the Code of Practice on Local Authority Accounting (the Code) have not been followed where the effect of the departure is material;
- prepare the accounts on a going concern basis unless it is inappropriate to presume that the Lothian Pension Fund will continue to operate.

The Chief Finance Officer is also responsible for

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

Auditor responsibilities

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

- give a true and fair view, in accordance with applicable law and the Code, of the state of the affairs of the Funds as at 31 March 2018 and of the income and expenditure of the Council and its group for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the Code;
- they have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, the Local Authority Accounts (Scotland) Regulations 2014 and the Local Government in Scotland Act 2003;
- the information given in the Management Commentary is consistent with the annual report and financial statements.

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

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

Wider scope of audit

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

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

Independence

International Standard on Auditing (UK) 260 "Communication with those charged with governance" requires us to communicate on a timely basis all facts and matters that may have a bearing on our independence.

Non-audit services

In addition to our work on the Funds we are also responsible for the audit of the financial statements of LPFE Ltd and LPFI Ltd, the subsidiaries of Lothian Pension Fund. In addition to the audit of the subsidiaries, Scott-Moncrieff provides accounts preparation, corporation tax services and ad hoc VAT advice to both LPFE Ltd and LPFI Ltd.

All tax services are provided by an independent tax partner and staff who have no involvement in the audit of the financial statements.

The accounts are prepared from trial balances provided by LPFE Ltd and LPFI Ltd and no significant policies, disclosures, adjustments or estimates are decided by Scott-Moncrieff.

In 2018/19 Scott-Moncrieff undertook a review of pay arrangements at the request of LPFE Ltd. This review was undertaken by a team independent of the external audit team and who have no involvement I n the audit of the financial statements.

Confirmation of independence

We confirm that we have complied with the FRC's Revised Ethical Standard (June 2016).

In our professional judgement, the audit process is independent and our objectivity has not been compromised in any way. In particular there are and have been no relationships between Scott-Moncrieff and the Funds, its Board members and senior management that may reasonably be thought to bear on our objectivity and independence.

Appendix 2: Action plan

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

Action plan grading structure

To assist the Funds in assessing the significance of the issues raised and prioritising the action required to address them, the recommendations have been rated.

The rating structure is summarised as follows:

Grade	Explanation
Grade 5	Very high risk exposure - Major concerns requiring immediate attention.
Grade 4	High risk exposure - Material observations requiring management attention.
Grade 3	Moderate risk exposure - Significant observations requiring management attention.
Grade 2	Limited risk exposure - Minor observations requiring management attention
Grade 1	Efficiency / housekeeping point.

Current year action plan

Action plan point	Issue & recommendation	Management comments
1. Accuracy of forecasting information Rating **Grade 3** Paragraph Ref 110	**Issue** In year service update reports highlighted that a net withdrawals position was expected, however, the forecasts were significantly above the year-end position with December being 118% higher than the actual position. **Risk** There is a risk that the year-end position is significantly different to the forecast position with an adverse variance. **Recommendation** We recommend the Funds takes action to improve the quality of forecasting information presented to the Pensions Committee.	It should be noted that the cashflow forecasts reported to Pensions Committee as part of the regular "Service Plan update" are prepared on a strict cash basis. This differs from the year end reporting which reflects accrual of both expenditure and income. This clarification is highlighted in the narrative of the regular reporting to Pensions Committee. Relevant extract from the meeting of 26 September 2018 is - **Membership and Cashflow monitoring** a. The tables below detail the cashflows as at the end of July 2018 and projections for the financial year. These have been prepared on a cashflow basis (compared to the accruals basis of the year-end financial statements and budget projections). In future the financial statements will disclose reconciliation to the cash accounting basis together with explanatory narrative for any significant variances. **Responsible officer:** Chief Finance Officer, Lothian Pension Fund **Implementation date:** 31 May 2020

Action plan point	Issue & recommendation	Management comments
2. Registers of interest Rating **Grade 3** Paragraph Ref 117	**Issue** A compliance email has not been issued to the Pensions Board/Non-Elected Committee Members during 2018/19. This email should be sent on a quarterly basis, however, the last email was sent in March 2017. **Risk** There is a that the Funds do not hold an up to date register of interests for all the Pensions Board/Non-Elected Committee Members, and is therefore unable to identify any potential related party transactions. **Recommendation** We recommend that compliance e-mails are issued in line with the stated policy.	Pension Board and non-elected members are required to sign a Code of Conduct, as well as making declarations to the Funds dual interest and hospitality register. The last item on the dual interest register was declared in September 2018. At Pension Board meetings, declaration of interest is a standing agenda item. Should there be no declarations of interest, this is recorded in the minutes. The Fund has been undertaking a governance review over the last few months which includes a review of the code of conduct for Pension Board and Non-elected Committee members. If the Committee approves the new Code of Conduct in September 2019, all Committee members and Board members will be required to sign the new Code of Conduct (this includes Councillors). Thereafter, an annual refresh will be required. Although the Fund does consider the risk to be low, it does acknowledge that compliance emails have not been sent to Pensions Board and Committee members (non-Councillors) during the financial year. To strengthen policies and procedures as well as raise the profile of compliance further, quarterly e-updates to Pension Board and Pension Committee members from September onwards will now include a compliance reminder section. **Responsible officer:** Chief Risk Officer, Lothian Pension Fund **Implementation date:** 31 October 2019

Action plan point	Issue & recommendation	Management comments
3. Review of bank reconciliations Rating **Grade 3** Paragraph Ref 117	**Issue** As part of our testing of bank reconciliations we sample checked the controls in place across the year. We noted that for one sampled month the bank reconciliation had been completed but had not been reviewed by a senior member of the finance team. **Risk** There is a risk that there is an error in the bank reconciliation which is not detected. **Recommendation** We recommend that all bank reconciliations are subject to review by an appropriate individual.	Change in bank account reconciliation process took place during the year to become paperless. Month -end reconciliations are completed by the Finance team and then e-mailed to Finance management to review. Reconciliations have been reviewed. The recording (sign-off) of this validation, however, has not taken place. Procedure will be reviewed to better capture and record electronic approvals. **Responsible officer:** Chief Finance Officer, Lothian Pension Fund **Implementation date:** 31 October 2019

Action plan point	Issue & recommendation	Management comments
4. Verification of pensioner details Rating **Grade 3** Paragraph Ref 117	**Issue** As part of our verification of controls we walked through a transfer out of a member. The sampled record did not have their date of birth confirmed or checked to supporting documentation. **Risk** This is a key control in confirming pension eligibility and could lead to an error in payments made. **Recommendation** We recommend that verification of key details are conducted in line with the stated procedures.	This case is an interfund transfer rather than a transfer to another pension scheme. An interfund transfer means that the member is transferring to the same scheme (LGPS) and the transfer value payment is simply a way of transferring the liability from one Fund to another. There is an agreement between the Scottish Funds that dates of birth do not need to be verified if already verified by one scheme. In this case, however, this did not happen in either fund. The existing documented LPF administration procedure already reflected requisite date of birth verification. In this case, the procedure had not been correctly followed (human error). The importance of the check has been re-iterated to the pensions administration team, both orally and by e-mail communication. **Responsible officer:** Chief Finance Officer, Lothian Pension Fund **Implementation date:** 30 September 2019

Follow up of prior year recommendations

Of the four recommendations raised within our 2016/17 and 2017/18 interim audit reports and 2016/17 and 2017/18 annual audit reports, we note that one has been closed and three are ongoing. Details are given below.

1. Publication of the financial statements

Initial rating	Issue & recommendation	Management comments
Grade 2	**Observation** In 2017/18 Lothian Pension Fund received objections to the accounts relating to the public right to inspect the accounts. The objections related to the wording in the public inspection notice and the availability of the annual report and financial statements on the Lothian Pension Fund website. **Recommendation** We recommend that the annual report and financial statements are posted on the Lothian Pension Fund website, following approval from the Pensions Committee and in line with the public inspection notice.	Recommendation is accepted. Following consideration of the Annual Report 2019 (and Financial Statements) Unaudited by Pensions Committee, this will be posted on the Lothian Pension Fund website, supplementing the prior disclosure of all the reports to that Committee on the Council's website. **Responsible officer:** Chief Executive Officer, Lothian Pension Fund **Implementation date:** June 2019
Current status	**Audit Update**	**Management response**
Ongoing	In 2018/19 we received an objection to the notice of the public right to inspect. Upon review there was found to be a delay in publishing the public inspection notice which is required to be published prior to 17 June as outlined by the 2014 Regulations. The notice was published in the local newspaper and on the City of Edinburgh Council website by 17 June 2019, however, was not available at Council offices until 26 June 2019. We recommend procedures are put in place to ensure all the regulations are complied with in 2019/20.	While detailed procedure notes are already in place, these will be reviewed to introduce an element of independent review, thereby ensuring all key steps are undertaken by the required dates.

2. Bank accounts

Initial rating	Issue & recommendation	Management comments
Grade 3	**Observation** The Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010. require administering authorities to hold a separate bank account for funds and to be used to hold pension fund money. There is an ongoing issue that although the Funds' held their own bank accounts, monies were transferred to the City of Edinburgh Council holding account and the money was managed through this account. Actions were taken in 2017/18 to progress the issue of compliance, however, significant delays mean that during the year the Funds were not in fully compliant with the regulations. **Recommendation** We recommend the Funds put arrangements in place to ensure compliance with the regulations.	Quotation for a stand-alone ledger for the Funds was also sought from CGI, the Council's ICT provider, but this did not offer a cost-effective solution. Whilst LPF now fully anticipates a successful project delivery by the Council and CGI, with integration of the LPF requirement in the ledger specification, the option of complete separation, i.e. LPF to procure an alternative to the Council solution, is retained as "last resort". **Responsible officer:** Chief Finance Officer, Lothian Pension Fund **Implementation date:** As soon as possible, subject to the implementation of a revised financial ledger system by the Council to incorporate this functionality, or alternatively a separate procurement by LPF.

Current status	Audit Update	Management response
Ongoing	The resolution of this issue is linked to the procurement of a new ledger system which has not progressed in 2018/19.	LPF has requested that responsibility for "unfunded (discretionary) payments" be transferred to Scottish Public Pensions Agency (SPPA). Should this be accepted by SPPA, then there would be no requirement for LPF to utilise the Council's bank account. The procurement of a new ledger is also linked to LPF's consideration of its broader ICT service requirements.

3. User access controls

Initial rating	Issue & recommendation	Management comments
Grade 3	**Observation** Our review of the journals environment identified that all City of Edinburgh Council staff with access to Oracle, the financial ledger system, have the ability to post to the Funds' financial ledgers. **Recommendation** While our audit review in respect of the 2017/18 financial year did not identify any indications of user access being manipulated, we recommend that the Funds' officers in conjunction with City of Edinburgh Council	Recommendation is accepted. **Responsible officer:** Chief Finance Officer, Lothian Pension Fund **Implementation date:** March 2019

review user access controls for the financial ledger.

Current status	Audit Update	Management response
Ongoing	This is an ongoing issue in 2018/19, however, we did not identify any instances where journals were posted by inappropriate users.	There remains no existing system-based means of preventing staff from posting journal entries affecting other organisations. Indications received suggest that the cost of introducing such controls would be prohibitive relative to the resulting benefits. The posting of journal entries exists, however, within a wider framework of financial analysis, peer review and reporting. Any cost-effective means of effecting further improvements in this area will be considered as part of the Council's Oracle system refresh due for implementation in mid-2020.

4. Cyber essentials

Initial rating	Issue & recommendation	Management comments
Grade 3	**Observation** In 2017/18 In May 2017, a number of health boards across NHS Scotland were affected by the Wannacry global ransomware attack. In response to this the Scottish Government launched 'A Cyber Resilience Strategy for Scotland: Public Sector Action Plan, 2017/18'. The action plan outlines a number of requirements that public bodies should be taking forward. This includes an action for public bodies to achieve a Cyber Essentials Plus certification by the end of October 2018. The Funds are aware of the work but do not have a formal plan to achieve certification. **Recommendation** We recommend that the Funds make arrangements to ensure Cyber Essentials certification is achieved by 31 October 2018.	Recommendation is accepted. LPF is liaising with the Council's Chief Information Officer to secure requisite certification. **Responsible officer:** Chief Executive Officer, Lothian Pension Fund **Implementation date:** October 2018

Current status	Audit Update	Management response
Completed	Our audit testing in 2018/19 confirmed that Cyber Essentials accreditation was not achieved by the October deadline and however ,the Cyber Essentials Certification was achieved in 2018/19 by City of Edinburgh Council and the Funds..	Not applicable

Appendix 3: Unadjusted audit differences

We identified the following adjustment to the financial statements during our audit. We have discussed this with management and have agreed that it will not be reflected in the financial statements on the grounds of materiality.

Adjusted difference	SoCNE		Balance Sheet	
	DR £m	CR £m	DR £m	CR £m
Past Service Cost		0.252		
Net interest cost		0.003		
Return on assets (excluding net interest)		0.027		
Pension liability				0.282
Being updated pension liability after the impact of the McCloud judgment				
Net impact on income / expenditure	**£0.282**			

Appendix 2

Audited Annual Report and Accounts 2018/19

Lothian Pension Fund

Scottish Homes Pension Fund

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Foreword

Report by the Convener of the Pensions Committee

I am delighted to present the Annual Report and Accounts for the Lothian Pension Fund and Scottish Homes Pension Fund for 2018/19.

During the year, a decision was taken to merge Lothian Buses Pension Fund with the Lothian Pension Fund by the Pensions Committee in March 2018. Following completion of a revised admission agreement and shareholders' guarantees, the merger took place on 1 February 2019. The merger puts in place an employer guarantee and, facilitated by the new employer asset tracking system, will see the creation of a bespoke investment strategy for Lothian Buses within the Lothian Pension Fund. This means that there will not be separate accounts or a valuation from this date. The change will not affect member benefits and is expected to result in more efficiencies leading to lower costs.

Within the wider Scottish Local Government Pension Scheme, the Scheme Advisory Board in Scotland initiated a consultation on the future structure of the LGPS in June 2018. The review will determine if the current 11 fund structure best serves the members and employers.

The consultation identified four options for consideration including retaining the current structure, greater co-operation between funds, pooling investments only and full merger into one or more new funds.

The Fund's preferred option would be to work with like-minded partners on a voluntary basis to develop a mutually beneficial merger solution. The Fund has made significant inroads in its collaboration via its FCA authorised company with two other LGPS funds. Partner funds are benefiting from Lothian's internal resource and we are sharing our costs. However, there has not yet been any significant impact on any of Lothian's investments. The arrangements are expected to evolve and for Lothian to benefit from greater overlap in investments. The governance of Lothian's collaborative arrangements is not straightforward. While other funds rely on advice from Lothian, they need to continue to be resourced appropriately to make decisions for their respective funds. Further, there are practical constraints to the expansion of this type of collaboration.

Finally, during the year Clare Scott stepped down after 13 years with the Fund, the last 6 years as Chief Executive Officer. I would like to record my personal thanks and those of the Pensions Committee and Board for leading the transformation of the Fund during her time with the Fund. Doug Heron joined as the new Chief Executive Officer in February of this year. I am delighted Doug has joined us and I believe he is ideally qualified to continue the successful delivery of the Lothian Pension Fund's work and look forward to working with him.

Councillor Alasdair Rankin
Convener, Pensions Committee

Report by the Convener of the Pensions Audit Sub-Committee

The function of the Pensions Audit Sub-Committee is to monitor the operation of the Fund's internal controls, governance, risk and compliance arrangements and financial reporting.

The Sub-Committee formally met three times during the year. The key activities undertaken in 2018-19 included considering the Annual Report and Accounts and both the internal and external audit reports. Other highlights have covered risk assurance, fraud prevention, tax recovery on investment income and investment custodian services.

I believe the Audit Sub-Committee plays a valuable role in the governance of the pension funds and adds value to members and employers.

Councillor Cameron Rose
Convener, Audit Sub-Committee

Report by the Chair of the Pension Board

The Pension Board, whilst not a directly decision-making body, holds an important scrutiny function and its role is in ensuring the Fund compliance with the Scheme's rules and other pensions regulations; Including those set out by The Pensions Regulator which relate to the running of the Lothian Pension Fund, thereby ensuring both its effective and efficient governance and administration.

Its members are drawn equally from across the Fund's employers and members and is made up of five employer and five member representatives who meet in session before all quarterly Pension Committee meetings, which they also attend.

Each of the members appointed to the Board is required to undertake extensive training each year in order to ensure their continuing development and understanding of their role, and the management and the various operations of the Fund.

During the preceding 12 months the Board has once again dealt with a wide range of matters, including changes to its own constituent membership. Despite these unexpected personnel changes, the Board has continued to diligently fulfil all of its responsibilities.

I would therefore take this opportunity to offer my personal thanks to all those Board Members that have been involved with, and supported, the Board and its work during this past year.

Earlier in the year the Scottish Government, via the Scottish Scheme Advisory Board, instigated a major review of the 'Effectiveness of the Governance' arrangements for all 11 Local Government Pension Funds across Scotland. The Board has been involved in shaping the Fund's response to this important document taking part in a number of sessions to discuss the options the Fund felt would ultimately ensure the best long-term future for members and employers.

The Board also continued to maintain an active interest in relation to the governance of the Fund's Investment Strategy and its considerations of the various Environmental, Social and Governance issues being brought to its attention.

This year the Board was (for the first time) actively involved in supporting the Fund's selection process relating to the appointment of its new Independent Professional Observer (IPO). This is an important external role in supporting the Pensions Committee and Board.

Having been in existence since 2015 the Board members also considered its 'Constitution' and in particular the required 'annual rotation' of the position of Chair. It was generally felt (and subsequently unanimously agreed) that this arrangement did not give the Chair sufficient time in relation to both the understanding and duties of the role. The Board therefore (with the Pension Committee's subsequent agreement) opted to implement a change to its Constitution.

Therefore from 2019/20 the Chair will have (subject to certain caveats) the ability to undertake a further subsequent year in the role.
This change will now see the position rotate every two years instead of annually and in accordance with this new rule, I will now be continuing as Board Chair until March 2020.

I look forward to once again working on your behalf and with all of the Members of the Board for a further year.

Jim Anderson
Union representative and Chair of the Pension Board

Report by the Independent Professional Observer

I was appointed as the Fund's independent professional observer in August 2018. My role helps strengthen Fund governance by providing the Pensions Committee and Pension Board with independent advice and impartial knowledge independently from the Fund officers.

I have more than 30 years of pension experience working with pension trustees and sponsors on a wide range of investment, actuarial and governance issues.

In my first term as observer I have held surgeries to assist the Pensions Committee and Pension Board to provide oversight of the pension funds. Topics such as funding, investment and collaboration have been considered in addition to the normal business of funds.

Andy McKinnell
Independent Professional Observer

Management commentary

OUR MISSION

To provide a sustainable and valued saving solution for public sector employees and their employers.

Introduction

During the year we welcomed 4,379 new members to the Fund and supported 1,506 new retirements. We made 384,490 pension payments totalling more than £231 million to 30,623 members to support their lives in retirement. We scored 92.7% for member satisfaction. At Lothian Pension Fund we have a member-first mindset and we're proud to be the Local Government Pension Scheme for 84,317 public sector workers, former workers, or their beneficiaries, across Scotland.

Change in structure

During the year, and as stated in the Introduction from the Convener, the Committee approved the merger of the Lothian Buses Pension Fund with the Lothian Pension Fund and I am pleased to report that this was completed earlier this year and the path is set for us to realise a range of operational efficiencies and reductions in overheads.

Within the Lothian Pension Fund, we operate a unitised, or segmented, structure for assets and liabilities which allows us to monitor and manage assets and liabilities according to the sponsoring employer of the member. This allows us to develop and operate appropriate investment strategies and to ensure employers pay contributions aligned to the costs of benefit entitlement for their members.

As a result, Lothian Buses, like any other sponsoring employer in our Fund, pays only the costs of their members but now shares the benefit of lower administration costs from the merged Fund.

Funding Levels

The 2017 triennial valuation was completed in the previous financial year and reflected for Lothian Pension Fund, a funding level increase from 91% at 31 March 2014 to 98% at 31 March 2017.

For Lothian Buses Pension Fund, the funding level on the ongoing basis rose from 117% in 2014 to 121% at 31 March 2017, showing a surplus of £84million.

The funding level for Scottish Homes Pension Fund at 31 March 2017 was 104.7%, increased from 88.8% from the 2014 actuarial valuation.

The next valuation is expected to be undertaken at 31 March 2020. At the time of writing we expect a move to quadrennial, or four-yearly, valuations creating in effect a longer period between valuation points.

In practice this is not expected to result in any added volatility for funding levels across the longer period, with contribution stability mechanisms expected to continue to result in certainty of costs for employers across budget cycles.

Affordability of scheme membership

During the year we were pleased to work with a number of smaller sponsoring employers to facilitate their orderly exit from active scheme membership, allowing those employers to limit the extent of future balance sheet risk. The financial benefits of scheme membership to employees are significant and increasingly costly as economic conditions and longevity factors combine to sustain the pressure on contribution rates. Where employers, primarily community admitted bodies, have affordability concerns or wish to limit their balance sheet risk we seek to agree payment and investment strategy outcomes that achieve our shared goal of sustainable and secure benefits for members.

Our people

The team at LPF now number 68 performing functions of benefit administration and investment management, supported by functions which include member communications, legal, risk, compliance, finance and HR. The team are employees of LPFE limited, an arms-length external organisation of the administering authority, City of Edinburgh Council. LPFE operates under a company board with an independent non-executive member.

During the year we had a change in Chief Executive Officer with Clare Scott moving on in December 2018 and Doug Heron succeeding her in early 2019. During her 13 years with the Fund Clare was instrumental in developing the team and the operations that support our members. We would also like to recognise her contribution to the developments at national level through her role as an advisor to the Scheme Advisory Board (SAB).

The Fund is unique in SLGPS in holding FCA authorisation and employing professionals who manage investments primarily in-house instead of through more costly external asset manager appointments. Our total complement for such roles in our organisational structure grew in the year to 15.

The team therefore requires a matching of skills and experience similar to roles in the private sector and we recognise we must compete with financial services firms to attract and retain colleagues. We are only able to do so with progressive remuneration policies and during the prior year this included taking steps towards offering a variable remuneration component for eligible employees including senior management and our investment management colleagues.

This allows us to more ably retain and attract the specialist skills and experience we need to operate the in-house investment management model that we believe drives a significant reduction in our operating costs and better aligns our investment strategy with pension fund liability profiles. Such arrangements are uncommon in public sector pension funds and there may be member and public interest in the value they create. As a result of such expected interest and our commitment to transparency we have increased the level of disclosure in the remuneration section of this report.

Scottish LGPS (SLGPS) consultation

In the last year, under the direction of the Cabinet Secretary, the Scheme Advisory Board (SAB) undertook a consultation on the prospect of structural reform for the 11 individual funds that comprise the Scottish Local Government Pension

Scheme (SLGPS). Lothian Pension Fund, second largest to Strathclyde, responded in favour of structural reform, specifically the creation of conditions in which like-minded schemes could seek to merge. We await the outcome of the review but recognise there is potential for significant change in the way that assets are managed, and member benefits are administered for the more than 545,000 members of SLGPS.

Notwithstanding the prospect of structural change, we remain active, through our FCA-authorised legal entity, in enabling other funds to achieve their investment goals. This extends to our formal investment advisory partnerships with the pension funds for Falkirk and Fife, our club deal investment partnership with a further two funds, but also to our willingness to provide resource and capital to support operational, administration, commercial and technology related developments for the benefit of all of Lothian Pension Fund and the wider SLGPS.

Economic and investment market developments

With Brexit and developments in international trade markets, political and economic uncertainty have been themes for all defined benefit pension funds over the year. Lothian Pension Fund has for some time held a bias towards lower volatility strategies and during the year, undertook a detailed investment strategy review involving external advisers to best position the Fund for the uncertainty ahead.

Overall returns for our investments are reported in the Investments section of this report.

Interaction with regulators

We were pleased to be selected to be a member of the LGPS cohort review carried out by The Pensions Regulator (TPR) in the prior year. This interaction, made possible by TPR assuming responsibility for LGPS regulation in 2013, extended to a series of thematic reviews across a range of governance and administration aspects of our operations.

TPR expect to report on their findings from the cohort at aggregate level and we look forward to working with TPR as they develop policies and principles in support of better outcomes for LGPS stakeholders.

Future developments

The prospect of structural reform within SLGPS remains the most significant possible development to affect Lothian Pension Fund and we stand ready to work with the Scottish Advisory Board and policy-makers to ensure any change results in material benefit for the primary stakeholders of the LGPS, the members and their sponsoring employers. Aside from reform, the year ahead will see the team undertake significant member-first projects as we look to improve our technology and invest in the capability of our people, delivering more for members as a result.

DR STEPHEN S MOIR
Executive Director of Resources
The City of Edinburgh Council
26 June 2019

DOUG HERON
Chief Executive Officer
Lothian Pension Fund
26 June 2019

Governance and Risk

The City of Edinburgh Council is the administering authority for the Scottish Local Government Pension Scheme (LGPS) in the Lothian area. The Council administers the benefits and invests the assets of two LGPS funds, Lothian Pension Fund and Scottish Homes Pension Fund. In this report we refer to these as the Fund.

Lothian Pension Fund is the second largest LGPS fund in Scotland with assets of £7.8 billion, 83 employers with active members and over 84,000 members. The Scottish Homes Pension Fund investments amount to £0.16 billion with 1,550 members.

Lothian Buses Pension Fund was merged with Lothian Pension Fund on 1 February 2019, changing the way in which the Fund is administered. At the time of merger, Lothian Buses Pension Fund had assets of £0.5bn and 3,700 members. Under the new arrangements, it retains a separate investment strategy.

The Fund maintains a comprehensive website for easy access to all relevant pension information and this is found at www.lpf.org.uk. This includes the Annual Report & Accounts of the Fund, Statement of Investment Principles, Funding Strategy Statement and Pensions Administration Strategy and Pensions Discretions Policy.

The Pensions Committee and Pensions Audit Sub-Committee

The day-to-day running of the Fund is delegated to a specialist team who undertake pension administration, accounting and investment functions, managing the majority of the Fund's assets internally.

All pension matters are delegated to the Pensions Committee of the Council, supported by the Audit Sub Committee, and its members act as 'quasi trustees'. The Pensions Committee held four meetings and the Audit Sub Committee held three meetings during the year.

The table shows the Committee members for the year 2018/19.

From 1 April 2018 to 31 March 2019
Pensions Committee
Councillor Alasdair Rankin (Convener)
Councillor Maureen Child
Councillor Neil Ross
Councillor Claire Miller
Councillor Cameron Rose
John Anzani (Member representative)
Richard Lamont (Employer representative, VisitScotland)
Pensions Audit Sub-Committee
Councillor Cameron Rose (Convener)
Councillor Maureen Child
John Anzani (Member representative)

The Pension Board

The Pension Board was set up on the 1 April 2015 as a result of the Public Services Pensions Act 2013 and the Local Government Pension Scheme (Governance) (Scotland) Regulations 2014.

The role of the Pension Board is to help ensure that the operation of the Funds is in accordance with the applicable law and Regulations.

The Board attends all Pensions Committee meetings and two representatives also attend the Pensions Audit Sub-Committee meetings.

The membership comprises of ten members, five representatives appointed from the employer bodies and five representatives appointed by trade unions for the membership of the Fund. The Pension Board membership for 2018/19 is shown in the table. There were two vacancies as of 31 March 2019.

Member representatives	
Jim Anderson	Unison (Chair)
Thomas Carr Pollock	GMB
Brian Robertson	Unite
Thomas Howorth	Unison (appointed 24/9/18)
Diane Hogarth	Unite (resigned 18/6/18)
Tony Pearson	Unite (appointed 24/9/18) (resigned 25/3/19)
Employer representatives	
Sharon Cowle	Scottish Legal Complaints Commission (appointed 24/9/18)
Darren May	Scottish Water
Sharon Dalli	Police Scotland
Alan Williamson	Edinburgh College
Paul Ritchie	East Lothian Council (resigned 11/10/18)
Eric Adair	EDI Group (resigned 25/4/18)

Pensions Committee and Pension Board training

The Committee and Board members must attend no less than 21 hours of training per year as outlined in the Fund's training policy which is available on our website at www.lpf.org.uk.

All new members of the Pensions Committee and Pension Board attend induction training. Other training provided internally covered topics including governance, guaranteed minimum pensions, responsible investment and investment strategy.

Committee and Board representatives also attended external conferences including the Pensions and Lifetime Savings Association Local Authority Investment Conference 2018 and the 2018 Local Authority Pension Fund Forum Annual conference.

All members of the Pension Committee and all Pension Board members achieved the required training hours during 2018/19. Pensions Committee members collectively attended 313 hours of training over the year and members of the Pension Board undertook 324 training hours.

Joint Investment Strategy Panel

Investment strategy guidance to the Committee is provided by a Joint Investment Strategy Panel (JISP), working in collaboration with the Falkirk Council and Fife Council pension funds. The JISP meets quarterly and includes senior officers and external investment advisers (currently Scott Jamieson and Gordon Bagot).

The Pensions Committee of each pension fund agrees their own investment strategy but delegates the implementation of strategy, including selection of investment managers, to officers.

The JISP advises the three pension fund administrating authorities on implementation of their respective investment strategies.

The assets of Lothian Pension Fund, Falkirk Council Pension Fund and Fife Council Pension Fund remain separate.

Lothian Pension Fund employees

The team is employed by an arms-length company, LPFE Limited (LPFE), which is wholly owned by the Council (in its capacity as administering authority for the Fund) and it is supervised by a board of directors chaired by the Council's Executive Director of Resources and includes the Convener of the Pensions Committee. The team is required to carry out certain activities for the Fund through its Financial Conduct Authority authorised vehicle, LPFI Limited (LPFI).

LPFI is also wholly owned by the Council (in its capacity as administering authority for the Fund). LPFI is supervised by a board of directors chaired by the Council's Head of Finance. Both the boards of LPFI and LPFE comprise an independent non-executive director (Leslie Robb). All the operations, costs and liabilities in relation to the Fund, including those of LPFE and LPFI, are borne by the Fund.

The day-to-day running of the Fund is carried out by a specialist investment and pensions team. The Fund's functions include investment, pension administration, employer liaison, data quality, customer support, accounting, legal, risk and compliance, communications, and general business support.

The investment responsibilities include carrying out in-house investment management and the monitoring and selection of external investment managers, as well as external facing collaborative initiatives with other like-minded pension funds.

Over the year, senior officers directly involved in the governance of the Fund from the City of Edinburgh Council were:

Dr Stephen S Moir, Executive Director of Resources,
Hugh Dunn, Head of Finance
Katy Miller, Head of Human Resources

And senior officers from Lothian Pension Fund were:

Doug Heron, Chief Executive Officer from February 2019
Bruce Miller, Chief Investment Officer
Struan Fairbairn, Chief Risk Officer, (Legal, Risk and Compliance)
John Burns, Chief Finance Officer
Clare Scott, Chief Executive Officer to December 2018

Scheme Advisory Board

The Scheme Advisory Board for the Local Government Pension Scheme in Scotland was set up following the Public Service Pensions Act 2013. The Board's main function is to advise Scottish Ministers, when requested, on the desirability of changes to the Scheme. They can also provide advice to scheme managers and pension boards in relation to effective and efficient administration and management of the Scheme in Scotland.

The membership of the Scheme Advisory Board comprises of seven member representatives and seven employer representatives with a Joint Secretary to support each group. During the year, Councillor Rankin was a member and Chair of the Scheme Advisory Board and Fund officers have also advised the Board and Joint Secretaries. There is more information on the Scheme Advisory Board at www.lgpsab.scot.

Risk

An extensive risk register is maintained covering a wide range of issues across investments and benefit operations. The register is subject to internal review each quarter and a summary is reported to the Pensions Committee and Pensions Audit Sub-Committee. On an annual basis the Pensions Audit Sub-Committee reviews the register in full.

Risk Management

The LPF Group is committed to a strong control environment to ensure that risks are identified, understood, managed and monitored appropriately. The risks faced by the LPF Group and the Funds change over time and ongoing management of risk is crucial. The LPF Group also has a compliance policy and each manager is responsible for ensuring compliance within their area of responsibility.

As at 31 March 2019, the most significant risks (after taking account of risk reduction controls), as assessed using a score out of 100 by the Funds' management team, are shown in the table opposite.

Risk Assurance

The Fund operate a bespoke assurance framework designed to ensure they meets their objectives, are adequately resourced, managed to high professional standards, meet legislative requirements and have high customer satisfaction.

Description	Impact	Likelihood	Risk score
Adverse investment performance leading to pressure on employer contributions	5	4	20
Adverse movement against non-investment funding assumptions leading to pressure on employer contributions	5	7	35
Collapse/restructuring of an employer body leading to pressure on other employers	4	8	32
Failure of IT leading to poor ICT responsiveness, legal exposure and cost/risk implications	8	8	64
Human Resource within the team not sufficient to carry out core task in conjunction with active or anticipated projects.	6	6	36

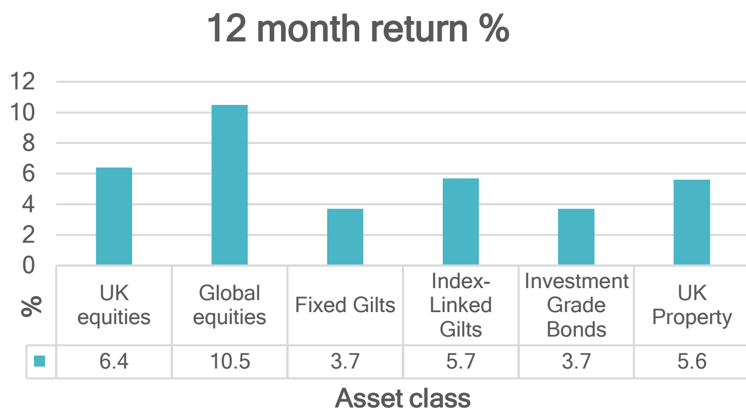
Investment

Investment markets

For the 12 months to 31 March 2019, UK equities (FTSE All Share) returned +6.4%, and global equities (MSCI ACWI, in GBP) returned +10.5%. Global equity returns for sterling-based investors were boosted by the weakness of the pound over the year (global equities returned +5.6% in local currency terms), as investors grappled with the wide range of potential Brexit outcomes. Equities fell sharply in Q4 2018, with markets falling as much as 14% from end September 2018 to their lows in late December, before rallying strongly through the first quarter of 2019.

UK and US government bond yields rose modestly through to September 2018, with the US 10-year bond yield breaching the 3% level for the first time since 2011. However, yields then fell through Q4 2018 as equity markets sold off. Towards the end of December, the US Federal Reserve signalled that the prospect of future rate rises was much less certain than many participants had expected. Bond yields then moved lower through Q1 2019, with US and UK 10-year bond yields ending the year to 31 March 2019 circa 30 basis points (0.3%) lower than they had been 12 months prior. In Europe, the 10-year Bund yield ended the year circa 50 basis points (0.5%) lower as investors sought the safety of German government bonds as economic data showed the internationally sensitive Eurozone slowing. In contrast, Italian bond yields were higher over the year amid heightened concerns over government finances and the domestic political situation.

The table below shows index returns over 12 months to 31 March 2019 for a range of asset classes.



Index: Bloomberg, MSCI UK Property

The OECD's latest economic outlook (March 2019) includes further downgrades to 2019 GDP projections for the world's major economies; this follows a previous set of downgrades in its November 2018 update. Dispersion between regions is highlighted, particularly between the US and Eurozone area, alongside the ongoing risk from a potential China growth shock. For the UK, the OECD estimate the economic loss since the 2016 Brexit referendum at between 0.7% and 1.7% of GDP, with continued uncertainty expected to impact negatively until the situation is resolved. Given this backdrop, it is not a surprise that the OECD also expect that "interest rates are set to stay lower for longer".

The prospect of looser monetary policy has supported support risk assets in the short term and although the outlook for global growth is softer than it was, it remains positive overall. However, economic forecasts have been tilting further in a downward direction. That said, markets are inherently uncertain and a focus on long-term investment strategy remains a prudent approach for long-term investors.

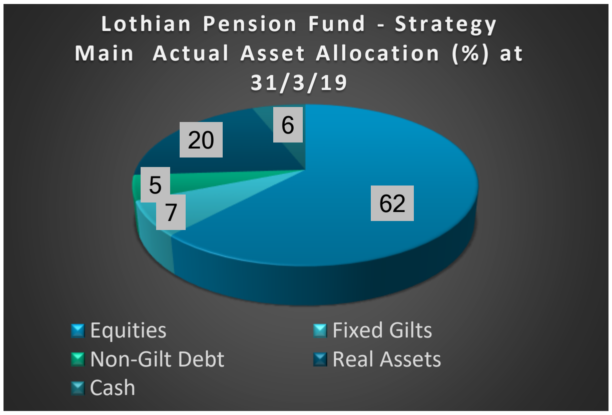
Investment strategies

The investment strategies for the Fund reflects the long-term plans to maintain an acceptable balance between contribution stability and the achievement of positive long-term real returns from the assets owned.

During 2018/19, a review of the investment strategies was undertaken, taking into account the results of the 2017 actuarial valuation. The investment strategy is set at the broad asset class level of Equities, Gilts, Non-Gilt Debt, Real Assets and Cash, which are the key determinants of investment risk and return. Despite an expansion in the number of these 'policy groups' from 3 to 5, the strategic allocation for the whole Fund is broadly similar to the previous allocation, albeit expressed slightly differently.

Lothian Pension Fund

During the course of the year (1 February 2019), Lothian Buses Pension Fund merged into Lothian Pension Fund with a separate, fourth investment strategy specifically created for Lothian Buses within Lothian Pension Fund.

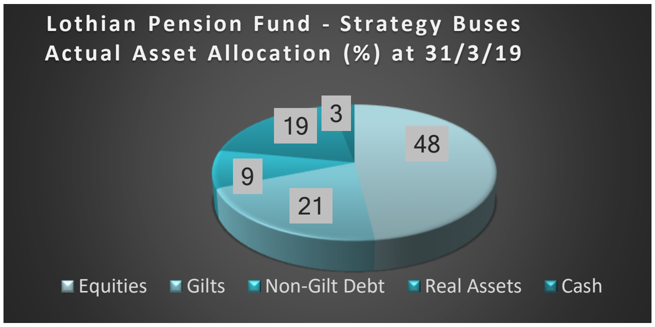


To provide suitable investment strategies for the differing employer requirements, the Fund currently operates four investment strategies. More than 90% of employer liabilities are funded under the Main Strategy, which adopts a long-term investment strategy aiming to maximise the investment return within reasonable and considered risk parameters and hence minimise the cost to the employer.

A small number of employers are funded in the Mature Employers Strategy, which invests in a portfolio of UK index-linked gilts (Mature Employer Gilts - MEG) to reduce funding level and contribution rate risk to a level appropriate to their circumstances. The liabilities funded by Mature Employers Strategy represent less than 1% of total Lothian Pension Fund liabilities.

Just over 1% of liabilities are funded by 50/50 Strategy, which is a 50/50 split of the above two strategies. 50/50 Strategy is for employers who are closed to new members but who do not yet qualify for Mature Employers Strategy.

Lothian Buses now has its own strategy, Strategy Buses, within the Fund with the actual asset allocation shown in the chart below. The liabilities associated with the Lothian Buses strategy represent approximately 7% of Lothian Pension Fund liabilities.

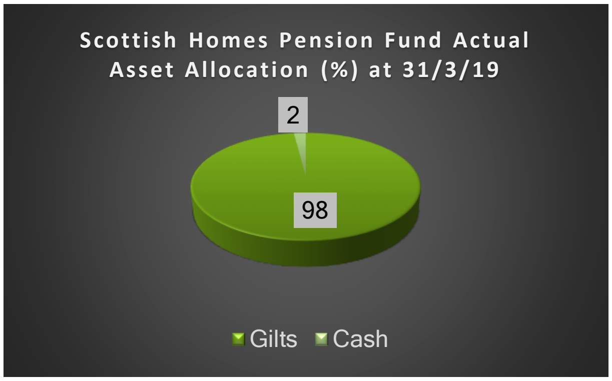


Scottish Homes Pension Fund

The Scottish Homes Pension Fund was invested in index-linked gilts and cash only on 31 March 2018, following the results of the 2017 actuarial valuation which showed that the Fund was 104%+ funded. The gilts were chosen to broadly match the expected liability payments as they fall due.

The analysis focused on the nature of the liabilities, including the proportion that are fixed and index-linked and the timing of expected pension payments. In addition, consideration of the availability of assets to match those payments was undertaken. This resulted in a restructuring of the Fund's bond holdings into both nominal and index-linked UK gilts in early 2019.

By cash flow matching the assets with future liability payments up to one year beyond the next actuarial valuation, which is expected in the March 2020, the Fund has minimised funding level risk.



Internal investment team

Strategies for the Fund are implemented and monitored by an experienced internal team of investment professionals supported by external advisers. Over recent years, the internal team has expanded with very positive effects on costs and capabilities. This is reflected in two structural shifts. Firstly, the percentage of Lothian Pension Fund's listed equity assets managed internally has risen from 23% to 85% and most publicly traded bond assets are also now managed internally. Secondly, the Fund has altered the construction of the listed equity portfolios, increasing the global mandates from 32% to more than 85%.

Despite these large changes in Lothian Pension Fund, performance has been ahead of benchmark over the last five years and this has been achieved with lower risk than the benchmark. The Fund's guiding principle is to use strong internal investment capabilities to their maximum potential and to retain external managers for specialist mandates.

Responsible Investment

The Pensions Committee publicly endorsed and adopted an approach to investing known as Responsible Investment (RI) over a decade ago - in 2008, the Fund became a signatory to the Principles for Responsible Investment (PRI), a United Nations-backed initiative.

This is the cornerstone of the Fund's investment approach, and over the years, the six principles have become increasingly embedded into its investment processes.

"Responsible investment is an approach to investing that aims to incorporate environmental, social and governance (ESG) factors into investment decisions, to better manage risk and generate sustainable, long-term returns."
PRI

- **Principle 1**: We will incorporate ESG issues into investment analysis and decision-making processes.
- **Principle 2**: We will be active owners and incorporate ESG issues into our ownership policies and practices.
- **Principle 3**: We will seek appropriate disclosure on ESG issues by the entities in which we invest.
- **Principle 4**: We will promote acceptance and implementation of the Principles within the investment industry.
- **Principle 5**: We will work together to enhance our effectiveness in implementing the Principles.
- **Principle 6**: We will each report on our activities and progress towards implementing the Principles.

PRI Annual Assessment

All PRI signatories agree to the PRI organisation undertaking a comprehensive annual assessment of their approach to RI. This independent appraisal is made publicly available on our website www.lpf.org.uk with a summary of Lothian's latest evaluation is shown below. It highlights that the Fund's processes and approach to Responsible Investment are rated at or above the median of asset owner signatories across all categories measured.

PRI rates Lothian's approach to RI highly

Summary Scorecard

AUM	Module Name	Your Score	Median Score
	01.Strategy & Governance	A	A
Indirect - Manager Sel., App. & Mon			
<10%	02. Listed Equity	A	B
<10%	05. Fixed Income - Corporate Non-Financial	A	B
<10%	07. Private Equity	A	B
<10%	08. Property	A	B
10-50%	09. Infrastructure	A	A
Direct & Active Ownership Modules			
>50%	10. Listed Equity - Incorporation	B	B
>50%	11. Listed Equity - Active Ownership	A	B

Ethics and Lobbyist Activity

As a public sector asset owner, which strives for high standards of transparency within the constraints of commercial sensitivities, Lothian Pension Fund is subject to considerable scrutiny of its investments. Lobby groups often present ethical arguments for divestment of specific investments. They create adverse publicity to further their campaigns, sometimes being highly selective in their use of facts to raise awareness and to create impact, often with an incomplete understanding of the investments that they oppose.

Campaigners often imply or state that 'Responsible Investment' is synonymous with 'Ethical Investing'.

Lothian Pension Fund is not an 'ethical investor', and nor is it an 'unethical investor'. Rather, it is guided at all times by the legal principle of fiduciary duty and its Principles for Responsible Investment. It recognises that certain investments have the potential to be more contentious than others, but it does not operate a narrow or restrictive policy of excluding investments from its universe of potential investments. What it does do is assess the likely impact of controversial business activities and practices on investment returns by incorporating Environmental, Social and Governance (ESG) considerations into its decision-making processes.

In a world with often complex social, legal or moral issues, it would be impossible to invest efficiently in a manner that meets the expectations of each activist or campaigner. In the past year, special interest groups have demanded divestment of holdings in tobacco producers, defence companies, energy producers and banks.

In contrast to the baseline views of many typical activist representations the Fund does not finance these companies – the Fund is simply a shareholder – and it does not take sides in the moral debate on these investments, but it does recognise that many of the issues raised have the potential to affect financial risk. The information provided by campaigners or other interested groups will always be given due consideration as part of the risk management process and in line with its fiduciary duty to its members and employers. The Fund's purpose is to ensure that there are sufficient funds to pay pensions to members as they fall due.

Stewardship Code

Another foundation on which the Fund's Responsible Investment approach is built is the UK Stewardship Code. The premise on which the Code was established is that effective stewardship benefits companies, investors and the economy as a whole. As a large institutional asset owner with voting rights in UK listed companies, Lothian Pension Fund is expected to adhere to the Code on a 'comply or explain' basis. The Fund complies. Its close adherence to the Code means that it is classified as a Tier 1 signatory. "To protect and enhance the value that accrues to the ultimate beneficiary, Institutional investors should follow these principles:

- publicly disclose their policy on how they will discharge their stewardship responsibilities.
- have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.
- monitor their investee companies.
- establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value.
- be willing to act collectively with other investors where appropriate.
- have a clear policy on voting and disclosure of voting activity.
- report periodically on their stewardship and voting activities.

More information on the Code can be found on the FRC website at www.frc.org.uk.

Voting

As the UK Stewardship Code makes clear, responsible institutional shareholders must exercise their shareholder rights to vote at company annual general meetings (AGMs) and extraordinary general meetings (EGMs). Voting can send a strong message to company management about how it is conducting business.

Lothian Pension Fund votes on the resolutions of 100% of the companies in which it is invested. Two of its external providers are charged with voting on the Fund's behalf based on pre-agreed policies. Baillie Gifford, who manage assets for Lothian, and Hermes EOS, the Fund's voting and engagement partner, do this. Their quarterly voting activity is available on Lothian's website www.lpf.org.uk/invest.

AGMs present asset owners with other way to influence management on important issues. Shareholders can file resolutions which allow all other shareholders to vote on matters that are not raised by management.

During 2018/19, Lothian co-filed a resolution for BP's AGM in May 2019 calling for greater transparency and disclosure on the company's approach to carbon emission and low-carbon transition planning. The resolution was backed by BP management and supported by 99.14% of investors. BP has since committed to provide investors with a new strategy consistent with the goals of the Paris Agreement, as well as providing further disclosure on capital expenditure and various company metrics and targets, including annual progress reports

Engagement

There is more to Stewardship and Responsible Investment than voting and filing resolutions. Monitoring and engaging with companies on matters of strategic importance is regarded as a key responsibility of institutional investors, which can improve corporate governance standards and protect shareholder value.

The Fund commits significant resources to engagement activity. Most is undertaken by the Fund's voting and engagement service provider and partner, Hermes EOS. What Hermes EOS brings to the Fund is a focus on and expertise in engagement activities as well as scale provided by its other like-minded clients. These allow Lothian to use its position as a shareholder more effectively as Hermes EOS engages on behalf of a wide shareholder base and is, therefore, more likely to influence management to enact positive change in investee companies.

Hermes EOS consults with its clients to develop an engagement plan so that it can prioritise engagement activity. The latest plan (available on the Fund's website) highlights 12 main themes for engagement over the three-year period 2019-21.

In this schematic, these themes surround the core subjects of engagement activity – environment, social issues, governance and strategy, risk and communication.

Each theme is described in detail in the engagement plan, including background information on the importance of each theme, the main outcome objectives, the methodology for tackling each engagement theme and Hermes EOS's description of best practice in each area.

Lothian stands behind Hermes EOS in achieving progress in each of these areas, and the internal team offers support and ideas where appropriate to Hermes EOS in carrying out this vital work.

Collaboration

Engagement activity is highly suitable for collaborative efforts. It is a complex area that benefits from scale. When Hermes EOS engages with companies, it can speak for asset owners with shareholdings worth up to £390bn. Lothian participates in other collaborative initiatives, which helps it fulfil its commitment to be an active and responsible asset owner:

- **LAPFF**, the Local Authority Pension Fund Forum, is a collaborative shareholder engagement group, comprising 80 UK local authority pension funds and 6 of the LGPS pension fund pools in England & Wales. The Convener of Lothian Pension Fund's Pensions Committee, Councillor Rankin, is on the executive board of LAPFF and has represented LAPFF and its member funds in high level engagement with company management.
- **The Cross-Pool RI Working Group** was one of several working groups formed when the England and Wales pools were being set up to take a leadership role in the process. The RI working group was formed to pioneer best practice in RI and share that across the pools. While Scottish funds are not involved in pooling, Lothian was invited to contribute to the group. Participation in the group has been an invaluable source of knowledge and expertise that allowed Lothian to take a leading position amongst UK asset owners in implementation of RI policy.
- **Diversity Project Scotland**. The Diversity Project is "a cross-company initiative championing a more inclusive culture within the Savings and Investment profession." Lothian Pension Fund has long championed diversity in its investee companies and has committed to diversity in its own ranks. Both investment and human resources staff are participating in this initiative.
- **Climate Action 100+** is a collaborative investor initiative supported by PRI and Hermes EOS. Lothian Pension Fund has recently become a participant member. Signatories to Climate Action 100+ are requesting the boards and senior management of companies to:
    - Implement a strong governance framework which clearly articulates the board's accountability and oversight of climate change risks and opportunities;
    - Take action to reduce greenhouse gas emissions across the value chain, consistent with the Paris Agreement's goal of limiting global average temperature increase to well below 2 degrees Celsius above pre-industrial level;
    - Provide enhanced corporate disclosure in line with the final recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) to enable investors to assess the robustness of companies' business plans against a range of climate scenarios, including well below 2-degrees Celsius, and improve investment decision-making.

A proud participant of:
Climate Action 100+
Global Investors Driving Business Transition

As a participant member, Lothian will be directly involved in company engagement with Climate Action 100+, not just through its service provider, Hermes EOS, but directly through the internal team. It is a clear signal that Lothian Pension Fund is focused on the long-term impact of climate change and regulatory pressure on existing business models from expert industry knowledge and from working with experienced engagers in this field.

The internal investment management team already regularly engages with company managements in the normal course of doing due diligence on companies as shareholders or potential shareholders. These meetings, or engagements, are an opportunity to discuss the key factors affecting company performance and strategy, and, of course, these include any significant ESG issues pertinent to that company. Further information on Climate action 100 is available at www.climateaction100.org.

Climate Change

Climate change has become the global issue of our time. As of February 2019, 184 states and the EU (representing 88% of global greenhouse gas emissions) had ratified or acceded to the Paris Agreement of the United Nations Framework Convention on Climate Change. Under this agreement, each country must determine, plan and regularly report on the contribution it undertakes to mitigate global warming. The three key aims of the agreement are:

- Holding the increase in the global average temperature to well below 2°C above pre-industrial levels and to pursue efforts to limit the temperature increase to 1.5°C above pre-industrial levels, recognising that this would significantly reduce the risks and impacts of climate change;
- Increasing the ability to adapt to the adverse impacts of climate change and foster climate resilience and low greenhouse gas emissions development, in a manner that does not threaten food production;
- Making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development.

Separate to this, but part of the overall worldwide change in culture with regards to greenhouse gas emissions, the Financial Stability Board (FSB) of the Bank of England launched the Taskforce on Climate-Related Financial Disclosures (TCFD). TCFD aims to "develop voluntary, consistent climate-related financial risk disclosures for use by companies in providing information to investors, lenders, insurers, and other stakeholders." Further information is available at www.fsb-tcfd.org.

As asset owners, Lothian has been engaging with the companies in its portfolios to enhance disclosures on emissions in line with the recommendations of TCFD, as well as working alongside peer organisations to promote the aims of the TCFD and reporting the Fund's approach to climate change-related risks and opportunities in its PRI reporting.

As part of the TCFD resources, investors and asset owners also have guidance on how to report their approach to climate-related risks and opportunities. These recommendations are split into four key areas of reporting.

Governance relates to the organisation's governance and climate-related risks and opportunities.

Strategy relates to the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning.

Risk management relates to the processes used by the organisation to identify, assess and manage climate-related risks.

Metrics and Targets relates to metrics and targets used to assess and manage relevant climate-related risks and opportunities.

The TCFD is in its relative infancy and Lothian Pension Fund is challenging companies to improve their disclosure and rapidly integrating the specifics of climate change into the risk management and governance of the Fund. Over the few years, it has undertaken substantial work on the issue.

Climate Change - Governance

In accordance with Scheme Regulations, the Pensions Committee and Pension Board are required to undertake a minimum of 21 hours training. Each year, the Fund's provider of voting and engagement services is invited to present to and interact with the Committee and Board. During 2018/19, they received specific training on climate change-related risks and opportunities. This was followed up with the first climate-specific reporting for the Committee, a carbon footprint of the Fund's equity holdings in June 2018. The simplicity of output of a single carbon footprint number belied the complexity of the subject matter, and the following recommendations were agreed:

- Reaffirm the Fund's commitment to integrate environmental, social and governance (ESG) considerations, such as carbon efficiency trends, into its decision-making
- Note that the Fund scrutinises and engages with investment managers to ensure that they are taking ESG issues, including climate change and carbon risk, into account in their investment decision-making
- Reaffirm the Fund's policy of not divesting solely on the grounds of non-financial factors
- Note that the Fund will monitor research on the link between ESG factors (including carbon-related factors) and financial performance to inform future investment strategy, such as stock selection criteria for quantitative strategies; and

- Agree that the Fund should aim to influence engagement activity based on its shareholdings of companies that perform poorly on carbon efficiency measurements.

The carbon footprint report will be updated on an annual basis as part of an annual review of climate-related risks and opportunities.

More broadly, the Committee and Board considers a paper on the Fund's approach to Stewardship on an annual basis. This also covers climate related issues. During 2018/19, the Pension Fund organised an event on responsible investing, to which major stakeholders and elected officials of local authority employers were invited to review the Fund's approach, with the opportunity for discussion with the investment managers, legal professionals, representatives from PRI and Hermes EOS and Committee and Board members. For those unable to attend the event and for those that require to understand the Fund's approach because they receive attention from lobbyists on a range of issues, a recording of the event has been made available on the Fund's website.

Climate-related risks and opportunities are an integral part of the overall investment process for Lothian Pension Fund, and so the Pensions Committee delegates investment decision-making to officers and investment managers with advice from the Joint Investment Strategy Panel. Climate-related risk management is reviewed as part of the regular monitoring process, which includes analysis of ESG integration in the investment mandates. For Real Estate and Infrastructure managers, the Fund has recently incorporated GRESB data into the monitoring process to better assess climate-related risk within the Fund.

Climate Change - Strategy

The Fund recognises the contribution that some specific sectors and industrial activities have towards climate change. While many prefer to label companies in carbon-intensive industries 'bad' and those in low-carbon and alternative energy businesses as 'good', in reality investment is more nuanced than this. The Fund has a policy of engagement rather than blanket divestment, which allows us to exert influence on companies to improve their business practices, align with the Paris goals, and disclose internal climate-related risk and opportunity management with TCFD compliant reporting. Recent academic research commissioned by Lothian Pension Fund* suggests that divestment at best is ineffective, and at worst provides a clear disincentive for management to change.

The Fund's approach to engagement relies heavily on our engagement and voting partner, Hermes EOS. Hermes EOS engages with companies on a range of engagement issues including climate change. The internal management team also engages with company management on a regular basis as part of company roadshows and investment conferences.

*****_University of Edinburgh Master's in Economics Dissertation, "In response to the recent Paris Agreement, how might pension funds contribute to helping reduce global climate change through investment policy?", Cooper, 2019_

In addition, the Fund has joined the Climate Action 100+ investor initiative and is actively participating in engagement with one of the 167 target companies in the list of systemically important carbon emitters produced by the initiative.

Regular training and development for all staff on climate related issues is provided. This includes governance functions, management, investment decisions makers, and pensions administration staff. This creates an internal culture that is serious about the risks to capital posed by the carbon transition.

The holdings of the Fund can be broadly classified under three approaches: fundamentally managed equity, quantitatively managed equity, passively managed government debt and externally managed funds (covering all asset classes). As part of the stock selection process for the fundamentally managed portfolios, any fundamentally material climate-related risks and opportunities (such as carbon pricing and the low carbon transition) are individually assessed by the managers and monitored in the portfolio holdings. Both the fundamental and quantitively managed equity funds utilise engagement with managers to improve practices. The selection and monitoring process for external managers incorporates ESG elements, and this is continuing to be refined.

The internal managers continue to monitor opportunities in the green energy and future technology space, both in the public and private markets. Much of the public spending on green energy is being done by the incumbent energy providers (the diversification of carbon-extractive companies and carbon burning utilities).

Climate Change - Risk Management

The Fund produces annual carbon footprints for listed equities. Individual companies within this exercise can have their weighted average carbon intensity measured, allowing a look through into the concentration of carbon emission risk associated with each company. This has been useful in helping to guide engagement efforts and highlighting companies that could pose a capital risk in the event of an acceleration in the low carbon transition. To date, no divestment due to outsized climate-related risks have been made. Specific research budget has been allocated to data services associated with ESG and climate-related risks and opportunities.

Climate Change - Monitoring and Metrics

The Joint Investment Strategy Panel, Committee and Board all receive regular papers on general ESG (including climate related) issues and on specific climate-related risks and opportunities. The internal management team has a suite of tools available to them. Within equities, the team utilises MSCI ESG tools, including Carbon Metrics. This allows the managers in depth assessment of ESG risks and individual carbon emissions data for all the underlying companies enabling the Fund to produce annual carbon footprints for the equity portion of the Fund.

Recent additions of data from the Transition Pathway Initiative and Carbon Action 100+ are being incorporated into the equity management process.

Recent access to GRESB data in the infrastructure and real estate asset classes is being assessed and will be incorporated into reporting in these areas over time. Support for the Carbon Disclosure Project also allows access to useful research that is considered during due diligence on investments.

Manager Selection and Monitoring

While most of Lothian Pension Fund assets are equities and bonds that are managed internally, a proportion of investments are managed by third party managers. These external managers transact in public and private markets, investing in the equity and debt of infrastructure-related, corporate and property assets. One of the core elements of due diligence in the appointment process of managers centres on their approach to ESG issues. After appointment, Lothian continues to monitor the managers quarterly and as part of this quarterly reporting and monitoring cycle, managers are obliged to provide information on ESG related issues arising and how the managers are reacting to them.

Impact

An emerging theme in global responsible investment is Impact Investing – the provision of capital to address social and/or environmental issues. Investments are made in projects that aim to generate both a positive financial return and a non-financial return – the latter is often referred to as an environmental dividend or a social dividend.

These non-financial positive impacts can be linked to the aims of the United Nation's Sustainable Development Goals (SDGs), which can be viewed at https://sustainabledevelopment.un.org and are a collection of 17 global policy areas identified to provide the greatest transformational potential to society. While these SDGs were written for policymakers, some investment professionals have begun to adopt them to target specific non-financial outcomes from their investment activities.

Lothian Pension Fund is regularly presented with these types of investment, and while not targeting Social and Environmental Impact alone, it will invest in them where they are expected to deliver an appropriate risk-adjusted return. The Fund makes investments in Private Equity, Private Debt, Infrastructure and Real Estate, which involve the deployment of capital into new projects, which are expected to have a positive impact, such as wind farms and other clean energy and modern, sustainable, energy efficient buildings. In this way, the Fund's capital creates jobs, cutting edge new environments, and the clean energy that society will need in a low-carbon future – and all while providing sustainable risk-adjusted returns for the Fund.

Infrastructure Investment

Infrastructure investments have the potential to generate attractive risk-adjusted returns, with cash flows often linked to inflation. The long-term and defensive nature of these assets also can provide an element of diversification to the Fund's investment strategy.

Over the last decade, the Fund has developed its reputation, networking and execution capabilities to secure access to investment opportunities within this market niche. The Fund's experienced team appraises, and invests in primary and secondary funds as well as co-investments, to achieve its target allocation in a cost-effective manner. An important element of the implementation strategy is to work closely with investment managers to ensure execution certainty and to diligence the commercial and legal terms. Collectively, Lothian and its collaboration partners committed over £200 million in 2018/19 in infrastructure investment.

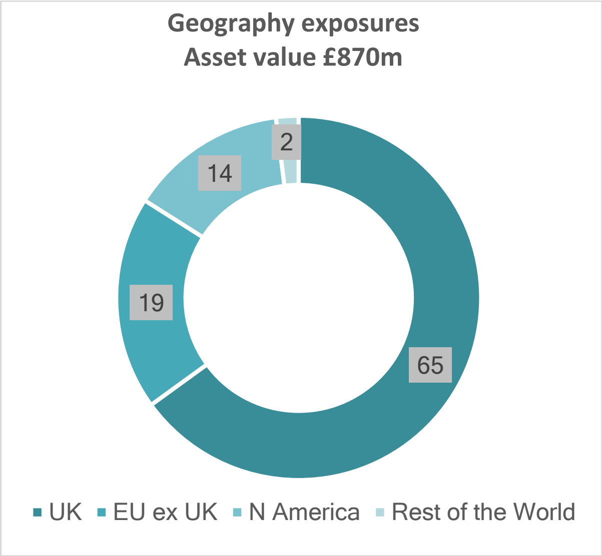
Lothian Pension Fund has a long-standing commitment to responsible investment. In addition to becoming a signatory of the UNPRI (United Nations Principles of Responsible Investment) in 2008, the Fund has subscribed to GRESB (Global Real Estate Sustainability Benchmark) to further enhance our analysis of environmental, social and governance issues.

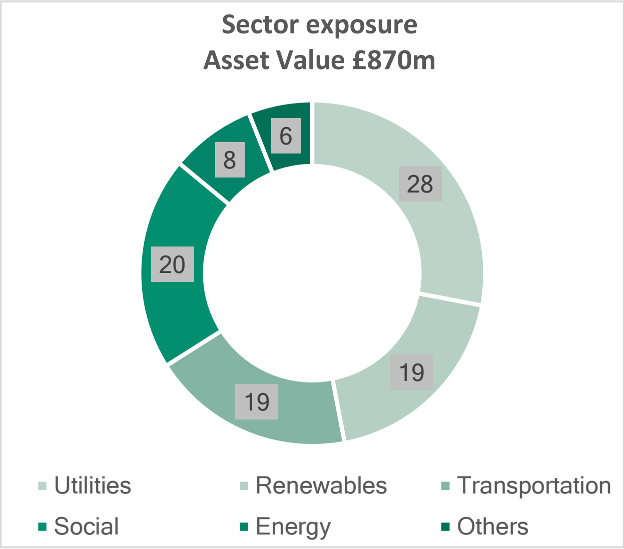
Infrastructure investments represented 11.1% of the value of Lothian Pension Fund assets at 31 March 2019, comprising one of the largest and most diversified allocations among UK LGPS funds. Of the total infrastructure investment of £870 million (31 March 2018: £795 million) invested in infrastructure, the majority is invested in the UK.

During 2018/19, Lothian Pension Fund completed two primary fund investments, acquired seven secondary fund interests and invested in three co-investments. Approximately £135 million has been invested over the year in UK, European and Global infrastructure assets. During the same period, £173 million has been distributed to the Fund. There were two successful realizations during the period generating proceeds of £48 million and recording a blended net internal rate of return of 22.3% and a total value to paid-in multiple of 1.8x. Distributions from secondary fund investments contributed £91 million.

Secondary fund investments completed following the global financial crisis in 2007-2008 boosted returns. The Fund invested £402 million in ownership interests of 23 funds from 2010 to 2019. It has received £309 million of distributions from those investments and the remaining invested value at 31 March 2019 was £329 million. This generated a total value to paid-in multiple of 1.6x and an internal rate of return of 17% to date.

The geographic and sector exposures for Lothian Pension Fund infrastructure allocations (at 31 March 2019) are shown in the charts below.



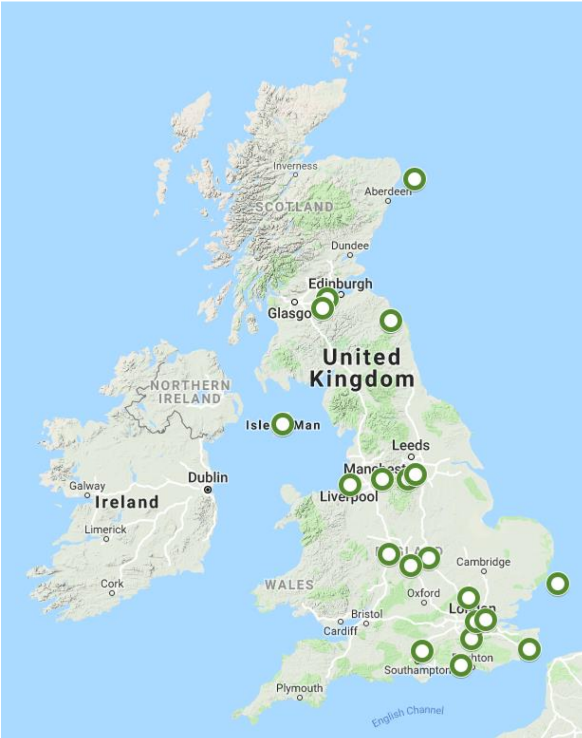


Infrastructure investments in the UK contributed 64% (or £559 million) of the total. The Funds' 20 largest UK investments, representing £400 million of value, are shown in the map below.

Investments are made across a diverse range of projects, in the areas of:

- social infrastructure (including hospitals, schools and roads);
- regulated utilities (including water and electricity);
- energy & renewables (including solar and wind);
- transportation (including ports and rail); and
- others (including car parks and smart meters).

The Fund recognises the role infrastructure investment can make to addressing part of the current environmental challenges related to climate change. Approximately, 20% of the infrastructure portfolio is invested in renewable energy. During the year, the Fund allocated £47 million to co-investments in UK renewable energy projects – a diversified portfolio of wind farms and in an energy from waste facility.



Funding Strategy Statement

The Funding Strategy Statement covers the funding strategies for Lothian Pension Fund and Scottish Homes Pension Fund and can be viewed on our website at www.lpf.org.uk/publications.

The purpose of the Funding Strategy Statement is:

- to establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward;
- to support the regulatory framework to maintain as nearly constant employer contribution rates as possible; and
- to take a prudent longer-term view of funding those liabilities.

These objectives are desirable individually but may be mutually conflicting.

The Funding Strategy Statement also ensures that the regulatory requirements to set contributions to ensure the solvency and long-term cost efficiency of the Funds (as defined by the Public Service Pensions Act 2013) are met.

Key policies, including the Fund's Admission Policy and Policy on Employers Leaving the Fund are appended to the Funding Strategy Statement. The policy on Employers Leaving the Fund sets out the Fund's approach to dealing with employer exits, including principles for determining payment of cessation debt.

The Funding Strategy Statement was revised at the 2017 Actuarial Valuation and reflects CIPFA guidance "Preparing and maintaining a funding strategy statement in the Local Government Pension Scheme 2016". In addition to updates required as a result of changes to the Scheme Regulations and other pensions legislation, these included:

- the introduction of a new medium risk investment strategy intended to smooth the path to exit and reduce the deficit risk when an employer leaves the fund
- the requirement for employers to provide written confirmation that minimum contribution rates set by the Actuary are not unaffordable.

As required by Scheme Regulations, the Fund consulted with employers as part of the review process. Further amendments have been made to incorporate changes to Scheme Regulations in 2018 and an update to the Fund's bulk transfer policy. A consultation on these amendments is in progress.

The Fund must be able to meet all benefit payments as and when they fall due. These payments will be met by contributions (resulting from the funding strategy), or asset returns (derived from the investment strategy). A formal review of the Fund's investment strategies is undertaken at least every three years to ensure appropriate alignment with liabilities. Further information on the investment strategies can be found in the Fund's Statement of Investment Principles also available at www.lpf.org.uk.

Financial Performance

Administration expenses

A summary of the Fund's administrative expenditure for 2018/19, against the budget approved by Pensions Committee, is shown in the table below. This budget includes adjustment agreed by Pensions Committee during the financial year.

The budget focuses on controllable expenditures and therefore excludes all benefit payments and transfers of pensions from the Fund. Similarly, income does not include contributions receivable and pension transfers to the Fund. The total net cost outturn of £28,703k against budgeted of £29,410k represented an underspending of £707k (2.4%) for the Fund. The key budget variances serving to generate this underspending were:

- Investment management fees - £1,169k overspending. This budget also includes investment management fees deducted from capital but excludes the performance related element of these charges due to their unpredictable nature. Broadly speaking both invoiced and uninvoiced investment management fees were within expectations. The overspending related entirely to investment property operational costs, arising from a tenant company entering administration, and the resultant debt being written-off and recognised in the Fund Account.
- Supplies and Services - £605k underspending. Implementation delay of the investment front office software system was the major factor.
- Employees - £602k underspending. This reflected general recruitment delays in the filling of vacant posts and revised accounting advice in respect of the treatment of the vested elements of variable pay.

	Approved budget	Actual outturn	Variance
	£000	**£000**	**£000**
Employees	4,379	3,777	(602)
Transport & Premises	250	224	(26)
Supplies and Services	1,934	1,329	(605)
Investment Managers Fees*	22,300	23,469	1,169
Other Third-Party Payments	1,439	1,120	(319)
Capital funding - Depreciation	132	62	(70)
Direct Expenditure	30,720	29,981	(453)
Support Costs	286	250	(36)
Income	(1,310)	(1,528)	(218)
Total net controllable cost to the Fund	**29,410**	**28,703**	**(707)**

**Does not include performance element. In 2018/19, £8.5m was paid in fees in relation to the Fund's private market investments.*

Reconciliation to total costs

	Actual outturn
	£000
Actual outturn on budgeted items above	28,703
Add: Securities lending revenue included in income above	943
Investment management fees deducted from capital – performance related element	8,531
IAS19 LPFE retirement benefits	594
LPFE deferred tax on retirement benefits	(101)
Corporation tax	29
Total cost to the Fund (inclusive of full cost investment management fees)	38,699
Per Fund Accounts	
Lothian Pension Fund Group	38,634
Scottish Homes Pension Fund	65
Total	**38,699**

Cash-flow

Cashflow to and from a pension fund is very dependent upon the profile of its membership. Specifically, a maturing membership, where the proportion of active to deferred and pensioner members is reducing, would be expected to see a reduction in contributions received, together with additional outlays on payments to pensioners.

Lothian Pension Fund continued to experience a net reduction in value from its dealings with members. That said, the Fund has seen a £6.8million improvement in this position during the year with outlays exceeding receipts by £13.0million, compared to higher net withdrawals of £19.8million in the previous financial year. This reflects both the first year of higher employer contributions, as determined by the actuarial valuation 2017 results, and the upward trend in the number of active members.

Scottish Homes Pension Fund is a mature fund with no active members. As a result, pension outlays are met from investment income, supplemented by asset sales. Net pension outlays were £7.3million representing a £0.4million change in position from 31 March 2018 (net withdrawals of £6.9million).

It is anticipated that for the next few years these cash flow trends will remain broadly consistent.

Membership statistics and funding statements from the Actuary are provided for both Funds in the Fund Accounts sections.

2017 Actuarial Valuations

The most recent triennial assessment of the funding position of the pension funds was undertaken by the Fund's Actuary as at 31 March 2017. In general, the results showed that despite better than expected asset returns since the 2014 actuarial valuation, employer costs increased due to a reduction in future expected investment returns. The Funding Strategy Statement was reviewed and amended following consultation with employers.

For Lothian Pension Fund, the funding level increased from 91% at 31 March 2014 to 98% at this valuation. The deficit decreased from £417million at 31 March 2014 to £145million at 31 March 2017. Reflecting the differences in the employers in the Fund, a third investment strategy was introduced for employers which are closed to new entrants but not close to exiting the Fund. The Fund also introduced a requirement for employers to provide written confirmation that minimum contribution rates set by the Actuary are affordable. It is not in the best interests of the individual employers or the Fund for employers to continue to accrue unaffordable pension liabilities. Three employers indicated that the minimum contribution rates were unaffordable and the Fund worked with them to manage their exit from the Fund. The Fund continues to work with employers to put in place funding agreement to address repayment of debt when an employer leaves, in order to avoid employer default or insolvency.

The funding level for Scottish Homes Pension Fund at 31 March 2017 was 104.7%, increased from 88.8% from the 2014 actuarial valuation. Consultation was undertaken with the Scottish Government on the potential benefits offered by revising the Funding Agreement for this Fund. However, it advised that it does not wish to revisit this and as a result the investments of the Fund are now fully invested in index-linked government bonds and cash.

Investment management cost transparency

Local authorities are required to account for pension funds in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom (the Code). The Code is based on approved accounting standards issued by the International Accounting Standards Board and interpretations of the International Financial Reporting Interpretations Committee, except where these are inconsistent with specific statutory requirements. The Code also draws on approved accounting standards issued by the International Public Sector Accounting Standards Board and the UK Financial Reporting Council where these provide additional guidance. Guidance is still awaited from CIPFA as to how these costs should be standardised and reported in the Annual Reports of LGPS Funds.

CIPFA published this guidance in July 2014, which promoted greater transparency of investment management fees. These principles were adopted as best practice in the presentation of the Lothian Pension Fund audited Annual Report 2015. In June 2016, CIPFA revised its guidance including the following “Investment costs incurred by a separate legal entity, or in respect of investment decisions over which the pension fund has no control, should not be included in the Fund Account.” The revised guidance changed the disclosure of fees for fund of funds investment arrangements. A “fund of funds” is an investment holding a portfolio of other investment funds rather than investing directly in funds. Typically, fees are payable to the “fund of funds” manager as well as to the managers of the underlying funds. Generally, under the revised guidance from CIPFA, the second and third layer of fees would not be disclosed with just the fees from the “fund of funds” manager stated.

In the preparation of the Fund’s Annual Report for 2014/15 and 2015/16, the Fund made efforts to be completely transparent on the totality of costs incurred for managing its investment assets. The Fund’s disclosures included all layers of fees. At its meeting on 28 September 2016, the Pensions Committee agreed to instruct the Committee Clerk to communicate to the Chartered Institute of Public Finance and Accountancy (CIPFA), Audit Scotland and the Scottish Local Government Pension Scheme Advisory Board (SLGPSAB), the Committee’s and Convener’s disquiet with the relaxation of the principle of full cost transparency of investment management fees, as explicit in CIPFA’s revised guidance “Accounting for Local Government Pension Scheme Management Costs”.

In May 2018, CIPFA published “Proposals for LGPS Fund Reporting in a ‘Pooled World’”. “This …. sets out proposals for revised reporting for LGPS pension funds to meet a number of objectives”, including “to further enhance reporting of costs reflecting the introduction of the LGPS SAB Code of Transparency for asset managers, and initiatives underway by the Financial Conduct Authority (FCA) and Department for Work and Pensions (DWP) which aim to create more transparent and granular reporting standards for both providers and trustees …. This paper has been issued by CIPFA as good practice which is to be incorporated into 2018/19 Annual Report guidance for local government pension funds.”

Most recently, in March 2019, CIPFA published “preparing the annual report - Guidance for Local Government Pension Scheme Funds (LGPS) 2019 Edition”. The purpose of this guidance is to assist local government pension funds with the preparation and publication of the annual report required by Regulation 55 of The Local Government Pension Scheme (Scotland) Regulations 2018.

The Pensions and Lifetime Saving Association (PLSA) confirmed the launch of new templates in May 2019 in relation to its Cost Transparency Initiative. The aim of the initiative being to provide a standardised way for asset managers to report costs and charges to investors. Guidance is still awaited from CIPFA as to how these costs will be standardised and reported in the Annual Reports of LGPS Funds.

The financial statements of Lothian Pension Fund and Scottish Homes Pension Fund continue to include full transparency for both Funds' internal and external investment management fees.

	Investment management expenses in compliance with CIPFA guidance	Investment management expenses per 2017/18 financial statements	Disclosure in excess of CIPFA guidance
	£000	**£000**	**£000**
Lothian Pension Fund	31,041	36,103	5,062
Scottish Homes Pension Fund	84	84	0
TOTAL	**31,125**	**36,187**	**5,062**

Investment cost benchmarking

Investment strategy focuses on risk adjusted returns, net of costs. The Fund has participated in investment cost benchmarking provided by CEM, an independent benchmarking expert for global pension funds with a database of 346 global pension funds representing £7.3 trillion in assets. To provide a fair comparison, CEM calculates a benchmark based on fund size and asset mix, which are key drivers of investment costs.

The latest analysis shows Lothian Pension Fund's investment costs of 0.43% of Fund assets were significantly lower than CEM's benchmark cost of 0.55%, an equivalent annual saving of approximately £8.0m. This saving largely reflects the fact that the Fund manages a relatively high percentage of assets internally compared with other similar pension funds and that it has low exposure to fund-of-fund investment vehicles.

Performance and Administration

Key Performance Indicators 2018/19

The Fund has a strong commitment to customer service which drives the continuous development of our services to ensure the best possible service for customers whilst recognising potential demands of the future. We set challenging performance targets and measure these through key indicators reported to our Pensions Committee and Pension Board and internal indicators reported to internal management.

The table shows our performance against these targets.

2018/2019	Target	Actual
Maintain Customer Service Excellence Standard (CSE) (Annual assessment)	Retain	**Retained**
Audit of Annual Report and Accounts 2017/18	Unqualified opinion	**Met**
Proportion of members receiving a benefit statement and by August	100%	**100%**
Overall satisfaction of employers, active members and pensioners measured by surveys	90%	**92.7%**
Percentage by value of pension contributions received within 19 days of end of month to which they relate	99%	**99.7%**
Investment performance and Risk of Lothian Pension Fund over rolling 5 year period	Meet benchmark	**Met**
Monthly pension payroll paid on time	Met	**Met**
Level of sickness absence	4.0%	**3.9%**
All staff complete at least two days training per year	Yes	**100%**
Staff engagement index	Greater than 70%	**69%**

Value for money

Value for Money is the term used to assess whether an organisation has obtained the maximum benefit from services it acquires or provides, within the resources available to it. It has three components to take account of economy, efficiency and effectiveness. The Fund participates in benchmarking provided by the Chartered Institute of Public Finance and Accountancy (CIPFA). The purpose is to help identify the areas where improvements can be made to deliver better value for money. The exercise carried out facilitates:

- comparison between costs and performance
- the provision of evidence to support decisions on budget relating to the sustainability and capability of the investment and administrative teams to enhance customer satisfaction

- sharing of information and ideas with peers; and
- a review of performance trends over time.

The outputs and analyses have served to supplement internal performance management information. However, the Chartered Institute of Public Finance and Accountancy (CIPFA) has stated that, in order to protect its commercial interests, its benchmarking reports "cannot be put in the public domain. It is for internal uses only within the authority....and for contacting and communicating with other members of the club". We are therefore unable to include full information on the results in the Annual Report.

A summary of the benchmarking is as follows:

- Lothian Pension Fund's cost per member of £23.38 falls within the very wide range of local authority funds of c£11 to £61. However, the cost is higher than the average of all funds of £21.71. The average of funds of comparable scale is £21.16.
- The composition of a Fund's membership impacts costs. Active members represent 39.3% of the Fund membership compared with an average of 34.2%, and pensioners represent 30.8% compared with 24.1%, with the consequence that deferred members represent a lower proportion of membership (22.2%) than the typical fund (29.9%). As deferred members are less demanding on administration services, these factors would tend to increase pension administration and payroll workload and therefore cost.
- Also of note is that the proportion of staff holding relevant pension administration qualifications is significantly higher than the average (more than double).
- Moreover, the Fund's administration performance is above average for 7 of the 9 industry standard indicators, in certain instances by a considerable margin.

Customer and complaint feedback

Listening to feedback is key to our services, with the Fund carrying out surveys to monitor individual and overall satisfaction. Our overall satisfaction continues to improve and in 2018/19 remains above the 90% target at 92.7%. This exceeds the target of 90%.

We also monitor complaints and ensure we respond and resolve where possible, within 20 working days. We investigate and learn from both formal and informal complaints to ensure we are continuously improving our services. Complaints are split by those about the service we provide and those about how Scheme Regulations are applied.

We carried out 20,389 processes in 2018/19 and there were very few complaints made, less than 0.1%. Complaints covered a broader range of issues including taking small pensions as a cash lump sum and the time it took to pay a Cash Equivalent Transfer Value to new pension providers.

Internal Dispute Resolution Procedure (IDRP)

Pensions law requires that the Local Government Pension Scheme must have a formal procedure in place for resolving disputes arising from the running of the scheme. The IDRP is a two stage process. An external independent appointed person deals with disputes at the first stage. The second stage is dealt with by the Scottish Ministers.

In 2018/19, there were seven stage 1 disputes for investigation. If a member remains dissatisfied with the Stage 1 decision, they have six months to take their appeal to Stage 2. In 2018/19, there were six Stage two disputes and one remaining from 2017/18 which is included in the statistics below.

Reason for dispute		Stage 1 outcome	Stage 2 outcome	On-going
Error	1	1 not upheld	1 not upheld	0
Overpayment	1	1 not upheld		1
Awards, eg early payment of deferred pension on health grounds	5	5 not upheld	1 upheld	4

Further information about the IDRP and complaints procedure is available on our website at www.lpf.org.uk/complaints.

Our data

We issued 100% of benefit statements by the statutory deadline of 31 August 2018. Although we have achieved over 99% in the past 2 years, this is the first time we have achieved 100% since the target was introduced by the Pensions Regulator in 2015.

All of our employers submit contribution data each month and in October, the Fund moved over to a new service following a tendering process. The previous provider did not tender and so a new service that integrates with our pension administration software was sought. This employer data portal has allowed us to continue to ensure accuracy of member data.

We measure our pension record keeping standards against The Pension Regulator's best practice guidance. Poor record-keeping can lead to significant additional costs in areas such as administration, error correction, claims from members as well as fines from The Pensions Regulator.

Over the year, we have continued data accuracy improvements with our employers and carried out significant additional work as part of the introduction of the new employer portal. We are also carrying out external tracing of members where we do not hold a current address.

Historically, the Fund has prepared its assessment of common and conditional data in-house, calculated as an overall percentage of member records passed in each category tested.

Due to the complexity of the Regulator's illustrative list of conditional data requirements, previous results were based on a small number of conditional data categories. The Annual Report and Accounts 2017/18 cited a score of 99.9% for both the common and conditional data.

This year, the Fund has utilised a new Data Quality Service provided by the software supplier. The Fund can now provide data score measurements required by the Regulator based on more comprehensive analysis and based on the percentage of clean member records without a single data failure.

The conditional data now interrogates five data categories; Member Benefits, Member Details, CARE Benefits, HMRC Data and Contracted Out Data.

The Funds' (combined Lothian Pension Fund and Scottish Homes Pension Fund) scores as at 31 March 2018 were 95.6% for common data and 90.9% for conditional data. As this is the first time using the new software, issues were identified with the way some historic data has been recorded, rather than data being unavailable. The software supplier stated that the general quality of the Fund's common data was of a high standard compared with other LGPS funds.

In order to maximise the cost efficiency of this annual outsourced assessment, the member data extract was run on 13 August 2019, with effective date as at 31 March 2019. This enables the data cleansing of member records undertaken by the Funds prior to issuing the Annual Benefit Statements to be reflected in the assessment. This timeframe also aligns to the submission of the annual scheme return to TPR by 30 November 2019.

Lothian Pension Fund and Scottish Homes Pension Fund scored 98.3% and 96.5% respectively for common data and 95.4% and 96.7% for conditional data as at 31 March 2019. This is the first year of having separate scoring for each Fund.

Guaranteed Minimum Pension (GMP)

GMP is the minimum pension which a United Kingdom occupational pension scheme must provide for those employees who were contracted out of the State Earnings-Related Pension Scheme (SERPS) between 6 April 1978 and 5 April 1997. The UK Government has mandated a reconciliation of Guaranteed Minimum Pension details held on scheme pension administration records to those held by HMRC. This was to be completed by the 31 March 2019.

An internal team has been working on this project since the announcement and the reconciliation was 100% complete by March 2019. Underpayments of pensions are being corrected and put into payment, together with lump sum arrears.

The Scottish Ministers have decided any LGPS pension in payment affected by the exercise should not be reduced. Instead it is expected that overpayments will be held separately and remain static going forward and not receive any Pension Increase that may be due on other LGPS pension benefits.

Pension Administration

The introduction of the career average pension scheme in April 2015 has meant that pension administration has become more complex for both the Fund and employers.

New Scheme Regulations were introduced with effect from 1 June 2018 introducing a number of changes, the most significant of which lowered the earliest age members can voluntarily retire to 55.

However, changes were not made to previous transitional Regulations 2014 which meant important regulatory references within the Transitional Regulations were incorrect and therefore not competent. Legal advice at the time confirmed that using these Regulations could leave the Fund open to challenge.

The Fund therefore put a hold on paying retirement and death in service benefits for members with membership prior to April 2015. A letter of comfort from the Scottish Government was received 2 months later which allowed the resumption of these payments.

Also, on 29 October 2018, the UK Government announced a change in the discount rate used to set employer contribution in public service pension schemes. As a result, the Fund had to suspend all non-club Cash Equivalent Transfer Values (CETVs) and Divorce CETVs until new factors were made available on 29 November 2018.

Our in-house pension administration team provides a dedicated service for the pension fund members. We monitor the time taken to complete our procedures. Key procedures include processing of retirement and dependent benefits, providing information for new members, transfers and retirement quotes. Despite the challenging environment, 92% of key procedures in 2018/19 were completed in target. However, in other areas, some delays were experienced while this key work was prioritised.

The table below shows the number and type of retirements in 2018/19.

	Ill health	Early - age 60 to NPA	Early – age 55 to 59	Redundancy	Efficiency	Late	TOTAL
Lothian Pension Fund	118	907	140	115	61	165	1506
Scottish Homes Pension Fund	0	21	0	0	0	0	21

The table below shows performance against key procedures in 2018/19.

	Target	Actual
Proportion of critical pensions administration work completed within standards – individual performance within this indicator are shown below	Greater than 91%	**92.2%**
Provide a maximum of one guaranteed Cash Equivalent Transfer Value (CETV) within 10 working days of receiving a request	90%	**96.7%**
Payment of CETV within 20 working days of receiving all completed transfer out forms	95%	**97.2%**
Pay lump sum retirement grant within 7 working days of receiving all the information we need from the member	95%	**97.5%**
Notification of dependant benefits within 5 working days of receiving all necessary paperwork	95%	**98.3%**
Acknowledge of the notification of the death of a member to next of kin within 5 working days.	95%	**97.2%**
Respond in writing within 20 working days to formal complaints that have escalated from frontline resolution, or recorded directly as an investigation	95%	**100%**
Provide transfer-in quote within 10 working days of receiving the Cash Equivalent Transfer Value (CETV) from member's previous pension provider.	95%	**80.4%**
Notify members holding more than 3 months, but less than 2 years' service, of their options at leaving. As there is a one month and a day lying period, the target is within 10 days of the end of the lying period or after the employer providing full leaving information if later,	80%	**77.0%**
Pay a refund of contributions within 7 working days of receiving the completed declaration and bank detail form.	90%	**87.7%**
Notify early leavers entitled to deferred benefits of their rights and options within 10 days of being informed of end of pensionable service.	90%	**81.7%**
Estimate requested by employer of retirement benefits within 10 working days	90%	**82.3%**
Pay any lump sum death grant within 7 working days of receipt of the appropriate documentation	95%	**92.7%**
Proportion of non-key procedures completed within standard including Additional Regular Contributions, responding to member communications, updating nominations and maintaining the member database.	75%	**73.6%**

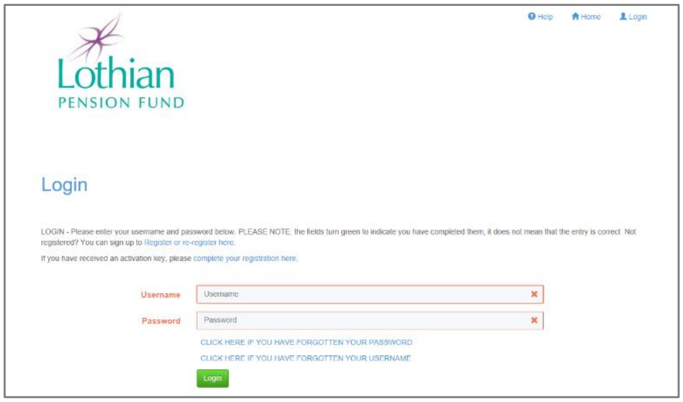
The Fund also participates in the National Fraud Initiative which is a data matching exercise led by Audit Scotland and is carried out every two years. The 2018/19 matching exercise started in Autumn 2018 and matches were made available to the Fund from 31 January 2019. We are currently investigating these and will report the outcomes to the Pensions Committee in September 2019. In 2018/19, the total value of pension overpayments written off under delegated authority (overpayments up to £3,000) between 1 September 2017 and 31 August 2018 was £1,860.33.

There were three cases with a total of £74,978 written off as overpayment of pensions by the Pensions Committee.

The most significant overpayment was for a widow who did not notify us of remarriage. The pension should have been stopped on remarriage due to earlier pension scheme rules that prohibit payment of a widow's pension on remarriage which resulted in the overpayment. However, these regulations do allow reinstatement at a future date should the remarriage end. A caveat has been put in place that any reinstatement would only be paid once the recovery of the overpaid pension amount had taken place.

Online services

The Fund is moving towards providing as many services as possible online. We currently have 44% of active members registered for the online service. We provide retirement estimates and refund information online and are investigating ways to increase the use of improve processing times and enhance services for our members. Information for members is also available via email, phone and in person visitors to our offices.



As part of the pension software tender process, we introduced a new portal for employers to send monthly contribution returns. Data can now be automatically uploaded to the pension software system allowing automation of tasks previously requiring to be done manually.

This project resulted in a small number of employers' data being delayed whilst changes to processes and matching of information was carried out. In 2019/20, all employers should be fully utilising the service.

Unclaimed Monies Account

Where a member leaves the Fund with less than 2 years membership they are entitled to a refund or transfer to another pension provider. Where we do not receive a response to any of our correspondence, we record these as Status 3: Exit – No liability with a marker as unclaimed. We report this figure monthly and at 1 April 2019 the unclaimed amount was £909,056.44 with 2,527 records with the unclaimed marker.

We are continuing to check these unclaimed records and contacting these members to remind them of their options and will work to ensure monies are refunded or transferred where possible.

Employer performance

The Pensions Administration Strategy sets out the roles and responsibilities of both the Fund and employers, specifying the levels of services the parties will provide to each other and referring to four key areas where the Fund will pass on the costs of poor performance from employers:

- Late payment of contributions
- Late submission of membership information at the end of the year
- Failure to supply the Fund with information required to provide members with pensions savings statements; and
- Failure to provide details of member contributions monthly.

These areas are particularly important to ensure compliance with legislation, including accurate data to administer the new career average pension scheme and the requirement to provide members with a pension forecast by 31 August each year. Charges for late payment of contributions are as stated in the Scheme Regulations whilst other charges have been set to reflect the additional time spent in resolving queries and pursuing late information.

The Fund monitors employer performance against the standards set out in the Pension Administration Strategy. Results are reported to employers by way of an annual performance report, with more regular reporting for larger employers.

Due to the ongoing migration to the new data transfer portal, we are unable to provide accurate statistics for new members. Employers have continued to provide new member data and we will be in a position to report accurately in 2019/20.

Whilst the provision of leaver information in target has increased slightly, the majority were received out of target. We have continued to target historical cases and provide missing leaver queries to employers monthly. We are confident that historical cases have now been completed and employers can focus on ‘business as usual’ cases in 2019/20.

Unfortunately, most retirement information continues to be provided out of target. Just over half of all retirements occur where members are over age 55 and voluntarily take their pension benefits with a permanent actuarial reduction. Only 35% of these retirements were received in target. We shall continue our engagement with employers to seek requisite improvement.

Overall employer performance for 2018/19 is shown below, with 2017/18 shown for comparison purposes.

		2017/18			2018/19		
Case type	**Target (working days)**	**Number received**	**Number within target**	**% within target**	**Number received**	**Number within target**	**% within target**
New members	20	6,204	5,439	88%	4,379	N/A	N/A
Leavers	20	2,460	1,058	43%	3,628	1,715	47%
Retirements	20	1,050	427	41%	1,249	488	39%
Deaths in Service	10	26	13	50%	11	7	64%

Employer contributions

We monitor the payment of employer contributions as employers are required under the Pensions Act 1995 to pay contributions by the 19th of the month after the deduction was made. This is a key performance indicator with a target of was 99% contributions paid in time.

The primary rate for the whole Fund at the triennial valuation for 2018/19 was 31.8% shown as a percentage of pay. Each employer has its own individual rate based on its own circumstances.

99.7% of contributions by value were paid on time. Of the 1,022 payments made, 46 were paid later than the 19th and these are shown in the table. The option to levy interest on overdue contributions was not exercised in 2018/19 as late contributions were not received significantly later than the 19th significant.

Employer	Number of late payments	Employer	Number of late payments
Scotland's Learning Partnership	10	Young Scot Enterprise	2
Freespace Housing	5	Baxterstorey	1
Skanska	5	Canongate Youth Project	1
Homeless Action Scotland	4	Enjoy East Lothian	1
North Edinburgh Dementia Care	3	Morrison Construction	1
EDI Group Ltd	3	Scottish Futures Trust	1
Four Square	2	St Columba's Hospice	1
Heriot Watt University	2	Visit Scotland	1
Stepping Out Project	2	West Lothian College	1
TOTAL			46

Scotland's Learning Partnership was late with payments on ten occasions. It should be noted that, on 26 April 2019, the Scottish Public Pensions Agency (SPPA) advised that "Ministers have agreed that Scottish Government will provide a guarantee in respect of the liabilities for the staff from the former Community Learning Scotland who transferred to the Local Government Pension Scheme". This guarantee was signed on 3 June 2019.

Management commentary approved by:

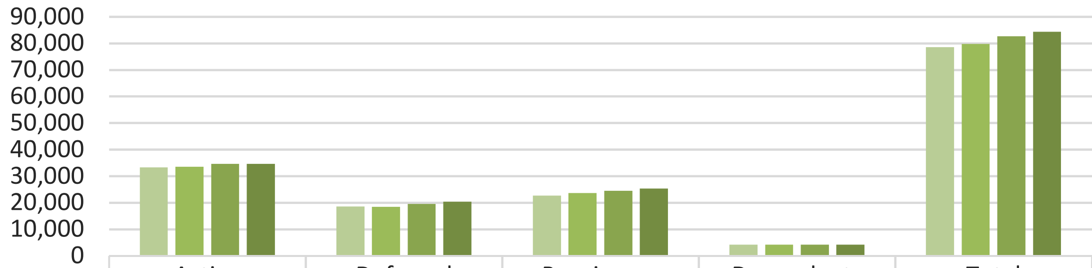
ANDREW KERR
Chief Executive Officer
The City of Edinburgh Council
25 September 2019

DOUG HERON
Chief Executive
Lothian Pension Fund
25 September 2019

JOHN BURNS
Chief Finance Officer
Lothian Pension Fund
25 September 2019

Lothian Pension Fund

Lothian Pension Fund membership



	Active	Deferred	Pensioners	Dependants	Total
31 March 2016	33,209	18,548	22,624	4,199	78,580
31 March 2017	33,526	18,381	23,595	4,202	79,704
31 March 2018	34,528	19,437	24,430	4,195	82,590
31 March 2019	34,569	20,280	25,299	4,169	84,317

Membership include Lothian Buses members as the Funds were merged in January 2019. Lothian Buses membership as at 31 March 2019 totalled 898 active members, 1,011 deferred members, 1,382 pensioner members and 384 dependants.

Investment Strategy

In order to provide suitable investment strategies for the differing requirements of employers, the Fund currently operates four investment strategies. Most employer liabilities are funded under the Main Strategy, which adopts a long-term investment strategy, aiming to maximise the investment return within reasonable and considered risk parameters and hence minimise the cost to the employer. The investment strategy is set at broad asset class levels, which are the key determinants of investment risk and return. During 2018, the previous broad asset classes of Equities, Index-linked assets and Alternatives were replaced by five policy groups - Equities, Real Assets, Non-Gilt Debt, Gilts and Cash - to better reflect the risk and return characteristics of each group.

A small number of employers are funded in the Mature Employers Strategy, which invests in a portfolio of UK index-linked gilts to reduce funding level and contribution rate risk as these employers approach exit from the Fund. The liabilities funded by the Mature Employers Strategy represent less than 1% of total liabilities.

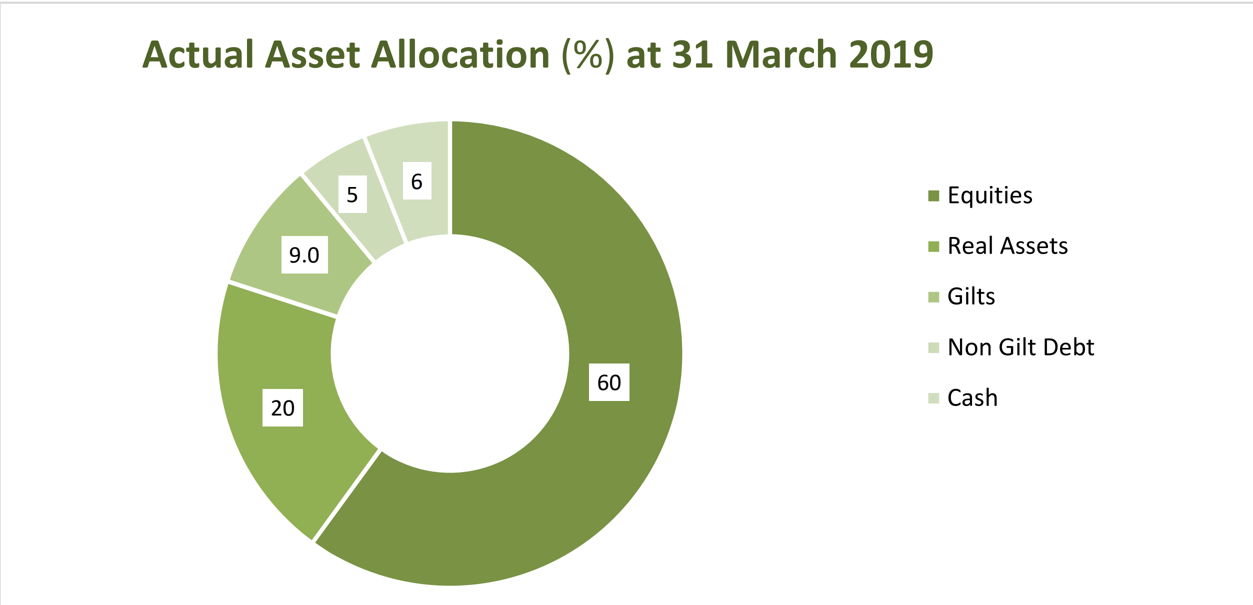
The 50/50 Strategy enables another small group of less mature employers to fund liabilities with a 50/50 mix of the Main Strategy and the Mature Employers Strategy. The liabilities funded by the 50/50 Strategy represent just over 1% of total liabilities.

The Buses Strategy was introduced on 31 January 2019 when the assets and liabilities of Lothian Buses Pension Fund were consolidated into the Lothian Pension Fund. It is the same strategy that the Buses Pension Fund followed previously (agreed by Committee in 2016) when it was managed as a separate Fund

Following on from the 2017 actuarial valuation and a comprehensive review of strategy. This review focused on the Main Strategy because the Mature Employers Strategy is entirely invested in gilts, the 50/50 Strategy is invested in a 50/50 combination of the Main Strategy and the Mature Employers Strategy, and the Buses Strategy is the previously agreed Lothian Buses Strategy.

The conclusion of the strategy view was that the Fund should continue with its previous investment strategy (65% invested in lower risk equities) whilst continuing to monitor the impact of bond yields. Opportunities to reduce risk, by reducing equities by up to 15%, should be considered if bond yields and funding levels increase significantly. The Fund's investment strategy was approved by the Pensions Committee in December 2018.

Lothian Pension Fund At 31 March 2019	Main Strategy	Mature Ers Strategy	50/50 Strategy	Buses Strategy	Total Fund Strategy
Equities	65.0%	0.0%	32.5%	51.5%	63.1%
Real Assets	18.0%	0.0%	9.0%	18.0%	17.7%
Non-Gilt Debt	10.0%	0.0%	5.0%	10.5%	9.9%
Gilts	7.0%	100.0%	53.5%	20.0%	9.3%
Cash	0.0%	0.0%	0.0%	0.0%	0.0%
Total	**100%**	**100%**	**100%**	**100%**	**100%**



A key objective of the Fund's investment strategy is to reduce risk and this is largely achieved by reducing risk within the equity pool of assets. Implementation of the strategy has involved a shift from a regional to a global manager structure. Significant steps have been taken in this regard in prior years with the introduction of the internally managed global equity portfolios. As such, 2018/19 represented much more of a "steady state" in terms of the structure within the equity exposure.

The activity in recent years (2012-2015) has been to increase the proportion of internally managed global equity strategies to reduce investment risk. The resultant equity pool of assets is expected to perform relatively well when equity markets are weak and produce good positive absolute returns in rising equity markets.
Almost 85% of the Fund's listed equities are managed internally with the majority of these in low cost, low turnover strategies, which are expected to enhance the Fund's risk-adjusted returns over the long term. The Fund also hedges exposures to the currencies of overseas listed equities with the explicit aim of reducing volatility rather than seeking to generate improved returns. The Fund therefore maintains exposure to currencies that are expected to reduce volatility, such as the US Dollar and Japanese Yen which tend to fall as equities rise, and hedges exposure to currencies that are expected to increase volatility, such as the Australian Dollar which tends to rise as equities rise.

Investment performance

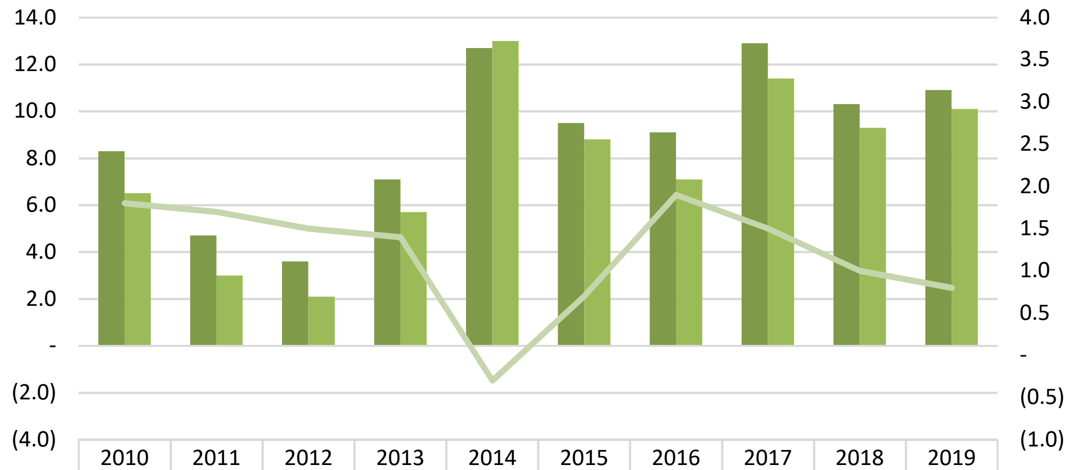
The Fund's performance over the last year and over longer-term timeframes is shown in the table below.

Annualised returns to 31 March 2019 (% per year)	1 year	5 year	10 years
Lothian Pension Fund - Main Strategy	9.6	10.9	11.8
Benchmark*	9.1	10.1	11.5
Lothian Pension Fund - Mature Employers Strategy	4.9	-	-
Benchmark	4.6	-	-
Retail Price Index (RPI)	2.5	2.3	3.0
Consumer Price Index (CPI)	2.0	1.4	2.2

*Comprises equity, index-linked gilts and cash indices as well as an inflation-linked index for the alternatives allocation

**estimated

Annualised 5 yearly returns ending 31 March for Main Strategy (% per year)



	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Fund	8.3	4.7	3.6	7.1	12.7	9.5	9.1	12.9	10.3	10.9
Benchmark	6.5	3.0	2.1	5.7	13.0	8.8	7.1	11.4	9.3	10.1
Relative (RHS)	1.8	1.7	1.5	1.4	(0.3)	0.7	1.9	1.5	1.0	0.8

The objectives of the Fund are:

- over long-term economic cycles (typically 5 years or more) the achievement of the same return as that generated by the strategic allocation
- over shorter periods, the Fund should perform better than the strategic allocation if markets fall significantly.

The performance of the Mature Employers Strategy was broadly in line with benchmark over the year, returning +4.9%. Performance of this strategy has also been broadly in line with benchmark since inception (29 March 2016), with a return of +8.4% per annum.

The Fund's return has exceeded its objective of meeting the benchmark return over the economic cycle, with both the 5 and 10 year return ahead of benchmark. The direction of the Fund's performance when markets are increasing and decreasing is one way of measuring volatility. The lower volatility objective and strategy for the Main Strategy was put in place in December 2013 and over this period market volatility has been relatively benign, for the most part. Nevertheless, performance since the change in structure (with the launch of the global low volatility equity portfolio and the shift from regional passive to active) indicates that the Fund is delivering returns with lower volatility than its benchmark.

For the Main Strategy, performance from March 2014 to March 2019 has been:

- better than the strategic allocation when markets fell (18 out of 60 months) with average performance of 0.41% better than the strategic benchmark and,
- marginally worse than the strategic allocation when markets were rising (42 out of 60 months) with average performance 0.09% behind the strategic benchmark.

Risk analysis also shows that the portfolio is positioned well if markets fall significantly.

Lothian Pension Fund

Fund Account for year ended 31 March 2019

This statement shows a summary of the income and expenditure that the Pension Fund has generated and consumed in delivering the Local Government Pension Scheme. Included are employers' and employees' contributions and investment income, as well as the cost of providing benefits and administration of the Fund.

Lothian Pension Fund Parent Restated 2017/18 £000	Lothian Pension Fund Group Restated 2017/18 £000		Note	Lothian Pension Fund Parent 2018/19 £000	Lothian Pension Fund Group 2018/19 £000
		Income			
156,402	156,402	Contributions from employers	**5**	175,672	175,672
45,409	45,409	Contributions from members	**6**	47,416	47,416
4,204	4,204	Transfers from other schemes	**7**	3,852	3,852
206,015	**206,015**			**226,940**	**226,940**
		Less: expenditure			
158,139	158,139	Pension payments including increases	**8**	167,997	167,997
45,117	45,117	Lump sum retirement payments	**9**	50,270	50,270
6,642	6,642	Lump sum death benefits	**10**	5,542	5,542
600	600	Refunds to members leaving service		720	720
129	129	Premiums to State Scheme		(82)	(82)
13,174	13,174	Transfers to other schemes	**11**	13,028	13,028
2,049	2,250	Administrative expenses	**12b**	2,283	2,532
225,850	**226,051**			**239,758**	**240,007**
(19,835)	**(20,036)**	**Net (withdrawals)/additions from dealing with members**		**(12,818)**	**(13,067)**
		Returns on investments			
171,948	171,948	Investment income	**13**	190,975	190,975
(25,539)	(25,539)	Change in market value of investments	**15, 20b**	503,734	503,734
(35,067)	(35,685)	Investment management expenses	**12c**	(35,938)	(36,102)
111,342	**110,724**	**Net returns on investments**		**658,771**	**658,607**
91,507	**90,688**	**Net increase in the Fund during the year**		**645,953**	**645,540**
7,083,573	7,083,034	**Net assets of the Fund at 1 April 2018**		7,175,080	7,173,722
7,175,080	**7,173,722**	**Net assets of the Fund at 31 March 2019**		**7,821,033**	**7,819,262**

Lothian Pension Fund

Net Assets Statement as at 31 March 2019

This statement provides a breakdown of type and value of all net assets at the year end.

Lothian Pension Fund Parent Restated 31 March 2018 £000	Lothian Pension Fund Group Restated 31 March 2018 £000	Investments	Note	Lothian Pension Fund Parent 31 March 2019 £000	Lothian Pension Fund Group 31 March 2019 £000
7,139,849	7,139,849	Assets		7,790,671	7,790,671
(5,362)	(5,362)	Liabilities		(1,912)	(1,912)
7,134,487	**7,134,487**	**Net investment assets**	**14**	**7,788,759**	**7,788,759**
		Non current assets			
1,525	1,525	Debtors	**24**	3,457	3,457
168	168	Computer systems		430	430
60	-	Share Capital		60	-
-	292	Deferred tax	**29a**	-	393
1,753	**1,985**			**3,947**	**4,280**
		Current assets			
3,083	3,083	The City of Edinburgh Council	**28**	884	884
48,833	48,926	Cash balances	**21, 28**	35,897	36,238
16,406	16,476	Debtors	**25**	22,345	22,568
68,322	**68,485**			**59,126**	**59,690**
		Non current liabilities			
-	(1,715)	Retirement benefit obligation	**30**	-	(2,309)
-	-	Creditors		-	(13)
-	**(1,715)**			**-**	**(2,322)**
		Current liabilities			
(29,482)	(29,520)	Creditors	**26**	(30,799)	(31,145)
(29,482)	**(29,520)**			**(30,799)**	**(31,145)**
7,175,080	**7,173,722**	**Net assets of the Fund at 31 March**		**7,821,033**	**7,819,262**

The unaudited accounts were issued on 26 June 2019 and the audited accounts were authorised for issue on 25 September 2019.

JOHN BURNS FCMA CGMA, PgC
Chief Finance Officer, Lothian Pension Fund
25 September 2019

Notes to the net asset statement

The financial statements summarise the transactions of the Fund during the year and its net assets at the year end. They do not take account of the obligations to pay pensions and benefits which fall due after the end of the year. The actuarial position of the Fund, which does take account of such obligations, is discussed in the Actuarial Valuation section of this report and these financial statements should be read in conjunction with that information. In addition, as required by IAS26, the Actuarial Present Value of Promised Retirement Benefits is disclosed in the notes to these financial statements.

Notes to the Financial Statements

1 Statement of Accounting Policies

The statement of accounting policies for all Funds can be found on page 105.

2 Prior Year Restatement of Financial Statements

At its meeting on 26 March 2018, the Pensions Committee approved the merger of the assets and liabilities of the Lothian Buses Pension Fund into the Lothian Pension Fund, subject to the satisfactory completion of a revised admission agreement and shareholder guarantees. Having received the necessary admission agreement and shareholder guarantees, the Lothian Buses Pension Fund assets were merged into Lothian Pension Fund on 1 February 2019.

As per the statement of accounting policies on page 106, the Fund has deemed the most appropriate treatment for the transfer of assets is 'transfer by merger'. This requires a restatement of 2017/18 financial figures of Lothian Pension Fund to include Lothian Buses Pension Fund assets for the same period.

The analysis below demonstrates the impact of merging Lothian Buses Pension Fund assets and liabilities in to Lothian Pension Fund Parent and Group Fund Account and Net Asset Statement for the 2017/18 financial period.

Lothian Pension Fund Parent 2017/18 £000	Lothian Pension Fund Group 2017/18 £000	Lothian Buses 2017/18 £000		RESTATED Lothian Pension Fund Parent 2017/18 £000	RESTATED Lothian Pension Fund Group 2017/18 £000
			Income		
148,821	148,821	7,581	Contributions from employers	156,402	156,402
43,421	43,421	1,988	Contributions from members	45,409	45,409
4,191	4,191	13	Transfers from other schemes	4,204	4,204
196,433	**196,433**	**9,582**		**206,015**	**206,015**
			Less: expenditure		
149,384	149,384	8,755	Pension payments including increases	158,139	158,139
42,533	42,533	2,584	Lump sum retirement payments	45,117	45,117
6,359	6,359	283	Lump sum death benefits	6,642	6,642
596	596	4	Refunds to members leaving service	600	600
129	129	-	Premiums to State Scheme	129	129
12,517	12,517	657	Transfers to other schemes	13,174	13,174
1,950	2,151	99	Administrative expenses	2,049	2,250
213,468	**213,669**	**12,382**		**225,850**	**226,051**
(17,035)	**(17,236)**	**(2,800)**	**Net (withdrawals)/additions from dealing with members**	**(19,835)**	**(20,036)**
			Returns on investments		
163,869	163,869	8,079	Investment income	171,948	171,948
(43,288)	(43,288)	17,749	Change in market value of investments	(25,539)	(25,539)
(32,643)	(33,261)	(2,424)	Investment management expenses	(35,067)	(35,685)
87,938	**87,320**	**23,404**	**Net returns on investments**	**111,342**	**110,724**
70,903	**70,084**	**20,604**	**Net increase in the Fund during the year**	**91,507**	**90,688**
6,595,430	6,594,891	488,143	**Net assets of the Fund at 1 April 2017**	7,083,573	7,083,034
6,666,333	**6,664,975**	**508,747**	**Net assets of the Fund at 31 March 2018**	**7,175,080**	**7,173,722**

2 Prior Year Restatement of Financial Statements (cont)

Lothian Pension Fund Parent 31 March 2018 £000	Lothian Pension Fund Group 31 March 2018 £000	Lothian Buses 31 March 2018 £000		RESTATED Lothian Pension Fund Parent 31 March 2018 £000	RESTATED Lothian Pension Fund Group 31 March 2018 £000
			Investments		
6,633,467	6,633,467	506,382	Assets	7,139,849	7,139,849
(5,112)	(5,112)	(250)	Liabilities	(5,362)	(5,362)
6,628,355	**6,628,355**	**506,132**	**Net investment assets**	**7,134,487**	**7,134,487**
1,753	**1,985**	**-**	**Non current assets**	**1,753**	**1,985**
			Current assets		
2,784	2,784	299	The City of Edinburgh Council	3,083	3,083
47,024	47,117	1,809	Cash balances	48,833	48,926
15,564	15,634	842	Debtors	16,406	16,476
65,372	**65,535**	**2,950**		**68,322**	**68,485**
-	**(1,715)**	**-**	**Non current liabilities**	**-**	**(1,715)**
			Current liabilities		
(29,147)	(29,185)	(335)	Creditors	(29,482)	(29,520)
(29,147)	**(29,185)**	**(335)**		**(29,482)**	**(29,520)**
6,666,333	**6,664,975**	**508,747**	**Net assets of the Fund at 31 March 2018**	**7,175,080**	**7,173,722**

Prior year comparative figures in the notes that follow will be marked with * if they have been affected by the merger.

3 Lothian Pension Fund Group

Basis of consolidation, presentation of financial statements and notes

Commencing with the year ended 31 March 2018, Consolidated Financial Statements have been prepared for Lothian Pension Fund. The Financial Statements of Scottish Homes Pension Fund continue to be prepared on a single entity basis.

The Consolidated Financial Statements for Lothian Pension Fund are prepared by combining the Financial Statements of the Fund (the parent entity) and its controlled entities (LPFE Limited and LPFI Limited) as defined in accounting standard IAS27 - Consolidated and Separate Financial Statements. Consistent accounting policies are employed in the preparation and presentation of the Consolidated Financial Statements. All inter-entity balances and transactions between entities, including any unrealised profits or losses, have been eliminated on consolidation.

Because the controlled entities activities are primarily focused on the provision of services to the Fund, its consolidation has a limited impact on the figures included in the Fund Account and Net Assets Statement of Lothian Pension Fund. An additional column has been added in both the Fund Account and Net Assets Statement, with the figures prior to consolidation being identified as "Parent" and after consolidation as "Group". In the notes to the accounts, where there is a difference between the parent and group figures they are identified as either "Parent " or "Group".

Notes to the Financial Statements

3 Lothian Pension Fund Group (cont)

Note	Description
28	Related party transactions and balances Describes transactions during the year and balances at year end which relate to the parent and the companies.
29a	Consolidated Lothian Pension Fund group - LPFE Limited - deferred tax Describes the deferred tax non-current asset of the Company. See 2 f) ii) in the Statement of Accounting Policies and General notes for more information.
29b	Consolidated Lothian Pension Fund group - LPFE Limited and LPFI Limited - share capital Describes the share capital of the Company.
30	Retirement benefits obligation - group Provides the information on the retirement benefits obligation of the Company as required under IAS19 - Employee Benefits. See 2 q) ii) in the Statement of Accounting Policies and General notes for more information.

Prior to the consolidation of the group accounts, the LPFE and LPFI boards met on the 21st May 2019 and approved their respective audited financial statements for 2018/19. The figures used in the consolidation are from these audited financial statements.

4 Events after the Reporting Date

There have been no events since 31 March 2019, and up to the date when these accounts were authorised, that require any adjustments to these accounts.

5 Contributions from employers

The total contributions receivable for the administering authority, other scheduled bodies and admitted bodies were as follows:-

By category	2017/18* £000	2018/19 £000
Primary Contribution (future service)	144,549	160,778
Secondary Contribution (past service deficit)	7,694	8,057
Strain costs	2,747	4,082
Cessation contributions	1,412	2,755
	156,402	175,672

By employer type	2017/18* £000	2018/19 £000
Administering Authority	55,041	59,830
Other Scheduled Bodies	81,273	92,644
Community Admission Bodies	19,629	22,414
Transferee Admission Bodies	459	784
	156,402	175,672

5 Contributions from employers (cont)

Employer contributions, as calculated by the Fund Actuary, comprise two elements:

- An estimate of the cost of benefits accruing in the future, referred to as the "primary contribution rate" previously referred to as the "future service rate", which is expressed as a percentage of payroll and;
- an adjustment for the solvency of the Fund based on the benefits already accrued, known as the "secondary contribution rate". If there is a surplus, there may be a contribution reduction; if there is a deficit there may be a contribution increase. For all employers, contributions to cover any Past Service Deficit are expressed as a fixed monetary sum, rather than as a percentage of payroll and are payable on a monthly basis that is one twelfth of the annual total.

Included within the above contributions are accruals for:

- receipt of six months past service deficit for Scottish Learning Partnership (SLP) of £24k. The Fund continues to pursue these payments, whilst noting that the Scottish Government has indicated that it expects to sign as guarantor for SLP liabilities.
- City of Edinburgh Council has advised the Fund of revised sums in respect of assumed pensionable pay. £107k has been accrued covering payments due in the financial period 2015/16 to 2017/18. These payments will be transferred to the Fund in the first quarter of 2019/20.

Where an employer makes certain decisions which result in benefits being paid early, this results in a "strain" on the Fund. The resulting pension strain costs are calculated and recharged in full to that employer.

Any employer that ceases to have at least one actively contributing member is required to pay cessation contributions.

6 Contributions from members

By employer type	2017/18* £000	2018/19 £000
Administering Authority	15,633	16,437
Other Scheduled Bodies	23,463	24,507
Community Admission Bodies	6,161	6,217
Transferee Admission Bodies	152	255
	45,409	47,416

7 Transfers in from other pension schemes

	2017/18* £000	2018/19 £000
Group transfers	-	-
Individual transfers	4,204	3,852
	4,204	3,852

Notes to the Financial Statements

8 Pensions payable

By employer type	2017/18* £000	2018/19 £000
Administering Authority	73,922	76,932
Other Scheduled Bodies	70,484	75,860
Community Admission Bodies	13,537	14,993
Transferee Admission Bodies	196	212
	158,139	167,997

Local Government (Discretionary Payments and Injury Benefits) (Scotland) Regulations 1998 [Section 31] allows employers to pay additional pensions on a voluntary basis.

As is typical within the Local Government Pension Schemes (LGPS), arrangements exist whereby additional teachers' pensions and employee pensions are paid with the payment of funded pensions. In order that such are not regarded as “unauthorised payments” by HMRC, these pension payments are met by the administering authority through a general fund bank account and recharged to the body or service which granted the benefits.

As “unfunded payments” are discretionary benefits, they are not relevant to the sums disclosed in the Fund accounts. As such, Lothian Pension Fund provides payment and billing services to certain employers on a no charge agency agreement basis.

The Fund has requested that responsibility for these "unfunded transfer payments" should transfer to the Scottish Public Pension's Agency (SPPA). A response from SPPA is awaited.

9 Lump sum retirement benefits payable

By employer type	2017/18* £000	2018/19 £000
Administering Authority	16,623	17,374
Other Scheduled Bodies	23,234	27,818
Community Admission Bodies	5,131	5,053
Transferee Admission Bodies	129	25
	45,117	50,270

10 Lump sum death benefits payable

By employer type	2017/18* £000	2018/19 £000
Administering Authority	3,375	2,943
Other Scheduled Bodies	2,854	2,049
Community Admission Bodies	413	550
Transferee Admission Bodies	-	-
	6,642	5,542

Notes to the Financial Statements

11 Transfers out to other pension schemes

	2017/18* £000	2018/19 £000
Group transfers	-	-
Individual transfers	13,174	13,028
	13,174	13,028

12a Total management expenses

In accordance with CIPFA guidance, the analysis below considers the combined administration and investment management expenses in notes 12b and c and splits out the costs to include a third category covering oversight and governance expenditure.

	LPF Parent 2017/18* £000	LPF Group 2017/18* £000	LPF Parent 2018/19 £000	LPF Group 2018/19 £000
Administrative costs	1,693	1,879	1,988	2,176
Investment management expenses	33,943	34,241	34,422	34,629
Oversight and governance costs	1,481	1,815	1,811	1,829
	37,117	37,935	38,221	38,634

12b Administrative expenses

	LPF Parent 2017/18* £000	LPF Group 2017/18* £000	LPF Parent 2018/19 £000	LPF Group 2018/19 £000
Employee Costs	1,198	1,222	1,494	1,540
System costs	306	307	304	305
Actuarial fees	127	127	72	72
External/Internal audit fees	68	74	49	52
Legal fees	2	2	20	20
Printing and postage	120	120	111	111
Depreciation	60	60	45	45
Office costs	107	107	100	100
Sundry costs less sundry income	61	60	88	73
IAS19 retirement benefit adjustments - see note 30	-	206	-	249
Deferred tax on retirement benefit obligation - see note 29a	-	(35)	-	(42)
Corporation tax	-	-	-	6
	2,049	2,250	2,283	2,531

LPFE, which is a wholly owned subsidiary of the Council, is responsible for providing the staffing resource to administer the pension funds. The Fund has a service level agreement in place with the Council for certain support services. Costs directly attributable to a specific Fund are charged to the relevant Fund, costs that are common to the two Funds are allocated on a defined basis.

12c Investment management expenses

	LPF Parent 2017/18* £000	LPF Group 2017/18* £000	LPF Parent 2018/19 £000	LPF Group 2018/19 £000
External management fees -				
invoiced	4,931	4,931	4,977	4,977
deducted from capital (direct investment)	19,777	19,777	17,657	17,657
deducted from capital (indirect investment)	5,912	5,912	5,062	5,062
Securities lending fees	191	191	189	189
Transaction costs - Equities	1,207	1,207	1,498	1,498
Property operational costs	337	337	2,615	2,615
Employee costs	1,368	1,471	2,075	2,165
Custody fees	396	396	356	356
Engagement and voting fees	93	93	114	114
Performance measurement fees	85	85	92	92
Consultancy fees	52	52	125	125
Research fees	65	65	329	329
System costs	322	323	441	442
Legal fees	71	99	134	137
Depreciation	8	8	16	16
Office costs	84	84	76	76
Sundry costs less sundry income	168	(38)	182	(57)
IAS19 retirement benefit adjustments - see note 30	-	824	-	345
Deferred tax on retirement benefit obligation - see note 29	-	(140)	-	(59)
Corporation tax	-	-	-	23
Corporation tax losses utilised by CEC group	-	8	-	-
	35,067	35,685	35,938	36,102

Investment costs directly attributable to a specific fund are charged to the relevant Fund, costs that are common to all three funds are allocated based on the value of the Funds as at the year end.

Any indirect costs incurred through the bid-offer spread on some pooled investment vehicles are reflected in the cost of investment acquisitions or in the proceeds of investment sales (see note 15 - Reconciliation of movements in investments and derivatives).

The external investment management fees (deducted from capital) above include £8.5m (£6.1m direct, £2.4m indirect) in respect of performance-related fees compared to £9.4m in 2017/18 (£7.1m direct, £2.3m indirect).

It should be noted that Lothian Pension Fund's disclosure on investment management fees exceed CIPFA's "Accounting for Local Government Pension Scheme Management Costs" revised guidance on cost transparency which came into effect from 1st April 2016. Consistent with previous years, the Fund recognises fees deducted from investments not within its direct control (such as fund of fund fees) to give a full picture of its investment management costs. Further details can be found on page 31. This further disclosure highlights an extra £5.1m in costs (2018 £5.9m).

13 Investment income

	2017/18* £000	2018/19 £000
Income from bonds	4,267	11,622
Dividends from equities	138,584	152,814
Unquoted private equity and infrastructure	7,601	5,005
Income from pooled investment vehicles	6,207	2,432
Gross rents from properties	23,079	23,501
Interest on cash deposits	708	2,156
Stock lending and sundries	957	943
	181,403	198,473
Irrecoverable withholding tax	(9,455)	(7,498)
	171,948	190,975

Included within the dividend from equities income for the year is cross border withholding tax yet to be received. The Fund's custodian Northern Trust manages this process and due to the high certainty of success it is assumed that the Fund will make full recovery of these reclaims. For the period of 2018/19 £4,526k of the stated income relates to tax yet to be received. At the 31st March 2019 £9,066k (including prior periods) of investment income receivable related to cross border withholding tax. The Fund monitors these claims to ensure its optimum tax efficiency and provides an annual progress report to the Pensions Audit Sub-Committee.

14 Net investment assets

Investment Assets	Region	31 March 2018* £000	31 March 2019 £000
Bonds			
Public sector fixed interest	UK	153,585	158,219
Public sector index linked gilts quoted	UK	582,893	697,211
		736,478	855,430
Equities			
Quoted	UK	557,735	641,038
Quoted	Overseas	3,729,729	3,918,803
		4,287,464	4,559,841
Pooled investment vehicles			
Private equity, infrastructure, private debt & timber	UK	527,172	616,556
Private equity, infrastructure, private debt & timber	Overseas	597,899	633,487
Property	UK	108,125	90,358
Other	UK	31,357	31,978
		1,264,553	1,372,379
Properties			
Direct property	UK	392,743	411,978
		392,743	411,978
Derivatives			
Derivatives - forward foreign exchange		12,121	3,025
		12,121	3,025
Cash deposits			
Deposits		426,380	569,190
		426,380	569,190
Other investment assets			
Due from broker		2,947	1,037
Dividends and other income due		17,163	17,791
		20,110	18,828
Total investment assets		7,139,849	7,790,671
Investment liabilities			
Derivatives			
Derivatives - forward foreign exchange		(204)	(854)
		(204)	(854)
Other financial liabilities			
Due to broker		(5,158)	(1,058)
		(5,158)	(1,058)
Total investment liabilities		(5,362)	(1,912)
Net investment assets		7,134,487	7,788,759

Notes to the Financial Statements

15a Reconciliation of movement in investments and derivatives

	Market value at 31 March 2018* £000	Purchases at cost & derivative payments £000	Sale & derivative receipts £000	Change in market value £000	Market value at 31 March 2019 £000
Bonds	736,478	227,909	(150,897)	41,940	855,430
Equities	4,287,464	1,090,848	(1,122,578)	304,107	4,559,841
Pooled investment vehicles	1,264,553	219,829	(261,125)	149,122	1,372,379
Property	392,743	21,290	-	(2,055)	411,978
Derivatives - futures	-	30	(30)	-	-
Derivatives - forward foreign exchange	11,917	8,223	(12,199)	(5,770)	2,171
	6,693,155	1,568,129	(1,546,829)	487,344	7,201,799
Other financial assets / liabilities					
Cash deposits*	426,380			16,376	569,190
Broker balances*	(2,211)			14	(21)
Investment income due*	17,163			-	17,791
	441,332			16,390	586,960
Net financial assets	7,134,487			503,734	7,788,759

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

Any indirect costs incurred through the bid-offer spread on some pooled investment vehicles are reflected in the cost of investment acquisitions and in the proceeds from sales and are therefore included in the tables above.

	Market value at 31 March 2017* £000	Purchases at cost & derivative payments £000	Sale & derivative receipts £000	Change in market value £000	Market value at 31 March 2018* £000
Bonds	732,628	42,200	(39,305)	955	736,478
Equities	4,494,078	907,719	(962,127)	(152,206)	4,287,464
Pooled investment vehicles	1,223,996	70,066	(149,092)	119,583	1,264,553
Property	356,741	40,758	(17,329)	12,573	392,743
Derivatives - futures	-	11	163	(174)	-
Derivatives - forward foreign exchange	657	2,983	(3,722)	11,999	11,917
	5,141,969	1,063,737	(1,171,412)	(7,270)	6,693,155
Other financial assets / liabilities					
Cash deposits*	432,072			(18,272)	426,380
Broker balances*	(852)			3	(2,211)
Investment income due*	29,042			-	17,163
	256,994			(18,269)	441,332
Net financial assets	5,398,963			(25,539)	7,134,487

** As per CIPFA disclosures the change in market value intentionally does not balance opening/closing market values*

15d Reconciliation of fair value measurements within level 3

Pooled investments	Market value at 31 March 2018*	Level 3 transfers in	Level 3 transfers out	Purchases at cost & derivative payments	Sales & derivative receipts	Unrealised gains / (losses)	Realised gains / (losses)	Market value at 31 March 2019
Infrastructure	773,193	-	-	136,416	(137,747)	32,426	40,572	844,860
Property	66,638	-	-	-	(15,891)	(1,611)	(153)	48,983
Private Equity	90,403	-	-	2,283	(26,834)	18,669	(8,362)	76,159
Timber	118,235	-	-	579	(14,724)	11,044	8,894	124,028
Private debt	143,245	-	-	80,893	(21,155)	(95)	2,108	204,996
Freehold Property	392,743	-	-	21,290	-	(2,055)	-	411,978
	1,584,457	-	-	241,461	(216,351)	58,378	43,059	1,711,004

Unrealised and realised gains and losses are recognised in the profit and losses on disposal and changes in the market value of investments line of the fund account.

16 Derivatives - forward foreign exchange

Summary of contracts held at 31 March 2019

Contract settlement within	Currency bought	Currency sold	Local currency bought 000	Local currency sold 000	Asset value £000	Liability value £000
Up to one month	GBP	AUD	49,327	91,691	59	(702)
Up to one month	CAD	GBP	12,909	7,565	-	(152)
Up to one month	GBP	CAD	142,170	242,817	2,720	-
Up to one month	USD	JPY	253	28,011	-	-
Up to one month	GBP	JPY	26	3,800	-	-
Up to one month	USD	ZAR	531	7,661	-	-
One to six months	USD	CHF	7,393	6,991	246	-

Open forward currency contracts at 31 March 2019	3,025	(854)
Net forward currency contracts at 31 March 2019		2,171
Prior year comparative		
Open forward currency contracts at 31 March 2018*	12,121	(204)
Net forward currency contracts at 31 March 2018		11,917

The above table summarises the contracts held by maturity date, all contracts are traded on an over-the-counter basis.

In order to maintain appropriate diversification of investments in the portfolio and take advantage of wider opportunities, the Lothian Pension Fund invests over half of the fund in overseas markets. A currency hedging programme, using forward foreign exchange contracts, has been put in place to reduce the extent to which the Fund is exposed to certain currency movements.

Notes to the Financial Statements

17 Investment managers and mandates

Manager	Mandate	Market value at 31 March 2018* £000	% of total 31 March 2018 %	Market value at 31 March 2019 £000	% of total 31 March 2019 %
In-house	UK all cap equities	139,655	2.0	144,692	1.9
In-house	UK mid cap equities	131,607	1.8	121,698	1.6
Total UK equities		271,262	3.8	266,390	3.5
In-house	European ex UK equities	130,696	1.8	125,418	1.6
In-house	US equities	146,279	2.3	160,148	2.1
Total regional overseas equities		276,975	4.1	285,566	3.7
In-house	Global high dividend	988,159	13.9	1,006,587	12.9
In-house	Global low volatility	1,097,057	17.7	1,249,276	16.1
In-house	Global multi factor value	934,708	15.0	993,535	12.8
Harris	Global equities	273,298	3.8	278,794	3.6
Nordea	Global equities	268,444	3.8	306,617	3.9
Baillie Gifford	Global equities	141,217	2.0	123,103	1.6
Total global equities		3,702,883	56.1	3,957,912	50.9
In-house	Currency hedge	11,885	0.2	1,925	-
Total currency overlay		11,885	0.2	1,925	-
Total listed equities		4,263,005	64.2	4,511,793	58.1
In-house	Private equity unquoted	90,403	1.3	76,159	1.0
In-house	Private equity quoted	67,490	0.9	78,382	1.0
Total private equity		157,893	3.2	154,541	2.0
Total equity		4,420,898	67.4	4,666,334	60.1
In-house	Index linked gilts	530,560	7.4	595,360	7.6
In-house	Mature employer gilts	54,571	0.8	116,095	1.5
Total inflation linked assets		585,131	7.4	711,455	9.1
In-house	Property	37,447	0.5	35,421	0.5
Standard Life	Property	495,917	7.0	516,767	6.6
Total property		533,364	7.5	552,188	7.1
In-house	Infrastructure unquoted	773,194	10.8	844,860	10.8
In-house	Infrastructure quoted	21,931	0.3	24,819	0.3
In-house	Timber	118,235	1.7	124,029	1.6
Total other real assets		913,360	12.8	993,708	12.7
Baillie Gifford	Corporate bonds	30,490	0.4	31,835	0.4
In-house	Private debt	143,245	2.0	204,996	2.6
In-house	Sovereign bonds	158,280	2.2	165,183	2.1
Total debt assets		332,015	4.7	402,014	5.1

17 Investment managers and mandates (cont)

Manager	Mandate	Market value at 31 March 2018 £000	% of total 31 March 2017 %	Market value at 31 March 2019 £000	% of total 31 March 2018 %
In-house	Cash	348,105	4.9	462,976	5.9
In-house	Transitions	1,614	0.0	84	0.0
Total cash and sundries		349,719	4.9	463,060	5.9
Net financial assets		7,134,487	100.0	7,788,759	100.0

Over the last two years no single investment represented more than 5% of the net assets of the Fund.

18 Securities lending

During the year Lothian Pension Fund participated in a securities lending arrangement with the Northern Trust Company. As at 31 March 2019, £407.2m (2018 £271.7m) of securities were released to third parties. Collateral valued at 107.3% (2018 105.5%) of the market value of the securities on loan was held at that date.

19 Property holdings

	2017/18 £000	2018/19 £000
Opening balance	356,741	392,743
Additions	40,875	21,290
Disposals	(17,329)	-
Net change in market value	12,456	(2,055)
Closing balance	392,743	411,978

As at 31 March 2019, there were no restrictions on the realisability of the property or the remittance of income or sale proceeds. As at 31 March 2018 The Fund had approval in place for the planning, design and contractor procurement to potentially re-develop 100 St John Street, London. During the year this has progressed and the Fund is currently in the process of developing 100 St John Street, London. As at 31 March 2019 the Fund is contractually obliged to further construction costs of £4.8m

The future minimum lease payments receivable by the Fund are as follows

	2017/18 £000	2018/19 £000
Within one year	23,327	23,257
Between one and five years	66,574	58,867
Later than five years	101,160	92,633
	191,061	174,757

Notes to the Financial Statements

20 Financial Instruments

20a Classification of financial instruments

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the fair value amounts of financial assets and liabilities by category and net assets statement heading. No financial assets were reclassified during the accounting period.

All financial instruments are marked to market (at fair value) in the Fund accounting records, hence there is no difference between the carrying value and fair value.

Classification of financial instruments - parent	31 March 2018			31 March 2019		
	Designated as fair value through fund account £000	Loans and receivables £000	Financial liabilities at amortised cost £000	Designated as fair value through fund account £000	Loans and receivables £000	Financial liabilities at amortised cost £000
Investment assets						
Bonds	736,477	-	-	855,430	-	-
Equities	4,287,464	-	-	4,559,841	-	-
Pooled investments	1,264,553	-	-	1,372,379	-	-
Property Leases	4,376	-	-	2,284	-	-
Derivative contracts	12,121	-	-	3,025	-	-
Margin balances	-	-	-	-	-	-
Cash	-	426,380	-	-	569,189	-
Other balances	-	20,110	-	-	18,828	-
	6,304,991	446,490	-	6,792,959	588,017	-
Other assets						
City of Edinburgh Council	-	3,083	-	-	884	-
Cash	-	48,833	-	-	35,897	-
Share Capital	-	60	-	-	60	-
Debtors - current	-	16,406	-	-	22,345	-
Debtors - non-current	-	1,525	-	-	3,457	-
	-	69,907	-	-	62,643	-
Assets total	6,304,991	516,397	-	6,792,959	650,660	-
Financial liabilities						
Investment liabilities						
Derivative contracts	(204)	-	-	(854)	-	-
Other investment balances	-	-	(5,158)	-	-	(1,058)
	(204)	-	(5,158)	(854)	-	(1,058)
Other liabilities						
Creditors	-	-	(29,482)	-	-	(30,799)
Liabilities total	(204)	-	(34,640)	(854)	-	(31,857)
Total net assets	6,304,787	516,397	(34,640)	6,792,105	650,660	(31,857)

	31 March 2018	31 March 2019
Total net financial instruments	6,786,544	7,410,908
Amounts not classified as financial instruments	388,536	410,125
Total net assets - parent	7,175,080	7,821,033

Notes to the Financial Statements

20a Classification of financial instruments (cont)

Classification of financial instruments - adjustments to parent to arrive at group

	31 March 2018			31 March 2019		
	Designated as fair value through fund account £000	Loans and receivables £000	Financial liabilities at amortised cost £000	Designated as fair value through fund account £000	Loans and receivables £000	Financial liabilities at amortised cost £000
Other assets						
Cash	-	93	-	-	341	-
Share Capital	-	(60)	-	-	(60)	-
Debtors - current	-	70	-	-	223	-
Debtors - non-current	-	292	-	-	393	-
	-	395	-	-	897	-
Assets total	-	395	-	-	897	-
Other liabilities						
Retire. benefit obligation	-	-	(1,715)	-	-	(2,309)
Creditors	-	-	(38)	-	-	(346)
Creditors - non current	-	-	-	-	-	(13)
Liabilities total	-	-	(1,753)	-	-	(2,668)
Total net assets	-	395	(1,753)	-	897	(2,668)

	31 March 2018	31 March 2019
Total adjustments to net financial instruments	(1,358)	(1,771)
Total net assets - group	7,173,722	7,819,262

20b Net gains and losses on financial instruments

	2017/18 £000	2018/19 £000
Designated as fair value through fund account	(19,843)	489,399
Loans and receivables	(18,269)	16,390
Financial liabilities at amortised cost	-	-
Total	(38,112)	505,789

Gains and losses on directly held freehold property	12,573	(2,055)
Change in market value of investments per fund account	(25,539)	503,734

Notes to the Financial Statements

20c Fair Value Hierarchy

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values.

Level 1

Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities and unit trusts.

Quoted investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2

Financial instruments at Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

Level 3

Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments would include unquoted equity investments, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The values of the investments in unquoted private equity, infrastructure, timber and European real estate are based on valuations provided by the general partners to the funds in which the Fund has invested.

These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines or similar guidelines provided by the British Venture Capital Association, which follow the valuation principles of International Financial Reporting Standards (IFRS). The valuations are typically undertaken annually at the end of December. Cash flow adjustments are used to roll forward the valuations to 31 March as appropriate.

	31 March 2019			
	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
Investment assets				
Designated as fair value through fund account	4,563,196	928,453	1,299,026	6,790,675
Non-financial assets at fair value through profit and loss	-	-	411,978	411,978
Total investment assets	4,563,196	928,453	1,711,004	7,202,653
Investment liabilities				
Designated as fair value through fund account	-	(854)	-	(854)
Total investment liabilities	-	(854)	-	(854)
Net investment assets	4,563,196	927,599	1,711,004	7,201,799

20c Fair Value Hierarchy

	31 March 2018			
	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Investment assets				
Designated as fair value through fund account	4,372,429	736,477	1,197,953	6,306,859
Non-financial assets at fair value through profit and loss	-	-	386,500	386,500
Total investment assets	4,372,429	736,477	1,584,453	6,693,359
Investment liabilities				
Designated as fair value through fund account	-	(204)	-	(204)
Total investment liabilities	-	(204)	-	(204)
Net investment assets	4,372,429	736,273	1,584,453	6,693,155

21 Nature and extent of risk arising from financial instruments

Risk and risk management

The Fund's primary aim is to ensure that all members and their dependants receive their benefits when they become payable. Investment strategy C aims to maximise the returns from investments within reasonable risk parameters and hence minimise the long-term cost to employers. It achieves this by investing in a diverse range of assets to reduce risk to an acceptable level. In addition, the Fund ensures that sufficient cash is available to meet all liabilities when they are due to be paid.

Responsibility for the Fund's overall investment strategies rests with the Pensions Committee. The Joint Investment Strategy Panel and the internal investment team monitor investment risks on a regular basis. Investment risk management tools are used to identify and analyse risks faced by the Fund's investments.

Consideration of the Fund's investment risk is part of the overall risk management of the pensions operations. Risks are reviewed regularly to reflect changes in activity and market conditions.

Types of investment risk

There are various ways of considering investment risks for pension funds. For the purposes of this note, market risk is the potential for an investor to experience losses from falls in the prices of investments. All financial instruments, including cash deposits, present a risk of loss of capital and risks vary depending on different asset classes.

Market risk also changes over time as economic conditions and investor sentiment change. The Fund considers overall fluctuations in prices arising from a variety of sources: market risk, foreign exchange risk, interest rate risk, credit risk, etc. The different risks may, to some extent, offset each other.

The overall market risk of the Fund depends on the actual mix of assets and encompasses all the different elements of risk.

21 Nature and extent of risk arising from financial instruments (cont)

The Fund manages these risks in a number of ways:

- assessing and establishing acceptable levels of market risk when setting overall investment strategy. Importantly, risk is considered relative to the liabilities of the Fund
- diversification of investments in terms of type of asset, investment styles, investment managers, geographical and industry sectors as well as individual securities
- taking stewardship responsibilities seriously and pursuing constructive engagement with the companies in which we invest
- monitoring market risk and market conditions to ensure risk remains within tolerable levels
- using equity futures contracts from time to time to manage market risk. Options are not used by the Fund.

Sensitivity analysis

Asset prices have a tendency to fluctuate. The degree of such fluctuation is known as "volatility" and it differs by asset class. The table sets out the long-term volatility assumptions used in the Fund's asset-liability modelling undertaken by KPMG investment advisers:

Asset type	Potential price movement (+ or -)
Equities - Developed Markets	20.5%
Equities - Emerging Markets	30.0%
Private Equity	30.0%
Timber and Gold	18.0%
Secured Loans	7.5%
Fixed Interest Gilts	6.7%
Index-Linked Gilts	11.2%
Infrastructure	12.0%
Property	13.0%
Cash	0.9%

Volatility is the standard deviation of annual returns. Broadly speaking, in two years out of three, the asset's change in value (which could be a gain or a loss) is expected to be lower than the volatility figure, but in one year out of three, the change in value is expected to be higher than the volatility figure.

Asset classes do not always move in line with each other. The extent to which assets move together is known as their "correlation". A lower correlation means that there is less risk of assets losing value at the same time.

The overall Fund benefits from "diversification" because it invests in different asset classes, which don't all move in line with each other. Consequently, the aggregate risk at the Fund level is less than the total risk from all the individual assets in which the Fund invests. The following table shows the risks at the asset class level and the overall Fund level, with and without allowance for correlation.

21 Nature and extent of risk arising from financial instruments (cont)

	Value at 31 March 2019 £m	% of fund %	Potential Change +/- %	Value on increase £m	Value on decrease £m
Equities - Developed Markets	4,253	54.6	20.5%	5,124.9	3,381.1
Equities - Emerging Markets	256	3.3	30.0%	332.8	179.2
Private Equity	155	2.0	30.0%	201.5	108.5
Timber and Gold	124	1.6	18.0%	146.3	101.7
Secured Loan	237	3.0	7.5%	254.8	219.2
Fixed Interest Gilts	165	2.1	6.7%	176.1	153.9
Index-Linked Gilts	711	9.1	11.2%	790.6	631.4
Infrastructure	870	11.2	12.0%	974.4	765.6
Property	552	7.1	13.0%	623.8	480.2
Cash and forward foreign exchange	466	6.0	0.9%	470.2	461.8
Total [1]	7,789	100.0	16.8%	9,095.3	6,482.7
Total [2]			13.2%	8,814.0	6,764.0
Total [3]			13.8%	8,863.1	n/a

[1] No allowance for correlations between assets

[2] Including allowance for correlations between assets

[3] Including allowance for correlation between assets and liabilities.

The value on increase/decrease columns illustrate the monetary effect of the percentage change in the volatility column. The actual annual change in value is expected to be lower than this in two years out of three, but higher in one year out of three.

It can be seen that the risk to the overall Fund assets [2] is lower than the total of the risks to the individual assets.

However, because the purpose of a pension scheme is to make payments to scheme beneficiaries, the true risk of a pension scheme is not measured in absolute terms, but relative to its liabilities [3].

This risk analysis incorporates volatility from market, interest rate, foreign exchange, credit, and all other sources of risk, and, importantly, makes allowance for how these risks may offset each other.

Credit risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit risk in their pricing and consequently the risk of loss is implicitly provided for in the value of the Fund's assets and liabilities (as outlined in Market Risk above).

In essence, the Fund’s entire investment portfolio is exposed to some sort of credit risk. However, through the selection of counterparties, brokers and financial institutions the Fund reduces the credit risk that may occur through the failure to settle a transaction in a timely manner.

Cash deposits, derivatives and securities lending are the major areas of credit exposure where credit risk is not reflected in market prices.

21 Nature and extent of risk arising from financial instruments (cont)

Cash deposits

At 31 March 2019, cash deposits represented £605.1m, 7.74% of total net assets. This was held with the following institutions:

	Moody's Credit Rating at 31 March 2019	Balances at 31 March 2018 £000	Balances at 31 March 2019 £000
Held for investment purposes			
Northern Trust Global Investment Limited - liquidity funds	Aaa-mf	10,571	13,517
Northern Trust Company - cash deposits	Aa2	324,100	443,357
The City of Edinburgh Council - treasury management	See below	91,709	112,315
Total investment cash		426,380	569,189
Held for other purposes			
The City of Edinburgh Council - treasury management	See below	48,833	35,897
Total cash - parent		475,213	605,086
Cash held by LPFE/LPFI Limited			
Royal Bank of Scotland	A1	93	341
Total cash - group		475,306	605,427

The majority of Sterling cash deposits of the Fund are managed along with those of the administering authority (the City of Edinburgh Council) and other related organisations which are pooled for investment purposes as a treasury cash fund. Management of the cash fund is on a low risk basis, with security of the investments the key consideration.

	Moody's Credit Rating at 31 March 2019	Balances at 31 March 2018 £000	Balances at 31 March 2019 £000
Money market funds			
Deutsche Bank AG, London	Aaa-mf	608	3,979
Goldman Sachs	Aaa-mf	1	58
Aberdeen Standard Sterling Liquidity Fund	Aaa-mf	20,830	21,746
Bank call accounts			
Bank of Scotland	Aa3	13,876	14,578
Royal Bank of Scotland	A1	511	573
Santander UK	Aa3	368	1
Barclays Bank	A1	11	13
Svenska Handelsbanken	Aa2	689	6
HSBC Bank PLC	Aa3	52	14
Notice accounts			
HSBC Bank PLC	Aa3	-	17,527
UK Pseudo-Sovereign risk instruments			
Other Local Authorities [1]	Aa1	103,596	89,717
		140,542	148,212

[1] Very few Local Authorities have their own credit rating but they are generally assumed to have a pseudo-sovereign credit rating (which in the UK at 31 March 2019 was 'Aa1').

21 Nature and extent of risk arising from financial instruments (cont)

The Council has in place institutional restrictions on investments and counterparty criteria. These include -

(a) UK Government and other UK local Authorities with no limit, other public bodies up to £20 million per

(b) Money market funds (MMFs) no more than £30 million or 15% with any one Fund.

(c) Financial Institutions: Banks and Building Societies with multiple criteria based on a range of short and long term credit ratings, as well as any security, provided from maximum of £60 million / 20% of assets under management (AUM) for institutions with the highest criteria to £10 million / 5% of AUM for institutions with the lowest acceptable criteria.

No breaches of the Council's counterparty criteria occurred during the reporting period and the Fund does not expect any losses from non-performance by any of its counterparties in relation to deposits.

Securities lending

The Fund participates in a securities lending programme as described above. The Fund is potentially exposed to credit risk in the event of the borrower of securities defaulting. This risk is mitigated by the contractual commitment that borrowers provide collateral in excess of 100% of the value of the securities borrowed. In addition, Northern Trust has signed an agreement requiring it to make good any losses arising from the lending programme.

Derivatives

The Fund transacts foreign currency derivatives over-the-counter and hence is exposed to credit risk in the event of a counterparty defaulting on the net payment or receipt that remains outstanding. This risk is minimised by the use of counterparties that are recognised financial intermediaries with acceptable credit ratings and by netting agreements. At 31 March 2019, the Fund was owed £2.2m on over-the-counter foreign currency derivatives.

Refinancing risk

Refinancing risk is the risk that the Fund will be bound to replenish a significant proportion of its pension fund financial instruments at a time of unfavourable interest rates. The Fund is not bound by any obligation to replenish its investments and hence is not exposed to refinancing risk.

Liquidity risk

Liquidity risk reflects the risk that the Fund will not be able to meet its financial obligations as they fall due. The Fund therefore ensures that there is adequate cash and liquid resources to meet its commitments. Cash flow projections are prepared on a regular basis to understand and manage the timing of the Fund’s cash flows.

The majority (estimated to be approximately 78% (2018 77%)) of the Fund’s investments could be converted to cash within three months in a normal trading environment.

22 Actuarial statement

The Scheme Actuary has provided a statement describing the funding arrangements of the Fund. This can be found at the end of this section.

Notes to the Financial Statements

23 Actuarial present value of promised retirement benefits

The actuarial value of promised retirement benefits at the accounting date, calculated in line with International Accounting Standard 19 (IAS19) assumptions, is estimated to be £9,435m (2018 £8,254m). This figure is used for statutory accounting purposes by Lothian Pension Fund and complies with the requirements of IAS26. The assumptions underlying the figure match those adopted for the Administering Authority's FRS102/IAS19 reports at each year end.

The figure is only prepared for the purposes of IAS26 and has no validity in other circumstances. In particular, it is not relevant for calculations undertaken for funding purposes and setting contributions payable to the Fund.

	31 March 2018 % p.a.	31 March 2019 % p.a.
Inflation / pensions increase rate	2.4	2.5
Salary increase rate	4.1	4.2
Discount rate	2.7	2.4

Longevity assumptions

The life expectancy assumption is based on Fund specific statistical analysis with improvements in line with the CMI 2016 model, assuming that the current rate of improvements has reached a peak and will converge to a long term rate of 1.25% p.a.. Based on these assumptions, the average future life expectancies, in years, at age 65 are summarised below:

	31 March 2018		31 March 2019	
	Males	Females	Males	Females
Current pensioners	21.7 years	24.3 years	21.7 years	24.3 years
Future pensioners (assumed to be currently 45)	24.7 years	27.5 years	24.7 years	27.5 years

Commutation assumption

An allowance is included for future retirements to elect to take 50% of the maximum additional tax-free cash up to HMRC limits for pre-April 2009 service and 75% of the maximum tax-free cash for post-April 2009 service.

24 Non-current Debtors

	LPF Parent 31 March 2018 £000	LPF Group 31 March 2018 £000	LPF Parent 31 March 2019 £000	LPF Group 31 March 2019 £000
Contributions due - employers' cessation	1,525	1,525	3,457	3,457
	1,525	1,525	3,457	3,457

In accordance with the Funding Strategy Statement and in recognition of severe affordability constraints facing the charitable sector, “Funding Agreements” have been put in place to allow certain former employers to repay cessation valuation debt over longer terms (up to twenty years), to avoid potential default or insolvency.

The above debtors all relate to community admission bodies.

Notes to the Financial Statements

25 Debtors

	LPF Parent 31 March 2018* £000	LPF Group 31 March 2018* £000	LPF Parent 31 March 2019 £000	LPF Group 31 March 2019 £000
Contributions due - employers	12,250	12,250	16,831	16,831
Contributions due - members	3,690	3,690	4,691	4,691
Benefits paid in advance or recoverable	33	33	6	6
Sundry debtors	97	168	503	717
Prepayments	325	335	314	323
LPFE & LPFI Limited Loan facility - see note 28	11	-	-	-
	16,406	16,476	22,345	22,568

26 Creditors

	LPF Parent 31 March 2018* £000	LPF Group 31 March 2018* £000	LPF Parent 31 March 2019 £000	LPF Group 31 March 2019 £000
Benefits payable	7,062	7,062	8,886	8,886
VAT, PAYE and State Scheme premiums	1,432	1,571	1,354	1,738
Contributions in advance	18,290	18,290	17,785	17,785
Miscellaneous creditors and accrued expenses	2,168	2,354	2,332	2,488
Office - operating lease	243	243	220	220
Corporation tax	-	-	-	28
Intra group creditor - see note 28	287	-	222	-
	29,482	29,520	30,799	31,145

27 Additional Voluntary Contributions

Active members of the Lothian Pension Fund have the option to pay additional voluntary contributions (AVCs). These AVCs are invested separately from the main funds, securing additional benefits on a money purchase basis for those members that have elected to contribute. The investment of the AVCs is managed by Standard Life and Prudential.

In accordance with regulation 4 (2) (b) of the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010, AVCs are not included in the pension fund financial statements.

Total contributions during year for Lothian Pension fund	2017/18* £000	2018/19 £000
Standard Life	312	312
Prudential	2,059	2,225
	2,371	2,537

Total value at year end for Lothian Pension Fund	31 March 2018* £000	31 March 2019 £000
Standard Life	4,850	4,685
Prudential	6,634	7,676
	11,484	12,361

28 Related parties

The City of Edinburgh Council

The Lothian Pension Fund and the Scottish Homes Pension Fund are administered by the City of Edinburgh Council. Consequently there is a strong relationship between the Council and the Pension Funds.

LPFE, which is a wholly owned subsidiary of the Council, is responsible for providing the staffing resource to administer the pension funds. The Fund has a service level agreement in place with the Council for certain support services. Costs directly attributable to a specific Fund are charged to the relevant Fund, costs that are common to the two Funds are allocated on a defined basis.

Transactions between the Council and the Fund are managed via a holding account. Each month the Fund is paid a cash sum leaving a working balance in the account to cover the month's pension payroll costs and other expected costs.

	31 March 2018* £000	31 March 2019 £000
Year end balance of holding account	3,083	884
	3,083	884

Part of the Fund's cash holdings are invested on the money markets by the treasury management operations of the Council, through a service level agreement. During the year to 31 March 2019, the fund had an average investment balance of £139.1m (2017/18 £119.9m). Interest earned was £977.1k (2017/18 £453.6k).

Year end balance on treasury management account	31 March 2018* £000	31 March 2019 £000
Held for investment purposes	91,709	112,315
Held for other purposes	48,833	35,897
	140,542	148,212

Scheme employers

All scheme employers to the fund are (by definition) related parties, a full list of employers can be found on page 84. The employer contributions for the ten largest scheme employers are as follows -

	31 March 2018* £000	31 March 2019 £000
City of Edinburgh Council	50,041	59,694
West Lothian Council	22,895	25,841
Scottish Water	9,526	15,975
East Lothian Council	13,812	14,746
Midlothian Council	13,148	14,041
Lothian Buses	7,581	7,002
Edinburgh Napier University	4,938	5,199
Heriot-Watt University	3,324	3,026
Scottish Police Authority	2,945	3,016
Edinburgh College	2,289	2,676

Notes to the Financial Statements

28 Related parties (cont)

Governance

As at 31 March 2019, all members of the Pensions Committee, with the exception of Richard Lamont, and all members of the Pension Board, were members of the Lothian Pension Fund. One member of both the Pensions Committee and the Pension Board are in receipt of pension benefits from Lothian Pension Fund.

Each member of the Pensions Committee and Pension Board is required to declare any financial and non-financial interests they have in the items of business for consideration at each meeting, identifying the relevant agenda item and the nature of their interest.

During the period from 1 April 2018 to the date of issuing of these accounts, a number of employees of the City of Edinburgh Council and its wholly owned subsidiary, LPFE Limited, held key positions in the financial management of the Lothian Pension Fund. Total compensation paid in relation to key management personnel employed by LPFE Limited during the period was as follows:

	31 March 2018 £000	31 March 2019 £000
Short-term employee benefits	415	647
Post-employment benefits - employer pension contributions	85	111

Key management personnel employed by LPFE had accrued pensions totalling £120,245 (1 April 2018: £97,456) and lump sums totalling £132,375 (1 April 2018: £110,889) at the end of the period. Further details on senior management remuneration can be found within the remuneration report on page 134.

Remuneration of key management personnel employed by City of Edinburgh Council is disclosed separately in the Financial Statements of City of Edinburgh Council.

The Councillors, who are members of the Pensions Committee, are also remunerated by City of Edinburgh Council.

LPFE Limited & LPFI Limited- loan facility

LPFE & LPFI Limited are wholly owned by the City of Edinburgh Council as administrating authority of Lothian Pension Fund and have entered into a shareholder agreement with the Council to address governance matters. The companies have a loan facility agreement with the City of Edinburgh Council for the purpose of the provision of short term working capital. The current agreement covers the period to 1 May 2020 and provides that interest is payable at 2% above the Royal Bank of Scotland base lending rate on the daily balance. In order to minimise the amount of interest payable, the companies return any cash not immediately required and this can result in short periods when the companies have returned more cash than has been drawn. On such days the loan interest is negative, reducing the amount of interest payable.

Interest payable by LPFE Limited during the period was £1,434 of which £787 was due at the year end and for LPFI Limited there was no interest payable for the year. At 31 March 2019, there was zero balance on the loan facilities for both LPFE Limited and LPFI Limited.

LPFE Limited - staffing services

Staffing services are provided to Lothian Pension Fund for the purposes of administering the Funds under a intra-group resourcing agreement. The agreement also provides for the running costs of the company to be covered as part of a service charge and allows for the provision of staffing services to LPFI Limited. During the year to 31 March 2019, the Fund was invoiced £3,614k (2018 £1,450k) for the services of LPFE Limited staff.

Notes to the Financial Statements

29a Consolidated Lothian Pension Fund Group - LPFE Limited & LPFI Limited - deferred tax

Movement in deferred tax asset (Non-current asset)	**LPF Group 2017/18 £000**	**LPF Group 2018/19 £000**
At 1 April 2018	117	292
Credit for year to Fund Account	175	101
At 31 March 2019	292	393

Elements of closing deferred tax asset	**LPF Group 31 March 2018 £000**	**LPF Group 31 March 2019 £000**
Pension liability	292	393
	292	393

29b Shares in group companies - LPFE Limited & LPFI Limited

	31 March 2018 £	**31 March 2019 £**
Allotted, called up and fully paid Ordinary shares of £1 each - LPFE Limited*	1	1
Allotted, called up and fully paid Ordinary shares of £1 each - LPFI Limited	60,000	60,000
	60,001	60,001

**One ordinary share of £1 was issued to Lothian Pension Fund at par value on incorporation. Due to the low value this does not show on the Net Assets Statement.*

30 Retirement benefits obligation - group

The retirement benefit obligation described in this note relates only to the employees of LPFE. This is because obligation in respect of the staff employed by the City of Edinburgh Council is accounted for in the City of Edinburgh Council's Financial Statements.

On 1 May 2015 LPFE commenced trading and its staff transferred their employment from the City of Edinburgh Council to the Company on that date. At that time, the Company also entered into appropriate admission arrangements with the City of Edinburgh Council with respect to the transferring individuals continuing to be members of the Lothian Pension Fund and in relation to its obligations as an employer in that Fund.

The present value of the defined benefit obligation and related current and past service cost were measured using the Projected Unit Credit Method.

Fund assets

LPFE's share of the fair value of the Fund's assets which are not intended to be realised in the short term and may be subject to significant change before they are realised, was comprised as follows:

30 Retirement benefits obligation - group (cont)

Asset		Fair value at 31 March 2018 £000	% of total 31 March 2018 %	Fair value at 31 March 2019 £000	% of total 31 March 2019 %
Equity securities:	Consumer	1,185	14.0	1,094	14.0
	Manufacturing	1,288	15.0	1,265	15.0
	Energy and utilities	541	6.0	777	6.0
	Financial institutions	769	9.0	865	9.0
	Health and care	424	5.0	559	5.0
	Information technology	528	6.0	335	6.0
	Other	543	6.0	1,003	6.0
Debt securities:	Corporate Bonds	169	2.0	-	2.0
	UK Government	839	10.0	1,045	10.0
	Other	-	0.0	-	0.0
Private equity:	All	158	2.0	139	2.0
Real property	UK property	556	6.0	697	6.0
	Overseas property	9	0.0	-	0.0
Investment funds and unit trusts:	Equities	83	1.0	102	1.0
	Commodities	-	0.0	-	0.0
	Bonds	-	0.0	261	0.0
	Infrastructure	1,025	12.0	1,277	12.0
	Other	20	0.0	-	0.0
Derivatives:	Foreign Exchange	4	0.0	3	0.0
Cash and cash equivalents:	All	511	6.0	863	6.0
		8,652	100.0	10,285	100.0

Amounts recognised in the Net Assets Statement	LPF Group 31 March 2018 £000	LPF Group 31 March 2019 £000
Fair value of Fund assets	8,652	10,285
Present value of Fund liabilities	(10,367)	(12,594)
	(1,715)	(2,309)

30 Retirement benefits obligation - group (cont)

Movement in the defined benefit obligation during the period	LPF Group 2017/18 £000	LPF Group 2018/19 £000
Brought forward	3,513	10,367
Current service cost	336	843
Interest cost on obligation	131	294
Fund participants contributions	7,175	186
Benefits paid	-	-
Actuarial losses arising from changes in financial assumptions	(788)	904
Actuarial losses arising from changes in demographic assumptions	-	-
Other actuarial losses	-	-
Balance at year end	10,367	12,594

After the Supreme Court denied the Government leave to appeal the McCloud and other associated cases on 27 June 2019, a written ministerial statement confirmed that as 'transitional protection' was offered to members of all the main public service pension schemes, the difference in treatment would need to be remedied across all those schemes, including the LGPS. The Fund therefore commissioned its actuary to produce a revised IAS19 statement for LPFE Limited to incorporate the potential implications of the McCloud judgement. The revised statement estimated an approximate £255k increase in LPFE's defined benefit obligation. This has not been incorporated in the above figures, which remain consistent with LPFE Limited's audited financial statements.

Movement in the fair value of Fund assets during the period	LPF Group 2017/18 £000	LPF Group 2018/19 £000
Brought forward	2,828	8,652
Benefits paid		
Interest income on Fund assets	104	244
Contributions by employer	204	567
Contributions by member	91	194
Contributions in respect of unfunded benefits	-	-
Unfunded benefits paid	(4)	(8)
Effect of business combinations and disposals	5,711	-
Return on assets excluding amounts included in net interest	(282)	636
Balance at year end	8,652	10,285

Amounts recognised in the Fund Account	LPF Group 2017/18 £000	LPF Group 2018/19 £000
Interest received on Fund assets	(104)	(244)
Interest cost on Fund liabilities	131	294
Current service costs	336	843
Effect of business combinations and disposals	1,377	-
Employer contributions	(204)	(567)
Actuarial gain due to re-measurement of defined benefit obligation	(788)	904
Return on Fund assets (excluding interest above)	282	(636)
Net cost recognised in Fund account	1,030	594

30 Retirement benefits obligation - group (cont)

Principal actuarial assumptions used in this valuation	31 March 2018 % p.a.	31 March 2019 % p.a.
Inflation / pensions increase rate	2.3	2.4
Salary increase rate	4.0	4.1
Discount rate	2.7	2.5

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice. Best estimate has been interpreted to mean that the proposed assumptions are 'neutral' – there is an equal chance of actual experience being better or worse than the assumptions proposed.

The financial assumptions used for reporting in the financial statements are the responsibility of the employer. These assumptions are largely prescribed at any point and reflect market conditions at the reporting date. Changes in market conditions that result in changes in the net discount rate can have a significant effect on the value of the liabilities reported.

A reduction in the net discount rate will increase the assessed value of liabilities as a higher value is placed on benefits paid in the future. A rise in the net discount rate will have an opposite effect of a similar magnitude. There is also uncertainty around life expectancy of the UK population – the value of current and future pension benefits will depend on how long they are assumed to be in payment.

Life expectancy is based on Fund specific statistical analysis with improvements in line with the CMI 2012 model assuming current rates of improvements have peaked and will converge to a long term rate of 1.25% p.a.

Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	31 March 2018		31 March 2019	
	Males	Females	Males	Females
Current pensioners	22.1 years	23.7 years	21.7 years	24.3 years
Future pensioners	24.2 years	26.3 years	24.7 years	27.5 years

Expected employer contributions to the defined benefit plan for the year ended 31 March 2020 are £643,000, based on a pensionable payroll cost of £2,374,000.

31 Contractual commitments

Investment commitments

The Fund has commitments relating to outstanding call payments due on unquoted funds held in the private equity, timber, property and infrastructure parts of the portfolio. The amounts 'called' by these funds are irregular in both size and timing, taking place over a number of years from the date of each original commitment. The outstanding commitments at the year end are as follows:

	31 March 2018* £000	31 March 2019 £000
Outstanding investment commitments	213,774	325,361
	213,774	325,361

31 Contractual commitments (cont)

Office accommodation - 144 Morrison Street, Edinburgh

The Fund is committed to making the following future payments.

	31 March 2018 £000	31 March 2019 £000
Within one year	115	115
Between one and five years	345	345
After five years	762	647
	1,222	1,107
Recognised as an expense during the year	92	92

The above expense has been allocated across the two Funds, Lothian Pension Fund's share is £85.1k.

32 Contingent assets and liabilities

Contribution refunds

At 31st March 2019, Lothian Pension Fund had £909k (2018: £894k) in unclaimed refunds due to members.

Employer Cessations

a) Funding Agreements

As stated in note 24, "In accordance with the Funding Strategy Statement and in recognition of severe affordability constraints facing the charitable sector, "Funding Agreements" have been put in place with certain former employers to repay cessation valuation debt"…. In exceptional circumstances, this includes "repayment of less than the cessation debt in order to avoid employer insolvency, with an appropriate agreement which allows the Fund to revisit the repayment of the remaining debt at a future date (i.e. the debt would be a contingent liability and hence not recognised on an employer's balance sheet); and seeking, where appropriate, suitable "anti-embarrassment" provisions in legal agreement covering future increase in employer asset values". At 31 March 2019, such contingent assets of the Fund totalled £1,635k.

b) Homeless Action Scotland

On 24 January 2019, the Chief Finance Officer, Lothian Pension Fund, made a request for direction by Scottish Ministers that the assets and liabilities of Homeless Action Scotland (HAS) should be transferred from Lothian Pension Fund (LPF) to the Scottish Homes Pension Fund. HAS became an "Admitted Body" of Lothian Pension Fund when its predecessor (The Scottish Council for Single Homeless) was admitted in 1978, pursuant to Regulation B4(4) of the Local Government Superannuation (Scotland) Regulations 1974, being 'a body to whom a grant is made out of moneys provided by Parliament'. Since 1978, HAS accrued pension liabilities for the ongoing pension entitlements of the HAS employees admitted to membership of LPF. Following confirmation by HAS that it would be unable to meet the minimum contribution rate assessed at the actuarial valuation of 31 March 2017 (certified by LPF's actuary), LPF terminated HAS's admission to LPF with effect from 12 July 2018 in accordance with LPF's Funding Strategy Statement. Upon HAS becoming an exiting employer, LPF's actuary was instructed to calculate the liabilities that remained with LPF on cessation and the final contribution due from HAS, as required under Regulation 62(2) of the 2018 Regulations. The Actuary's cessation valuation is £641,000.

A response to the request for such direction is awaited from Scottish Ministers.

32 Contingent assets and liabilities (cont)

EU Tax claims & income recovery

The Fund participates in various claims to recover withheld investment income. EU tax claims relate to the recovery of tax deducted from dividend payments prior to receipt or payable tax credits thereon. The claims can be divided into three main types – “Manninen” / Foreign Income Dividends (Fids), “Fokus Bank” and Manufactured Dividends. Given the high level of uncertainty as to the eventual success of such claims from EU tax authorities, no accrual of income is made in the financial statements. The value of these outstanding claims is approximately £11.4m. To date, the amount of tax recovered exceeds the cost of pursuing claims. Legal costs are shared across a pool of claimants and the Fund has the right to cease participation without incurring further costs. An annual progress report is provided to Pensions Audit Sub-Committee.

Variable pay arrangements

During the year, the company introduced three variable pay schemes, two of which have vesting periods. The Portfolio Manager and Senior Management schemes entitle staff to receive an assessed percentage of their salary as an additional variable pay award if they meet certain objectives during the year. The assessment year runs from 1 February 2018 to 31 January 2019. The award then vests over three years. The first part is payable at the end of the first year if the objectives are met and the remaining two parts are payable in the following two years if the requirement that the employee is still employed by the company at such time is met. Payment one has been made in January 2019. A liability has been raised at 31 March 2019 for the 2 months of service which the employees have delivered with regards to the second and third payments in the scheme.

In the event that all the staff involved in the arrangements at 31 January 2019 remain in the company’s employment there is a contingent liability of £319,900 in excess of the current and non-current liabilities, as recognised in these financial statements in accordance with IAS19. This amount would be payable over two years.

Guaranteed Minimum Pension (GMP) – Reconciliation to HMRC records

GMP is the minimum pension which a United Kingdom occupational pension scheme must provide for those employees who were contracted out of the State Earnings-Related Pension Scheme (SERPS) between 6 April 1978 and 5 April 1997.

The UK Government mandated a reconciliation of Guaranteed Minimum Pension details held on scheme pension administration records to those held by HMRC, this to be completed by a revised date of 31 March 2019. Whilst this reconciliation of GMP mismatches has been completed by the Fund, work is ongoing to calculate “lump sum” arrears of any pension underpayments arising, together with the correct pension now being put into payment. It is not anticipated, however, that such arrears should represent a material sum.

On 8 February 2018, SPPA published “Circular No.1/2018”, the purpose of which was to “Confirm how GMP related overpayments which arise from the current reconciliation exercise should be managed going forward…” This stated that “Scottish Minister have decided that as in 2008/2009 any LGPS pension in payment affected by the exercise should not be reduced going forward. Instead the identified GMP related overpayment should be converted as before into an Increased Pension Entitlement (IPE) allowing the pension to continue at its existing level.”

Guaranteed Minimum Pension (GMP)

Following The High Court ruling from 26 October 2016, all defined benefit pension schemes must equalise Guaranteed Minimum Pension (GMP) for men and women. There is insufficient basis to estimate reliably the amount to be recognised in the past service cost until actuaries complete their assessment of the impact and reflect it fully in the pension reports. The Funds actuary, Hymans Robertson LLP has advised that following discussions with the National Audit Office and other LGPS actuaries, the general expectation is that a ‘trigger event’ is yet to occur in the LGPS and their default approach is to ignore any GMP impact in the 31 March 2019 accounts.

Notes to the Financial Statements

32 Contingent assets and liabilities (cont)

Local Government Pension Scheme (Scotland) cost management update from Scottish Public Pensions Agency (SPPA)

In February 2019, the SPPA provided the Local Government Association (LGA) Secretariat with the following update for Scottish administering authorities:

"As you are aware, the Public Service Pensions Act 2013 requires all public service pension schemes to undergo regular valuations, in addition to the regular fund valuations undertaken by LGPS fund actuaries. At the October meeting of the LGPSAB (Scheme Advisory Board) (Scotland), Government Actuary's Department (GAD) presented demographic assumptions which have been agreed. The UK Government and Scottish Ministers chose to allow certain exceptions which were designed to protect those closest to retirement from the impact of those reforms. As you will be aware, the Court of Appeal handed down judgment in the cases of McCloud and Sargeant on 20 December 2018: these age-related transitional arrangements were held to be discriminatory. It is anticipated that other public service pension schemes across the UK may be affected by this decision, including LGPS Scotland, notwithstanding that the nature of the comparable transitional arrangements implemented for local government pension schemes [statutory underpin] was slightly different from those adopted for the unfunded schemes. The judgment therefore has implications for post-reform members' benefits, and the UK Government is seeking permission to appeal to the Supreme Court. Meantime, the substantial impact of the judgment is such that it is impossible to assess with certainty the value of current public service pension arrangements.

On 30 January 2019 HM Treasury therefore announced in a Written Ministerial Statement that the UK Government intends to pause the 'cost cap' mechanism under the current round of scheme valuations, pending the final outcome of the appeal. As noted in the Ministerial Statement, if the UK Government is successful in its appeal, the cost cap process will resume. If unsuccessful, steps will need to be taken to compensate members who have been unfairly disadvantaged in the post reform schemes. Accordingly, the nature, and the timescale for implementation, of changes to the provisions of LGPS Scotland flowing from the actuarial valuation of the scheme for cost cap purposes being undertaken by the Government Actuary's Department (GAD) is not currently clear. We understand that changes which were scheduled to come into force this April in the England & Wales LGPS have been put on hold. We are liaising closely with HM Treasury and MHCLG on this matter. Meanwhile, GAD is progressing its valuation calculations only to the extent necessary at this stage, pending greater clarity on the legal position and the UK Government's consequent policy intent".

The UK Government had sought leave to appeal that decision but, on 27 June 2019, the Supreme Court rejected that request, meaning the case will now refer back to the Employment Tribunal so that a remedy can be put in place for those affected. The UK Government must now propose rectification to compensate individuals for the difference in treatment.

The Fund requested revised IAS19 reporting from its actuary following the appeal decision. The actuary has estimated the impact of the ruling to be a £102m increase in the actuarial value of promised retirement benefits. This has been reflected in Note 23. As confirmed by the actuary, however, there remains significant uncertainty over the remedy to be applied and associated costs to Scottish LGPS funds.

33 Impairment losses

During the year the Fund recognised an increase in impairment losses in respect of specific benefit over payments for which reimbursement has been requested of £15k. This increased the impairment to £42.7k at the year end.

Lothian Pension Fund

Actuarial Statement for 2018/19

This statement has been prepared in accordance with Regulation 55(1)(d) of the Local Government Pension Scheme (Scotland) Regulations 2014. It has been prepared at the request of the Administering Authority of the Fund for the purpose of complying with the aforementioned regulation.

Description of Funding Policy

The funding policy is set out in the Administering Authority's Funding Strategy (FSS), dated March 2018. In summary, the key funding principles are as follows:

- to ensure the long-term solvency of the overall Fund;
- to ensure the solvency of each individual employers' share of the Fund based on their expected term of participation in the Fund;
- to minimise the degree of short-term change in employer contribution rates;
- maximise the returns from investments within reasonable and considered risk parameters, and hence minimise the cost to the employer;
- to ensure that sufficient cash is available to meet all liabilities as they fall due for payment;
- to help employers manage their pension liabilities; and
- where practical and cost effective, to make allowance for the different characteristics of different employers and groups of employers.

The FSS sets out how the Administering Authority seeks to achieve these objectives.

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 60 of the Local Government Pension Scheme (Scotland) Regulations 2014 was as at 31 March 2017. This valuation revealed that the Fund's assets, which at 31 March 2017 were valued at £6,598 million, were sufficient to meet 98% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2017 valuation was £145 million. For the avoidance of doubt, these results are based on the assumptions that apply to the Fund's Primary investment strategy.

Each employer had contribution requirements set at the valuation with the aim of achieving full funding within a given time horizon. Contribution rates were set using one of two approaches depending on each employer's circumstances:

- Certain low risk and open employers participate in a contribution stability mechanism which limits annual changes in contribution rates. The mechanism is tested at each valuation to make sure it achieves the desired funding objectives.
- Other employers pay the contributions required to cover the cost of future service benefits and to recover the deficit/surplus identified as at 31 March 2017 over a given time period.

Individual employers' contributions for the period 1 April 2018 to 31 March 2021 were set in accordance with the Fund's funding policy as set out in its FSS, which includes further detail on the approaches mentioned above.

Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the 2017 valuation report.

Lothian Pension Fund

Actuarial Statement for 2018/19

Method

The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date, and makes an allowance for expected future salary growth and inflation to retirement or expected earlier date of leaving pensionable membership.

Assumptions

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

The key financial assumptions adopted under the Primary investment strategy for the 2017 valuation were as follows:

Financial assumptions	31 March 2017 % p.a.
Discount rate	3.2%
Salary increase assumption	4.1%
Benefit increase assumption (CPI)	2.4%

The key demographic assumption was the allowance made for longevity. The life expectancy assumption was based on the Fund's Vita Curves alongside future improvements based on the CMI 2016 model with an allowance for smoothing of recent mortality experience and a long term rate of improvement of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	21.7 years	24.3 years
Future Pensioners *	24.7 years	27.5 years

*Aged 45 as at 31 March 2017

Copies of the 2017 valuation report and Funding Strategy Statement are available on request from the Administering Authority to the Fund.

Experience over the period since 31 March 2017

Asset returns under the Primary investment strategy over the period have been higher than the valuation discount rate but real bond yields have fallen slightly since 31 March 2017. Combining the impact of these may mean that the overall funding level at 31 March 2019 is broadly similar to the last valuation.

The next actuarial valuation will be carried out as at 31 March 2020. The Funding Strategy Statement will also be reviewed at that time.

Richard Warden FFA
Fellow of the Institute and Faculty of Actuaries
For and on behalf of Hymans Robertson LLP
20 Waterloo Street, Glasgow, G2 6DB
26 April 2019

List of active employers at 31 March 2019

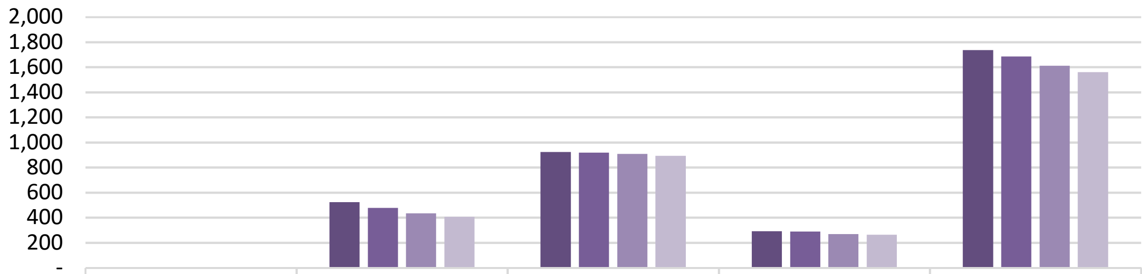
Scheduled Bodies	
City of Edinburgh Council (The)	Scottish Fire and Rescue Service
East Lothian Council	Scottish Police Authority
Edinburgh College	Scottish Water
Heriot-Watt University	SESTRAN
Lothian Buses	Visit Scotland
Lothian Valuation Joint Board	West Lothian College
Midlothian Council	West Lothian Council
Scotland's Rural College (SRUC)	

Admitted Bodies	
Amey Services	Improvement Service (The)
Audit Scotland	Into Work
Barony Housing Association Ltd	ISS UK Ltd
Baxter Storey	LPFE Ltd
Bellrock Property and Facilities Management	Melville Housing Association
Canongate Youth Project	Mitie (Edinburgh College)
Capital City Partnership	Mitie PFI
CGI UK Ltd	Morrison Facilities Services Ltd
Children's Hearing Scotland	Museums Galleries Scotland
Children's Hospice Association Scotland	Newbattle Abbey College
Citadel Youth Centre	North Edinburgh Dementia Care
Compass Chartwell	NSL Services Ltd
Convention of Scottish Local Authorities	Penumbra
Cyrenians	Pilton Equalities Project
Dacoll Limited	Queen Margaret University
Edinburgh Business School	Royal Edinburgh Military Tattoo
Edinburgh Development Group	Royal Society of Edinburgh
Edinburgh International Festival Society	Scotland's Learning Partnership
Edinburgh Leisure	Scottish Adoption Agency
Edinburgh Napier University	Scottish Futures Trust
ELCAP	Scottish Legal Complaints Commission
Enjoy East Lothian	Scottish Schools Education Research Centre (SSERC)
Family Advice and Information Resource	Skanska UK
Family and Community Development West Lothian	Sodexo Ltd
First Step	St Andrew's Children's Society Limited
Forth and Oban Ltd	St Columba's Hospice
Four Square (Scotland)	Stepping Out Project
Freespace Housing Association	Waverley Care
Granton Information Centre	University of Edinburgh (Edinburgh College of Art)
Handicabs (Lothian) Ltd	Weslo Housing Management
Hanover (Scotland) Housing Association	West Granton Community Trust
Health in Mind	West Lothian Leisure
Homes for Life Housing Partnership	Young Scot Enterprise
HWU Students Association	Youthlink Scotland

There are currently 13 ceased employers not included in the above list that are currently or in the process of setting up funding agreements to repay cessation debt over a number of years.

Scottish Homes Pension Fund

Scottish Homes Pension Fund membership



	Active	Deferred	Pensioners	Dependants	Total
31 March 2016	-	522	922	291	1,735
31 March 2017	-	478	919	289	1,686
31 March 2018	-	433	908	269	1,610
31 March 2019	-	406	892	263	1,561

Investment strategy

The Fund's actuary estimated that the funding level of the Scottish Homes Pension Fund was 104.7% at 31 March 2017.

Achievement of full funding meant that the Fund no longer needed to take investment risk by investing in equities and property. Instead, the Fund was able to minimise risk by investing solely in bonds, specifically UK gilts. These financial instruments move proportionately with liability values.

After a year of significant change, the year to 31 March 2019 brought no change to the strategy allocation of 100% bonds and this should not change until at least the results of the next actuarial valuation (March 2020) are known. At that point in time, the actuary will amend financial and demographic estimates based on actual experience over the prior three years.

The strategic and actual asset allocations for the Fund at the end of the 2018 and 2019 financial years are shown in the table below.

	Strategic Allocation 31 March 2018 %	Actual Allocation 31 March 2018 %	Strategic Allocation 31 March 2019 %	Actual Allocation 31 March 2019 %
Equities	-	-	-	-
Bonds	100.0	91.9	100.0	97.8
Property	-	2.7	-	-
Cash	-	5.4	-	2.2
Total	**100.0**	**100.0**	**100.0**	**100.0**

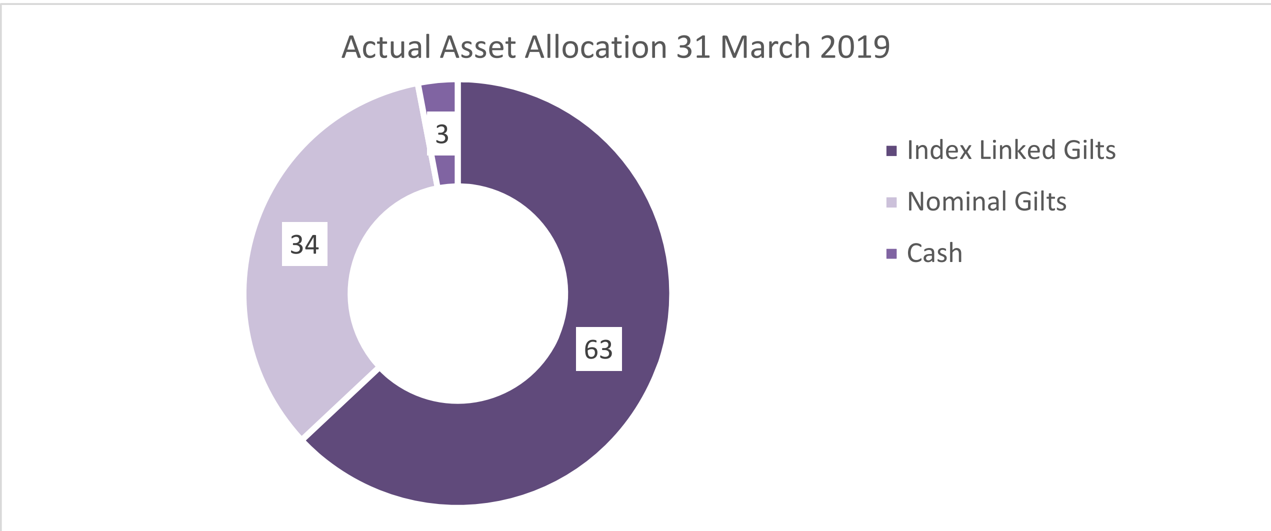
Shortly after the end of March 2018, the final sale of property assets was completed, leaving the Fund entirely invested in index-linked gilts and cash. The index linked gilts were structured to broadly match the expected liability payments as they fall due.

Given that the Fund had achieved full funding, the Pensions Committee approved a new investment objective in June 2018:

"to match the cash flow from gilt income and redemption payments as closely as possible with the expected liability payments of the fund"

Detailed analysis of the Scottish Homes liabilities was undertaken during 2018/19 to ensure that the invested assets are as closely matched with the liability profile as possible, taking into consideration the expected duration of liabilities and whether they are fixed or index-linked in nature.

This resulted in a portion of index-linked gilts being sold and reinvested in nominal gilts to achieve a closer asset-liability match. At 31 March 2019, the Fund is 'cash flow matched' up to one year beyond the next actuarial valuation expected at 31 March 2020, and 'duration matched' liabilities beyond that. This is because there is greater certainty in the earlier period - funding levels will continue to be subject to the actuary's financial or demographic assumptions of future experience, which will be reassessed during 2020/21.



Investment movements

As the Scottish Homes Pension Fud is mature, it must sell assets to pay pensions. Cash or cash equivalents are held to enable pensions to be paid in between the dates when gilts redeem.

The Fund's assets have increased in value by 4.6% over the year, adjusted for cash flow movements to pay pensions, while a proxy for the value of liabilities increased by 4.4%, which suggests that the asset-liability match is quite effective.

Scottish Homes Pension Fund

Fund Account for year ended 31 March 2019

This statement shows a summary of the income and expenditure that the Pension Fund has generated and consumed in delivering the Local Government Pension Scheme. Included is the income from investment dealings and as well as the cost of providing benefits and administration of the Fund.

Restated 2017/18 £000		Note	2018/19 £000
	Income		
575	Contributions from the Scottish Government	***2, 4***	-
-	Transfers from other schemes		-
575			**-**
	Less: expenditure		
6,666	Pension payments including increases		6,572
767	Lump sum retirement payments		591
4	Lump sum death benefits		5
47	Transfers to other schemes	***5***	129
(31)	Administrative expenses	***2, 6b***	(19)
7,453			**7,278**
(6,878)	**Net withdrawals from dealing with members**		**(7,278)**
	Returns on investments		
2,474	Investment income	***7***	1,824
(1,615)	Change in market value of investments	***8, 11b***	5,767
(165)	Investment management expenses	***6c***	(84)
694	**Net returns on investments**		**7,507**
(6,184)	**Net increase/(decrease) in the Fund during the year**		**229**
170,644	**Net assets of the Fund at 1 April 2018**		164,460
164,460	**Net assets of the Fund at 31 March 2019**	***11***	**164,689**

Scottish Homes Pension Fund

Net Assets Statement as at 31 March 2019

This statement provides a breakdown of type and value of all net assets at the year end.

31 March 2018 £000		Note	31 March 2019 £000
	Investment Assets		
148,064	Bonds - UK		158,743
9,094	Cash Deposits		3,650
4,904	Other investment assets		618
162,062			**163,011**
	Investment Liabilities		
-	Other investment liabilities		-
-			-
162,062	**Net investment assets**	***9***	**163,011**
	Current assets		
194	The City of Edinburgh Council	***17***	10
2,240	Cash balances	***12, 17***	1,741
12	Debtors	***15***	1
2,446			**1,752**
	Current liabilities		
(48)	Creditors	***16***	(74)
(48)			**(74)**
2,398	**Net current assets**		**1,678**
164,460	**Net assets of the Fund at 31 March 2019**	***11***	**164,689**

The unaudited accounts were issued on 26 June 2019 and the audited accounts were authorised for issue on 25 September 2019.

JOHN BURNS FCMA CGMA, PgC
Chief Finance Officer, Lothian Pension Fund
25 September 2019

<u>Note to the net asset statement</u>

The financial statements summarise the transactions of the Fund during the year and its net assets at the year end. They do not take account of the obligations to pay pensions and benefits which fall due after the end of the year. The actuarial position of the Fund, which does take account of such obligations, is discussed in the Actuarial Valuation section of this report and these financial statements should be read in conjunction with that information. In addition, as required by IAS26, the Actuarial Present Value of Promised Retirement Benefits is disclosed in the notes to these financial statements.

Notes to the Financial Statements

1 Statement of Accounting Policies

The statement of accounting policies for all Funds can be found on page 105.

2 Prior Year Adjustment

During the year, the Fund has changed its accounting policy in respect to the recognition of income received by the Fund from Scottish Government in relation to the administration of the Fund.

Previously this income was recognised within the employer contributions received by the Fund in relation to deficit funding. As the Scottish Homes Pension Fund now has a funding surplus no deficit funding is required and the Fund has reviewed its previous treatment. The administration charge is no longer recognised in employer contribution and is now recognised as income against the administrative expenses of the Fund.

	2017/18 Audited £000	Adjustment £000	2017/18 Restated £000
Contributions from the Scottish Government	675	(100)	575
Administrative expenses	(69)	100	31

3 Events after the Reporting Date

There have been no events since 31 March 2019, and up to the date when these Financial Statements were authorised, that require any adjustments to these Financial Statements.

4 Contributions from the Scottish Government

The Scottish Homes Pension Fund (SHPF) is a single employer pension fund for former employees of Scottish Homes (subsequently Communities Scotland) (and persons who were employed by the Scottish Special Housing Association, but who did not become employees of Scottish Homes). The City of Edinburgh Council was selected by the Scottish Executive to be the administering authority of a fund created prior to the wind up of the Scottish Homes Residuary Body and therefore became the administering authority of SHPF on 1 July 2005, pursuant to section 2(a)(1A) of The Local Government Pension Scheme (Scotland) Amendment (No. 2) Regulations 2005 (SSI 315/2005) (the 2005 Regs).

SHPF is a mature, non-active fund (that is, the fund has no contributions paid into it by active members but consists only deferred and pensioner members and therefore only pays money out to the pensioners).

Section 2 (1C) of the 2005 Regs stipulates that:
Where the actuary determines, after having regard to the existing and prospective liabilities of the fund, that additional funding is necessary to maintain the solvency of the fund (SHPF), then Scottish Ministers will make payments to the administering authority to maintain that solvency.

In this way, the Scottish Government acts as the 'Guarantor' for SHPF's liabilities, as confirmed in the Funding agreement, signed on behalf of the Scottish Executive and dated 6 July 2005.

As at the latest triennial actuarial valuation date of 31 March 2017, SHPF showed a funding surplus of £7.7million with a funding level of 104.7%, derived from a market valuation of assets of £170.6million and liabilities of £162.9million.

4 Contributions from the Scottish Government (cont)

Having implemented the investment strategy as required by the Funding Agreement, the assets of SHPF are invested entirely in low risk, index-linked gilts. With a funding surplus, the Scottish Government is not required to provide any contribution, but as Guarantor has the reponsibility to pay towards the administration expenses of the Fund estimated to be £70,000 per annm (for years 2018 to 31 March 2021.

In addition the Guarantor is responsible for meeting the cost of investment expenses . Given the Fund's surplus the Fund are comfortable that investment expenses can be met directly by the Fund until the next triannual valuation.

5 Transfers out to other pension schemes

	2017/18 £000	2018/19 £000
Group transfers	-	-
Individual transfers	47	129
	47	129

6a Total Management expenses

	Restated 2017/18 £000	2018/19 £000
Administrative costs	(31)	15
Investment management expenses	107	19
Oversight and governance costs	58	31
	134	65

This analysis of costs for the Scottish Homes Pension Fund has been prepared in accordance with CIPFA guidance. The analysis looks at the combined administration and investment management expenses in note 6b and c and splits out the costs to include a third heading covering oversight and governance expenditure.

6b Administrative expenses

	Restated 2017/18 £000	2018/19 £000
Employee costs	24	28
System costs	8	8
Actuarial fees	30	8
External audit fees	1	1
Printing and postage	2	2
Depreciation	1	1
Office costs	2	2
Sundry costs less sundry income	1	1
	69	51
Administration fee received	(100)	(70)
	(31)	(19)

LPFE, which is a wholly owned subsidiary of the Council, is responsible for providing the staffing resource to administer the pension funds. The Fund has a service level agreement in place with the Council for certain support services. Costs directly attributable to a specific Fund are charged to the relevant Fund, costs that are common to the two Funds are allocated on a defined basis.

Notes to the Financial Statements

6c Investment management expenses	2017/18 £000	2018/19 £000
External management fees - deducted from capital (direct)	54	-
Transaction costs	30	2
Employee costs	31	44
Custody fees	7	6
Engagement and voting fees	2	2
Performance measurement fees	10	3
Consultancy fees	16	3
System costs	7	9
Legal fees	1	2
Office costs	2	2
Sundry costs less sundry income	5	11
	165	84

The Fund has not incurred any performance-related investment management fees in 2018/19 or 2017/18.

7 Investment income	2017/18 £000	2018/19 £000
Income from fixed interest securities	1,449	1,749
Dividends from equities	799	-
Income from pooled investments - property	270	-
Interest on cash deposits and sundries	29	75
	2,547	1,824
Irrecoverable withholding tax	(73)	-
	2,474	1,824

8 Reconciliation of movement in investments	Market value at 31 March 2018 £000	Purchases at cost £000	Sales & proceeds £000	Change in market value £000	Market value at 31 March 2019 £000
Bonds	148,064	54,948	(50,036)	5,767	158,743
Equities	-	-	-	-	-
Pooled investment vehicles	-	-	-	-	-
	148,064	54,948	(50,036)	5,767	158,743
Other financial assets / (liabilities)					
Cash deposits*	9,094			-	3,650
Investment income due/amounts payable*	4,904			-	618
	13,998			-	4,268
Net financial assets	162,062			5,767	163,011

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

Any indirect costs incurred through the bid-offer spread on some pooled investment vehicles are reflected in the cost of investment acquisitions and in the proceeds from sales and are therefore included in the tables above.

8 Reconciliation of movement in investments (cont)

	Market value at 31 March 2017 £000	Purchases at cost £000	Sales & proceeds £000	Change in market value £000	Market value at 31 March 2018 £000
Bonds	127,970	33,345	(11,838)	(1,413)	148,064
Equities	28,221	932	(28,451)	(702)	-
Pooled investment vehicles	7,998	-	(8,621)	623	-
	164,189	34,277	(48,910)	(1,492)	148,064
Other financial assets / (liabilities)					
Cash deposits*	3,602			(123)	9,094
Investment income due/amounts payable*	459			-	4,904
	4,061			(123)	13,998
Net financial assets	168,250			(1,615)	162,062

** Per CIPFA disclosure guidance the change in market value intentionally does not balance opening/closing market values*

9 Investment managers and mandates

Manager	Mandate	Market value at 31 March 2018 £000	% of total 31 March 2018 %	Market value at 31 March 2019 £000	% of total 31 March 2019 %
In-house	High Div Equity	87	0.1	31	0.0
Total global equities		87	0.1	31	0.0
In-house	UK Index linked gilts	148,858	91.9	159,330	97.8
Total fixed interest and	**inflation linked bonds**	148,858	91.9	159,330	97.8
Schroders	Property	4,363	2.7	-	-
Total property		4,363	2.7	-	-
In-house	Cash	8,754	5.4	3,650	2.2
Total cash		8,754	5.4	3,650	2.2
Net financial assets		162,062	100.0	163,011	100.0

10 Investments representing more than 5% of the net assets of the Fund

	Market value at 31 March 2018 £000	% of total 31 March 2018 %	Market value at 31 March 2019 £000	% of total 31 March 2019 %
UK Gov 2.5% Index Linked 16/04/20	12,309	7.5	11,619	7.1
UK Gov 4.25% 07/06/32	-	-	9,366	5.7
UK Gov 4.125% Index Linked 22/07/30	-	-	9,124	5.5
UK Gov 2.5% Index Linked 17/07/24	12,431	7.6	9,053	5.5
UK Gov 1.25% Index Linked 22/11/27	11,149	6.8	8,914	5.4
UK Gov 1.875% Index Linked 22/11/22	12,530	7.6	8,240	5.0
UK Gov 4.125% Index Linked 22/11/17	21,410	13.0	-	-
UK Gov 1.125% Index Linked 22/11/37	12,465	7.6	-	-

Notes to the Financial Statements

11 Financial Instruments

11a Classification of financial instruments

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the fair value amounts of financial assets and liabilities by category and net assets statement heading. No financial assets were reclassified during the accounting period.

All financial instruments are marked to market (at fair value) in the Fund's accounting records hence there is no difference between the carrying value and fair value.

	31 March 2018			31 March 2019		
Financial assets	Designated as fair value through fund account £000	Loans and receivables £000	Financial liabilities at amortised cost £000	Designated as fair value through fund account £000	Loans and receivables £000	Financial liabilities at amortised cost £000
Investment assets						
Bonds	148,064	-	-	158,743	-	-
Equities	-	-	-	-	-	-
Pooled investments	-	-	-	-	-	-
Cash	-	9,094	-	-	3,650	-
Other balances	-	4,904	-	-	618	-
	148,064	13,998	-	158,743	4,268	-
Other assets						
City of Edinburgh Council	-	194	-	-	10	-
Cash	-	2,240	-	-	1,741	-
Debtors	-	12	-	-	1	-
	-	2,446	-	-	1,752	-
Assets total	148,064	16,444	-	158,743	6,020	-
Financial liabilities						
Other liabilities						
Creditors	-	-	(48)	-	-	(74)
Liabilities total	-	-	(48)	-	-	(74)
Total net assets	148,064	16,444	(48)	158,743	6,020	(74)
Total net financial instruments			164,460			164,689

11b Net gains and losses on financial instruments

	2017/18 £000	2018/19 £000
Designated as fair value through fund account	(1,492)	5,767
Loans and receivables	(123)	-
Financial liabilities at amortised cost	-	-
Total	(1,615)	5,767

Notes to the Financial Statements

11c Valuation of financial instruments carried at fair value

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values.

Level 1

Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities and unit trusts.

Quoted investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2

Financial instruments at Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

Level 3

Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments would include unquoted equity investments, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The values of the investments in unquoted private equity, infrastructure, timber and real estate are based on valuations provided by the general partners to the funds in which the Fund has invested.

These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines or similar guidelines provided by the British Venture Capital Association, which follow the valuation principles of International Financial Reporting Standards (IFRS). The valuations are typically undertaken annually at the end of December. Cash flow adjustments are used to roll forward the valuations to 31 March as appropriate.

	31 March 2019			
	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
Investment assets				
Designated as fair value through fund account	-	158,743	-	158,743
Total investment assets	-	158,743	-	158,743
Investment liabilities				
Designated as fair value through fund account	-	-	-	-
Total investment liabilities	-	-	-	-
Net investment assets	-	158,743	-	158,743

11c Valuation of financial instruments carried at fair value (cont)

	31 March 2018			
	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
Investment assets				
Designated as fair value through fund account	-	148,064	-	148,064
Total financial assets	-	148,064	-	148,064
Investment liabilities				
Designated as fair value through fund account	-	-	-	-
Total financial liabilities	-	-	-	-
Net investment assets	-	148,064	-	148,064

12 Nature and extent of risk arising from financial instruments

Risk and risk management

The Fund's primary aim is to ensure that all members and their dependants receive their benefits when they become payable. As directed by Scottish Governemnt, after 31 March 2017 triennial valuation showed a funding level of 104.7%, the assets of the Fund were invested entirely in low risk gilts. In addition, the Fund ensures that sufficient cash is available to meet all liabilities when they are due to be paid.

Responsibility for the Fund's overall investment strategy rests with the Pensions Committee. The Investment Strategy Panel and the internal investment team monitor investment risks on a regular basis. Investment risk management tools are used to identify and analyse risks faced by the Fund's investments.

Types of investment risk

There are various ways of considering investment risks for pension funds. For the purposes of this note, market risk is the potential for an investor to experience losses from falls in the prices of investments. All financial instruments, including cash deposits, present a risk of loss of capital and risks vary depending on different asset classes.

Market risk also changes over time as economic conditions and investor sentiment change. The market risk of Scottish Homes Pension Fund has to some extent been mitigated. The Fund's assets have been matched to its liabilities as at the 31 March 2017 triennial valuation so interest rate risk has been minimised and as all assets held are valued in Pound Sterling no exchange risk occurs. A review of the asset matching of the Fund will next take place to coincide with the results of 31 March 2020 triennial valuation.

Sensitivity analysis

Asset prices have a tendency to fluctuate. The degree of such fluctuation is known as "volatility" and it differs by asset class. The table sets out the long-term volatility assumptions used by the Fund's investment adviser KPMG:

Asset type	Potential price movement (+ or -)
Index-Linked Gilts	11.2%
Cash	0.9%

12 Nature and extent of risk arising from financial instruments (cont)

Volatility is the standard deviation of annual returns. Broadly speaking, in two years out of three, the asset's change in value (which could be a gain or a loss) is expected to be lower than the volatility figure, but in one year out of three, the change in value is expected to be higher than the volatility figure.

Asset classes don't always move in line with each other. The extent to which assets move together is known as their "correlation". A lower correlation means that there is less risk of assets losing value at the same time. The overall Fund benefits from "diversification" because it invests in numerous different asset classes, which don't all move in line with each other. Consequently, the aggregate risk at the Fund level is less than the total risk from all the individual assets in which the Fund invests.

The following table shows the risks at the asset class level and the overall Fund level.

	Value at 31 March 2019 £000	% of fund %	Potential Change +/- %	Value on increase £000	Value on decrease £000
Index-Linked Gilts	159,329	97.7	11.2	177,174	141,484
Cash	3,681	2.3	0.9	3,714	3,648
Total [1]	163,010	100.0	11.0	180,888	145,132
Total [2]			11.0	180,892	145,128
Total [3]			4.8	170,834	n/a

[1] No allowance for correlations between assets

[2] Including allowance for correlations between assets

[3] Including allowance for correlation between assets and liabilities.

The value on increase/decrease columns illustrate the monetary effect of the percentage change in the volatility column. The actual annual change in value is expected to be lower than this in two years out of three, but higher in one year out of three.

It can be seen that the risk to the overall Fund assets [2] is lower than the total of the risks to the individual assets [1].

However, because the purpose of a pension scheme is to make payments to scheme beneficiaries, the true risk of a pension scheme is not measured in absolute terms, but relative to its liabilities [3]. The risk is lower than the absolute asset risk, due to the impact of correlation with the discount rate used to value the liabilities.

This risk analysis incorporates volatility from market, interest rate, foreign exchange, credit, and all other sources of risk, and, importantly, makes allowance for how these risks may offset each other.

Credit risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit risk in their pricing and consequently the risk of loss is implicitly provided for in the value of the Fund's assets and liabilities (as outlined in Market Risk above).

In essence, the Fund's entire investment portfolio is exposed to some sort of credit risk. However, through the selection of counterparties, brokers and financial institutions the Fund reduces the credit risk that may occur through the failure to settle a transaction in a timely manner.

12 Nature and extent of risk arising from financial instruments (cont)

Cash deposits are the major areas of credit exposure where credit risk is not reflected in market prices.

Cash deposits

At 31 March 2019, cash deposits represented £9m, 5.5% of total net assets. This was held with the following institutions:

	Moody's Credit Rating at 31 March 2019	Balances at 31 March 2018 £000	Balances at 31 March 2019 £000
Held for investment purposes			
Northern Trust Company - cash deposits	A2	1,077	580
The City of Edinburgh Council - treasury management	See below	8,017	3,070
		9,094	3,650
Held for other purposes			
The City of Edinburgh Council - treasury management	See below	2,240	1,741
Total cash		11,334	5,391

The majority of Sterling cash deposits of the Fund are managed along with those of the administering authority (the City of Edinburgh Council) and other related organisations which are pooled for investment purposes as a treasury cash fund. Management of the cash fund is on a low risk basis, with security of the investments the key consideration. The Council has in place counterparty criteria.

The Council has in place institutional restrictions on investments and counterparty criteria. These include -

(a) UK Government and other UK local Authorities with no limit, other public bodies up to £20 million per organisation.

(b) Money market funds (MMFs) no more than £30 million or 15% with any one Fund.

(c) Financial Institutions: Banks and Building Societies with multiple criteria based on a range of short and long term credit ratings, as well as any security provided, from maximum of £60 million / 20% of assets under management (AUM) for institutions with the highest criteria to £10 million / 5% of AUM for institutions with the lowest acceptable criteria.

12 Nature and extent of risk arising from financial instruments (cont)

	Moody's Credit Rating at 31 March 2019	Balances at 31 March 2018 £000	Balances at 31 March 2019 £000
Money market funds			
Deutsche Bank AG, London	Aaa-mf	44	129
Goldman Sachs	Aaa-mf	-	2
Aberdeen Standard Sterling Liquidity Fund	Aaa-mf	-	706
Standard Life Investments	Aaa-mf	1,520	-
Bank call accounts			
Bank of Scotland	Aa3	1,013	473
Royal Bank of Scotland	A3	37	19
Santander UK	Aa3	27	-
Barclays Bank	A1	1	-
Svenska Handelsbanken	Aa2	50	-
HSBC Bank PLC	Aa3	4	-
Notice accounts			
HSBC Bank PLC	Aa3	-	569
UK Pseudo-Sovereign risk instruments			
Other Local Authorities [1]	Aa1	7,561	2,913
		10,257	4,811

[1] Very few Local Authorities have their own credit rating but they are generally assumed to have a pseudo-sovereign credit rating (which in the UK at 31 March 2018 was 'Aa1').

No breaches of the Council's counterparty criteria occurred during the reporting period and the Fund does not expect any losses from non-performance by any of its counterparties in relation to deposits.

Refinancing risk

Refinancing risk is the risk that the Fund will be bound to replenish a significant proportion of its pension fund financial instruments at a time of unfavourable interest rates. The Fund is not bound by any obligation to replenish its investments and hence is not exposed to refinancing risk.

Liquidity risk

Liquidity risk reflects the risk that the Fund will not be able to meet its financial obligations as they fall due. The Fund therefore ensures that there is adequate cash and liquid resources to meet its commitments. Cash flow projections are prepared on a regular basis to understand and manage the timing of the Fund’s cash flows.

All of the Fund’s investments could be converted to cash within three months in a normal trading environment.

13 Actuarial statement

The Scheme Actuary has provided a statement describing the funding arrangements of the Fund. This can be found at the end of this section.

14 Actuarial present value of promised retirement benefits

The actuarial value of promised retirement benefits at the accounting date, calculated in line with International Accounting Standard 19 (IAS19) assumptions, is estimated to be £135m (2018 £134m). This figure is used for statutory accounting purposes by Scottish Homes Pension Fund and complies with the requirements of IAS26. The assumptions underlying the figure match those adopted for the Administering Authority's IAS19 reports at each year end.

The figure is only prepared for the purposes of IAS26 and has no validity in other circumstances. In particular, it is not relevant for calculations undertaken for funding purposes and setting contributions payable to the Fund.

	31 March 2018 % p.a.	31 March 2019 % p.a.
Inflation/pensions increase rate	2.4%	2.5%
Discount rate	2.7%	2.4%

Longevity assumptions

The life expectancy assumption is based on Fund specific statistical analysis with improvements in line with the CMI 2016 model, assuming that the current rate of improvements has reached a peak and will converge to a long term rate of 1.75% p.a.. Based on these assumptions, the average future life expectancies, in years, at age 65 are summarised below:

	31 March 2018		31 March 2019	
	Males	Females	Males	Females
Current pensioners	22.4 years	24.8 years	22.4 years	24.8 years
Future pensioners (assumed to be currently 45)	24.8 years	27.8 years	24.8 years	27.8 years

Commutation assumption

An allowance is included for future retirements to elect to take 50% of the maximum additional tax-free cash up to HMRC limits for pre-April 2009 service and 75% of the maximum tax-free cash for post-April 2009 service.

15 Debtors

	31 March 2018 £000	31 March 2019 £000
Sundry debtors	12	1
	12	1

16 Creditors

	31 March 2018 £000	31 March 2019 £000
Benefits payable	3	73
Miscellaneous creditors and accrued expenses	45	1
	48	74

17 Related party transactions

The City of Edinburgh Council

The Lothian Pension Fund and the Scottish Homes Pension Fund are administered by the City of Edinburgh Council. Consequently there is a strong relationship between the Council and the Pension Funds.

17 Related party transactions (cont)

LPFE, which is a wholly owned subsidiary of the Council, is responsible for providing the staffing resource to administer the pension funds. The Fund has a service level agreement in place with the Council for certain support services. Costs directly attributable to a specific Fund are charged to the relevant Fund, costs that are common to the two Funds are allocated on a defined basis.

Transactions between the Council and the Fund are managed via a holding account. Each month the Fund is paid a cash sum leaving a working balance in the account to cover the month's pension payroll costs and other expected costs.

	31 March 2018 £000	31 March 2019 £000
Year end balance of holding account	194	10
	194	10

Part of the Fund's cash holdings are invested on the money markets by the treasury management operations of the Council, through a service level agreement. During the year to 31 March 2019, the fund had an average investment balance of £10.6m (2018 £6.3m). Interest earned was £74k (2018 £29k).

Year end balance on treasury management account	31 March 2018 £000	31 March 2019 £000
Held for investment purposes	8,011	3,070
Held for other purposes	2,240	1,741
	10,251	4,811

Fund Guarantor

The Fund guarantor (by definition) is a related party to the scheme. The Scottish Government's contributions to the Fund can be found in note 4 (page 89) of the notes to the Financial Statements.

LPFE Limited - staffing services

Staffing services are provided to Lothian Pension Fund for the purposes of administering the Funds under a intra-group resourcing agreement. The agreement also provides for the running costs of the company to be covered as part of a service charge and allows for the provision of staffing services to LPFI Limited. During the year to 31 March 2019, the Fund was invoiced £3,614k (2018 £1,450k) for the services of LPFE Limited staff.

Governance

As at 31 March 2019, all members of the Pensions Committee, with the exception of Richard Lamont, and all members of the Pension Board, were members of the Lothian Pension Fund. One member of both the Pensions Committee and the Pension Board are in receipt of pension benefits from Lothian Pension Fund.

Each member of the Pensions Committee and Pensions Board is required to declare any financial and non-financial interests they have in the items of business for consideration at each meeting, identifying the relevant agenda item and the nature of their interest.

Notes to the Financial Statements

17 Related party transactions (cont)

During the period from 1 April 2018 to the date of issuing of these accounts, the Fund was charged by City Of Edinburgh Councils via its service level agreement for time spent by its Executive Management team on pension fund issues. All other staff that held key positions in the financial management of Lothian Pension Fund were employed by LPFE Limited. Total compensation paid in relation to key management personnel employed by LPFE Limited during the period was as follows:

	31 March 2018 £000	31 March 2019 £000
Short-term employee benefits	415	567
Post-employment benefits - employer pension contributions	85	111

Key management personnel employed by LPFE, had accrued pensions totalling £120,245 (1 April 2018: £97,456) and lump sums totalling £132,375 (1 April 2018: £110,889) at the end of the period.

Staff are either employed by City of Edinburgh Council or LPFE Limited, and their costs reimbursed by the Pension Funds. The Councillors, who are members of the Pensions Committee, are also remunerated by City of Edinburgh Council.

18 Contingent assets/liabilities

Request for direction by Scottish Ministers to transfer the assets and liabilities of Homeless Action Scotland from the Lothian Pension Fund to the Scottish Homes Pension Fund

On 24 January 2019, the Chief Finance Officer, Lothian Pension Fund, made a request for direction by Scottish Ministers that the assets and liabilities of Homeless Action Scotland (HAS) should be transferred from Lothian Pension Fund (LPF) to the Scottish Homes Pension Fund. HAS became an "Admitted Body" of Lothian Pension Fund when its predecessor (The Scottish Council for Single Homeless) was admitted in 1978, pursuant to Regulation B4(4) of the Local Government Superannuation (Scotland) Regulations 1974, being 'a body to whom a grant is made out of moneys provided by Parliament'. Since 1978, HAS accrued pension liabilities for the ongoing pension entitlements of the HAS employees admitted to membership of LPF. Following confirmation by HAS that it would be unable to meet the minimum contribution rate assessed at the actuarial valuation of 31 March 2017 (certified by LPF's actuary), LPF terminated HAS's admission to LPF with effect from 12 July 2018 in accordance with LPF's Funding Strategy Statement. Upon HAS becoming an exiting employer, LPF's actuary was instructed to calculate the liabilities that remained with LPF on cessation and the final contribution due from HAS, as required under Regulation 62(2) of the 2018 Regulations. The Actuary's cessation valuation is £641,000.

A response to the request for such direction is awaited from Scottish Ministers.

Guaranteed Minimum Pension (GMP)

Following The High Court ruling from 26 October 2016, all defined benefit pension schemes must equalise Guaranteed Minimum Pension (GMP) for men and women. There is insufficient basis to estimate reliably the amount to be recognised in the past service cost until actuaries complete their assessment of the impact and reflect it fully in the pension reports. The Funds actuary, Hymans Robertson LLP has advised that following discussions with the National Audit Office and other LGPS actuaries, the general expectation is that a 'trigger event' is yet to occur in the LGPS and their default approach is to ignore any GMP impact in the 31 March 2019 accounts.

18 Contingent assets/liabilities (cont)

Local Government Pension Scheme (Scotland) cost management update from Scottish Public Pensions Agency (SPPA)

In February 2019, the SPPA provided the Local Government Association (LGA) Secretariat with the following update for Scottish administering authorities:

As you are aware, the Public Service Pensions Act 2013 requires all public service pension schemes to undergo regular valuations, in addition to the regular fund valuations undertaken by LGPS fund actuaries. At the October meeting of the LGPSAB (Scheme Advisory Board) (Scotland), Government Actuary's Department (GAD) presented demographic assumptions which have been agreed. The UK Government and Scottish Ministers chose to allow certain exceptions which were designed to protect those closest to retirement from the impact of those reforms. As you will be aware, the Court of Appeal handed down judgment in the cases of McCloud and Sargeant on 20 December 2018: these age-related transitional arrangements were held to be discriminatory. It is anticipated that other public service pension schemes across the UK may be affected by this decision, including LGPS Scotland, notwithstanding that the nature of the comparable transitional arrangements implemented for local government pension schemes [statutory underpin] was slightly different from those adopted for the unfunded schemes. The judgment therefore has implications for post-reform members' benefits, and the UK Government is seeking permission to appeal to the Supreme Court. Meantime, the substantial impact of the judgment is such that it is impossible to assess with certainty the value of current public service pension arrangements.

On 30 January 2019 HM Treasury therefore announced in a Written Ministerial Statement that the UK Government intends to pause the 'cost cap' mechanism under the current round of scheme valuations, pending the final outcome of the appeal. As noted in the Ministerial Statement, if the UK Government is successful in its appeal, the cost cap process will resume. If unsuccessful, steps will need to be taken to compensate members who have been unfairly disadvantaged in the post reform schemes. Accordingly, the nature, and the timescale for implementation, of changes to the provisions of LGPS Scotland flowing from the actuarial valuation of the scheme for cost cap purposes being undertaken by the Government Actuary's Department (GAD) is not currently clear. We understand that changes which were scheduled to come into force this April in the England & Wales LGPS have been put on hold. We are liaising closely with HM Treasury and MHCLG on this matter. Meanwhile, GAD is progressing its valuation calculations only to the extent necessary at this stage, pending greater clarity on the legal position and the UK Government's consequent policy intent".

19 Contractual commitments

The Fund had no contractual commitments at the year end.

20 Impairment losses

No impairment losses have been identified during the year.

Actuarial Statement for 2018/19

This statement has been prepared in accordance with Regulation 55(1)(d) of the Local Government Pension Scheme (Scotland) Regulations 2014. It has been prepared at the request of the Administering Authority of the Fund for the purpose of complying with the aforementioned regulation.

Description of Funding Policy

The Administering Authority's Funding Strategy Statement (FSS), dated March 2018, states that a bespoke funding strategy has been adopted for the Fund.

The strategy aims for the Fund to be 100% solvent by 2044 using a discount rate based on government bonds. It includes target funding levels at each actuarial valuation. Contributions from the Scottish Government are determined by reference to the target funding levels. The deficit recovery period is 8 years.

As the Fund was well ahead of its Target Funding Level at the 2017 valuation, it took the decision to derisk its investment strategy and now invests 100% of its assets in index-linked gilts.

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 60 of the Local Government Pension Scheme (Scotland) Regulations 2014 was as at 31 March 2017. This valuation revealed that the Fund's assets, which at 31 March 2017 were valued at £170.6 million, were sufficient to meet 104.7% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting surplus at the 2017 valuation was £7.7 million.

The Guarantor's contributions for the period 1 April 2018 to 31 March 2021 were set in accordance with the Fund's funding policy as set out in its FSS.

Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the 2017 valuation report.

Method

The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date.

Assumptions

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund's assets at their market value.

The key financial assumptions adopted for the 2017 valuation were as follows:

Financial assumptions	31 March 2017
Discount Rate	Bank of England nominal yield curve
Benefit increase assumption (CPI)	Bank of England implied (RPI) curve less 1.0% p.a.

Actuarial Statement for 2018/19

The key demographic assumption was the allowance made for longevity. The life expectancy assumption was based on the Fund's Vita Curves alongside future improvements based on the CMI 2016 model with an allowance for smoothing of recent mortality experience and a long term rate of improvement of 1.75% p.a.

Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	22.4	24.8
Future Pensioners *	24.8	27.8

*Aged 45 as at 31 March 2017

Copies of the 2017 valuation report and Funding Strategy Statement are available on request from the Administering Authority to the Fund.

Experience over the period since 31 March 2017

Since the last formal valuation, real bond yields have fallen placing a higher value on the liabilities but there have been positive asset returns over the 2 years. Both events are of broadly similar magnitude with regards to the impact on the funding position.

The next actuarial valuation will be carried out as at 31 March 2020. The Funding Strategy Statement will also be reviewed at that time.

Richard Warden FFA
Fellow of the Institute and Faculty of Actuaries
For and on behalf of Hymans Robertson LLP
20 Waterloo Street
Glasgow
G2 6DB

26 April 2019

Statement of Accounting Policies and General Notes

1 Basis of preparation

The Financial Statements have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The Financial Statements summarise the transactions of the funds for the 2018/19 financial year and report on the net assets available to pay pension benefits as at 31 March 2019. The Financial Statements do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present values of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, are disclosed in the Notes to the Financial Statements.

2 Summary of significant accounting policies

General

a) Basis of consolidation

i) Group accounts

Commencing with the year ended 31 March 2016, Consolidated Financial Statements have been prepared for Lothian Pension Fund. The Financial Statements of Scottish Homes Pension Fund continue to be prepared on a single entity basis.

The Consolidated Financial Statements for Lothian Pension Fund are prepared by combining the Financial Statements of the Fund (the parent entity) and its controlled entities (LPFE Limited and LPFI Limited) as defined in accounting standard IAS27 - Consolidated and Separate Financial Statements. Consistent accounting policies are employed in the preparation and presentation of the Consolidated Financial Statements. All inter-entity balances and transactions between entities, including any unrealised profits or losses, have been eliminated on consolidation.

Further details of the consolidation are provided in the Notes to the Financial Statements of Lothian Pension Fund.

LPFE Limited (LPFE) and LPFI Limited (LPFI) are wholly owned by the City of Edinburgh Council in its capacity as administering authority for the Local Government Pension Scheme in the Lothian area.

The purpose of LPFE is to provide staff services in respect of management of the Fund. LPFI's purpose is to provide FCA regulated services to the Fund and other Local Government Pension Scheme funds. It is considered appropriate to consolidate the Financial Statements of the two companies with those of Lothian Pension Fund.

ii) Lothian Buses Pension Fund merger

At its meeting on 26 March 2018, the Pensions Committee approved the merger of the assets and liabilities of the Lothian Buses Pension Fund into the Lothian Pension Fund, subject to the satisfactory completion of a revised admission agreement and shareholder guarantee. Having received the necessary admission agreement and shareholder guarantees the Lothian Buses Pension Fund assets were merged into Lothian Pension Fund on 1 February 2019.

Section 2.5 of the Code states that 'The combination of two or more local authorities into one new authority, or the transfer of functions from the responsibility of one authority to another, shall be accounted for under the principles that apply to group reconstructions and shall be accounted for as either a transfer by absorption or a transfer by merger.' 'Transfers by merger are rare transactions but may occur when legal transfers take place and management of the local government entity consider that in substance for a true and fair presentation of the local government entity the financial statements would be best presented as if the entity had always existed in its newly combined form.

The results and cash flows of all of the combining bodies (or functions) should be brought into the financial statements of the combined body from the beginning of the financial year in which the combination occurred…..'.

Specialist legal opinion had been sought prior to the merger of Lothian Buses Pension Fund. This concluded that "…Lothian Buses Pension Fund was set up as a 'further fund', within the meaning of the Local Government Superannuation (Funds) (Scotland) Regulations 1986 (the 'Funds Regulations')….At the time when the Admission Agreement was entered into, there was a clear mechanism under legislation whereby a 'further fund' could be dissolved and transferred back into the Main Fund." Also, "It is worth noting that, under the Admission Agreement…, Lothian Buses was admitted first of all to the Main Fund (immediately following which) the further Fund was set up".

Accordingly, with such assurance that "the newly combined body or functions has always existed", the consolidation of Lothian Buses Pension Fund "sub-fund" into Lothian Pension Fund has been accounted for by the 'transfer by merger'.

Fund account - revenue recognition

b) Contribution income

Normal contributions, both from the members and from employers, are accounted for on an accruals basis at the rate certified by the Scheme Actuary in the payroll period to which they relate.

Similarly, employer deficit funding contributions are accounted for on the due date on which they are payable as certified by the Scheme Actuary.

Employers' pensions strain contributions are accounted for in the period in which the liability arises. Any amount due but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long-term financial assets.

c) Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations.

Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged.

Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase scheme benefits are accounted for on a receipts basis and are included in transfers in.

Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

d) Investment income

i) Interest income

Interest income is recognised in the Fund accounts as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction costs or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

ii) Dividend income

Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the Net Assets Statement as a current financial asset.

iii) Distributions from pooled funds

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the Net Assets Statement as a current financial asset.

iv) Income from unquoted private equity and infrastructure investments

Income from the above sources is recognised when it is notified by the manager. Distributions are split into capital and income elements with the latter being included under investment income in the Fund Account.

v) Property related income

Property-related income consists primarily of rental income. Rental income from operating leases on properties owned by Lothian Pension Fund is recognised on a straight-line basis over the term of the lease. Any lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

Rental income is reported gross with the operational costs of the properties included in investment management expenses.

Contingent rents based on the future amount of a factor that changes other than with the passage of time, such as turnover rents, are only recognised when contractually due.

vi) Movement in the net market value of investments

Changes in the net market value of investments (including investment properties) are recognised as income and comprise all realised and unrealised profits/losses during the year.

Fund Account - expense items

e) Benefits payable

Pensions and lump sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the Net Assets Statement as current liabilities.

f) Taxation

i) Pension Funds

The Local Government Pension Scheme is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises.

ii) Controlled entities - LPFE and LPFI

The Companies are mutual traders and are therefore not liable to corporation tax on any surpluses generated from services provided in respect of the Fund. The tax charges for the period are based on any profit for the period from non-mutual trade, adjusted for any non-assessable or disallowed items. They are calculated using tax rates that have been enacted or are substantively enacted by the period end 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 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 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.

g) Administrative expenses

All administrative expenses are accounted for on an accruals basis. The Lothian Pension Fund is responsible for administering the two Funds. The costs include charges from LPFE and LPFI for services rendered. The Fund receives an allocation of the overheads of the Council, this is based on the amount of central services consumed. In turn, these costs are allocated to the two Funds.

Costs directly attributable to a specific fund are charged to the relevant Fund. Investment management costs that are common to all funds are allocated in proportion to the value of each Fund as at the end of the year. Other administration costs are allocated in proportion to the number of members in each of the Funds at the end of the year.

h) Investment management expenses

All investment management expenses are accounted for on an accruals basis.

Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change.

For some investment managers, an element of their fee is performance related. The amount of any performance related fees paid is disclosed in the note to the accounts on investment management expenses provided for each Fund.

The cost of administering the Local Government Pension Scheme in the UK has come under increasing scrutiny in recent years. As a result, it has been decided to recognise investment management costs that are deducted from the value of an investment and recognised this as a cost in the Fund Account rather than as a reduction in the change in market value of investments. Investment transaction costs that are added to an investment purchase price or deducted from the proceeds of a sale are also recognised as a cost in the Fund Account rather than as a reduction in the change in market value of investments.

In June 2016, CIPFA revised and updated its guidance “Accounting for Local Government Pension Scheme Management Costs”. Whilst the underlying principle of transparency of investment costs remains unchanged, there has been a degree of relaxation to full cost disclosure. Specifically, for complex “fund of funds” structures, the new guidance states that “Investment costs incurred by a separate legal entity, or in respect of investment decisions over which the pension fund has no control, should not be included in the (Pension) Fund Account......If pension funds wish to provide information about the total cost of “fund of fund” investments, this should be included as part of the Investments section in the Annual Report”.

The impact of this is that investment management costs deducted from any underlying fund in a "fund of funds" investment would not be included in the costs disclosed in the Fund Account. As this would significantly under-report investment management costs the decision has been made not to adopt this element of the CIPFA guidance. However, this type of cost is separately identified as "external management fees - deducted from capital (indirect)" in the notes on investment management expenses.

Any indirect costs incurred through the bid-offer spread on some pooled investment vehicles are not treated as an expense. Such costs are accounted for as part of the acquisition costs or sale proceeds.

The cost of obtaining investment advice from external consultants is included in investment management charges.

The costs of the in-house investment management team are charged to the Fund. The basis of allocation is as described in section g.

Securities lending revenue is reported gross and their fees are disclosed in investment management expenses.

i) Operating lease

Lease payments under an operating lease are recognised as an expense on a straight-line basis over the term of the lease. In accordance with Standard Interpretations Committee (SIC) 15, subsequently endorsed by the International Accounting Standards Board (IASB), lease incentives are recognised as a reduction in the lease expense over the term of the lease on a straight-line basis.

Net Assets Statement

j) Financial assets

Financial assets are included in the Net Assets Statement on a fair value basis as at the reporting date. A financial asset is recognised in the Net Assets Statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date, any gains or losses arising from changes in the fair value of asset are recognised by the Fund.

The values of investments as shown in the Net Assets Statement have been determined at fair value in accordance with the requirements of the Code and IFRS13. For the purposes of disclosing levels of fair value hierarchy, the Fund has adopted the classification guidelines recommended in Practical Guidance on Investment Disclosures (PRAG/Investment Association, 2016).

The basis of the valuation of each class of investment assets is set out below. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques which represent the highest and best price available at the reporting date.

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivity affecting the valuations provided
Market quoted investments - Equities	Level 1	Closing bid value on published exchanges	Not required	Not required
Exchange traded pooled investments	Level 1	Closing bid value on published exchanges	Not required	Not required
Future derivative contracts	Level 1	Determined using exchange prices at the reporting date. Amounts due from or owed to the broker are the amounts outstanding in respect of the initial margin and variation margin.	Not required	Not required

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivity affecting the valuations provided
Forward foreign exchange derivatives	Level 1	Based on market forward exchange rates at the year-end date and determined as the gain or loss that would arise if the outstanding contract were matched at the year-end with an equal and opposite contract.	Not required	Not required
Government bonds - fixed interest / index linked gilts	Level 2	Recorded at net market value based on their current yields.	Evaluated price feeds	Not required
Freehold and leasehold properties	Level 3	Valued at fair value at the year-end using the investment method of valuation by John Symes-Thompson FRICS of independent valuers, CBRE Ltd in accordance with RICS Valuation – Global Standards 2017	Existing lease terms and rentals. Independent market research. Nature of tenancies. Covenant strength for existing tenants. Assumed vacancy levels. Estimated rental growth. Discount rate	Significant changes in rental growth, vacancy levels or the discount rate could affect valuations as could more general changes to market price
Unquoted Pooled investments – Private Equity, Infrastructure, Timber, Private Secured Loans & Property	Level 3	Comparable valuation of similar companies in accordance with International Private Equity and Venture Capital Guidelines (2015)	EBITDA multiple Revenue multiple. Discount for lack of marketability. Control premium.	Valuations could be affected by material events occurring between the date of the financial statements provided and the Fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts.

Sensitivity of assets valued at level 3

Having analysed historical data and current market trends, and consulted with independent investment advisers, the Fund has determined that the valuation methods described above are likely to be accurate to within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2019.

Lothian Pension Fund Unquoted	Assessed Valuation range (+ or -)	Value at 31 March 2019 £m	Value on increase £m	Value on decrease £m
Private Equity	30%	76.1	98.9	53.3
Infrastructure	12%	844.9	946.3	743.5
Timber	18%	124.0	146.3	101.7
Private Secured Loans	7.5%	205.0	220.4	189.6
Property	13%	461.0	520.9	401.1
		1,711.0	1,932.8	1,489.2

Scottish Homes Pension Fund has no assets valued at Level 3.

k) Foreign currency transactions and balances

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of the transaction. End-of-year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.

l) Cash and cash equivalents

Cash comprises cash in hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

m) Financial liabilities

The Fund recognise financial liabilities at fair value as at the reporting date. A financial liability is recognised in the Net Assets Statement on the date the Fund becomes party to the liability. From this date, any gains or losses arising from changes in the fair value of the liability are recognised.

n) Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits of each of the Fund is assessed on an annual basis by the Scheme Actuary in accordance with the requirements of IAS 19 and relevant actuarial standards.

As permitted under IAS26, the Fund have opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Assets Statements.

o) Additional voluntary contributions

The Lothian Pension Fund and Lothian Buses Pension Fund provide an additional voluntary contributions (AVC) scheme for their members, the assets of which are invested separately from those of the Fund. The Fund has appointed Standard Life and Prudential as their AVC providers. AVCs are paid to the AVC providers by employers and are specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year.

In accordance with regulation 5(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 1998, AVCs are not included in pension fund financial statements. Details of contributions paid and the total value of funds invested are disclosed by way of note.

p) Contingent assets and contingent liabilities

A contingent liability arises where an event has taken place prior to the year-end giving rise to a possible financial obligation whose existence will only be confirmed or otherwise by the occurrence of future events. Contingent liabilities can also arise in circumstances where a provision would be made, except that it is not possible at the balance sheet date to measure the value of the financial obligation reliably.

A contingent asset arises where an event has taken place giving rise to a possible asset whose existence will only be confirmed or otherwise by the occurrence of future events.

Contingent assets and liabilities are not recognised in the Net Assets Statement but are disclosed by way of narrative in the notes.

q) Employee benefits

The employees of LPFE are eligible to participate in Lothian Pension Fund.

In the Consolidated Financial Statements, the current service cost for the period is charged to the Fund Account. The assets of Lothian Pension Fund are held separately from those of the Company. The Company has fully adopted the accounting principles as required by IAS19 – Employee Benefits.

The liability recognised in the Net Asset Statement in respect of the defined benefit pension plan is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognised past-service costs.

The defined benefit obligation is calculated annually, by the Scheme Actuary, using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in a currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligations.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to the Fund Account in the period in which they arise.

Past-service costs are recognised immediately in the Fund Account, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

3 Accounting Standards that have been issued but not yet adopted

The Code requires the disclosure of information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. This applies to the adoption of the following new or amended standards within the 2019/20 Code:

The Code requires implementation from 1 April 2019 and there is therefore no impact on the 2018/19 financial statements.

- Amendments to IAS 40 Investment Property: Transfers to Investment Property
- Annual Improvements to IFRS Standards 2014-2016 Cycle
- IFRIC 22 Foreign Currency Transactions and Advance Consideration
- IFIRC 23 Uncertainty over Income Tax Treatments
- Amendments to IAS 9 Financial Instruments

The amendments are generally minor or principally providing clarification. Overall, these new or amended standards are not expected to have a significant impact on the financial statements.

4 Critical judgements in applying accounting policies

Unquoted private equity and infrastructure investments

It is important to recognise the highly subjective nature of determining the fair value of private equity and infrastructure investments.

They are inherently based on forward-looking estimates and judgements involving many factors. These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines or similar guidelines provided by the British Venture Capital Association, which follow the valuation principles of IFRS.

For the Lothian Pension Fund, the value of unquoted private equity, infrastructure, timber and secured loan investments at 31 March 2019 was £1,250.0m (2018 £1,125.1m).

Actuarial present value of promised retirement benefits

Each Fund is required to disclose the estimated actuarial present value of promised retirement benefits as at the end of the financial year. These estimates are prepared by the Fund Actuary. These values are calculated in line with International Accounting Standard 19 (IAS19) assumptions and comply with the requirements of IAS26. However, the results are subject to significant variances based on changes to the underlying assumptions.

The figures are only prepared for the purposes of IAS26 and has no validity in other circumstances. In particular, it is not relevant for calculations undertaken for funding purposes and setting contributions payable to the Fund.

5 Assumptions made about the future and other major sources of estimation uncertainty

The Financial Statements contain estimated figures that are based on assumptions made by the Council; private equity and infrastructure managers; other providers of valuation information; and the Scheme Actuary about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because amounts cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Net Assets Statement at 31 March 2019 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

a) Actuarial present value of promised retirement benefits

Uncertainties

Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on the Fund’s assets. The Fund Actuary advises on the assumptions to be applied and prepares the estimates.

Effect if actual results differ from assumptions - Lothian Pension Fund

The effects on the net pension liability of changes in individual assumptions can be illustrated as follows:

Change in assumptions - year ended 31 March 2019	Approx % increase in liabilities %	Approx monetary amount £m
0.5% decrease in the real discount rate	11	1,017
1 year increase in member life expectancy	4	330
0.5% increase in salary increase rate	2	166
0.5% increase in pensions increase rate	8	782

Effect if actual results differ from assumptions - Scottish Homes Pension Fund

The effects on the net pension liability of changes in individual assumptions can be illustrated as follows:

Change in assumptions - year ended 31 March 2019	Approx % increase in liabilities %	Approx monetary amount £m
0.5% decrease in the real discount rate	5	7
1 year increase in member life expectancy	4	6
0.5% increase in pensions increase rate	5	7

b) Valuation of unquoted private equity and infrastructure investments

Uncertainties

These investments are not publicly listed and therefore there is a degree of estimation involved in their valuation, see 2j above for more details on the valuation methodology.

Effect if actual results differ from assumptions

There is a risk that these investments may be under or overstated in the accounts at any point in time. The actual financial return of this type of investment is only known with certainty when they reach the end of their lifecycles and the final distributions are made to investors. A sensitivity analysis can be found in note 2j above.

c) Quantifying the cost of investment fees deducted from capital

Uncertainties

Section 2 h) describes the accounting policy for investment management expenses in relation to expenses deducted from the capital value of investments. Quantification of these costs involves asking the relevant managers for information and only some of this information can be independently verified. In cases where the charges relate to an investment as a whole, an estimate needs to be made of the costs applicable to the holding owned by the relevant Fund.

Effect if actual results differ from assumptions

There is a risk that the cost of investment fees deducted from capital may be under or overstated. However, as the costs are included in the Fund Account by adjusting the change in market value of investments, any inaccuracy in the cost estimate will not change the reported net change in the Fund for the year.

Statement of responsibilities for the Annual Accounts

The responsibilities of the Administering Authority

The Administering Authority's responsibilities require it to:

- Make arrangements for the proper administration of the financial affairs of the Fund in its charge and to secure that one of its officers has the responsibility for the administration of those affairs. The Head of Finance serves as the Section 95 Officer for all the Council's accounting arrangements, including those of Lothian Pension Fund and Scottish Homes Pension Fund. For the Fund, this Section 95 responsibility has been delegated to the Chief Finance Officer, Lothian Pension Fund.
- Manage its affairs to secure economic, efficient and effective use of its resources and safeguard its assets.
- Ensure the Annual Accounts are prepared in accordance with legislation (The Local Authority Accounts (Scotland) Regulations 2014) and, so far as is compatible with that legislation, in accordance with proper accounting practices (section 12 of the Local Government in Scotland Act 2003).
- Approve the Audited Annual Accounts for signature.

HUGH DUNN
Head of Finance
The City of Edinburgh Council
25 September 2019

The responsibilities of the Chief Finance Officer, Lothian Pension Fund

The Chief Finance Officer, Lothian Pension Fund, is responsible for the preparation of the Fund's Financial Statements which, in terms of the CIPFA / LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 (the Code of Practice), is required to present a true and fair view of the financial position of the Fund at the accounting date and their income and expenditure for the year (ended 31 March 2019).

In preparing this statement of accounts, the Chief Finance Officer, Lothian Pension Fund, has:

- Selected suitable accounting policies and then applied them consistently
- Made judgements and estimates that were reasonable and prudent
- Complied with the Code of Practice.

The Chief Finance Officer, Lothian Pension Fund, has also:

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

The Statement of Accounts presents a true and fair view of the financial position of the Fund as at 31 March 2019, and their income and expenditure for the year ended 31 March 2019.

JOHN BURNS, FCMA CGMA PgC
Chief Finance Officer
Lothian Pension Fund
25 September 2019

Independent auditor's report

to the members of City of Edinburgh Council as administering authority for Lothian Pension Fund and Scottish Homes Pension Fund and the Accounts Commission

Report on the audit of the financial statements

Opinion on financial statements

We certify that we have audited the financial statements in the annual report of Lothian Pension Fund and its group and Scottish Homes Pension Fund (the funds) for the year ended 31 March 2019 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Lothian Pension Fund Fund Account, the Lothian Pension Fund Net Assets Statement, the Scottish Homes Pension Fund Fund Account, the Scottish Homes Pension Fund Net Assets Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 (the 2018/19 Code).

In our opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2018/19 Code of the financial transactions of the funds during the year ended 31 March 2019 and of the amount and disposition at that date of their assets and liabilities;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2018/19 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

Basis for opinion

We conducted our audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)) as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. 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 were appointed by the Accounts Commission on 31 May 2016. The period of total uninterrupted appointment is three years. We are independent of the funds in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. Non-audit services prohibited by the Ethical Standard were not provided to the council. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern basis of accounting

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Chief Finance Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the funds' ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Risks of material misstatement

We have reported in a separate Annual Audit Report, which is available from the Audit Scotland website, the most significant assessed risks of material misstatement that we identified and our conclusions thereon.

Responsibilities of the Chief Finance Officer and the City of Edinburgh Council for the financial statements

As explained more fully in the Statement of Responsibilities for the Annual Accounts, the Chief Finance Officer is responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the Chief Finance Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Finance Officer is responsible for assessing the funds' ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

The City of Edinburgh Council is responsible for overseeing the financial reporting process.

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 the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other information in the annual report

The Chief Finance Officer is responsible for the other information in the annual report. The other information comprises the information other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon except on matters prescribed by the Accounts Commission to the extent explicitly stated later in this report.

In connection with our audit of the financial statements, our responsibility is to read all the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Report on other requirements

Opinions on matters prescribed by the Accounts Commission

In our opinion, the audited part of the Remuneration Report has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003;
- the information given in the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016); and
- the information given in the Governance Compliance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with The Local Government Pension Scheme (Scotland) Regulations 2018.

Matters on which we are required to report by exception

We are required by the Accounts Commission to report to you if, in our opinion:

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

Conclusions on wider scope responsibilities

In addition to our responsibilities for the annual accounts, our conclusions on the wider scope responsibilities specified in the Code of Audit Practice, including those in respect of Best Value, are set out in our Annual Audit Report.

Use of our report

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 120 of the Code of Audit Practice, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Nick Bennett (for and on behalf of Scott-Moncrieff Audit Services)
Exchange Place 3
Semple Street
Edinburgh
EH3 8BL
25 September 2019

Annual Governance Statement

Roles and responsibilities

The City of Edinburgh Council (the Council) has statutory responsibility for the administration of the Local Government Pension Scheme (LGPS) in the Lothian area of Scotland. This responsibility is for two separate funds: the Lothian Pension Fund and Scottish Homes Pension Fund (the Fund). The Lothian Pension Fund group comprises the investment and pensions team employed by LPFE Limited (LPFE) supporting the Council in its separate statutory capacity as the administering authority of the Fund (Administering Authority) and LPFI Limited (LPFI), the Group's regulated investment vehicle (together the LPF Group).

The main functions of the Administering Authority are administration of scheme benefits and the investment of the assets of the Fund. These functions are conducted in accordance with the Local Government Pension Scheme (Scotland) Regulations which are statutory instruments made under the Superannuation Act 1972. The role of Administering Authority is carried out via:

- the Pensions Committee and the Pensions Audit Sub-Committee
- the Pension Board
- the Joint Investment Strategy Panel; and
- the LPF Group.

Further details on the above arrangements can be found in the Governance section of the Management Commentary towards the front of this document.

Scope of responsibility

As the Administering Authority of the Fund, the Council is responsible for ensuring that its business in administering the Fund, is conducted in accordance with the law and appropriate standards, and that monies are safeguarded, properly accounted for, and used economically, efficiently and effectively. The Council also has a statutory duty under the Local Government in Scotland Act 2003, to make arrangements to secure best value, which is defined as continuous improvement in the way its functions are carried out.

In discharging these overall responsibilities, elected members, senior officers and external representatives are responsible for implementing effective arrangements for governing the affairs of the LPF Group, and facilitating the effective exercise of its functions, including arrangements for the management of risk. The Pensions Committee oversees the operational administration of the Fund by the LPF Group.

The LPF Group has adopted a Local Code of Corporate Governance that is consistent with the principles of the Chartered Institute of Public Finance and Accountancy (CIPFA) and Society of Local Authority Chief Executives (SOLACE) framework 'Delivering Good Governance in Local Government'.
This statement explains how the LPF Group has complied with the Local Code of Corporate Governance and how it meets the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom.

The governance framework

The LPF Group operates within the wider governance framework of the Council but within specific ringfenced governance structures focused on the Fund themselves. The governance framework comprises the systems, controls, processes, cultures and values by which the LPF Group directs and controls the Fund. It also describes the way the LPF Group engages with and accounts to its stakeholders in relation to the management of the administration of the Fund. It enables the LPF Group to monitor the achievement of its objectives and consider whether those objectives have led to the delivery of appropriate, cost-effective services. The framework also applies to any subsidiary companies which are members of the LPF Group, namely LPFI and LPFE. The LPF Group is also directly regulated by The Pensions Regulator, the Financial Conduct Authority (regarding its regulated investment activity), the Scottish Information Commissioner and is subject to other corporate and public sector rules and regulations.

The LPF Group's ongoing compliance with its governance framework and regulatory obligations is monitored on an ongoing basis by the Pensions Committee, the Audit Sub-Committee and the Pension Board and the respective boards of LPFI and LPFE.

The wider Council's Local Code of Corporate Governance is regularly reviewed and considered by the Governance, Risk & Best Value Committee. It has implemented arrangements for monitoring each element of the framework and providing evidence of compliance. The Council's Democracy, Governance and Resilience Senior Manager reviewed the arrangements and is satisfied that the Code continues to be adequate and effective. Internal Audit has also reviewed the annual assurance questionnaire process in relation to Arms-Length Companies and has found that this provides the Chief Executive Officer with a level of assurance on the adequacy of the governance arrangements. The Council's Corporate governance framework meets the principles of effective governance.

The LPF Group places reliance upon certain of the internal financial controls within the Council's financial systems and the monitoring in place to ensure the effectiveness of these controls. The relevant key elements of the LPF Group and the Fund governance framework within the Council, include:

- Identifying the objectives of the Fund in the Funding Strategy Statement, Statement of Investment Principles, Pension Administration Strategy and Service Plan.
- Since April 2015, The Pensions Regulator has been responsible for setting standards of governance and administration for the Local Government Pension Scheme. The LPF Group has taken steps to fully integrate compliance with these standards within the overall governance framework.
- A systematic approach to monitoring service performance by the Pensions Committee, Pensions Audit Sub-Committee, Pension Board (each including external stakeholder representation), Independent Professional Observer and senior officers.
- A structured programme to ensure that Pensions Committee and Pension Board members have the required standard of knowledge and understanding of Local Government Pension Scheme matters.
- Operating within clearly established investment guidelines defined by the Local Government Pension Scheme Investment Regulations and the Fund's Statement of Investment Principles.

- Compliance with the CIPFA Principles for Investment Decision Making and Disclosure in the Local Government Pension Scheme.
- With the exception of managed funds, unlisted investments and property, all investments are held under custody by a global custodian. The Fund benefits from the custodian's extensive internal control framework.
- Benchmarking of services in terms of standards and cost against other pension funds.
- LPFE and LPFI operating within their respective constitutional documentation and the relevant companies regulations.
- LPFI operating within the relevant governance policies and procedures to ensure compliance with the Financial Conduct Authority’s rules, regulations and guidance.
- For LPF Group and Fund matters, the Pensions Committee, Pensions Audit Sub-Committee and Pension Board are responsible for scrutiny and challenge and a quarterly risk reporting process is in place to ensure full consideration of such matters.
- Officers of the LPF Group are managed separately through the processes and procedures of LPFE, overseen by its board of directors, with terms and conditions and a human resources performance review and management strategy tailored to the express needs of the Fund and their stakeholders.
- The directors of LPFE and LPFI have obligations to report to the Pensions Committee as the governing body for the Fund and Council in being the sole shareholder. In addition, the board and staff of LPFI are each individually regulated by the Financial Conduct Authority and so bound by the associated Principles and Standards of governance best practice.

Elements of the governance framework of the Council that are relevant to the LPF Group and Fund include:

- The Council is embedding a culture of commercial excellence to ensure that its services always deliver Best Value. That is ongoing and seeks to improve standards in buying practices and processes across the Council including, to the extent applicable, the LPF Group and the Fund which bear the cost of its operation and administration
- The submission of reports, findings and recommendations from the external auditor, other inspectorates and internal audit, to the Pensions Committee, Pensions Audit Sub-Committee for all matters affecting the LPF Group and Fund and, in certain circumstances strictly for Council wide oversight purposes, the Corporate Leadership Team, Governance, Risk and Best Value Committee and wider Council.
- The roles and responsibilities of Elected Members and Officers are defined in Procedural Standing Orders, Committee Terms of Reference and Delegated Functions, Contract Standing Orders, Scheme of Delegation to Officers, the Member/officer protocol and Financial Regulations. These are subject to annual review.
- The Chief Executive Officer has overall accountability to Council, for all aspects of operational management and overall responsibility for ensuring the continued development and improvement of systems and processes concerned with ensuring appropriate direction, accountability and control.
- The Section 95 Officer has overall responsibility for ensuring appropriate advice is given to the Council and the LPF Group on all financial matters, keeping proper financial records of accounts and maintaining an effective system of internal financial control. For the Fund, the Section 95 officer responsibility has been sub-delegated to the Chief Finance Officer of the LPF Group.

- The Chief Internal Auditor has overall responsibility to review, appraise and report to management and the Governance, Risk and Best Value Committee, and for matters relating to the LPF Group and Fund to the Pensions Committee and Pensions Audit Sub-Committee, on the adequacy of relevant internal control and corporate governance arrangements and on risks relating to approved policies, programmes and projects.
- The Council's Democracy, Governance and Resilience Manager, reporting to the Head of Strategy and Communications, has responsibility for advising the Council on corporate governance arrangements and supports the LPF Group on certain aspects of its governance arrangements.
- The Governance, Risk and Best Value Committee, and for LPF Group and Fund matters the Pensions Committee and Pensions Audit Sub-Committee, provides the Council with independent assurance of the adequacy of the governance and risk management frameworks and internal control environment. Also providing independent scrutiny of financial and non-financial performance, approving and monitoring the progress of the Internal Audit risk-based plan, and monitoring performance of the internal audit service.
- The risk management policy and framework set out the responsibilities of elected members, Governance, Risk and Best Value Committee, and for LPF Group and Fund matters the Pensions Committee and Pensions Audit Sub-Committee, management and staff for the identification and management of risks to corporate and service related priorities;
    - The Resources and Chief Executive's Risk Register and Council Risk Register all identify risks and proposed treatment and actions. These registers are regularly reviewed, updated and reported to the Corporate Leadership Team, which reviews Council-wide risk and reports to the Governance, Risk and Best Value Committee for scrutiny and challenge.
    - Resilience and business continuity plans are in place for all essential Council services. These set out arrangements for continuing to deliver essential services in the event of an emergency or other disruption.
    - Senior management and Heads of Service have formal objectives, with performance reviewed by the appropriate chief officer. Officers have personal work objectives and receive feedback on their performance through the Council-wide performance review and development process.
    - An Elected Members remuneration and expenses scheme is in place and is consistent with the Scottish Government's 'Councillors Remuneration: allowances and expenses – Guidance'. Information on the amounts and composition of elected members salaries, allowances and expenses is published on the Council's website.
    - The Council's Democracy, Governance and Resilience Senior Manager ensures that induction training on roles and responsibilities, and ongoing development opportunities, are provided for Elected Members. A separate policy on Pensions Committee and Pension Board member training has been adopted and is overseen by the LPF Group's officers.
    - Mandatory training for Councillors newly appointed to the Pensions Committee is programmed within the Induction and Training programme for Elected Members. This focuses on governance, investment management and strategy and how the LPF Group and Fund work. Committee members are reminded of the requirement to undertake a minimum of 21 hours of training per financial year to fulfil their role on the Pensions Committee.
    - Codes of Conduct, that set out the standards of behaviour expected from Elected Members and officers, are in place.

- The Employee Code of Conduct, Anti Bribery Policy and Policy on Fraud Prevention set out the responsibilities of officers and Elected Members in relation to fraud and corruption, and are reinforced by the Councillors' Code of Conduct, the Code of Ethical Standards and the Financial Regulations. The LPF Group has adapted policies to take into account the specific nature of its business and regulation.
- The Whistleblowing policy provides a process for disclosure in the public interest about the Council and its activities by officers, Elected Members and others. The LPF Group has an adapted policy to take into account the specific nature of its business and regulation.
- A Register of Members' Interests and Registers of Officers' interests are maintained and available for public inspection.

A significant element of the governance framework is the system of internal controls, which is based on an ongoing process to identify and prioritise risks to the achievement of the Council's objectives, including those relevant to the LPG Group and Fund. Following the establishment of the wholly-owned subsidiary companies, LPFE and LPFI, the Council continues to have appropriate assurance processes and procedures in relation to the responsible officers involved in the administration of those companies and so the wider LPF Group administering the Fund.

Review of Effectiveness

The Local Code of Governance details the Council's arrangements for monitoring each element of the framework and providing evidence of compliance. The Council's Governance and Democratic Services Manager has reviewed the effectiveness of the Code.

The Chief Internal Auditor has also provided an assurance statement on the effectiveness of the system of internal control. The opinion in the assurance statement states: "Internal Audit considers that the LPF control environment and governance and risk management frameworks are generally adequate but with enhancements required and is therefore reporting a 'amber' rated opinion, with our assessment towards the middle of this category."

In compliance with standard accounting practice, the Head of Finance, of the City of Edinburgh Council has provided the Chief Executive Officer with a statement of the effectiveness of the Group's internal financial control system for the year ended 31st March 2019. It is the Head of Finance's opinion that "… that although a degree of assurance can be placed upon the adequacy and effectiveness of the Group's systems of internal financial control, further improvements, including embedding of actions taken in response to previous recommendations, are still required.

In this context, I would particularly highlight improvements in train to address a number of systemic weaknesses in respect of payroll-related controls, including those to address historic, and prevent recurring, overpayments."

The Chief Finance Officer of the LPF Group has provided a statement of the effectiveness of the internal financial control system for the year ended 31st March 2019 for the Fund. It is the Chief Finance Officer's opinion "that reasonable assurance can be placed upon the adequacy and effectiveness of the system of internal financial control for the LPF Group in administering the Lothian Pension Fund and Scottish Homes Pension Fund".

Certification

It is our opinion, in light of the foregoing, that reasonable assurance can be placed upon the adequacy and effectiveness of the systems of governance that operate within the LPF Group in its administration of the Fund. We consider the governance and internal control environment operating during the financial year from 1 April 2017 to 31 March 2019 to provide reasonable and objective assurance that any significant risks impacting on the LPF Group and its ability to achieve its objectives in properly administering the Fund have and will continue to be identified and suitably proportionate actions have and will be taken to avoid or mitigate the impact of any such risks.

The LPF Group has identified certain key areas for improvement, summarised as follows:

- ICT: Continuing to engage with ICT service provider and the City of Edinburgh Council to monitor and drive improvements in the ICT services which the LPF Group receives, whilst in tandem continuing to assess the position around the LPF Group procuring a separate ICT provider to solely and independently service its specific ICT requirements in support of its strategic business plan.
- Human resources: To continue to implement the new human resources strategy specific to LPF Group's requirements.
- Pension Board: To ensure that vacancies in the Pension Board are filled timeously and by suitable candidates and that this body of external stakeholder representatives receives the training and support that it requires on an ongoing basis.
- Business continuity: To continue to assess and refresh the business continuity plan on an ongoing basis ensuring sufficient engagement with staff.
- Information governance: Having completed a full information governance compliance project prior to the implementation of new data protection laws on 25 May 2018, to continue to implement ongoing actions to ensure continuing best practice information governance and security within the LPF Group, including monitoring and engaging with third party suppliers where appropriate.
- Financial services regulatory compliance: To continue to instruct external compliance audits on the operations and governance of LPFI in order to ensure best practice compliance and assurance around its existing operations (and in preparation for its extended collaborative business model) and take action to address the recommendations from those audits on an ongoing basis.
- Wider governance: To continue to maintain and reinforce separate governance and controls specific to the needs of the LPF Group, the pensions funds it administers and its distinct duties to employer and member stakeholders; consistently throughout the LPF Group's governance structures. To ensure that oversight by the City of Edinburgh Council is supported in a manner consistent with these duties.

The LPF Group will continue to ensure that these are treated as a priority and that progress towards implementation will be reviewed through the governance structures and processes established for the LPF Group and summarised herein.

ANDREW KERR
Chief Executive Officer
The City of Edinburgh Council
25 September 2019

DR STEPHEN S MOIR
Executive Director of Resources
The City of Edinburgh Council
25 September 2019

DOUG HERON
Chief Executive Officer
Lothian Pension Fund
25 September 2019

Governance Compliance Statement

The Regulations that govern the management of Local Government Pension Scheme in Scotland require that a Governance Compliance Statement is published. This statement sets out the extent to which governance arrangements comply with best practice.

The statement below describes arrangements at 31 March 2019 and over the financial year.

Principle		Full Compliance	Comments
Structure	The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing Council.	Yes	The City of Edinburgh Council acts as administering authority and delegates all pension scheme matters to a committee of seven members (Pensions Committee) made up as follows: - Five City of Edinburgh Council elected members - Two external members, one drawn from the membership of the Fund and one drawn from the employers that participate in the Fund.
	That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	Yes	The Pensions Committee includes two external places for pension fund stakeholders i.e. one each from the employer and member representatives. Fund members and employers are also represented within the Fund's Pension Board. Membership includes five employer representatives and five member representatives. All members of the Pension Board are invited to attend the meeting of the Pensions Committee and receive the relevant papers prior to those meetings. Two members of the Pension Board attend the Pensions Audit Sub-Committee.

Principle		Full Compliance	Comments
Structure	That where a secondary committee or board has been established, the structure ensures effective communication across both levels.	Yes	The Pensions Audit Sub-Committee, consisting of three members of the Pensions Committee, report to the Pensions Committee on their findings and recommendations. Two members of the Pension Board attend the Pensions Audit Sub-Committee in a non-voting capacity. The Pension Board attends the Pensions Committee meetings and takes part in training events. Implementation of investment strategy is delegated to the Executive Director of Resources who then delegates to the Head of Finance, who takes advice from the Joint Investment Strategy Panel. The Panel meets quarterly and reports to the Pensions Committee annually. The advisers on the Joint Investment Strategy Panel consists of the Chief Investment Officer and on other portfolio manager of LPFI plus two experienced independent external industry advisers. The Pensions Committee receives annual updates from LPFE and LPFI.
Representation	That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include employing authorities (including non-scheme employers, e.g. admitted bodies) and scheme members (including deferred and pensioner scheme members).	Yes	The Pension Board consists of a mix of representatives: - Five employer representatives from non-administering authority employers; - Five member representatives appointed by the Trade Unions in accordance with the approach required under Scottish statute.
	Where appropriate, independent professional observers, and expert advisers (on an ad-hoc basis).	Yes	An Independent Professional Observer was appointed in March 2013 to help Committee scrutinise advice. This contract expired in February 2018 and a new Observer was appointed in September 2018.

Principle		Full Compliance	Comments
Representation	Where appropriate, independent professional observers, and expert advisers (on an ad-hoc basis).	Yes	As mentioned previously, external investment advisers sit on the Joint Investment Strategy Panel. A separate specialist Pensions Audit Sub-Committee consisting of three members (including at least two elected members from the City of Edinburgh Council) undertake the audit scrutiny of the funds. A non-executive director was appointed to the board of LPFI on 7 February 2017 and LPFE on 19 March 2018. An external compliance consultant supports the LPF Group on its ongoing compliance with the Financial Conduct Authority rules, regulations and guidance.
	That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision-making process, with or without voting rights.	Yes	The Pension Board attends the Pensions Committee meetings to help ensure that the operation of the pension funds is in accordance with the applicable law and regulation. The Pension Board takes part in all Committee training events. The Pensions Committee takes account of the views of the Pension Board when making decisions.
Selection and Role of Lay Members	That committee or board members are made fully aware of the status, role and function that they are required to perform on either a main or secondary committee.	Yes	A comprehensive training programme including induction is in place. Members of the Pensions Committee and Pension Board are expected to attend no less than three days of training (21 hours) per year. The non-elected members confirm that they have read, signed and will abide by a Code of Conduct (specifically tailored for the Pensions Committee and Pension Board) prior to their appointment to those bodies. The elected members are required to read, sign and abide by the Councillors' Code of Conduct.

Principle		Full Compliance	Comments
Selection and Role of Lay Members	That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.	Yes	The declaration of members' interests is a standard item on the agenda for meetings of the Pensions Committee, Pensions Audit Sub-Committee and Pension Board. A Code of Conduct also applies to all members of the Pensions Committee and the Pension Board. The declaration of board members interest is a standard item on the agenda for the meetings for the LPFE and LPFI board meetings.
Voting	The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	Yes	Five of the seven places of the Pensions Committee are held by elected members of the City of Edinburgh Council, which is required to retain a 2/3 majority in line with the Local Government (Scotland) Act 1973. The LPF Group's Nomination and Appointments Policy clearly documents how employer and member representatives will be elected to the Pensions Committee and Pension Board. LPFI and LPFE board members conduct meetings and other matters in accordance with their respective articles of association and shareholders' agreements.
Training / Facility Time / Expenses	a) That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.	Yes	A Training and Attendance Policy is in place covering training requirements and reimbursement of expenses. The policy is available on the LPF Group's website www.lpf.org.uk. Board members and staff working for LPFI and LPFE also attend separate training for the purposes of their knowledge, understanding and (where appropriate) compliance with Financial Conduct Authority regulations.
	b) That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	Yes	The Training and Attendance Policy applies to both the Pensions Committee and the Pension Board. Advisers have their own professional development obligations.

Principle		Full Compliance	Comments
Training / Facility Time / Expenses	c) That the administering authority considers the adoption of annual training plans for committee and board members and maintains a log of all such training.	Yes	Each Pensions Committee and Pension Board member is expected to attend no less than three days training per year (21 hours) per year. Attendance at meetings and training is monitored and reported.
Meetings frequency	a) That an administering authority's main committee or committees meet at least quarterly.	Yes	The Pensions Committee meets at least four times a year.
	b) That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committees sits.	Yes	The Pensions Audit Sub-Committee is held before the Pensions Committee at least three times a year with further meetings held if necessary. The Joint Investment Strategy Panel meets quarterly or more frequently as required. The Pension Board attends all the Pensions Committee meetings and separately meets in advance of such meetings. Further meetings are held if necessary. The LPFE board now meet five time a year (in February, May, August, October and December) and the LPFI board at least quarterly.
	c) That an administering authority who does not include lay members in their formal governance arrangements must provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.	Not applicable	
Access	That subject to any rules in the council's constitution, all members of main and secondary committees or boards have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.	Yes	Pensions Committee papers and minutes are publicly available on the Council's website and all Pensions Committee and Pension Board members have equal access. Members of the Pensions Committee and Pension Board have equal access to the Independent Professional Observer who holds surgeries ahead of Committee meetings.

Principle		Full Compliance	Comments
Scope	That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	Yes	The Pensions Committee deals with all matters relating to both the administration and investment of the Fund and the LPF Group. A separate specialist Pensions Audit Sub-Committee consisting of three members (including at least two elected members from the City of Edinburgh Council) undertake the audit scrutiny of the Fund.
Publicity	That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.	Yes	Governance documents, policies and details of Pension Board membership are on the LPF Group's website. The LPF Group also communicates regularly with employers and scheme members.

ANDREW KERR
Chief Executive Officer
The City of Edinburgh Council
25 September 2019

DR STEPHEN S MOIR
Executive Director of Resources
The City of Edinburgh Council
25 September 2019

DOUG HERON
Chief Executive Officer
Lothian Pension Fund
25 September 2019

REMUNERATION REPORT

Remuneration Policy for Employees

Officers and employees of Lothian Pension Fund are employed by LPFE, an arms-length organisation owned by the City of Edinburgh Council, the administering authority for the Lothian Pension Fund. In recent years LPFE has been incorporated as a standalone entity to allow the Fund to compete with private sector investment management firms for recruitment and retention of skilled and experienced investment managers and analysts.

Operating this model allows Lothian Pension Fund to achieve significantly lower costs, and therefore improved net returns or lower investment risk, than would be possible by appointing private sector asset managers to invest the Fund's assets. The LPFE Board acts as a Remuneration Committee for officers and employees determining pay arrangements based on comparison to well-researched market benchmarks and performance against pre-agreed performance targets, and always linked to the principle of delivering value-for-money for the members of the Fund and their sponsoring employers.

Each year the Fund participates in a range of benchmarking exercises to measure operating costs and net investment returns against peers and indices relevant to the investment strategy, and this information is reported to the oversight bodies who review pay arrangements and terms of appointments of officers. Pay arrangements in LPFE reflect the market for investment expertise and recognise the qualifications and experience levels required to perform the roles and, more fundamentally, represent value-for-money for employee members and their sponsoring employers who bear the costs of operating the pension fund and securing retirement benefits.

Number of Employees by Pay Band

The numbers of employees whose remuneration during the year exceeded £50,000 were as follows:

Remuneration Bands	2017/18	2018/19	Remuneration Bands	2017/18	2018/19
£50,000 - £54,999	1	1	£95,000 - £99,999	1	1
£55,000 - £59,999	3	3	£100,000 - £104,999	1	2
£60,000 - £64,999	1	1	£105,000 - £109,999	-	2
£65,000 - £69,999	1	-	£110,000 - £114,999	-	-
£70,000 - £74,999	2	-	£115,000 - £119,999	-	-
£75,000 - £79,999	2	1	£120,000 - £124,999	-	-
£80,000 - £84,999	1	1	£125,000 - £129,999	-	1
£85,000 - £89,999	3	-	£130,000 - £134,999	-	4
£90,000 - £94,999	-	-			
			Total No. of Employees	16	17

During the year, the company introduced three variable pay schemes, two of which have vesting periods. The Portfolio Manager and Senior Management schemes entitle staff to receive an assessed percentage of their salary as an additional variable pay award if they meet certain objectives during the year. The assessment year runs from 1 February 2018 to 31 January 2019. The award then vests over three years.

The first part is payable at the end of the first year if the objectives are met and the remaining two parts are payable in the following two years if the requirement that the employee is still employed by the company at such time is met. Payment one has been made in January 2019. A liability has been raised at 31 March 2019 for the 2 months of service which the employees have delivered with regards to the second and third payments in the scheme.

Senior Employees Remuneration

The remuneration paid to the Fund's senior employees is as follows:

	Total Remuneration 2017/18	Salary, Fees and Allowances	Variable Remuneration	Total Remuneration 2018/19
Name and Post Title	**£000**	**£000**	**£000**	**£000**
Doug Heron, Chief Executive Officer (from February 2019)*	-	18	-	18
Clare Scott, Chief Executive Officer (to December 2018)**	101	80	-	80
Bruce Miller, Chief Investment Officer	96	106	26	132
John Burns, Chief Finance Officer	76	82	20	102
Struan Fairbairn, Chief Risk Officer (Head of Legal, Risk and Compliance)	76	81	19	100
	349	**367**	**65**	**432**

* Full time equivalent for 2018/19 £108,000

** Full time equivalent for 2018/19 £108,000

The senior employees detailed above have responsibility for management of the LPF group to the extent that they have power to direct or control the major activities of the group (including activities involving the expenditure of money), during the year to which the Remuneration Report relates, whether solely or collectively with other persons.

Senior officers of the City of Edinburgh Council are also fully remunerated via the Council and no additional remuneration is paid by the Fund. This remuneration is disclosed in the Financial Statements of the City of Edinburgh Council.

Senior Employees Pension Entitlement

Pension benefits for employees are provided through the Local Government Pension Scheme.

For employees the Local Government Pension Scheme became a career average pay scheme on 1 April 2015. Benefits built up to 31 March 2015 are protected and based on final salary. Accrued benefits from 1 April 2015 will be based on career average salary.

The Scheme's normal retirement age for employees is linked to the State Pension Age (with a minimum of age 65).

From 1 April 2009, a five-tier contribution system was introduced with contributions from Scheme members being based on how much pay falls into each tier. This is designed to give more equality between the cost and benefits of scheme membership. Prior to 2009, contributions rates were set at 6% for all non-manual employees.

The tiers and members' contribution rates for 2018/19 were as follows:

Pensionable Pay (2018/2019)	Rate (%)
On earnings up to and including £21,300 (2017/2018 £20,700)	5.5%
On earnings above £21,300 and up to £26,100 (2017/2018 £20,700 to £25,300)	7.25%
On earnings above £26,100 and up to £35,700 (2017/2018 £25,300 to £34,700)	8.5%
On earnings above £35,700 and up to £47,600 (2017/2018 £34,700 to £46,300)	9.5%
On earnings of £47,600 and above (2017/2018 £46,300)	12%

If a person works part-time, their contribution rate is worked out on the whole-time pay rate for the job, with actual contributions paid on actual pay earned.

There is no automatic entitlement to a lump sum. Members may opt to give up (commute) pension for lump sum up to the limit set by the Finance Act 2004.

The value of the accrued benefits has been calculated on the basis of the age at which the person will first become entitled to receive a pension on retirement without reduction on account of its payment at that age; without exercising any option to commute pension entitlement into a lump sum; and without any adjustment for the effects of future inflation.

The pension figures shown relate to the benefits that the person has accrued as consequence of their total local government service, and not just their current appointment.

The pension entitlement of the LPF Group's senior employees is as follows:

	In-year Pension Contributions			Accrued Pension Benefits	
	2017/18	2018/19		As at 31 March 2019	Increase from 31 March 2018
Name and post title	**£000**	**£000**		**£000**	**£000**
Doug Heron, Chief Executive Officer (from February 2019)	-	4	Pension	-	-
			Lump Sum	-	-
Clare Scott, Chief Executive Officer (to December 2018)	21	19	Pension	23	3
			Lump Sum	14	1
Bruce Miller, Chief Investment Officer	20	27	Pension	29	7
			Lump Sum	28	7
John Burns, Chief Finance Officer	16	21	Pension	41	7
			Lump Sum	78	12
Struan Fairbairn, Chief Risk Officer (Head of Legal, Risk and Compliance)	16	21	Pension	10	2
			Lump Sum	-	-
Total	**73**	**92**			

Exit Packages

Exit packages include compulsory and voluntary redundancy costs, pension contributions in respect of added years, ex-gratia payments and other departure costs. There was no payment of any exit packages in 2018/19 or in the previous year.

All information disclosed in the above tables at paragraphs in this Remuneration Report has been audited.
The other sections of the Remuneration Report have been reviewed by the appointed auditor to ensure that they are consistent with the annual accounts.

Remuneration for Councillors on the Pensions Committee

Councillors on the Pensions Committee are remunerated by the City of Edinburgh Council, no additional remuneration is paid by the Fund.

ANDREW KERR
Chief Executive Officer
The City of Edinburgh Council
25 September 2019

DR STEPHEN S MOIR
Executive Director of Resources
The City of Edinburgh Council
25 September 2019

JOHN BURNS
Chief Finance Officer
Lothian Pension Fund
25 September 2019

Additional information

Key documents online

You can find further information on what we do and how we do it, on our website at www.lpf.org.uk. To view individual policy documents, click on the links below if viewing online or visit www.lpf.org.uk/publications.

- Actuarial Valuation reports
- Pension Board constitution
- Annual Report and Accounts
- Statement of Investment Principles
- Pension Administration Strategy
- Communications strategy
- Funding Strategy Statement
- Service Plan
- Training and attendance policy

Fund advisers

Actuaries:	Hymans Robertson LLP, Exchange Place One, 1 Semple Street, Edinburgh, EH3 8BL
Bankers:	Royal Bank of Scotland, 36 St Andrew Square, Edinburgh, EH2 2YB
Investment consultancy:	Gordon Bagot and Scott Jamieson
Investment custodians:	The Northern Trust Company, 50 Bank Street, Canary Wharf, London, E14 5NT
Investment managers:	Details can be found in the notes to the accounts.
Additional Voluntary Contributions (AVC) managers:	Standard Life, Standard Life House, 30 Lothian Road, Edinburgh, EH1 2DH Prudential plc, 1 Angel Court, London, EC2R 7AG
Property valuations:	CB Richard Ellis Limited, St Martin's Court, 10 Paternoster Row, London, EC4M 7HP
Solicitors:	Lothian Pension Fund In-house

Comments and suggestions

We appreciate your comments and suggestions on this report. Please let us know which sections you found useful and if you have any suggestions for items to be included in the future. Please email your comments to pensions@lpf.org.uk.

Accessibility

You can get this document on tape, in Braille, large print and various computer formats on request. Please contact the Interpretation and Translation Service (ITS) on 0131 242 8181 and quote reference number 00819. The ITS can also give information on community language translations.

Contact details

If you would like further information about Lothian Pension Fund and Scottish Home Pension Fund, please contact us the details on the back page if this report.

LOTHIAN PENSION FUND

pensions@lpf.org.uk

0131 529 4638

www.lpf.org.uk

Lothian Pension Fund, Atria One, 144 Morrison Street, Edinburgh EH3 8EX

LPFE Limited

Financial Statements

For the year ended 31 March 2019

Registered number SC497543

ACCS-AUD-EXD-LPFE Accounts 2019 v6 Signature.docx

LPFE LIMITED

Financial statements

For the year ended 31 March 2019

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LPFE LIMITED

Company information

Board of Directors:	***Chairman***
	Stephen Moir
	Executive Directors
	Hugh Dunn Alasdair Rankin Katy Miller Douglas Heron
	Non-executive Director
	Leslie Robb
Company Secretary:	Struan Fairbairn
Registered office	4th Floor Saltire Court 20 Castle Terrace Edinburgh Lothian EH1 2EN
Bankers:	The Royal Bank of Scotland plc
Auditor:	Scott-Moncrieff Chartered Accountants Exchange Place 3 Semple Street Edinburgh EH3 8BL

LPFE LIMITED

Directors' Report

For the year ended 31 March 2019

The directors present their report and audited financial statements for the year ending 31 March 2019.

Principal activity

The principal activity of the company is the provision of seconded staff to the City of Edinburgh Council acting in its capacity as the administering authority of the Lothian Pension Fund ("LPF") and LPFI Limited in support of the administration of the Lothian Pension Fund and the Scottish Homes Pension Fund ("the Funds") and separately (on a limited basis) to Falkirk Council in its capacity as the administering authority of the Falkirk Council Pension Fund. All pension funds are part of the Local Government Pension Scheme in Scotland (LGPS).

Results, dividends and mutual trading surplus

The loss for the year after tax was £306,388 (2018 - £1,535,060 loss) and after allowing for items included under "Other comprehensive income" a loss of £473,408 (2018 - £853,960 loss). The directors do not recommend payment of dividend.

The company's aim is to make a modest trading surplus before adjustments required under IFRS. After allowing for an addition to costs of £69,314 (2018 - £40,112) in respect of accrued holiday and variable pay and £326,000 (2018 - £1,536,000) for adjustments to pension costs under IAS19, the underlying trading profit is £88,926 (2018 - £41,052). The additional costs recognised under "Other comprehensive income" amounting to £167,020 (2018: £681,100 additional gains) all relates to further adjustments required by IAS19 and the related deferred tax.

Under the mutual trading agreement with LPF, the company is required to consider if any of the profit arising from the mutual trade can be returned to the Council. Although there was an underlying trading profit of £88,926 (2018: £41,052, Company Law requires that only "distributable profits" are available for distribution. The company's auditor has confirmed that the various adjustments required under IFRS must be taken into account when determining if profits are distributable. As a result, there are no distributable profits available for return to LPF in respect of the period.

Business review

The company is wholly owned by LPF and has entered into a shareholder agreement with LPF to appropriately address certain governance matters. The company also has a loan facility provided by LPF for the purpose of the provision of short-term working capital.

Staffing services are provided to LPF for the purposes of administering the Funds under an intra-group resourcing agreement. The agreement also provides for the running costs of the company to be covered as part of a service charge and the provision of staffing services to LPFI Limited (also wholly owned by LPF).

The company also has a secondment agreement with Falkirk Council to provide legal staff to assist with certain aspects of the administration of the Falkirk Council Pension Fund as part of a mutually beneficial collaboration between those LGPS funds.

Future prospects

The company's future prospects are primarily linked to the needs of LPF. The company is securely funded by LPF, which means that it is in a position to adapt to any future staffing requirements. Arrangements are in hand to increase the number of investment staff to extend LPF's ability to manage investments (including direct property) in-house.

The directors are of the view that the current "Brexit" uncertainty and its outcome is unlikely to directly impact the prospects of the company. This is because LPF will still have a need for investment management and pension administration services.

Directors

The directors who served during the period were:

Hugh Dunn	
Clare Scott	Resigned 26 December 2018
Alasdair Rankin	
Katy Miller	
Stephen Moir	
Leslie Robb	
Douglas Heron	Appointed 1 February 2019

Statement of directors' responsibilities

The directors are responsible for preparing the financial statements in accordance with applicable laws and regulations.

Company law requires the directors to prepare financial statements for each financial year. The directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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 company and of its results 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; and
- 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 company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Disclosure of information to auditor

As far as each of the directors at the time the report is approved are aware:

a) there is no relevant information of which the company's auditor is unaware, and
b) 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 the information.

Auditor

The auditor, Scott-Moncrieff, is deemed to be reappointed under Section 487 (2) of the Companies Act 2006.

Small company provisions

This report has been prepared in accordance with the special provisions for small companies under Part 15 of the Companies Act 2006.

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

[redacted]

Stephen Moir
Chairman

Date: 21 May 2019

LPFE LIMITED

Independent Auditor's Report to the Members of LPFE Limited

For the year ended 31 March 2019

Opinion

We have audited the financial statements of LPFE Limited ('the company') for the year ended 31 March 2019 which comprise the Statement of Profit or Loss and Other Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows and related 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 company's affairs as at 31 March 2019 and 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 United Kingdom, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate, or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

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.

Opinion on Other Matter(s) 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 Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Directors' Report has 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 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; or
- the directors were not exempt from the requirement to prepare a strategic report.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 3, 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.

[redacted]

Nick Bennett, Senior Statutory Auditor
For and on behalf of Scott-Moncrieff, Statutory Auditor
Chartered Accountants
Exchange Place 3
Semple Street
Edinburgh
EH3 8BL

Date: 21 June 2019

LPFE LIMITED

Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 March 2019

	Note	2019 £	2018 £
Continuing Operations			
Revenue	1e	3,915,842	1,592,314
Gross profit		3,915,842	1,592,314
Administrative expenses		(4,155,957)	(3,099,188)
Loss from operations	2	(240,115)	(1,056,874)
Finance costs	3	(51,434)	(28,380)
Loss before tax		(291,549)	(1,535,254)
Corporation tax (charge)/credit	4	(14,839)	194
Loss for the year		(306,388)	(1,535,060)
Other comprehensive income:			
Those that are not recyclable net of tax:			
Actuarial (loss)/gain on retirement benefit obligation	15	(268,000)	506,000
Deferred tax charge thereon	10	100,980	175,100
Total comprehensive loss for the year		(473,408)	(853,960)

The accompanying notes on pages 12 to 29 form part of these financial statements

LPFE LIMITED

Statement of Financial Position

As at 31 March 2019

	Note	As at 31 March 2019 £	As at 31 March 2018 £
Non-current assets			
Deferred tax asset	10	392,530	291,550
Total non-current assets		392,530	291,550
Current assets			
Trade and other receivables	7	396,240	340,881
Cash and cash equivalents	8	213,773	10,450
Total current assets		610,013	351,331
Total assets		1,002,543	642,881
Equity and Liabilities			
Equity attributable to equity holders of the parent			
Share capital	11	1	1
Retained earnings	12	(1,866,097)	(1,392,689)
		(1,866,096)	(1,392,688)
Liabilities			
Non-current liabilities			
Retirement benefits obligation	15	2,309,000	1,715,000
Trade and other payables	9	12,551	-
Total non-current liabilities		2,321,551	1,715,000
Current liabilities			
Trade and other payables	9	547,088	320,569
Total current liabilities		547,088	320,569
Total liabilities		2,868,639	2,035,569
Total equity and liabilities		1,002,543	642,881

The financial statements were authorised for issue by the Board of Directors on 21 May 2019 and were signed on its behalf by:

[redacted]

Chairman

Registered number: SC497543

The accompanying notes on pages 12 to 29 form part of these financial statements

LPFE Limited

Statement of Changes in Equity

As at 31 March 2019

	Note	Share Capital £	Retained Earnings £	Total £
Balance at 1 April 2017		1	(538,729)	(538,728)
Comprehensive income				
Loss for the year		-	(1,535,060)	(1,535,060)
Other comprehensive income				
Actuarial gains on retirement benefit obligation in year	15	-	506,000	506,000
Deferred tax on retirement benefit obligation	10	-	175,100	175,100
Balance at 31 March 2018		1	(1,392,689)	(1,392,688)

	Note	Share Capital £	Retained Earnings £	Total £
Balance at 1 April 2018		1	(1,392,689)	(1,392,688)
Comprehensive income				
Loss for the year		-	(306,388)	(306,388)
Other comprehensive income				
Actuarial losses on retirement benefit obligation in year	15	-	(268,000)	(268,000)
Deferred tax on retirement benefit obligation	10	-	100,980	100,980
Balance at 31 March 2019		1	(1,866,097)	(1,866,096)

The accompanying notes on pages 12 to 29 form part of these financial statements

LPFE LIMITED

Statement of Cash Flows

For the year ended 31 March 2019

	2019 £	2018 £
Cash flow from operating activities		
Loss for the year	(306,388)	(1,535,060)
Adjustments for:		
Defined benefit pension – current service cost	843,000	336,000
Defined benefit pension – employer contribution	(567,000)	(204,000)
Defined benefit pension – business combinations	-	1,377,000
Defined benefit pension – finance costs	50,000	27,000
Other finance costs	1,434	1,380
Corporation tax charge / (credit)	14,839	(194)
Changes in assets and liabilities:		
Increase in receivables and other financial assets	(55,574)	(199,476)
Increase in payables	234,112	159,5545
Cash flows from operations	214,423	(37,796)
Interest paid	(845)	(1,195)
Corporation tax credit received	215	1,321
Net cash flows from operating activities	213,793	(37,670)
Cash flow from investing activities	-	-
Net cash flows from investing activities	-	-
Cash flow from financing activities		
Movement in loan facility	(10,470)	34,739
Net cash flows from financing activities	(10,470)	34,739
Net increase/(decrease) in cash and cash equivalents	203,323	(2,931)
Cash and cash equivalents at beginning of year	10,450	13,381
Cash and cash equivalents at end of year	213,773	10,450
Cash at bank and in hand	213,773	10,450

The accompanying notes on pages 12 to 29 form part of these financial statements

1. Statement of significant accounting policies

LPFE Limited ('the company') is a limited company incorporated in Scotland. The address of its registered office and principal place of business are disclosed on page 1. The principal activities of the company are described within the directors' report on pages 2 to 4.

The financial statements of LPFE Limited have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS), IFRIC Interpretation and the Companies Act 2006 applicable to companies reporting under IFRS.

Adoption of new and revised standards

The company has adopted the following new and amended IFRSs as of 1 April 2018:

- IAS 1 Presentation of Financial Statements
- IAS 39 Financial Instruments: Recognition and Measurement
- IFRS 7 Financial Instruments: Disclosures
- IFRS 9 Financial Instruments
- IFRS 15 Revenue from Contracts with Customers

The directors have reviewed the requirements of the new standards and interpretations listed above and their effects are as follows:

IAS 1 has been amended after the issue of IFRS 9 with the main effect on the company being to amend the presentation and disclosure of assets held at amortised cost. Given the nature of the company's financial assets this standard has not had a material impact on the company's financial statements in the period of initial application.

IAS 39 requirements were replaced by IFRS 9 on Financial Instruments, with the main effect on the company being to re-categorise financial assets and liabilities together with IFRS 7 on Financial Instruments Disclosures. On initial application there has been no material impact or significant disclosure changes. The new impairment treatment required under IFRS 9 with impairment provisions for trade and other receivables based on expected credit losses has had no material impact on the company's financial statements.

IFRS 15 deals with contracts to provide goods or services. In recording income from service contracts the company currently recognises costs, particularly staff costs, when incurred. The service contract has one performance obligation and there is little ambiguity surrounding the transaction price as services are charged purely to cover costs incurred. Therefore the directors consider the company is already compliant with IFRS 15 and there have been no changes.

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 March 2018, and with potential effect.

International Accounting Standards and Interpretations	Effective for annual periods beginning on or after
IFRS 16 Leases	1 January 2019
IFRIC 23 Uncertainty over Income Tax Treatments	1 January 2019
IAS 12 Income Taxes*	1 January 2019

*Not yet adopted for use in the European Union.

1. Statement of significant accounting policies (continued)

Guidance in issue but not in force (continued)

The directors have reviewed the requirements of the new standards and interpretations listed above and their effects are as follows:

IAS 12 on Income Taxes states that all tax consequences of a dividend should be recognised at the time the liability to pay the dividend is recorded or paid if no liability is recorded prior. All income tax consequences of the dividend will be recorded in profit or loss, other comprehensive income or equity according to where the distributable profits were created.

Basis of preparation

The financial statements are presented in Sterling (£) as that is the company's functional currency and the currency in which the majority of the company's transactions are denominated. The financial statements have been prepared on the historical cost basis.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies.

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. Going concern

The directors are of the opinion that the company has adequate resources to enable it to undertake its planned activities for a period of at least one year from the date that the financial statements are approved.

b. Current and deferred income tax

The company is a mutual trader and is therefore not liable to corporation tax on surpluses generated from mutual trade. The tax charge for the period is based on the profit for the year from non-mutual trade, 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.

1. **Statement of significant accounting policies (continued)**

Basis of preparation (continued)

b. Current and deferred income tax (continued)

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.

c. 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.

d. Cash and cash equivalents

For the purposes of the statement of cash flows, cash includes cash on hand and at call deposits with banks or financial institutions, investments in money market instruments maturing within less than two months and is net of bank overdrafts.

e. Revenue

Revenue is recognised to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty.

Revenue is derived wholly from the provision of seconded staff in the United Kingdom. Revenue is recognised upon the delivery of the service to the customer.

All revenue is stated net of the amount of value added tax (VAT).

1. Statement of significant accounting policies (continued)

Basis of preparation (continued)

f. 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.

g. Share capital

Ordinary shares are classified as equity.

h. Employee benefits

Lothian Pension Fund
The company contributes to a defined benefits scheme operated on behalf of its employees.

The employees of LPFE Limited participate in the Lothian Pension Fund, which is part of the Local Government Pension Scheme in Scotland and is administered by the City of Edinburgh Council.

The current service cost for the period is charged to the statement of profit or loss and other comprehensive income. The assets of the scheme are held separately from those of the company in independently administered funds. The company has fully adopted the accounting principles as required by International Accounting Standard 19 – Employee Benefits.

The liability recognised in the balance sheet in respect of defined benefit pension plan is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognised past-service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in a currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligations.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity through other comprehensive income in the period in which they arise.

Past-service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

1. **Statement of significant accounting policies (continued)**

Basis of preparation (continued)

h. **Employee benefits (continued)**

Variable pay arrangements
During the year, the company introduced three variable pay schemes, two of which have vesting periods. The Portfolio Manager and Senior Management schemes entitle staff to receive an assessed percentage of their salary as an additional variable pay award if they meet certain objectives during the year. The assessment year runs from 1 February to 31 January each year. This award then vests over the following three years. The first part is payable at the end of the first year if the objectives are met and the remaining two parts are payable in the following two years if the requirement that the employee is still employed by the company at such time is met. In line with IAS19 the payment is recognised when made and the liability has been accrued accordingly for the services which the employees have delivered with regards to the second and third payments in the scheme.

i. **Financial instruments**

Financial assets and financial liabilities are recognised when the company has become party to the contractual provisions of the instrument.

Trade receivables
Trade receivables are recognised initially at cost and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the company will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is recognised in the statement of profit or loss and other comprehensive income.

Trade payables
Trade payables are initially recognised at cost and subsequently at amortised cost using the effective interest method.

Financial liabilities
Financial liabilities are classified according to the substance of the contractual arrangements entered into.

An instrument will be classified as a financial liability when there is a contractual obligation to deliver cash or another financial asset to another enterprise.

Loans
All interest bearing loans and other borrowings are initially recorded at fair value, which represents the fair value of the consideration received, net of any issue costs associated with other borrowings. Interest bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs.

Finance charges, including premiums payable on settlement or redemption, are accounted for on an amortised cost basis to the statement of comprehensive income using the effective interest method, being recognised in the statement of profit or loss and other comprehensive income over the term of such instruments at a constant rate on the carrying amount of the instrument to the extent that they are not settled in the year in which they arise.

Borrowings are classified as current liabilities unless the company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

LPFE LIMITED

Notes to the Financial Statements (continued)

For the year ended 31 March 2019

1. Statement of significant accounting policies (continued)

Basis of preparation (continued)

j. Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amount and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

k. 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 within the company.

Key estimates – defined benefit pension obligation

IAS 19 Employee Benefits, requires that certain assumptions are made in order to determine the amount to be recorded for retirement benefit obligations and pension plan assets. These are mainly actuarial assumptions such as expected inflation rates, long-term increase in health care costs, employee turnover, expected return on plan assets and discount rates. Substantial changes from the assumptions listed in any one of these variables may significantly change the group's retirement benefit obligation and pension assets (see note 15 for further details).

2. Loss from operations

	2019 £	2018 £
Loss from operations has been determined after deducting:		
Auditor's remuneration:		
Audit services	5,500	4,900
Non-Audit services	12,775	8,100

3. Finance costs

	2019 £	2018 £
Loan interest payable to group entities (note 14)	1,434	1,380
Pension interest costs (note 15)	50,000	27,000
	51,434	28,380

4. Corporation tax charge/(credit)

	2019 £	2018 £
Current tax:		
Corporation tax charge/(credit)	14,839	(194)
Tax on profits for the year	14,839	(194)

Corporation tax credit is calculated at 19% (2018: 19%) of the assessable profits for the year.

The charge for the year can be reconciled to the loss per the income statement as follows:

	2019 £	2018 £
Loss for the year before taxation	(291,549)	(1,535,254)
Loss for the year at the effective rate of corporation tax of 19% (2018 – 19%)	(55,394)	(291,698)
Effects of:		
Mutual trade adjustment	66,407	265,242
Expenses not deductible for tax purposes	3,866	26,262
Trading losses carried forward	-	-
Other adjustments	(40)	-
Current tax charge/(credit)	14,839	(194)

5. Employee benefits expense

The average number of persons employed by the company (including directors) during the year was 62 (2018: 20).

The aggregate payroll costs were as follows:

	2019 £	2018 £
Wages, salaries and variable pay	2,817,553	1,136,832
Social security costs	305,148	134,079
Defined benefit pension - current service cost	843,000	336,000
	3,965,701	1,606,911

5. Employee benefits expense (continued)

Variable Pay

During the year, the company introduced three variable pay schemes, two of which have vesting periods. The Portfolio Manager and Senior Management schemes entitle staff to receive an assessed percentage of their salary as an additional variable pay award if they meet certain objectives during the year. The assessment year runs from 1 February 2018 to 31 January 2019. The award then vests over three years. The first part is payable at the end of the first year if the objectives are met and the remaining two parts are payable in the following two years if the requirement that the employee is still employed by the company at such time is met. Payment one has been made in January 2019. A liability has been raised at 31 March 2019 for the 2 months of service which the employees have delivered with regards to the second and third payments in the scheme.

Deferred variable pay

	2019 £	2018 £
Brought forward	-	-
Current service cost	38,261	-
	38,261	-

	2019 £	2018 £
Current liability	25,710	-
Non-current liability	12,551	-
	38,261	-

6. Directors' remuneration

Three (2018: two) directors received emoluments from the company during the period. The directors' emoluments for the period were as follows:

	2019 £	2018 £
Aggregate emoluments	106,308	102,801
Employer pension contributions	23,397	20,685

One director had an accrued pension entitlement of £22,829 (2018: £20,225) and a lump sum entitlement of £13,636 (2018: £12,938) at the end of the year. The other two directors do not have any accrued pension provision provided by the company.

All other directors are employed by the City of Edinburgh Council.

7. Trade and other receivables

	2019 £	2018 £
Trade receivables	53,577	35,927
Amounts due from group entities	333,412	295,304
Prepayments and accrued income	9,251	9,650
	396,240	340,881

The directors consider the fair value of receivables to be in line with carrying values.

8. Cash and cash equivalents

	2019 £	2018 £
Cash at bank and in hand	213,773	10,450

9. Trade and other payables

Current liabilities	2019 £	2018 £
Trade payables	3,053	13,315
Accruals and deferred income	144,658	140,782
Social security and other taxes	383,751	155,804
Amounts due to group entities	787	10,668
Corporation tax	14,839	-
	547,088	320,569

Non-current liabilities	2019 £	2018 £
Accruals and deferred income	12,551	-
	12,551	-

10. Deferred tax

	2019 £	2018 £
At 31 March 2018	291,550	116,450
Charge for the year to other comprehensive income	100,980	175,100
At 31 March 2019	392,530	291,550

The elements of deferred tax are as follows:

Defined benefit pension scheme liability	392,530	291,550
	392,530	291,550

11. Share Capital

	2019 £	2018 £
Allotted, called up and fully paid		
Ordinary shares of £1 each	1	1
	1	1

12. Reserves

	Retained Earnings £
At 31 March 2017	(538,729)
Loss for the year	(1,535,060)
Actuarial gain on retirement benefit obligation	506,000
Deferred tax on retirement benefit obligation	175,100
At 31 March 2018	(1,392,689)
Loss for the year	(306,388)
Actuarial loss on pension plan	(268,000)
Deferred tax on retirement benefit obligation	100,980
At 31 March 2019	(1,866,097)

13. Controlling interest

The City of Edinburgh Council (acting in its capacity as the administering authority of the Lothian Pension Fund) owns all the issued share capital of the company. The company itself has been established to support the administration of the Lothian Pension Fund. Administering authorities are required to prepare separate financial statements for the Local Government Pension Scheme funds that they administer and so it is considered appropriate to consolidate the company's individual financial statements into Lothian Pension Fund's consolidated financial statements.

Group accounts are available to the public from the following address and will also be made available through the pension scheme website at www.lpf.org.uk:

Company Secretary
Lothian Pension Fund
Atria One
144 Morrison Street
Edinburgh
EH3 8EX

14. Related party transactions

	2019 £	2018 £
Lothian Pension Fund (pension fund administered by City of Edinburgh Council)		
Sale of services during the period	3,616,093	1,449,997
Receivables at the period end	222,584	287,782
Loan facility balance payable at the period end	-	10,470
Interest payable during the period	1,434	1,380
Interest payable but still accruing at the period end	787	198
LPFI Limited (company under common control)		
Sale of services during the period	119,279	20,236
Receivables at the period end	110,828	7,306
Balance receivable for group tax losses surrendered	-	215

The company has a loan facility agreement with Lothian Pension Fund for the purpose of the provision of short term working capital. The current agreement covers the period to 1 May 2020 and provides that interest is payable at 2% above the Royal Bank of Scotland base lending rate on the daily balance. In order to minimise the amount of interest payable, the company returns any cash not immediately required and this can result in short periods when the company has returned more cash than has been drawn. On such days the loan interest is negative, reducing the amount of interest payable.

Total compensation paid in relation to key management personnel during the period was as follows:

	2019 £	2018 £
Short-term employee benefits	647,017	472,188
Post-employment benefits - employer pension contributions	110,543	84,962
	757,560	557,150

Key management personnel had accrued pensions totalling £120,245 (2018: £97,456) and lump sums totalling £132,375 (2018: £110,889) at the end of the period.

LPFE LIMITED

Notes to the Financial Statements (continued)

For the year ended 31 March 2019

15. Retirement benefits obligation

The Lothian Pension Fund, which is administered by the City of Edinburgh Council, is part of the Local Government Pension Scheme in Scotland. This is a pension scheme providing benefits based on pensionable pay, contributions being charged to the profit or loss so to spread the cost of pensions over employees' working lives. The contributions are determined by a qualified actuary.

The valuation of the pension fund is carried out triennially. The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 31 March 2017 by Hymans Robertson LLP. The present value of the defined benefit obligation, and related current service cost and past service cost, were measured using the Projected Unit Credit Method.

Scheme assets

The company's share of the fair value of the scheme's assets which are not intended to be realised in the short term and may be subject to significant change before they are realised, were comprised as follows:

	%	2019 £'000	%	2018 £'000
Equity Securities:				
Consumer	11%	1,094	14%	1,187
Manufacturing	12%	1,265	15%	1,288
Energy and Utilities	8%	777	6%	542
Financial Institutions	8%	865	9%	769
Health and Care	5%	559	5%	425
Information Technology	3%	335	6%	528
Other	10%	1,003	6%	543
Debt Securities:				
Corporate Bonds (investment grade)	0%	-	0%	-
Corporate Bonds (non-investment grade)	0%	-	2%	169
UK Government	10%	1,045	10%	839
Other	0%	-	0%	-
Private Equity:				
All	1%	139	2%	158
Real Estate				
UK Property	7%	697	6%	556
Overseas property	0%	-	0%	9
Investment Funds and Unit Trusts:				
Equities	1%	102	1%	83
Bonds	3%	261	0%	-
Infrastructure	12%	1277	12%	1,025
Other	0%	-	0%	20
Derivatives:				
Foreign Exchange	0%	3	0%	-
Cash and Cash Equivalents:				
All	8%	863	6%	511
	100%	10,285	100%	8,652

15. Retirement benefits obligation (continued)

The amounts recognised in the statement of financial position are determined as follows:	2019 £'000	2018 £'000
Fair value of plan assets	10,285	8,652
Present value of scheme liabilities	(12,594)	(10,367)
Net pension liability	(2,309)	(1,715)

The movement in the defined benefit obligation over the year is as follows:

	2019 £'000	2018 £'000
Brought forward	10,367	3,513
Current service cost	843	336
Interest cost on obligation	294	131
Plan participants contributions	194	91
Benefits paid	(8)	(4)
Effects of business combinations	-	7,088
Actuarial losses/(gains) arising from changes in financial assumptions	904	(536)
Actuarial losses arising from changes in demographic assumptions	-	120
Other actuarial gains	-	(372)
Balance at year end	12,594	10,367

The movement in the fair value of plan assets of the year is as follows:

	2019 £'000	2018 £'000
Brought forward	8,652	2,828
Benefits paid	(8)	(4)
Effect of business combinations	-	5,711
Interest income on plan assets	244	104
Contributions by employer	567	204
Contributions by member	194	91
Return on assets excluding amounts included in net interest	636	(282)
Balance at year end	10,285	8,652

15. Retirement benefits obligation (continued)

The amounts recognised in the Statement of Profit or Loss are as follows:

	2019 £'000	2018 £'000
Interest received on pension scheme assets	(244)	(104)
Interest cost on pension scheme liabilities	294	131
Finance cost	50	27
Current service cost	843	336
Effect of business combinations	-	1,377
	893	1,740

Amounts recognised in other comprehensive income:

	2019 £'000	2018 £'000
Actuarial (losses)/gains in the defined benefit obligation	(904)	788
Actuarial gains/(losses) in the fair value of defined benefit assets	636	(282)
	(268)	506

The principal actuarial assumptions used in this valuation were:

	2019	2018
Inflation/pension increase rate	2.4%	2.3%
Salary increase rate	4.1%	4.0%
Discount rate	2.5%	2.7%

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice. Best estimate has been interpreted to mean that the proposed assumptions are 'neutral' – there is an equal chance of actual experience being better or worse than the assumptions proposed.

The financial assumptions used for reporting in the financial statements are the responsibility of the employer. These assumptions are largely prescribed at any point and reflect market conditions at the reporting date. Changes in market conditions that result in changes in the net discount rate can have a significant effect on the value of the liabilities reported.

A reduction in the net discount rate will increase the assessed value of liabilities as a higher value is placed on benefits paid in the future. A rise in the net discount rate will have the opposite effect of a similar magnitude. There is also uncertainty around life expectancy of the UK population – the value of current and future pension benefits will depend on how long they are assumed to be in payment.

15. Retirement benefits obligation (continued)

The sensitivity of the overall pension liability to changes in the weighted principal assumptions is:

Change in assumption	Approximate % increase to employer liability		Approximate increase to employer liability (£'000)	
	2019	2018	2019	2018
0.5% decrease in real discount rate	13%	13%	1,666	1,354
0.5% increase in the salary increase rate	4%	4%	499	455
0.5% increase in the pension increase rate	9%	8%	1,118	859

Mortality rates:

Life expectancy is based on the Fund's Vita Curves with improvements in line with the CMI 2012 model assuming current rates of improvements have peaked and will converge at to a long term rate of 1.25% p.a.

Based on these assumptions, the average future life expectancy at age 65 are summarised below:

	Male	Female
Current pensioners	21.7	24.3
Future pensioners	24.7	27.5

Expected employer contributions to the benefit plans for the year ended 31 March 2020 are £643,000, based on a pensionable payroll cost of £2,374,000.

Contingent Liabilities

Following The High Court ruling from 26 October 2016, all defined benefit pension schemes must equalise Guaranteed Minimum Pension (GMP) for men and women. In the directors' opinion, there is insufficient basis to estimate reliably the amount to be recognised in the past service cost until actuaries complete their assessment of the impact and reflect it fully in the pension reports. LPF's actuary, Hymans Robertson LLP has advised that following discussions with the National Audit Office and other LGPS actuaries, the general expectation is that a 'trigger event' is yet to occur in the LGPS and their default approach is to ignore any GMP impact in the 31 March 2019 accounts.

As a result of a ruling in The Court of Appeal (the McCloud judgement) in December 2018, which relates to age discrimination arising from public sector pension scheme transition arrangements, there is the potential for an impact on employer pension liabilities for LPF. Hymans Robertson LLP has advised that given the uncertainty around this judgement, with the government awaiting news of its right to an appeal, it is too early to know what the likely effect may be on LGPS members' benefits.

16. Financial Risk Management

The company's financial instruments consist mainly of deposits with banks and accounts receivable and payable. Financial instruments do not include prepayments, VAT, taxation, social security and deferred income.

The company did not enter into any transactions that would be classed derivative financial instruments during the period.

The totals for each category of financial instruments, measured in accordance with IAS 39 and detailed in the accounting policies, are as follows:

	2019 £	2018 £
Financial Assets		
Cash and cash equivalents	213,773	10,450
Trade and other receivables	389,372	333,531
Total Financial Assets	603,145	343,981
Financial Liabilities		
Trade and other payables	161,049	164,765
Total Financial Liabilities	161,049	164,765

Financial Risk Management Policies

The company aims to manage its overall capital structure to ensure it continues to operate as a going concern. The company's capital structure represents the equity attributable to the shareholders of the company together with cash equivalents.

The Board is charged with the overall responsibility of establishing and monitoring the company's risk management policies and processes in order to identify, analyse and monitor the risks that are faced by the company. The company does not enter into or trade financial instruments for speculative purposes.

The main risks that the company is exposed to through its financial instruments are credit risk, liquidity risk and market risk. These are managed as follows:

a. **Credit risk**

Exposure to credit risk relating to financial assets arises from the potential non-performance by counterparties of contractual obligations that could lead to a financial loss to the company.

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance sheet date to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements. As at 31 March 2019 none of the company's financial assets were past due or impaired.

Credit risk is managed and reviewed regularly by senior management. It mainly arises from amounts owed by customers.

16. Financial Risk Management (continued)

Financial Risk Management Policies (continued)

a. Credit risk (continued)

The nature of the company's business means that it currently only has three customers. By far the largest customer is the City of Edinburgh Council and the company is securely funded by the Council. Falkirk Council is a smaller customer. The third customer is LPFI Limited which is a related party. Given the financial stature of both Councils and LPFI Limited the credit risk faced by the company is considered to be very small.

b. Liquidity Risk

Liquidity risk arises from the possibility that the company might encounter difficulty in settling its debts or otherwise meeting its financial obligations as they fall due. The company manages this risk through the following mechanisms:

- preparing forward-looking cash flow analysis in relation to its operational, investing and financing activities; and
- ensuring that adequate unutilised borrowing facilities are maintained.

The tables below reflect an undiscounted contractual maturity analysis for financial liabilities.

Financial liability and financial asset maturity analysis

	Note	Within 1 Year 2019 £	1 to 5 Years 2018 £	Total 2019 £
Financial liabilities due for payment				
Trade and other payables		(148,498)	(12,551)	(161,049)
Total expected outflows		(148,498)	(12,551)	(161,049)
Financial assets — cash flows realisable				
Cash and cash equivalents		213,773	-	213,773
Trade and other receivables		389,372	-	389,372
Total anticipated inflows		603,145	-	603,145
Net inflow of financial instruments		454,647	(12,551)	442,096

Cash flows realised from financial assets reflect management's expectation as to the timing of realisation. Actual timing may therefore differ from that disclosed. The timing of cash flows as presented in the table (to settle financial liabilities) reflects the earliest contractual settlement dates.

The company has been granted a £385,000 unsecured revolving loan facility by its parent, The City of Edinburgh Council. The ceiling of the facility has been set at a level to ensure sufficient cash is available to meet the company's short-term cash flow needs, should there be a delay in the City of Edinburgh Council settling invoices for seconded staff.

16. Financial Risk Management (continued)

Financial Risk Management Policies (continued)

c. Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the company's financial position. The company has no direct exposure to movements in foreign exchange or equity prices, and has very little exposure to interest rate movements, due to the low level of borrowing. The company monitors this risk but the directors are of the opinion that it is very unlikely to have a significant effect on the company's financial position.

17. Movements in financing (assets)/liabilities arising from financing activities

	Current loans & borrowings
At 1 April 2017	(24,269)
Cash flows	
Financing loans from group companies drawdown	34,739
At 31 March 2018	10,470

	Current loans & borrowings
At 1 April 2018	10,470
Cash flows	
Payment of group company financing loan	(10,470)
At 31 March 2019	-

18. Contingent Liabilities

The company's variable pay arrangements are described in note 5 above. In the event that all the staff involved in the arrangements at 31 January 2019 remain in the company's employment there is a contingent liability of £319,900 in excess of the current and non-current liabilities, as recognised in these financial statements in accordance with IAS19. This amount would be payable over two years.

LPFI Limited

Financial Statements

For the year ended 31 March 2019

Registered number SC497542

ACCS-AUD-EXD-LPFI accounts 2019 v7 Signature.docx

LPFI LIMITED

Financial statements

For the year ended 31 March 2019

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LPFI LIMITED

Company information

Board of Directors:	***Chairman***
	Hugh Dunn
	Executive Directors
	Struan Fairbairn John Burns William Bruce Miller Douglas Heron
	Non-executive Director
	Leslie Robb
Registered office:	4th Floor Saltire Court 20 Castle Terrace Edinburgh Lothian EH1 2EN
Bankers:	The Royal Bank of Scotland plc
Auditor:	Scott-Moncrieff Exchange Place 3 Semple Street Edinburgh EH3 8BL

LPFI LIMITED

Directors' Report

For the year ended 31 March 2019

The directors present their report and audited financial statements for the year ended 31 March 2019.

Principal activity

The current principal activity of the company is the provision of Financial Conduct Authority ("FCA") regulated investment services to the City of Edinburgh Council acting in its capacity as the administering authority of the Lothian Pension Fund) ("LPF") and other Local Government Pension Scheme funds in Scotland and Northern Ireland .

Results, dividends and mutual trading surplus

The profit for the year after tax was £59,396 (2017: £34,619). The directors do not recommend payment of a dividend.

The company's aim is to make a modest trading surplus.

Under the mutual trading agreement with LPF, the company is required to consider if any of the profit arising from the mutual trade can be returned to LPF. Company Law requires that only "distributable profits" are available for distribution. None of the profit for the year is attributable to the mutual trade.

Business review

The company is wholly owned by LPF and has entered into a shareholder agreement with LPF to appropriately address certain governance matters. The company also has a loan facility provided by LPF for the provision of short term working capital.

LPFI Limited does not employ staff directly. Staffing and business support services are provided to the company under separate intra-group agreements with LPFE Limited and LPF respectively. LPFE Limited is also wholly owned by LPF. The company provides certain investment services to LPF via an intra-group investment services agreement and has appropriate terms of engagement with its external collaborative partners. During the year Fife Council Pension Fund was added as a new collaborative partner.

HMRC has agreed that any profits arising from trade between the company and LPF will be covered by the "Mutual Trading" rules and so not subject to Corporation Tax.

The company was granted authorised status by the FCA on 24 June 2016. During the year the company provided investment advising and transaction arranging services in relation to a broad scope of matters.

Future prospects

The company's prospects are linked to LPF's requirement for FCA regulated investment services and the LPF's strategy to work with other LGPS funds in the collaborative provision of such services. The company is securely funded by LPF which means that it can adapt to future trading needs.

The directors are of the view that the current "Brexit" uncertainty and its outcome is unlikely to directly impact the prospects of the company. This is because LPF and its external collaborative partners will still have a need for investment management services.

Directors

The directors who served during the year were:

Hugh Dunn	
Struan Fairbairn	
John Burns	
William Bruce Miller	
Clare Scott	Resigned on 26 December 2018
Leslie Robb	
Douglas Heron	Appointed on 1 February 2019

Statement of directors' responsibilities

The directors are responsible for preparing the financial statements in accordance with applicable laws and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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 company and of its results 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; and
- 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 company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Disclosure of information to auditor

As far as each of the directors at the time the report is approved are aware:

a) there is no relevant information of which the company's auditor is unaware, and
b) 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 the information.

Auditor

The auditor, Scott-Moncrieff, is deemed to be reappointed under Section 487 (2) of the Companies Act 2006.

Small company provisions

This report has been prepared in accordance with the special provisions for small companies under Part 15 of the Companies Act 2006.

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

[redacted]

Date: 23 May 2019

Hugh Dunn
Chairman

Independent Auditor's Report to the Members of LPFI Limited

For the year ended 31 March 2019

Opinion

We have audited the financial statements of LPFI Limited ("the company") for the year ended 31 March 2019 which comprise the Statement of Profit or Loss and Other Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows and related 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 company's affairs as at 31 March 2019 and its profit 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 United Kingdom, 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.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate, or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

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.

Opinion 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 Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Directors' Report has 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 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; or
- the directors were not exempt from the requirement to prepare a strategic report.

Responsibilities of the directors

As explained more fully in the directors' responsibilities statement set out on page 3, 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.

Independent Auditor's Report to the Members of LPFE Limited (continued)

For the year ended 31 March 2019

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.

[redacted]

Nick Bennett, Senior Statutory Auditor
For and on behalf of Scott-Moncrieff, Statutory Auditor
Chartered Accountants
Exchange Place 3
Semple Street
Edinburgh
EH3 8BL

Date: 21 June 2019

LPFI LIMITED

Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 March 2019

	Note	2019 £	2018 £
Continuing Operations			
Revenue	1e	256,939	130,212
Gross profit		256,939	130,212
Administrative expenses		(183,610)	(87,305)
Profit from operations	2	73,329	42,907
Finance costs	3	-	(168)
Profit before income tax expense		73,329	42,739
Corporation tax charge	4	(13,933)	(8,120)
Profit for the year		59,396	34,619
Other comprehensive income		-	-
Total comprehensive income for the year		59,396	34,619

The accompanying notes on pages 12 to 23 form part of these financial statements

LPFI LIMITED

Statement of Financial Position

As at 31 March 2019

	Note	As at 31 March 2019 £	As at 31 March 2018 £
Current assets			
Trade and other receivables	6	160,593	58,965
Cash and cash equivalents	7	126,624	83,209
Total current assets		287,217	142,174
Total assets		287,217	142,174
Equity and Liabilities			
Equity attributable to equity holders of the parent			
Share capital	9	60,000	60,000
Retained earnings	10	94,447	35,051
		154,447	95,051
Liabilities			
Current liabilities			
Trade and other payables	8	132,770	47,123
Total current liabilities		132,770	47,123
Total equity and liabilities		287,217	142,174

The financial statements were authorised for issue by the Board of Directors on ..23 May... 2019 and were signed on its behalf by:

............[redacted]

Hugh Dunn
Chairman

Registered number: SC497542

The accompanying notes on pages 12 to 23 form part of these financial statements

LPFI LIMITED

Statement of Changes in Equity

As at 31 March 2019

	Note	Share Capital £	Retained Earnings £	Total £
Balance at 1 April 2017		50,000	432	50,432
Comprehensive income				
Profit for the year		-	34,619	34,619
Share movements				
Shares allotted during the year		10,000	-	10,000
Balance at 31 March 2018	10	60,000	35,051	95,051

	Note	Share Capital £	Retained Earnings £	Total £
Balance at 1 April 2018		60,000	35,051	95,051
Comprehensive income				
Profit for the year		-	59,396	59,396
Balance at 31 March 2019	10	60,000	94,447	154,447

The accompanying notes on pages 12 to 23 form part of these financial statements

LPFI LIMITED

Statement of Cash Flows

For the year ended 31 March 2019

	2019 £	2018 £
Cash flow from operating activities:		
Profit for the year	59,396	34,619
Adjustments for:		
Finance costs	-	168
Corporation tax charge	13,933	8,120
Changes in assets and liabilities:		
Increase in receivables and other financial assets	(101,628)	(45,719)
Increase in payables	79,640	21,898
Cash flows from operations	51,341	19,086
Interest paid	-	(257)
Corporation tax paid	(7,926)	(281)
Net Cash flows from operating activities	43,415	18,548
Cash flow from financing activities:		
Loans repaid to group entities	-	(16,000)
Share capital issued	-	10,000
Net cash flows from financing activities	-	(6,000)
Net increase in cash and cash equivalents	43,415	12,548
Cash and cash equivalents at beginning of year	83,209	70,661
Cash and cash equivalents at end of year	126,624	83,209
Cash at bank and in hand	126,624	83,209

The accompanying notes on pages 12 to 23 form part of these financial statements

LPFI LIMITED

Notes to the Financial Statements

For the year ended 31 March 2019

1. Statement of significant accounting policies

LPFI Limited ('the company') is a limited company incorporated in Scotland. The address of its registered office and principal place of business are disclosed on page 1. The principal activities of the company are described within the directors' report on pages 2 to 4.

The financial statements of LPFI Limited have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS), IFRIC Interpretation and the Companies Act 2006 applicable to companies reporting under IFRS.

Adoption of new and revised standards

The company has adopted the following new and amended IFRSs as of 1 April 2018:

- IAS 1 Presentation of Financial Statements
- IAS 39 Financial Instruments: Recognition and Measurement
- IFRS 7 Financial Instruments: Disclosures
- IFRS 9 Financial Instruments
- IFRS 15 Revenue from Contracts with Customers

The directors have reviewed the requirements of the new standards and interpretations listed above and their effects are as follows:

IAS 1 has been amended after the issue of IFRS 9 with the main effect on the company being to amend the presentation and disclosure of assets held at amortised cost. Given the nature of the company's financial assets this standard has not had a material impact on the company's financial statements in the period of initial application.

IAS 39 requirements were replaced by IFRS 9 on Financial Instruments, with the main effect on the company being to re-categorise financial assets and liabilities together with IFRS 7 on Financial Instruments Disclosures. On initial application there has been no material impact or significant disclosure changes. The new impairment treatment required under IFRS 9 with impairment provisions for trade and other receivables based on expected credit losses has had no material impact on the company's financial statements.

IFRS 15 deals with contracts to provide goods or services. In recording income from service contracts the company currently recognises costs, particularly staff costs, when incurred. The service contract has one performance obligations and there is little ambiguity surrounding the transaction price as services are charged for purely to cover costs incurred. Therefore the directors consider the company is already compliant with IFRS 15 and there have been no changes.

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 March 2018, and with potential effect.

International Accounting Standards and Interpretations	Effective for annual periods beginning on or after
IFRS 16 Leases	1 January 2019
IFRIC 23 Uncertainty over Income Tax Treatments	1 January 2019
IAS 12 Income Taxes*	1 January 2019

*Not yet adopted for use in the European Union.

1. Statement of significant accounting policies (continued)

Guidance in issue but not in force (continued)

The directors have reviewed the requirements of the new standards and interpretations listed above and their effects are as follows:

IFRS 16 on leases is not expected to have a material impact on the financial statements as the company currently has no material lessee or lessor transactions.

IAS 12 on Income Taxes states that all tax consequences of a dividend should be recognised at the time the liability to pay the dividend is recorded or paid if no liability is recorded prior. All income tax consequences of the dividend will be recorded in profit or loss, other comprehensive income or equity according to where the distributable profits were created.

Basis of preparation

The financial statements are presented in Sterling (£) as that is the company's functional currency and the currency in which the majority of the company's transactions are denominated. The financial statements have been prepared on the historical cost basis.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies.

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. Going concern

The directors are of the opinion that the company has adequate resources to enable it to undertake its planned activities for a period of at least one year from the date that the financial statements are approved.

b. Current and deferred 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.

1. Statement of significant accounting policies (continued)

b. Current and deferred tax (continued)

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.

c. 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.

d. Cash and cash equivalents

For the purposes of the statement of cash flows, cash includes cash on hand and at call deposits with banks or financial institutions, investments in money market instruments maturing within less than two months and is net of bank overdrafts.

e. Revenue

Revenue is recognised to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty.

Revenue is derived wholly from the provision of FCA-regulated service in the United Kingdom. Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract. The stage of completion of the contract is determined with reference to contractual rates as labour hours and direct expenses are incurred.

All revenue is stated net of the amount of value added tax (VAT).

1. Statement of significant accounting policies (continued)

f. 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.

g. Share capital

Ordinary shares are classified as equity.

h. Financial instruments

Financial assets and financial liabilities are recognised when the company has become party to the contractual provisions of the instrument.

Trade receivables
Trade receivables are recognised initially at cost and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the company will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is recognised in the statement of profit or loss and other comprehensive income.

Trade payables
Trade payables are initially recognised at cost and subsequently at amortised cost using the effective interest method.

Financial liabilities
Financial liabilities are classified according to the substance of the contractual arrangements entered into.

An instrument will be classified as a financial liability when there is a contractual obligation to deliver cash or another financial asset to another enterprise.

Finance charges, including premiums payable on settlement or redemption, are accounted for on an amortised cost basis to the profit or loss and other statement of comprehensive income using the effective interest method, being recognised in the statement of comprehensive income over the term of such instruments at a constant rate on the carrying amount of the instrument to the extent that they are not settled in the year in which they arise.

Borrowings are classified as current liabilities unless the company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

1. Statement of significant accounting policies (continued)

h. Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amount and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

i. 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 within the company. The directors are satisfied that the accounting policies are appropriate and that there are no significant estimates or judgements used in the preparation of the financial statements.

2. Profit from operations

	2019 £	2018 £
Profit from operations has been determined after deducting:		
Auditor's remuneration:		
Audit services	4,000	3,400
Non-Audit services	5,555	6,470

3. Finance costs

	2019 £	2018 £
Loan interest payable to group entities (note 12)	-	168
	-	168

4. Corporation tax charge

	2019 £	2018 £
Current tax:		
Corporation tax charge	13,933	7,926
Inter- company tax	-	194
Tax on profits for the year	13,933	8,120

Corporation tax expense is calculated at 19% (2018: 19%) of the assessable profits for the year.

The charge for the year can be reconciled to the profit per the income statement as follows:

	2019 £	2019 £
Profit for the year before taxation	73,329	42,739
Profit for the year at the effective rate of corporation tax of 19% (2018 – 19%)	13,933	8,120

5. Directors' remuneration

The aggregate payroll costs for the year consisted of fees paid to a non-executive director. These were as follows:

	2019	2018
	£	£
Wages and salaries	12,000	12,000
Social security costs	958	651
	12,958	12,651

No pension benefits were accrued by the director during the year. All other staff and directors are employed by LPFE Limited, a company under common control, and an appropriate portion of their employment costs recharged. LPFE Limited is a company under the control of Lothian Pension Fund (administered by the City of Edinburgh Council), and the City of Edinburgh Council. In addition to the payroll costs noted above, the company was also charged £1,010 (2018: £5,116) for services provided by directors employed by LPFE Limited during the year.

6. Trade and other receivables

	2019	2018
	£	£
Trade debtors	160,139	34,200
VAT recoverable	454	24,765
	160,593	58,965

The directors consider the fair value of receivables to be in line with carrying values.

7. Cash and cash equivalents

	2019	2018
	£	£
Cash at bank and in hand	126,624	83,209

8. Trade and other payables

	2019	2018
	£	£
Trade creditors	317	508
Accruals	7,250	30,084
Corporation tax	13,933	7,926
Amounts due to group entities	111,270	8,605
	132,770	47,123

9. Share Capital

	2019 £	2018 £
Allotted, called up and fully paid		
Ordinary shares of £1 each	60,000	60,000
	60,000	60,000

10. Reserves

	Retained Earnings £
At 31 March 2017	432
Profit for the year	34,619
At 31 March 2018	35,051
Profit for the year	59,396
At 31 March 2019	94,447

11. Controlling interest

The City of Edinburgh Council (acting in its capacity as the administering authority of the Lothian Pension Fund) owns all the issued share capital of the company. The company itself has been established to support the administration of the Lothian Pension Fund. Administering authorities are required to prepare separate financial statements for the Local Government Pension Scheme funds that they administer and so it is considered appropriate to consolidate the company's individual financial statements into Lothian Pension Fund's consolidated financial statements.

Group accounts are available to the public from the following address:

Account Dept.
Lothian Pension Fund
Atria One
144 Morrison Street
Edinburgh
EH3 8EX

12. Related parties

	2019 £	2018 £
Lothian Pension Fund (pension fund administered by City of Edinburgh Council)		
Business support costs	442	1,083
Payables at the period end	442	1,083
Loan facility repaid during the year	-	16,000
Interest payable during the period	-	168
LPFE Limited (company under common control)		
Staff and other cost recharges	10,988	20,236
Recharges to collaborative partner on behalf of LPFE	108,290	-
Payables at the period end	110,828	7,306
Group tax losses utilised	-	194
Balance payable for group tax losses utilised	-	215

The company has a loan facility agreement with Lothian Pension Fund for the purpose of the provision of short term working capital. The current agreement covers the period to 1 May 2020 and provides that interest is payable at 2% above the Royal Bank of Scotland base lending rate on the daily balance. In order to minimise the amount of interest payable, the company returns any cash not immediately required and this can result in short periods when the company has returned more cash than has been drawn. On such days the loan interest is negative, reducing the amount of interest payable.

Compensation paid in relation to key management personnel during the period was as follows:

	2019 £	2018 £
Directors' remuneration (note 5)	12,958	12,651
	12,958	12,651

All other key management personnel are employed by LPFE Limited, a company also under the control of Lothian Pension Fund (administered by the City of Edinburgh Council), and the City of Edinburgh Council. In addition to the compensation noted above, the company was also charged £1,010 (2018: £5,116) for services provided by key management personnel employed by LPFE Limited during the year.

13. Financial Risk Management

The company's financial instruments consist mainly of deposits with banks and accounts receivable and payable. Financial instruments do not include VAT, taxation, social security and deferred tax.

The company did not enter into any transactions that would be classed as derivative financial instruments during the period.

The totals for each category of financial instruments, measured in accordance with IAS 39 and detailed in the accounting policies, are as follows:

	2019	2018
	£	£
Financial assets		
Cash and cash equivalents	126,624	83,209
Trade and other receivables	160,139	34,200
Total financial assets	286,763	117,409
Financial liabilities		
Trade and other payables	118,837	15,197
Total financial liabilities	118,837	15,197

Financial risk management policies

The company aims to manage its overall capital structure to ensure it continues to operate as a going concern. The company's capital structure represents the equity attributable to the shareholders of the company together with cash equivalents.

The Board is charged with the overall responsibility of establishing and monitoring the company's risk management policies and processes in order to identify, analyse and monitor the risks that are faced by the company. The company does not enter into or trade financial instruments for speculative purposes.

The main risks that the company is exposed to through its financial instruments are credit risk, liquidity risk and market risk. These are managed as follows:

a. Credit risk

Exposure to credit risk relating to financial assets arises from the potential non-performance by counterparties of contractual obligations that could lead to a financial loss to the company.

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance sheet date to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements. As at 31 March 2019 none of the company's financial assets were past due or impaired.

Credit risk is managed and reviewed regularly by senior management. It mainly arises from amounts owed by customers. Given the financial stature of its customers the credit risk faced by the company is considered to be very small.

13. Financial Risk Management (continued)

b. Liquidity Risk

Liquidity risk arises from the possibility that the company might encounter difficulty in settling its debts or otherwise meeting its financial obligations as they fall due. The company manages this risk through the following mechanisms:

- preparing forward-looking cash flow analysis in relation to its operational, investing and financing activities; and
- ensuring that adequate unutilised borrowing facilities are maintained.

The tables below reflect an undiscounted contractual maturity analysis for financial liabilities.

Financial liability and financial asset maturity analysis

	Within 1 Year 2019 £	1 to 5 Years 2019 £	Total 2019 £
Financial liabilities due for payment			
Trade and other payables	(118,837)	-	(118,837)
Total expected outflows	(118,837)	-	(118,837)
Financial assets — cash flows realisable			
Cash and cash equivalents	126,624	-	126,624
Trade and other receivables	160,139	-	160,139
Total anticipated inflows	286,763	-	286,763
Net inflow of financial instruments	167,926	-	167,926

Cash flows realised from financial assets reflect management's expectation as to the timing of realisation. Actual timing may therefore differ from that disclosed. The timing of cash flows as presented in the table (to settle financial liabilities) reflects the earliest contractual settlement dates.

The company has been granted a £250,000 unsecured revolving loan facility by its parent, The City of Edinburgh Council. The ceiling of the facility has been set at a level to ensure sufficient cash is available to meet the company's short-term cash flow needs, should there be a delay in customers settling invoices for services provided.

13. Financial Risk Management (continued)

c. Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the company's financial position. The company has no direct exposure to movements in foreign exchange or equity prices, and has very little exposure to interest rate movements, due to the low level of borrowing. The company monitors this risk but the directors are of the opinion that it is very unlikely to have a significant effect on the company's financial position.

14. Movements in financing (assets)/liabilities arising from financing activities

	Share capital	Current loans & borrowings	Total
At 1 April 2017	50,000	16,000	66,000
Cash flows			
Financing loans from group companies withdrawn	-	(16,000)	(16,000)
Issue of share capital	10,000	-	10,000
At 31 March 2018	60,000	-	60,000

	Share capital	Current loans & borrowings	Total
At 1 April 2018 and 31 March 2019	60,000	-	60,000

Scott-Moncrieff Audit Services
Exchange Place 3
Semple Street
Edinburgh
EH3 8BL

Dear Sirs

Lothian Pension Fund and Scottish Homes Pension Fund

This representation letter is provided in connection with your audit of the Lothian Pension Fund and Scottish Homes Pension Fund Annual Report and Accounts for the year ended 31 March 2019 for the purpose of expressing an opinion as to whether the financial statements show a true and fair view of the financial transactions of the Funds during the year to 31 March 2019 and of the amount and disposition at that date of its assets and liabilities (other than liabilities to pay pensions and benefits after the end of the period) in accordance with Part VII of the Local Government (Scotland) Act 1973 and International Financial Reporting Standards as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 and making a statement about contributions.

By a resolution of the board, passed today, I am directed to confirm to you, in respect of the financial statements of the Funds for the year ended 31 March 2019 the following:

1. We have fulfilled our responsibilities for preparing financial statements which give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 and for making accurate representations to you.
2. We have provided you with:
    - access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
    - additional information that you have requested from us for the purpose of the audit; and
    - unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
3. All transactions have been recorded in the accounting records and are reflected in the financial statements.
4. We acknowledge our responsibilities for the design and implementation of internal control in order to prevent and detect fraud and to prevent and detect error.
5. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the entity and involves:
    - management;
    - employees who have significant roles in internal control; and
    - others where the fraud could have a material effect on the financial statements.

Lothian Pension Fund
Atria One, 144 Morrison Street, Edinburgh EH3 8EX
Tel: 0131 529 4638 email: pensions@lpf.org.uk

6. We are not aware of any allegations of fraud or suspected fraud with a potential effect on the financial statements which have been communicated to us by employees, former employees, regulators or other third parties.

7. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations, whose effects should be considered when preparing the financial statements.

8. We confirm that, in our opinion, the assumptions that have been used in determining fair values, whether such values are disclosed or applied in the financial statements, are reasonable and reflect our ability and intent to carry out specific courses of action, where this is relevant to the determination of those values.

9. In our opinion the significant assumptions used by us in making accounting estimates are reasonable.

10. Where required, the value at which assets and liabilities are recorded in the net assets statement is, in our opinion, the market value. We are responsible for the reasonableness of any significant assumptions underlying the valuation, including consideration of whether they appropriately reflect our intent and ability to carry out specific courses of action on behalf of the Funds. Any significant changes in those values since the accounting reference date have been disclosed to you.

11. We have disclosed to you the identity of the company's related parties and all related party relationships and transactions of which we are aware.

12. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards as adopted by the European Union.

13. In particular, no trustee, shadow trustee, their connected persons or other officers had any indebtedness, agreement concerning indebtedness or disclosable interest in a transaction with the Funds at any time during the year.

14. The following have been properly recorded and, when appropriate, adequately disclosed in the financial statements:

    - losses arising from sale and purchase commitments;
    - agreements and options to buy back assets previously sold;
    - assets pledged as collateral.

15. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

16. We have no plans to abandon activities or other plans or intentions that will result in any excess or obsolete stocks, and no stock is stated at an amount in excess of net realisable value.

17. The Funds have satisfactory title to all assets and there are no liens or encumbrances on the Funds' assets, other than as disclosed in the financial statements.

18. We have recorded or disclosed, as appropriate, all liabilities, both actual and contingent, and all guarantees that we have given to third parties.

19. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards as adopted by the European Union require adjustment or disclosure have been adjusted or disclosed. Should any material events occur which may necessitate revision of the figures included in the financial statements or inclusion in the notes thereto, we will advise you accordingly.

20. The Funds have complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance.

21. To the best of our knowledge and belief, the information disclosed in the financial statements in respect of parties which control the Funds is complete and accurate.

22. Except as disclosed in the financial statements, the results for the year were not materially affected by:

- any change in accounting policies;
- transactions of a type not usually undertaken by the Funds' group;
- circumstances of an exceptional or non-recurrent nature; or
- charges or credits relating to prior periods.

23. There is no pending or potential litigation against the Funds and there are no contingencies of a material amount for which provision has not been made in the financial statements.

24. We confirm that we have reviewed going concern considerations and are satisfied that it is appropriate for the financial statements to have been drawn up on the going concern basis. In reaching this opinion we have taken into account all relevant matters of which we are aware and have considered a future period of at least one year from the date on which the financial statements were approved.

Yours faithfully

John Burns
Chief Finance Officer (Section 95 Officer for the Pension Funds)

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The City of Edinburgh Council

10am, Thursday 24 October 2019

City of Edinburgh Council – 2018/19 Annual Audit Report to the Council and the Controller of Audit – referral from the Finance and Resources Committee

Executive/routine
Wards
Council Commitments

1. For Decision/Action

1.1 The City of Edinburgh Council is asked to note the report.

Laurence Rockey

Head of Strategy and Communications

Contact: Veronica MacMillan, Committee Services

Email: veronica.macmillan@edinburgh.gov.uk | Tel: 0131 529 4283

EDINBVRGH
THE CITY OF EDINBURGH COUNCIL

Referral Report

City of Edinburgh Council – 2018/19 Annual Audit Report to the Council and the Controller of Audit – referral from the Finance and Resources Committee

2. Terms of Referral

2.1 The Finance and Resources Committee on 26 September 2019 considered a joint report by the Chief Executive and The Executive Director of Resources, which detailed the principal findings arising from the Council's 2018/19 external audit.

2.2 The Finance and Resources Committee agreed:

2.2.1 To approve the audited Annual Accounts for 2018/19 and refer the report to Council for noting.

3. Background Reading/ External References

3.1 Minute of the Finance and Resources Committee of 26 September 2019.

3.2 Finance and Resources Committee – 26 September 2019 - Webcast

4. Appendices

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

Finance and Resources Committee

10.00am, Thursday, 26 September 2019

City of Edinburgh Council – 2018/19 Annual Audit Report to the Council and the Controller of Audit – referral from the Governance, Risk and Best Value Committee

Executive/routine
Wards
Council Commitments

1. For Decision/Action

1.1 The Governance, Risk and Best Value Committee has referred the attached report to the Finance and Resources Committee for approval, and onward referral to the City of Edinburgh Council for noting.

Andrew Kerr

Chief Executive

Contact: Jamie Macrae, Committee Officer

E-mail: jamie.macrae@edinburgh.gov.uk | Tel: 0131 553 8242

Referral Report

City of Edinburgh Council – 2018/19 Annual Audit Report to the Council and the Controller of Audit – referral from the Governance, Risk and Best Value Committee

2. Terms of Referral

2.1 The Governance, Risk and Best Value Committee on 17 September 2019 considered a joint report by the Chief Executive and the Executive Director of Resources, which detailed the principal findings arising from the Council's 2018/19 external audit.

2.2 The Governance, Risk and Best Value Committee agreed:

2.2.1 To note that, following the audit process, it was anticipated that an unqualified audit opinion would be issued on the Council's Annual Accounts for 2018/19.

2.2.2 To refer the audited Annual Accounts for 2018/19 to the Finance and Resources Committee for approval and thereafter to Council for noting.

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

2.2.4 To note the areas of strength identified within the wider scope audit work and that progress in the delivery of the remaining improvement actions set out in Appendix 5 of the auditor's report would be reported to the Committee during the coming year.

2.2.5 To request that an update report be submitted to the Governance, Risk and Best Value Committee in January 2020 on progress with the action plan.

2.2.6 To agree that the Convener would write to the Convener of the Policy and Sustainability Committee to request details of the Committee's planned scrutiny activities and when reports were expected.

2.3 The report is therefore referred to the Finance and Resources Committee for approval, and onward referral to the City of Edinburgh Council for noting.

3. Background Reading/ External References

3.1 Governance, Risk and Best Value Committee – 17 September 2019 – Webcast

4. Appendices

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

Governance, Risk and Best Value Committee

10.00am, Tuesday, 17 September 2019

City of Edinburgh Council – 2018/19 Annual Audit Report to the Council and the Controller of Audit

Executive/routine
Wards
Council Commitments

1. Recommendations

1.1 Members of the Governance, Risk and Best Value Committee are requested to:

1.1.1 note that, following the audit process, it is anticipated that an unqualified audit opinion will be issued on the Council's Annual Accounts for 2018/19;

1.1.2 refer the audited Annual Accounts for 2018/19 to the Finance and Resources Committee for approval and thereafter to Council for noting;

1.1.3 note that, following approval by the Finance and Resources Committee, the audited Annual Accounts will be signed and submitted to the external auditor; and

1.1.4 note the areas of strength identified within the wider scope audit work and that progress in the delivery of the remaining improvement actions set out in Appendix 5 of the auditor's report will be reported to the Committee during the coming year.

Andrew Kerr
Chief Executive

Stephen S Moir
Executive Director of Resources

Contact: Gavin King, Democracy, Governance and Resilience Senior Manager
E-mail: gavin.king@edinburgh.gov.uk | Tel: 0131 529 4239

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

Report

City of Edinburgh Council – 2018/19 Annual Audit Report to the Council and the Controller of Audit

2. Executive Summary

2.1 The report summarises the principal findings arising from the Council's 2018/19 external audit. While primarily focused on the review of the financial statements, the wider scope aspects of the audit include consideration of the Council's financial management, financial sustainability, governance and transparency and arrangements to secure and demonstrate value for money.

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

2.3 The report concludes that the Council has a well-developed and responsive medium-term revenue budget framework and had appropriate arrangements in place for managing its financial position during the year. In common with other councils, however, the savings requirement in both the current and future years remains challenging and will require development of robust savings proposals and a focus on strategic priorities.

2.4 While noting the review during 2018/19 of the effectiveness of the Council's political governance arrangements and the resulting improvement actions, the report also emphasises a need to accelerate implementation of internal audit recommendations. In addition, while acknowledging improvements in some areas, certain indicators within waste management, adult social care and homelessness services remain poor and, as such, the pace of change in implementation again needs to be increased.

3. Background

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

3.2 The review of all matters relating to external audit forms part of the remit of the Governance, Risk and Best Value Committee and is an important aspect of the overall governance arrangements of the Council. The external auditor will attend the Governance, Risk and Best Value Committee meeting to provide an overview of the accompanying report and respond to specific queries members may have on its content. Given the Committee's scrutiny function, however, approval of the annual accounts will be secured by onward referral to the Finance and Resources Committee meeting taking place on 26 September.

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

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

4. Main report

4.1 There are no qualifications to the proposed audit certificate. As in previous years, however, the audit opinion includes an explanatory paragraph in respect of the Council's remaining Significant Trading Organisation (STO). The Edinburgh Catering Services – Other Catering STO failed, over the three-year rolling period to 2018/19, to meet the statutory requirement to break even, although in-year financial performance in 2018/19 continued the trend of improving year-on-year performance.

4.2 As part of the audit work, two material adjustments were incorporated within the audited accounts to reflect (i) a prior-year adjustment in respect of housing stock valuation (ii) the combined impact of movements between the respective net pension fund liability in February and March 2019 and estimates of the impact of recent legislative change and Court rulings upon future liabilities. Neither adjustment, however, has an impact on the Council's reported outturn for the year which remains an overall underspend of £1.582m. While no further amendments are anticipated, as of the time of writing, the accounts remain to be finalised and members will therefore be advised of any material changes at the Committee's meeting.

4.3 As with the past two years' reports, the audit reflects the revised approach to best value agreed by the Accounts Commission in June 2016. This "wider scope" audit comprises four elements:

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

4.4 The key messages from the audit are presented on pages 2 and 3 of the Scott-Moncrieff report, with a number of action points for the Council to address in the coming months also noted. These, together with the management responses provided by the Council (including assigned responsibility and associated timescale for implementation), are shown on pages 55 to 60. The report also summarises on pages 61 to 73 progress made in implementing the recommendations contained in previous years' reports.

Annual accounts (pages 7 to 18)

4.5 An unqualified opinion has been given on the financial statements and other prescribed matters, albeit the report notes that the Edinburgh Catering Services – Other Catering STO failed to meet the statutory requirement to break even over a rolling three-year period. The in-year deficit for 2018/19 was £0.036m, forming part of a cumulative three-year deficit of £0.269m. The external auditor's report notes a number of agreed measures, including implementation of a revised pricing strategy and a re-assessment of service delivery locations, with a view to returning the service towards a break-even or profitable operating position.

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

4.7 As intimated in last year's audit report, Paragraphs 24 to 32 note a change of valuation date for the Council's property, plant and equipment. Audit work undertaken confirmed the appropriateness of these valuations based on the assets' usage and condition. As set out in Paragraph 4.2 above, however, in noting the requirement for the Council to ensure the on-going appropriateness of all related assumptions and estimates of asset valuation, a prior-year adjustment in respect of the opening valuation of the Council's housing stock was reflected within the audited accounts.

4.8 Paragraphs 33 to 38 provide an overview of a number of pertinent issues affecting the year-end pension valuation liability. Given the tightness of year-end accounts closure timescales, the unaudited accounts are of necessity based on estimates provided by the Fund's actuary, using actual investment returns to the end of February 2019, with any material difference between these and the actual year-end position reflected in the audited accounts as appropriate. In addition, following a Supreme Court ruling in June 2019, the estimated impact of the McCloud judgement on transitional arrangements accompanying the move from a final salary to career-average pension scheme has been reflected in the audited accounts. Alongside the associated Fund liability associated with Guaranteed Minimum Pension (GMP) legislation, the precise implications of which remain to be fully established, the audited accounts reflect a total net increase in the pension liability of £53.703m.

4.9 The auditor's report notes, in Paragraphs 47 to 49, the significant progress made by the Council in reviewing and updating the contents of its Common Good Register. In the spirit of increasing transparency further, opportunities to formalise use and maintenance of Common Good assets should continue to be examined.

4.10 The auditor's report also notes that, while the Executive Directors' Statements that inform the content of the Annual Governance Statement (AGS) were scrutinised in detail by the Governance, Risk and Best Value Committee, the AGS itself had not been subject to explicit scrutiny prior to its incorporation within the annual accounts and recommends that this omission be addressed in subsequent years' processes.

Financial sustainability (pages 19 to 22)

4.11 The report concludes that the Council has a well-developed and responsive medium-term revenue budget framework whilst noting the intention to present for members' consideration a longer-term (circa ten-year) strategy during the coming months.

4.12 In common with other councils, however, the savings requirement in both the current and future years remains challenging and will require development of robust savings proposals and a focus on strategic priorities. In addition, significant further work is required to secure the financial sustainability of the Edinburgh Integration Joint Board.

Financial management (pages 23 to 29)

4.13 The report notes that the Council had appropriate arrangements in place for managing its financial position during the year, with the 2018/19 outturn being the twelfth successive year in which expenditure has been maintained within approved levels. The extent of reliance on non-service budgets in achieving this position (and the consequent need for spend within Directorates to be maintained within approved levels in the current and future years) is, however, emphasised.

4.14 Paragraphs 131 to 138 set out the key findings of the external auditor's review of the financial model used to inform consideration of the extension of the existing tram system from York Place to Newhaven. These findings, attesting to the underlying integrity of the model, were presented to all elected members prior to the Council meeting on 14 March 2019 at which the extension was approved.

4.15 The external auditor's report also concludes that the Council's system of internal financial control is well-designed (the report on which basis this judgement has been reached is included elsewhere on the Committee's agenda) and the arrangements with regard to the detection of fraud and irregularity sufficient and appropriate, complemented by active participation in the most recent National Fraud Initiative.

Governance and transparency (pages 30 to 37)

4.16 The auditor's report notes the main elements and improvements resulting from the recent review of the Council's political management arrangements, recommending that the on-going assessment of these arrangements' effectiveness include consideration of further measures to improve the clarity of, and use of technology in, the presentation of reports for elected members. In general terms, however, the information provided to members to inform decision-making and to support their continuing professional development is considered sufficient. The importance of adhering to approved member-officer protocols in respect of sensitive information is, however, emphasised.

4.17 Paragraphs 160 to 180 include an in-depth evaluation of the Council's arrangements to support the enhanced empowerment of communities. These revised arrangements, while taking some time to finalise, reflect significant time and resource commitment by officers and their effectiveness in delivering desired outcomes will be reviewed as part of the Council's best value audit work in early 2020.

4.18 Whilst noting satisfactory embedding of risk management arrangements across the Council, the auditor's report highlights a need to accelerate implementation of audit actions, including those associated with the prior year's ICT partner security management arrangements.

4.19 Paragraphs 205 to 215 evaluate the Council's arrangements to secure fairness and equality for stakeholders, concluding that equality, diversity and human rights are embedded in the Council's vision and strategic direction and included in planning, evaluation and reporting processes.

Value for money (pages 38 to 44)

4.20 The report notes the development of a robust performance framework to measure progress against the aims and outcomes set out within the Council's 2017-22 Business Plan, allowing members to provide appropriate scrutiny in delivery of these objectives. The Annual Performance Report for 2018/19 is additionally seen to represent an honest and balanced assessment of in-year performance.

4.21 While necessarily based on 2017/18 Scotland-wide data, paragraphs 228 and 229 highlight a continuing decline in comparative performance against Scotland's other local authorities as assessed by the Local Government Benchmarking Framework, with poor performance in some adult social care, environmental and homelessness service indicators highlighted as detailed in Paragraphs 232 to 257. Good progress in the implementation of the Housing and Roads Services Improvement Plans is, however, noted.

Other aspects of wider scope audit

4.22 Appendix 2 of the report on pages 48 and 49 apprises members of the principal findings across a number of further risk areas, including European Union exit preparedness, key supplier dependence and wider openness and transparency, with appropriate arrangements assessed to be in place in all of these areas. An assessment against the Accounts Commission's strategic priorities is also included in Appendix 4 on pages 53 and 54.

5. Next Steps

5.1 Subject to approval by the Finance and Resources Committee on 26 September, the annual accounts will be signed and submitted to the external auditor.

5.2 Progress in implementing the improvement actions set out in Appendix 5 will be reported to the Governance, Risk and Best Value Committee over the coming year.

6. Financial impact

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

7. Stakeholder/Community Impact

7.1 The annual audit report includes a comprehensive review of the effectiveness of existing and proposed arrangements to empower communities.

7.2 The financial statements were made available for public inspection in July for a period of 15 working days in accordance with the provisions of Part VII of the Local Government (Scotland) Act 1973 and the Local Authority Accounts (Scotland) Regulations 2014. While no objections to the accounts were received during this period, a recommendation on ensuring the timely display of the physical public inspection notice was made and future years' processes will be revised accordingly.

8. Background reading/external references

8.1 External Audit Plan 2018/19, Governance, Risk and Best Value Committee, 19 March 2019

8.2 Unaudited Accounts 2018/19, City of Edinburgh Council, 27 June 2019

9. Appendices

Appendix 1 – 2018/19 Annual Audit Report to the Council and the Controller of Audit

Appendix 2 – 2018/19 Audited Annual Accounts

Scott-Moncrieff
business advisers and accountants

Appendix 1

City of Edinburgh Council

2018/19 Annual Audit Report to the Council and the Controller of Audit

September 2019September 2019

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1. Key messages

Key messages

Annual accounts	The annual accounts for the year ended 31 March 2019 are due to be approved by the Finance and Resources Committee on 26 September 2019. We report within our independent auditor's report an unqualified opinion on the financial statements and on other prescribed matters. We have, however, drawn attention in our independent auditor's report to the fact that the Council's Edinburgh Catering Services – Other Catering trading operation has failed to break even, on a cumulative basis, over the three- year period to 2018/19. While this is a failure to comply with the Local Government in Scotland Act 2003, it does not affect our overall opinion on the financial statements. There are no other matters that we must report to you by exception.
Financial Sustainability	The Council has a well-developed and responsive medium term revenue budget framework. The Council does not however currently have a long term financial strategy. We understand that this will be developed and presented to the Council over the course of 2019/20. In December 2018, the Council had identified an estimated savings requirement of £41million in 2019/20. Reports to the Finance and Resources Committee have emphasised the need to prioritise the identification and delivery of these savings in order to achieve a balanced outturn position. As reported in August 2019, there still remains a residual gap of £11.416million before one-off mitigation through the Council Priorities Fund. In addition to this the residual Edinburgh Integration Joint Board (EIJB) gap for 2019/20 is £7.15million which assumes the delivery of £11.941million of savings. The delivery of this savings requirement poses a significant risk and challenge to the Council and we will continue to closely monitor this for the remainder of the 2019/20 financial year.
Financial Management	The Council had appropriate arrangements in place for managing its financial position during 2018/19. The Council reported a net underspend against its revised balanced revenue budget of £1.582million (representing 0.2% of the total budget for the year). The Council has been able to maintain expenditure within budget for the twelfth successive year, despite reporting a net overspend within general fund directorates of £12.331million and delivering only 60% of approved savings in the year. Savings across non-directorate specific areas, including loans charges and Council Tax income were crucial in delivering a balanced overall position for the year. In 2019/20, these non-directorate specific area savings have been built into the financial plan, limiting the ability to use them in offsetting overspends within the directorates in the current and future years. We carried out a review of the revised financial model used to support the Council's decision to extend the Edinburgh Trams route as part of our audit. Our findings were presented to the Council in March 2019 and are summarised in the financial management section of this report.
Governance & Transparency	The Council has reviewed its political management arrangements to further improve its decision making effectiveness. During the 2018/19 audit, it has become clear that the arrangements for sharing sensitive information between some Councillors and the leadership team require to be reviewed. There are tensions which arise from dealing with personal sensitive data and the rights of Councillors to have access to all information required to carry out their duties. It is important that all Councillors and senior staff have a clear understanding of their rights and responsibilities in relation to information held by the Council. Councillors and the senior leadership team should review the current protocols to ensure these are still appropriate and that both members and officers can comply fully with their responsibilities. We are concerned that there are still considerable overdue findings from internal audit reports and late management responses to draft internal audit reports. In August 2019 internal audit reported that 47 internal audit findings (those overdue where management action had not been actioned or evidenced) were outstanding. Of these 26 were more than one year old. 118 management actions were also identified as overdue. There were high rated findings in both overdue management actions and internal audit findings. Greater prioritisation should be given to addressing issues raised by internal audit across the Council.

	As part of our 2016/17 external audit of the City of Edinburgh Council, we performed a review of CGI's security management arrangements. During the current year audit, we assessed the extent to which progress has been made in addressing outstanding recommendations from the 2016/17 review. Overall, the evidence received from CGI has not been sufficient to allow us to form an opinion on whether recommendations have been appropriately addressed. Based on the evidence that has been provided, there is limited evidence of progress against the majority of recommendations.
Value for Money	The Council continues to monitor its' performance against "The Programme for the Capital Business Plan 2017 – 2022." The Council outlines its ongoing commitment to improve and invest in local services delivered to citizens. We are satisfied the Council reports its public performance in line with the Local Government Benchmarking Framework. We also consider the 2018/19 Annual Performance Report, represents an honest and balanced view of the 2018/19 performance of the Council. The Council in 2018/19 has demonstrated improvements in performance in several areas including delayed discharge levels, the number of families and young people living in temporary, bed and breakfast accommodation and the proportion of individuals earning less than the living wage. Certain performance indicators in waste management, adult social care services and homelessness however remain poor and significant improvements are required, including an acceleration in the pace of change in delivering improvements.

Looking forward

In May 2019 the Accounts Commission confirmed that City of Edinburgh Council was included in the programme of Best Value audits planned for 2020. It is currently anticipated that best value audit work will be undertaken between February and April 2020 with the outcomes reported in a Best Value Assurance Report in July/August 2020.

Conclusion

This report concludes our audit for 2018/19. Our work has been performed in accordance with the Audit Scotland Code of Audit Practice, International Standards on Auditing (UK) and Ethical Standards.

Scott-Moncrieff
September 2019

2. Introduction

This report is presented to those charged with governance and the Controller of Audit and concludes our audit of the City of Edinburgh Council for 2018/19.

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

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

Introduction

1. This report summarises the findings from our 2018/19 audit of the City of Edinburgh Council ("the Council").

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

   - an audit of the 2018/19 annual accounts, for both the Council and its group and the charitable trusts, and related matters;
   - consideration of the wider dimensions of public audit work, as set out in Exhibit 1;
   - an assessment of the arrangements for the collection and publication of statutory performance information in accordance with the Accounts Commission direction;
   - provision of opinions on a number of grant claims and returns including Whole of Government Accounts;
   - providing existing evidence and intelligence for, and participating in, shared risk assessment (SRA) processes;
   - audit and report on Best Value and the Strategic Audit Priorities (refer to Appendices 3 and 4) and;
   - Monitoring the Council's participation in the National Fraud Initiative (NFI); and
   - any other work requested by Audit Scotland.

Exhibit 1: Audit dimensions within the Code of Audit Practice

3. The Council is responsible for preparing annual accounts that show a true and fair view and for implementing appropriate internal control systems. The weaknesses or risks identified are only those that have come to our attention during our normal audit work, and may not be all that exist. Communication in this report of matters arising from the audit of the annual accounts or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

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

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

Confirmation of independence

6. International Standards on Auditing in the UK (ISAs (UK)) require us to communicate on a timely basis

all facts and matters that may have a bearing on our independence.

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

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

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

Adding value through the audit

9. All of our clients demand of us a positive contribution to meeting their ever-changing business needs. Our aim is to add value to the Council through our external audit work by being constructive and forward looking, by identifying areas of improvement and by recommending and encouraging good practice. In this way, we aim to help the Council promote improved standards of governance, better management and decision making and more effective use of resources.

10. As part of our 2018/19 audit we added value to the Council and Audit Scotland in a range of ways, including:

Regular contact with the Council

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

- Our Engagement Partner and Director hold quarterly meetings with the Chief Executive and the Executive Director of Resources;
- We hold regular catch ups with the Head of Finance (Section 95 Officer);
- We meet with the Chief Internal Auditor on a regular basis.
- We hold discussions with the Council's finance team, in advance of the preparation of the annual accounts, to consider the applicable accounting treatment of balances and transactions. In 2018/19 this included working with the finance team to identify ways to streamline the annual accounts.

Training and development

- We supported the Council Finance Team to deliver training on understanding the financial statements by providing training materials and examples of scrutiny questions for elected members.
- We host Non-Executive Director forums which elected members have attended.

Providing assurance to the Council and Audit Scotland

- We met the deadlines set out in Audit Scotland's annual planning guidance in respect of the delivery of audit plans, independent auditor reports and annual reports.
- We have worked alongside Audit Scotland's correspondence team to respond to queries received on the Council;
- In response to a specific risk identified, we carried out a review on the revised financial model used to support the decision to extend the Edinburgh Trams route. Our findings were reported to the Council and shared with the Controller of Audit.

Feedback

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

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

3. Annual accounts

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

In this section we summarise the findings from our audit of the 2018/19 annual accounts.

Annual accounts

An unqualified audit opinion on the annual accounts

The annual accounts for the year ended 31 March 2019 are due to be approved by the Finance and Resources Committee on 26 September 2019. We report within our independent auditor's report:

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

We have drawn attention to the fact that the Council's Edinburgh Catering Services – Other Catering trading operation has failed to break even, on a cumulative basis, over the three year period to 2018/19.

Overall conclusion

An unqualified audit opinion on the annual accounts

14. The annual accounts for the year ended 31 March 2019 are due to be considered by the Governance, Risk and Best Value Committee on 17 September 2019 and approved by the Finance and Resources Committee on 26 September 2019. We report within our independent auditor's report:

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

15. We have drawn attention in our audit report to the fact that the Council's Edinburgh Catering Services – Other Catering trading operation has failed to break even, on a cumulative basis, over a three year period (paragraph 41). While this is a failure to comply with the Local Government in Scotland Act 2003, it does not affect our overall opinion on the financial statements.

Good administrative processes were in place

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

Our assessment of risks of material misstatement

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

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

1. Management override

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

Excerpt from the 2018/19 External Audit Plan

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

19. During our prior year audit, we recommended that user access controls to the financial ledger should be strengthened. At that time, any member of the Council finance team with ledger access could post to those organisations' financial ledger to whom they provide such services. We noted during our current year audit that arrangements have now been put in place to tailor and restrict user access to the ledger.

2. Revenue recognition

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

Excerpt from the 2018/19 External Audit Plan

20. At the planning stage of our audit cycle, we reported that we did not believe the risk of fraud in revenue recognition was present in Council Tax income, non-domestic rates, housing rents and non-ring fenced government grants and we therefore rebutted this risk. Our assessment of this risk has been reviewed throughout the audit and our conclusion to rebut this risk has remained appropriate.

21. We did however conclude that the risk of fraud in relation to revenue recognition is present in all other revenue streams. We evaluated each type of revenue transaction and documented our conclusions. We have gained reasonable assurance on the completeness and occurrence of income and we are satisfied that income is fairly stated in the annual accounts. To inform our conclusion we evaluated Council's key revenue streams and reviewed the controls in place over revenue accounting. We also carried out testing to confirm that the revenue recognition policy is appropriate and that it was applied consistently throughout the year.

3. Risk of fraud in the recognition of expenditure

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

Excerpt from the 2018/19 External Audit Plan

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

4. Asset valuation and additions

The Council's revised general fund capital budget for 2018/19 is £239million. As at period 9, the Council was reporting a projected outturn of £201million. The housing revenue account capital budget for 2018/19 is £81million. As at period 9, the Council was reporting a projected outturn of £80million.

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

There is a risk of material misstatement to the annual accounts relating to the recognition of capital expenditure and asset valuations.

Excerpt from the 2018/19 External Audit Plan

23. During 2018/19, the Council reported capital additions of £209.674 million. We carried out testing on material additions and concluded that those additions had been accounted for in the annual accounts in accordance with the Council's accounting policy and the applicable accounting standard.

Valuations

24. We reviewed the Council's valuation process and noted the following;

- Valuations are generally carried out by internal valuers. We considered the instructions and information provided to the valuer and performed procedures to confirm the accuracy and completeness of the information. Instructions are disseminated to the individual valuers through the valuation handbook and supporting valuation templates. The results of the valuation exercise were formally communicated to the Council through a valuation report for each asset valued and an overarching valuation report. From our review of the instructions provided to the valuer, the valuers report and assessment of the valuer's expertise, we are satisfied that we can rely on their work.
- All property, plant and equipment required to be carried at fair value were included in the five year rolling programme and had been revalued within this time period.
- Valuations are usually carried out as at 31 March. There is however no requirement for valuations to be carried out at this date and authorities may use a different date within the year subject to the standard condition that the carrying amount at the end of the year does not differ materially from the current value at that date. For 2018/19,

the Council valuations were prepared as at 1 October 2018; this is a change from the previous practice of using 1 April in the relevant financial year. The valuer has provided us with assurance that the carrying amount of these assets as at 31 March 2019 does not materially differ from the date of valuation.

- We confirmed that the basis of valuation for assets is appropriate based on their usage. We reviewed valuation movements against indices of price movements for similar classes of assets and investigated any valuations movements that appeared unusual against this. Overall the valuation movements were in line with our expectation.
- We reviewed the reasonableness of valuation assumptions applied, as they relate to land and buildings, Council dwelling and investment properties. Based on the audit work performed we concluded that the valuations of land and buildings, Council dwellings and investment properties are reasonable.
- A significant level of effort has been committed to developing valuation arrangements in 2018/19. This included the introduction of a valuation handbook, formal instructions and valuation report; the requirement to now consider the remaining useful life of an asset when it is revalued; and consideration of property condition surveys when performing an impairment assessment. However, as set out below, further improvements are required.

Council Dwellings

25. Council dwellings are valued using the beacon method which aggregates the vacant possession value of each unit of housing stock based on the value of a beacon or sample property. An adjustment factor is applied to reflect the lower rent yield from social housing compared to market rates.

26. In 2018/19, the valuer reviewed the selection and valuation of all beacon properties and the adjustment factor applied, in line with the Council's five year rolling revaluation programme. Council dwellings had not been revalued in the five year period, resulting in a valuation increase of £428million (40% of net book value as at 31 March 2018). We have not identified any industry changes in 2018/19 that would account for this level of change in valuation, hence a proportion of this increase will reflect movements in the four years to 31 March 2018. Following a re-evaluation by the valuer of fair values of Council house dwellings at 31 March 2018 a prior year adjustment of £269.3million has been made to the net book value of Council dwellings.

27. The Council must ensure that all key assumptions and estimates over the valuation of property, plant and equipment are formally reviewed on an annual basis to ensure these remain appropriate. For Council dwellings, this includes the selection and valuation of beacon properties, and the adjustment factor applied.

Action plan point 1

Remaining useful life

28. Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that may be incurred in relation to an individual asset. In 2018/19, the valuer undertook an exercise to review the useful life of assets revalued in the period in response to previous audit reports. This ensures the useful life reflects the outcome of recent property condition surveys.

29. The updated useful lives have not been reflected in the fixed asset register or depreciation calculations for 2018/19; but will be updated for 2019/20. The Council must ensure that the remaining useful life of all assets is considered on an annual basis and any material changes are reflected in a timely manner.

Action plan point 1

Impairment

30. As noted in our 2017/18 annual audit report, a paper was presented to the Council's Finance and Resource Committee in January 2018 on the condition of its building estate. This reported noted that, based on detailed condition surveys of the Council's operational estate, there was a requirement to spend £153million over the next five years to address the backlog maintenance. We noted that no assessment of impairment was carried out in 2017/18, other than for those assets forming part of the 2017/18 valuation programme.

31. Condition surveys are being reperformed as part of the five year rolling programme. The valuer obtained a listing of all properties surveyed in 2018/19 and identified those where the condition survey had changed. An assessment was made as to whether a revaluation was necessary and whether there was any indication of impairment; revaluations were performed as necessary.

32. The condition surveys performed in 2018/19 are a strong source of evidence to indicate whether an impairment may have occurred. However, this only considers a proportion of the Council's operational estate and does not take cognisance of other sources of information such as the level of maintenance and repairs required in the year. While no indication of material impairment was identified, we would encourage the Council to further develop its procedures for assessing whether there has been an impairment of its estates portfolio.

Prior year action plan point 2

5. Pension assumptions

An actuarial estimate of the pension fund asset/liability is calculated on an annual basis under IAS 19 and on a triennial funding basis by an independent firm of actuaries with specialist knowledge and experience. The estimates are based on the most up to date membership data held by the pension fund and have regard to local factors such as mortality rates and expected pay rises with other assumptions around inflation when calculating the liabilities. Assumptions may become less relevant over time, particularly where new information becomes available. There is a risk that the assumptions used are not appropriate.

Excerpt from the 2018/19 External Audit Plan

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

34. We reviewed the validity of the information provided to the actuary and compared this with the actual information reported by City of Edinburgh Council and the Lothian Pension Fund. We considered the results of the actuary alongside our work across the sector and noted the following:

35. The unaudited annual accounts were prepared based on an actuarial report received in April 2019. A subsequent actuarial report was received in May 2019 which had been revised to take account of the year-end results of Lothian Pension Fund.

36. The net pension liability within the audited annual accounts was further revised to take account of the financial effects of the 'McCloud Judgement' and the Guaranteed Minimum Pension (GMP) equalisation:

- **McCloud Judgement:** This case related to an employment tribunal ruling that transitional provisions impacting on a public sector final salary scheme were unlawfully age discriminatory. This was upheld in the Courts in December 2018 although the UK Government at that stage sought leave to appeal this judgement. The ruling has implications for all public service schemes including the LGPS funds. In June 2019, the Supreme Court rejected the UK Government's request for a further appeal.

- **Guaranteed minimum pension (GMP)** was accrued by members of the Local Government Pension Scheme (LGPS) between 6 April 1978 and 5 April 1997. The value of GMP is inherently unequal between males and females for a number of reasons, including a higher retirement age for men and GMP accruing at a faster rate for women. However overall equality of benefits was achieved for public service schemes through the interaction between scheme pensions and the Second State Pension. The introduction of the new Single State Pension in April 2016 disrupted this arrangement and brought uncertainty over the ongoing indexation of GMPs, which could lead to inequalities between men's and women's benefits. As an interim solution to avoid this problem, GMP rules were changed so that the responsibility for ensuring GMPs kept pace with inflation passed in full to pension schemes themselves for members reaching state pension age between 6 April 2016 and 5 April 2021. This new responsibility leads to increased costs for schemes (including the LGPS) and hence scheme employers.

37. Management requested a revised actuarial report from its Actuary. The financial effect of these pension issues has resulted in an increase in the net pension liability of £53.703million.

38. As at 31 March 2019, the Council reported a net pension liability of £659.468million, compared to a net pension liability of £482.493million as at 31 March 2018. In addition to the increase in the deficit due to the circumstances noted above, the in-year movement has arisen primarily due to changes in financial assumptions made by the actuary.

Other risk factors

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

Significant trading operations

40. Local authorities have a duty under section 10 of the Local Government in Scotland Act 2003 to operate their significant trading operations so that income is not less than expenditure over each three-year period. The Council has failed to comply with this statutory requirement for the three-year period ending 31 March 2019 in respect of its one significant trading operation; Edinburgh Catering Services – Other Catering. We have reported this matter in our independent auditor's report.

41. Despite improvements in recent years' financial performance, the Council's Edinburgh Catering Services – Other Catering trading operation reported a deficit of £36,000 in 2018/19 and a cumulative three-year deficit of £0.269million. We have reported that Edinburgh Catering Services has failed to meet this financial objective in each of the three years of our audit appointment.

42. Moving forward to reduce the deficit the Council will implement a revised tariff to ensure all inflationary rises are covered. A new till system is to be introduced to track income more effectively. This will provide more effective management information and support expected proposals on the rationale of locations of the service delivery.

Common good

43. Local Authorities are required to administer common good funds under section 15 of the Local Government (Scotland) Act 1994. The purpose of common good funds is to provide benefit to the population of the area either through the disbursement of funds, securing assets for on-going use for the population or contributing to specific local projects/initiatives.

Common good asset registers

44. Part 8 of the Community Empowerment Act (Scotland) 2015 came into force on 27 June 2018. This places a statutory duty on local authorities to

establish, maintain and publish a register of all property held by them for the common good. Local people must be consulted on the register, to make sure nothing has been left out. Local authorities are also required to publish their proposals and consult community bodies before disposing of or changing the use of common good assets.

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

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

47. The Council's common good register was published for consultation in September 2018 and members of the public were able to provide feedback on the register until 31 December 2018. We have reviewed the steps taken by the Council to update the register during this period and noted that they have made significant progress in responding to feedback received. In total, 62 responses were received. As a direct result of the consultation, 18 assets have been transferred from the Council's asset register to the Common Good Fund.

48. As noted above, the guidance required the Council to publish a first draft of the register within 6 months of the consultation period closing. The first post-consultation draft of the register was published on the Council's Common Good Webpage on 28 June 2019, complying with Scottish Government Guidance. The register has remained on the website for the period and the Council has provided updates over the representations received.

49. We understand that the first draft of the register is to be provided to the Finance and Resources Committee in September 2019.

Common good fund annual accounts

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

51. During 2018/19, a deficit of £35,000 was reported on the common good fund. Overall useable common good funds stood at £2.352million as at 31 March 2019.

52. In 2016, the Council's Finance and Resources Committee approved the use of the common good fund for planned maintenance of part of the common good assets. £2million was earmarked in 2015/16 (following a receipt from the sale of East Market Street Garage), to fund a maintenance programme for common good assets. Since this earmarked fund was created in 2016, £110,000 has been used on the Scott Monument and £3,000 on surveys at the City Observatory. As at 31 March 2019; the remaining balances have been split £0.496million to remain in the fund and £1.856million in the planned property maintenance earmarked reserve fund.

53. During our 2018/19 audit of the common good fund annual accounts we noted the following:

Common good fund income and expenditure

54. The unaudited common good fund comprehensive income and expenditure statement reported a full disclosure of the income and expenditure which related to the common good fund. Property costs expenditure for the period totalled £4.553million which has been offset by Rent Income for the period of £1.684million. In order to achieve a breakeven position, the Council has offset the expenditure with an income recharge of £1.680million and capital funding of £1.189million.

55. Whilst we note that the common good fund annual accounts disclose the income and expenditure which relates to the Fund, we would encourage the Council to continually review its relationship and use of the common good funds and put in place documented arrangements for the use and maintenance of those assets.

Prior year action plan point 3

Our application of materiality

56. The assessment of what is material is a matter of professional judgement and involves considering both the amount and the nature of the misstatement. This means that different materiality levels will be applied to different elements of the annual accounts.

57. Our initial assessment of materiality for the group annual accounts was £20.4million and for the Council single entity annual accounts £18.7million. We revised our assessment, following receipt of the unaudited annual accounts, to £21.8million for the

group[1] and £19.8million for the Council and it remained at these levels throughout our audit.

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

Performance materiality

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

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

	Area risk assessment £million		
	High	Medium	Low
Group	9.810	11.990	15.260
Council	8.910	10.890	13.860

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

Audit differences

62. Two material adjustments were made to the unaudited annual accounts in respect of valuations (paragraphs 25-27) and the net pension liability (paragraphs 35-38).

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

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

Council representations

65. We have requested that a signed representation letter be presented to us at the date of signing the annual accounts. This letter is to be signed by the section 95 officer on behalf of the Council.

An overview of the scope of our audit

66. The scope of our audit was detailed in our External Audit Plan, which was presented to the Governance, Risk and Best Value Committee in March 2019. The plan explained that we follow a risk-based approach to audit planning that reflects our overall assessment of the relevant risks that apply to the Council. This ensures that our audit focuses on the areas of highest risk. Planning is a continuous process and our audit plan is subject to review during the course of the audit to take account of developments that arise.

67. At the planning stage we identified the significant risks that had the greatest effect on our audit. Audit procedures were then designed to mitigate these risks.

68. Our standard audit approach is based on performing a review of the key financial systems in place, substantive tests and detailed analytical procedures. Tailored audit procedures, including those designed to address significant risks, were completed by the audit fieldwork team and the results were reviewed by the audit management team. In performing our work we have applied the concept of materiality, which is explained earlier in this report.

Group audit

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

[1] For the significant components, within the Council group, we have allocated a materiality that is less than the overall group materiality. For CEC Holdings this was assessed at £300,000 and for Transport for Edinburgh at £3.3million.

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

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

- CEC Holdings; and
- Transport for Edinburgh.

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

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

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

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

Legality

75. We have planned and performed our audit recognising that non-compliance with statute or regulations may materially impact on the annual accounts. Our audit procedures included the following:

- Reviewing minutes of relevant meetings;
- Enquiring of senior management and the Council's solicitors the position in relation to litigation, claims and assessments; and
- Performing detailed testing of transactions and balances.

76. We are pleased to report that we did not identify any instances of concern with regard to the legality of transactions or events.

Other matters identified during our audit

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

The Local Authority Accounts (Scotland) Regulations 2014

78. As part of our audit we reviewed the Council's compliance with the Local Authority Accounts (Scotland) Regulations 2014, in particular with respect to regulations 8 to 10[2] as they relate to the annual accounts. In 2018/19 we received correspondence relating to the notice of the public right to inspect. Upon review there was found to be a delay in displaying the hard copy of the public inspection notice which is required to be published prior to 17 June as outlined by the 2014 Regulations. The notice was published in the local newspaper and on the City of Edinburgh Council website by 17 June 2019, however, was not available at Council offices until 26 June 2019.

79. We highlighted issues with regards to the public inspection in 2017/18 and we would recommend the Council makes arrangements to ensure full compliance in 2019/20.

Action plan point 2

80. Other than the above issue we concluded that appropriate arrangements are in place to comply with these Regulations.

Management commentary

81. The Local Authority Accounts (Scotland) Regulations 2014 require local authorities to include a management commentary within the annual accounts. The management commentary is intended to assist readers in understanding the annual accounts and the organisation that has prepared them.

82. As auditors we are required to read the management commentary and express an opinion as to whether it is consistent with the annual accounts. We have concluded that the management commentary is consistent with the

[2] Regulations 8 to 10 relate to the preparation and publication of unaudited accounts, notice of public right to inspect and object to the accounts and consideration and signing of the audited accounts.

annual accounts and has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003.

Annual governance statement

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

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

85. We continue to note that the Annual Governance Statement is not reported to the Governance, Risk and Best Value Committee (GRBV) prior to the annual accounts being reported. This means that the GRBV has not had the opportunity to consider whether the assurance statements reflect their understanding of risk or consider the adequacy of planned governance improvements.

Prior year action plan point 10

Remuneration report

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

Charitable trust funds

87. The Council administers six charitable trust funds. Over the last few years the Council has rationalised the number of charitable trusts down from over 100 to six.

88. The total charitable trust fund balance as at 31 March 2019 amounts to £14.868million, an increase of £199,000 in comparison with the prior year.

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

90. We have audited the Council's 2018/19 charitable trust funds. Our findings from our audit have been separately reported to the Trustees. In summary we reported the following:

- We have provided an unqualified audit opinion on the charitable trust funds annual accounts;
- The Council has complied with the Local Authority Accounts (Scotland) Regulations 2014 as they relate to its charitable trust funds;
- We did not identify any significant weaknesses over the accounting systems and internal controls associated with the charitable trust funds. We have however identified some areas with scope for improvement which have been included in a separate management report to the Trustees of the charitable trust funds.

Looking forward – IFRS 16 Leases

91. IFRS 16 Leases will be effective from 1 April 2020. IFRS 16 Leases will lead to a substantial change in accounting practice for lessees where the current distinction between operating and finance leases will be removed. Instead, it requires that a lessee recognises assets and liabilities for all leases with a term of more than 12 months unless the underlying asset is of low value. A lessee will recognise a right-of-use asset representing its right to use the underlying leased property, and a lease liability representing the lessee's obligation to pay for that right.

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

93. This will be an area of focus for our 2019/20 audit.

Qualitative aspects of accounting practices and financial reporting

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

Qualitative aspect considered	Audit conclusion
The appropriateness of the accounting policies used.	The accounting policies, which are disclosed in the annual accounts, are considered appropriate to the Council.
The timing of the transactions and the period in which they are recorded.	We did not identify any concerns over the timing of transactions or the period in which they were recognised.
The appropriateness of the accounting estimates and judgements used.	We are satisfied with the appropriateness of the accounting estimates and judgements used in the preparation of the annual accounts. Significant estimates have been made in relation to property, plant and equipment and pension liabilities. We consider the estimates made, and the related disclosures, to be appropriate to the Council. We evaluated the competence, objectivity and capability of management experts in line with the requirements of ISA (UK) 500 and concluded that use of the expert is appropriate.
The appropriateness of the going concern assumption	We have reviewed the financial forecasts for 2019/20. Our understanding of the legislative framework and activities undertaken provides us with sufficient assurance that the Council will continue to operate for at least 12 months from the signing date.
The potential effect on the annual accounts of any uncertainties, including significant risks and related disclosures that are required.	We have not identified any uncertainties, including any significant risk or required disclosures, which should be included in the annual accounts.
The extent to which the annual accounts have been affected by unusual transactions during the period and the extent that these transactions are separately disclosed.	From the testing performed, we identified no significant unusual transactions in the period.
Apparent misstatements in the management commentary or material inconsistencies with the accounts.	The management commentary contains no material misstatements or inconsistencies with the accounts.
Any significant annual accounts disclosures to bring to your attention.	There are no significant annual accounts disclosures that we consider should be brought to your attention. All the disclosures required by relevant legislation and applicable accounting standards have been made appropriately.
Disagreement over any accounting treatment or annual accounts disclosure.	While disclosure and presentational adjustments were made during the audit process there was no material disagreement during the course of the audit over any accounting treatment or disclosure.
Difficulties encountered in the audit.	There were no significant difficulties encountered during the audit.

4. Financial sustainability

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

The Council has a well-developed and responsive medium term revenue budget framework. The Council does not however currently have a long term financial strategy. We understand that this will be developed and presented to the Council over the course of 2019/20.

In December 2018, the Council had identified an estimated savings requirement of £41million in 2019/20. Reports to the Finance and Resources Committee have emphasised the need to prioritise the identification and delivery of these savings in order to achieve a balanced outturn position. As reported in August 2019, there still remains a residual gap of £11.416million before one-off mitigation through the Council Priorities Fund. In addition to this the residual Edinburgh Integration Joint Board (EIJB) gap for 2019/20 is £7.15million which assumes the delivery of £11.941million of savings. The delivery of this savings requirement poses a significant risk and challenge to the Council and we will continue to closely monitor this for the remainder of the 2019/20 financial year.

Significant audit risk

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

Financial sustainability

During our 2017/18 audit, we noted that the Council has a well-developed and responsive Medium-Term Revenue Funding Framework.

In September 2018, the Finance and Resources Committee considered an update on the key financial assumptions underpinning the Council's revenue budget framework over the next four years. In noting the requirement to identify and deliver estimated recurring savings of at least £28million in 2019/20 and £106million by 2022/23, members approved Planning for Change and Delivering Services 2019 – 2023 as the basis of public engagement. This period of engagement ran from 1 October to 7 December 2018, inviting the public to respond to a series of high-level proposals for change.

The financial assumptions underpinning Planning for Change have been reviewed and updated following the announcement of the provisional Local Government Finance Settlement for 2019/20. Alongside changes in a number of other expenditure factors, these have increased the incremental savings requirement in 2019/20 to £41.0million.

The achievement of the projected savings requirement presents a significant financial challenge particularly in the context of delivery of savings (80% of savings were delivered in 2017/18).

Excerpt from the 2018/19 External Audit Plan

96. As noted in previous years, the Council has a well-developed and responsive Medium Term Revenue Budget Framework. This framework covers a rolling period of four years; with the assumptions underpinning the framework reviewed on a regular basis and reported to members on at least a half yearly basis. The Council does not currently have a long term (over five years) financial strategy. We understand that a report will be presented to the Finance and Resources Committee during 2019/20 which outlines the Council's longer term financial projections. As outlined below we have reviewed the Council's arrangements for managing its financial position in this context.

Medium term financial planning

97. In September 2018, the Finance and Resources Committee considered an update on the key financial assumptions underpinning the Council's revenue budget framework over the next four years. In noting the requirement to identify and deliver estimated recurring savings of at least £28million in 2019/20 and £106million by 2022/23, members approved *Planning for Change and Delivering Services 2019 – 2023* as the basis of public engagement. A period of engagement ran from 1 October to 7 December 2018, inviting the public to respond to a series of high-level proposals for change.

98. Since the publication of Planning for Change, the Council has continued to develop the underlying detail of its long-term Change Strategy, centred around three key principles:

- driving improvements to deliver high quality services that citizens both expect and deserve;
- targeting investment on prevention and early intervention to reduce long-term reliance on its services and enable citizens to lead active, independent lives; and
- delivering growth within the city that is sustainable and inclusive.

99. The financial assumptions underpinning *Planning for Change* were reviewed and updated following the announcement of the provisional Local Government Finance Settlement for 2019/20. Alongside changes in a number of other expenditure factors, these increased the incremental savings requirement in 2019/20 to £41.0million. As a result, the savings requirement over the four year period for the framework is estimated to be £134.800million. The Council also noted that if a similar finance settlement was received, as in 2019/20, the revised savings requirement would be almost £150million.

100. The principal assumptions contained within the framework are detailed in Exhibit 3:

Exhibit 3: Principal assumptions contained within the revenue budget framework

	2019/20	2020/21	2021/22	2022/23
Expenditure				
Employee pay award	3%	3%	3%	3%
Other inflation	3%	3%	3%	3%
Income				
Discretionary fees and charges increase	5%	RPI +2%	RPI +2%	RPI +2%
Council Tax increase	3%	3%	3%	3%
Government grant funding change	-0.4%	-0.4%	-0.4%	-0.4%

Source: Council wide Change Strategy and Budget Framework September 2018 (Note: the government grant funding change assumption has been revised to reflect the actual level of settlement received in 2019/20 i.e. 0.7% `annual reduction across all four years).

101. In addition to the principal financial assumptions, the revenue budget framework incorporates additional annual investment for the financial impact of demographic change, including changes in school pupil rolls, number of older people and individuals with physical and/or learning disabilities. The incremental provision for these assumptions over the four year period totals £37million.

2019/20 revenue position

102. In light of the challenging context within which the Council's 2019/20 budget was set, the need for action across four main areas was identified. Regular update reports have been presented to the Finance and Resources Committee on these areas:

- Development of robust implementation plans for the specific savings actions totalling £29.2million which were approved for delivery in 2019/20;
- Development of detailed and specific proposals to address the £9.5milllion efficiency savings target which was also approved as part of the 2019/20 budget;
- Identification of mitigating actions to address estimated combined residual pressures of £8.8million across the Communities and Families, Place and Resources Directorates; and
- Agreement, through the EIJB, of specific plans to address its estimated budget gap in 2019/20.

103. 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. Additional project management support has also been allocated from the non-recurring £1million approved by Council in October 2018 to assist delivery of the more challenging approved savings measures.

104. In recognition of the trend of a reduction in the delivery of savings and the measures required to deliver those savings becoming more challenging, a risk contingency has been applied in estimating the actual level of savings that will be delivered during the year. An assumption has been made that 85% of savings identified will be delivered; this results in a revised residual gap of £11.416million.

105. In a report to the Finance and Resources Committee in August 2019, the following was noted:

- 93% of savings by value are assessed to be on track to be delivered during the year;
- Actions to address the Council wide 1.55% efficiencies target have been identified;
- Actions to address residual Directorate pressures on a sustainable basis through the identification and implementation of appropriate mitigating actions have also been identified.
- The residual Edinburgh Integration Joint Board (EIJB) gap for 2019/20 is £7.15million. This assumes full delivery of the approved savings programme of £11.941million on which some 71% of savings as at 19 July 2019 were currently assessed as green or amber.

106. A further update is to be provided to committee in October 2019.

107. We acknowledge the Council is taking active steps to achieve financial balance in 2019/20. The delivery of this savings requirement however poses a significant risk and challenge to the Council and we will continue to closely monitor this for the remainder of the 2019/20.

Edinburgh Integration Joint Board (EIJB)

108. The Council's financial offer to the EIJB for 2019/20 included continuation of the £4million additional funding provided in 2018/19, £9.127million for additional demography pressures, and an on-going requirement to recognising the Scottish Living Wage, along with a further £0.887million for the Carers' Act. The Council also approved to pass on, in full to the EIJB, a further £3.023million provided through the Local Government Settlement for expansion of free personal care for those under 65 years of age. Additional funding of £2.5million was added to the Council Priorities Fund and drawn down based on achievement of prolonged improvements in service outcomes i.e. delayed discharge, timings for assessment. £0.2million was also made available as transitional funding for organisations facing the greatest impacts following the loss of EIJB grant funding. Despite this significant investment substantial savings require to be delivered in year to maintain financial balance.

109. The Chief Executive has written to the Chief Officer of the Edinburgh Health and Social Care Partnership, re-emphasising the urgent need for development of detailed and sustainable savings proposals for 2019/20, given the resulting and increasing impact on the remainder of the Council's activity. Members of the Finance and Resources Committee have also met with the Chief Officer of the Edinburgh Health and Social Care Partnership and the Chief Financial Officer of the EIJB to discuss the EIJB's current and anticipated financial challenges and, more critically, their plans to achieve financial sustainability.

110. The EIJB's financial plan in 2019/20, despite a challenging efficiencies programme and the release of unallocated funds, contained unfunded spending commitments of £7.15million as at 31 August 2019. The financial and service performance of the EIJB remains a high risk issue and the Council needs to work together with the EIJB and NHS Lothian to reach an agreed financial settlement.

Prior year action plan point 6

Capital investment programme

111. The Council budgets for capital expenditure are based on a rolling five-year capital investment programme which is set within a high-level ten-year capital plan. This allows for a strategic approach to investment in the Council's assets.

112. The Council set its current capital investment programme on in February 2019 for the period 2019-24 and identifies £907.886million investment in the Council's general fund services.

113. In August 2019, the programme was revised to take account of slippage and acceleration from 2018/19. The programme also reflects projects where funding has been approved since February 2019, with the most significant project being the Tram to Newhaven business case, which was approved in March 2019. The Council's indicative capital investment plan for the period 2019-2024 now totals £1.112billion.

Housing revenue account

114. The Council's housing revenue account five year budget strategy (2019-2024) is underpinned by the following key strategic documents:

- Five year business plan: sets out planned investment of £874million over a five year period. Assumes a 2% annual increase in rents.
- Thirty year business plan
- Five year capital investment programme
- A Rapid Rehousing Transition Plan (RRTP)
- Mixed Tenure Improvement Strategy
- Strategy Housing Investment Plan (SHIP).

115. As reported to Finance and Resources Committee in August 2019, the HRA is forecasting a balanced position in 2019/20. Risk areas have been identified, including pressures over housing repairs and maintenance and the continued roll out of Universal Credit. These risks are monitored and reported to the Housing, Homelessness and Fair Work Committee and Policy and Sustainability Committee. Similarly, the Council is forecasting that its HRA capital investment programme in 2019/20 will be fully funded.

5. Financial management

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

The Council had appropriate arrangements in place for managing its financial position during 2018/19. The Council reported a net underspend against its revised balanced revenue budget of £1.582million (representing 0.2% of the total budget for the year). The Council has been able to maintain expenditure within budget for the twelfth successive year, despite reporting a net overspend within general fund directorates of £12.331million and delivering only 60% of approved savings in the year. Savings across non-directorate specific areas, including loans charges and Council Tax income were crucial in delivering a balanced overall position for the year. In 2019/20, these non-directorate specific area savings have been built into the financial plan, limiting the ability to use them in offsetting overspends within the directorates in the current and future years.

Around 75% of the general fund capital programme and 100% of the HRA programme was delivered in 2018/19.

We carried out a review of the revised financial model used to support the Council's decision to extend the Edinburgh Trams route as part of our audit. Our findings were presented to the Council in March 2019 and are summarised in this section of the report.

Financial performance

116. The 2018/19 Comprehensive Income and Expenditure Statement shows that the Council spent a total of £2billion on the provision of public services and recorded an accounting deficit of £127million. The accounting deficit is partly technical as it includes elements of income and expenditure that need to be accounted for to comply with the Code of Practice on Local Authority Accounting (the Code), and which are subsequently adjusted to show their impact on statutory Council reserves.

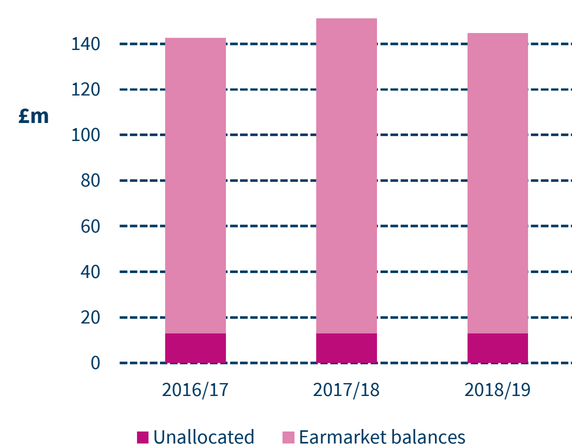
117. The key measure of performance in the year is the movement in the Council's general fund balance. Following the required adjustments, the net impact on the general fund is a decrease of £6.440million to £144.845million[3]. In total, cash backed (useable) reserves held by the Council decreased by £34.879million in the year to £242.883million (Exhibit 4).

Exhibit 4: Movement in the Council's useable reserves per the Annual Accounts 2018/19

	2017/18 £million	2018/19 £million	Movement £million
General Fund	151.285	144.845	(6.440)
Housing Revenue Account (paragraph 125)	0	0	0
Renewal and Repairs Fund	58.123	26.346	(31.777)
Capital Fund	63.558	55.908	(7.650)
Capital Grants Unapplied Account	4.796	15.784	10.988
Total useable reserves	**277.762**	**242.883**	**(34.879)**

118. In 2018/19 £131.820million of the general fund balance was earmarked with the remainder representing an unallocated general fund of £13.025million (Exhibit 5). This balance is in line with the medium-term strategy of the Council. The unallocated general fund equates to 1.36% of the annual budgeted net expenditure. There were no planned or actual contributions to the unallocated general fund for 2018/19.

Exhibit 5: The Council's General Fund balance decreased in 2018/19



Source: Annual Accounts 2016/17 to 2018/19

[3] The overall decrease in the level of reserves is largely due to a net reduction within the Council Tax Discount Fund; reflecting a drawdown to support planned development of affordable housing in line with the HRA Business Plan.

119. Amounts are earmarked for a number of reasons:

- Balances set aside for specific financial risks (£92.421million) – including, for example, staff release costs, dilapidations and the insurance fund.
- Balances set aside from income received in advance (£30.364million) – includes grant income where there are timing differences between the receipt of grant income and associated planned expenditure.
- Balances set aside for investment in specific projects (£2.962million) – these will deliver savings in future years, such as Spend to Save.
- Balances held under the School Board Delegation Scheme (DSM) and Pupil Equity Fund (PEF) (£6.073million).

Revenue performance against budget

120. On 22 February 2018, the Council set a 2018/19 revenue budget of £989.1million. The revenue budget approved was based on the following:

- An increase in Council tax rates by 3%;
- The delivery of £36.5million directorate specific and corporate savings;
- Service investment of £25.602million in areas including property condition surveys and repairs and maintenance (£8.5million), additional funding to Health and Social Care (£4million) and additional provision for employee pay awards (£5.430million), homelessness initiatives (£2million); and
- The use of earmarked reserves of £6.152million.

121. Throughout the year updates are made to the revenue budget to reflect, for example, additional funding received, increases in Council tax income, one-off contributions from earmarked funds and savings in loan charges. As at 31 March 2019; the revised, balanced budget, was £991.173million.

122. The Council reported a net underspend against it revised balanced revenue budget of £1.582million. The Council has been able to deliver services within budget for the twelfth successive year, despite reporting a net overspend within general fund directorates of £12.331million and delivering only 60% of approved savings in the year (Exhibit 6).

123. As highlighted in Exhibit 6, three general fund directorates exceeded budgets during the year and did not achieve savings targets. The Resources Directorate reported a net underspend, despite only achieving only 39% of its savings target.

Exhibit 6: Extract from the 2018/19 Outturn Statement

Directorate	Budget £million	Actual £million	Variance £million	% planned savings achieved
Chief Executive	9.853	9.656	(0.197)	100
Communities and Families	394.862	397.307	2.445	81
Health and Social Care	200.754	208.237	7.483	44
Place	51.559	54.295	2.736	53
Resources	172.718	172.582	(0.136)	39
Lothian Valuation Joint Board	3.575	3.575	-	-
Directorate totals	**833.321**	**845.652**	**12.331**	
Non-directorate specific areas	157.852	142.229	(15.624)	100
Movements in reserves	(3.882)	(1.504)	2.378	-
Sources of funding	(987.291)	(987.959)	(668)	-
Total	**-**	**(1.582)**	**(1.582)**	**60**

124. Savings across non-directorate specific areas, including loans charges and Council Tax income were crucial in delivering a balanced overall position for the year. In 2019/20, these non-directorate specific area savings have been built into the financial plan, limiting the ability to use them in offsetting overspends within the directorates in the current and future years.

125. As highlighted in the financial sustainability section of this report, the Council has recognised the need for robust savings proposal developments and scrutiny at the inception, development and delivery stages.

Housing revenue account (HRA)

126. The balance on the HRA is nil. In line with the HRA Business Plan, at the end of 2018/19 the HRA was balanced after making a contribution of

£6.757million towards in-year capital investment, with sums also drawn down from the Strategic Housing Investment Fund (SHIF) during the year to meet the cost of approved projects. The funds held in the SHIF are earmarked for investment in existing housing stock and future capital investment in new homes through the Council's own housing development programme.

Capital expenditure

127. During 2018/19, the Council reported total capital additions of £267million; of which £186million were general fund additions and £81million were housing revenue account (HRA) additions. In so doing the Council delivered on 75% of the revised general fund capital programme and 100% of the HRA revised capital programme. This was funded as shown in Exhibit 7.

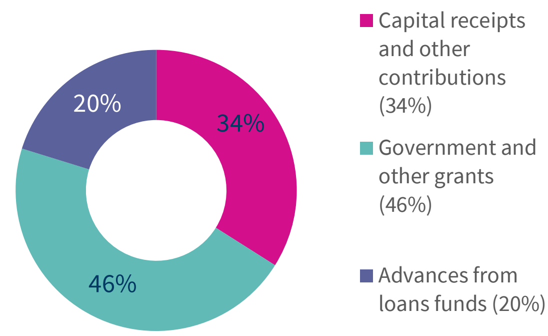
128. Projects contributing to the slippage include:

- Early years programme (£15million)
- National Housing Trust on-lending (£11.8million): completion of mid-market homes.
- Edinburgh Living (£10.1million): completion of mid-market homes
- North Bridge Refurbishment (£8.5million)

129. As noted under the 'financial sustainability' section of this report, the Capital Investment

130. Programme (CIP) for the general fund has been adjusted to reflect levels of slippage reported in 2018/19. As there was a negligible net overspend on the HRA capital programme, no revisions were required.

Exhibit 7: Sources of Capital Funding



Source: Capital outturn report 2018/19

Edinburgh Tram – York Place to Newhaven extension

189. Our annual audit plan identified a significant audit risk relating to the Edinburgh Tram proposed extension:

Financial management: Edinburgh Tram – York Place to Newhaven Project

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

As set out in our 2017/18 External Audit Plan and continued into 2018/19, we are undertaking work in conjunction with the Council's internal auditors to review the tram extension project. The scope of our review was considered by the Tram Extension and Leith Programme Board in August 2018. The key areas included within the scope are:

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

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

In our 2017/18 Annual Report on the Audit we reported on our initial findings; covering the options appraisal process and preliminary work on the financial model.

In 2018/19, we will carry out a review of the revised financial model which is used to develop the final business case.

Excerpt from the 2018/19 External Audit Plan

131. In 2017 the Council prepared an Outline Business Case for the completion of the existing tram line from York Place to Newhaven. Over the following year detailed design work was undertaken as well as the development of a financial model and the work to support the procurement of this contract. In February 2019 the Transport and Environment Committee considered the detailed final business case for the project. This was subsequently referred to full Council in March 2019 and approved.

132. As part of our responsibilities to report on how the Council demonstrates best value, we agreed to undertake work to consider how the Council had performed against the following best value characteristics:

- Sound governance at a strategic, financial and operational level;
- Sound management of resources; and
- Use and review of options appraisal

133. The scope of our work was agreed in conjunction with internal audit.

134. Our review of the financial model involved:

- Considering the competencies, capabilities and objectivity of all external parties involved in inputting to the financial model.
- Reviewing the assumptions and data used to construct the financial model, and
- Reviewing the model's architecture and functionality.

135. Our conclusions were set out in a letter to the Director of Finance and was also provided to all Members prior to the Council meeting in March. Overall, we concluded that the use of external specialists was appropriate. We were able to agree all material assumptions used in the financial model to supporting evidence, and we were satisfied with the integrity of the financial model. We raised a number of key observations which the Council responded to in a briefing note (again shared with all Members). These are set out below:

Scott-Moncrieff observation	Council response
Not all sensitivities were considered within the FBC	The worst case cumulative scenario shows a deficit of £131.9m. These scenarios were considered highly unlikely to arise.
The Council used an optimism bias of 6% in line with Scottish Government guidance. A review carried out by Oxford Global Projects was used to support the Council's modelling of optimism bias to reflect a 20% chance of cost overruns. The Oxford Global Projects work also highlighted that to reduce the chance of cost overrun to 5% the Council would have to make contingency for higher project costs of £334.8million. The consultants recognised that this cost was highly unlikely to be required given the work undertaken to date.	The Council ran the financial model using the 5% chance of cost overrun. In the event that this was the eventual outcome the effect was projected to be a deficit of £68m.
Some of the assumptions used in the financial model were based on 2017 data.	2017 figures were validated wherever possible against more up to date 2018 data.
The FBC noted that the Council would consider any recommendations arising from the Edinburgh Tram Inquiry being led by Lord Hardie when these become available.	The Council undertook its own lessons learned exercise and the results of this were built into the Final Business Case. Lord Hardie has yet to report on the findings in relation to the original Edinburgh Tram project.
The potential financial uncertainties arising from Brexit had not been modelled or included within the Final Business Case	Whilst accepting this, the Council noted that risk and sensitivity work regarding the project had included consideration of the impact of exchange rate fluctuations, labour market shortages, interest rate changes, the impact on tourism and a more general economic down-turn which could be caused by Brexit.

136. The Council's procurement strategy for this contract was based on market research and consultation with interested parties. The project was subsequently split into two lots: Lot 1 was the main infrastructure and systems contract, Lot 2 the swept path contract. For Lot 1, following a tendering process, a shortlist of two applicants tendered for the work and following a subsequent best and final offer stage the contract was awarded to SFN JV a joint venture between three contractors. For Lot 2 following a tender process Morrison Utility Services Ltd ((MUS Ltd) were awarded the contract.

137. A Project Board made up of senior officers within the Council and representatives from Edinburgh Trams and Transport for Edinburgh is responsible for taking the project forward. The Project Board also includes an independent member and has its own Finance and Risk sub-group which meets monthly to monitor project risks, make recommendations to the Project board and decide on specific matters affecting project delivery. The Senior Responsible Officer (SRO) reports into the Project Board but has overall responsibility for the delivery of the project. The contractors are currently finalising prices based on detailed design work with the Project Board likely to determine whether a final notice to proceed is issued by October 2019. Construction work will start in early 2020 with a target completion date of 2023.

138. Internal audit's involvement in the tram project is ongoing. Reviews have been undertaken of project governance and the procurement of the tram infrastructure & systems contract and swept path contract. Both reviews were rated as medium risk with recommendations raised and agreed with the SRO.

Systems of internal control

139. We have evaluated the Council's key financial systems and internal financial controls to determine whether they are adequate to prevent material misstatements in the annual accounts. Our approach includes documenting the processes and key internal financial controls within the Council's key financial systems and performing walkthrough testing to confirm our understanding of those

systems. For certain systems we also test a sample of internal financial controls to establish whether they provide adequate assurance to support the preparation of the financial statements.

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

Internal audit

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

142. We have reviewed the Council's internal audit arrangements in accordance with International Standard on Auditing 610 (Using the Work of Internal Auditors), to determine if we could rely on the work of internal audit and if so, to what extent.

143. In its 2018/19 annual report, internal audit noted that it had not fully conformed with Public Sector Internal Audit Standards (PSIAS) for the following reason:

144. Ongoing recruitment challenges arising from staff turnover and an increase in the size of the in-house internal audit team had impacted upon the implementation of the internal quality assurance process to ensure consistency of audit quality

145. Action has been taken to address instances of non PSIAS conformance. Internal audit managed its resourcing challenges to ensure sufficient and appropriate audit coverage. We have considered this area of non PSIAS conformance when assessing whether reliance can be placed on the work of internal audit. We concluded that this has not had a direct impact on our assessment.

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

Prevention and detection of fraud and irregularity

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

National Fraud Initiative (NFI)

148. The National Fraud Initiative (NFI) is a counter-fraud exercise co-ordinated by Audit Scotland working together with a range of Scottish public bodies to identify fraud and error.

149. The NFI exercise produces data matches by comparing a range of information held on various public bodies' systems to identify potential fraud or error. Bodies investigate these matches and record appropriate outcomes based on their investigations.

150. The most recent NFI exercise commenced in October 2018 and as part of our 2018/19 audit we monitored the Council's participation in NFI. We submitted an assessment of the Council's participation in the exercise to Audit Scotland in June 2019. Overall we concluded that the Council continues to actively participate in the NFI exercise.

6. Governance and transparency

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

The Council has reviewed its political management arrangements to further improve its decision making effectiveness.

During the 2018/19 audit, it has become clear that the arrangements for sharing sensitive information between some Councillors and the leadership *team require to* be reviewed. There are tensions which arise from dealing with personal sensitive data and the rights of Councillors to have access to all information required to carry out their duties. It is important that all Councillors and senior staff have a clear understanding of their rights and responsibilities in relation to information held by the Council. Councillors and the senior leadership team should review the current protocols to ensure these are still appropriate and that both members and officers can comply fully with their responsibilities.

We are concerned that there are still considerable overdue findings from internal audit reports and late management responses to draft internal audit reports. In August 2019 internal audit reported that 47 internal audit findings (those overdue where management action had not been actioned or evidenced) were outstanding. Of these 26 were more than one year old. 118 management actions were also identified as overdue. There were high rated findings in both overdue management actions and internal audit findings. Greater prioritisation should be given to addressing issues raised by internal audit across the Council.

As part of our 2016/17 external audit of the City of Edinburgh Council, we performed a review of CGI's security management arrangements. During the current year audit, we assessed the extent to which progress has been made in addressing outstanding recommendations from the 2016/17 review. Overall, the evidence received from CGI has not been sufficient to allow us to form an opinion on whether recommendations have been addressed. Based on the evidence that has been provided, there is limited evidence of progress against the majority of recommendations.

Governance and transparency

Governance arrangements

151. In May 2019, the Council reviewed its political management arrangements. This followed a request by the Council to the Chief Executive to address the imbalance in workload across executive committees, to consider the use of committee working groups, give greater opportunity for policy business at Council meetings and increase the opportunity for scrutiny by executive service committees.

152. As a result of the review, the Council's political management arrangements have been modified from 1 August 2019. Executive committee remits have been rebalanced and the former Corporate Policy and Strategy Committee given a stronger corporate, cross-cutting role with a refreshed membership including all executive committee conveners. Performance reporting including reporting on progress against commitments will in future be undertaken by this committee on a six-monthly basis, rather than through executive committees. We will continue to monitor whether this addresses the issues identified with the previous arrangements during our 2019/20 audit.

153. In considering committee remits the Council considered committee statistics including the volume of reports being submitted to committees. We recommend that further consideration is given as to whether the content of reports can be improved in terms of their clarity and use of technology.

Action plan point 3

154. During the 2018/19 audit, it has become clear that the arrangements for sharing sensitive information between some Councillors and the leadership team require to be reviewed. There are tensions which arise from dealing with personal sensitive data and the rights of Councillors to have access to all information required to carry out their duties. It is important that all Councillors and senior staff have a clear understanding of their rights and responsibilities in relation to information held by the Council. Councillors and the senior leadership team should review the current protocols to ensure these are still appropriate and that both members and officers can comply fully with their responsibilities.

Action plan point 4

155. Our consideration of committee minutes and associated reports concluded that a robust array of support materials was available to decision makers, including objectives, target KPIs and other metrics. Corporate plans and strategies are referenced throughout performance reports. In general, we considered the information provided to committees was sufficient for members to assess the impact of decisions on resources and performance.

156. The Council provides continuing development opportunities for elected members to support them in their roles and to better understand their responsibilities. The Council has revised its Councillor induction and training programme, drawing upon best practice from other organisations including the Scottish Parliament, informed by exit interviews conducted with Councillors who indicated their intention not to stand again and also reflecting the views of political groups.

Leadership and vision

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

158. Since 2016, the Council has engaged with partners and communities to develop the Edinburgh City Vision 2050. In 2018 the Community Plan 2018 – 2028 was published by the Edinburgh Partnership. The Plan sets out a programme of work under three workstream priorities:

- Enough money to live on;
- Access to work, learning and training opportunities; and
- A good place to live.

159. The Community Plan is supported by four locality community planning partnerships which are responsible for managing the priorities of each locality: leading, delivering and progressing the associated locality improvement plans.

Best value focus – community responsiveness

160. Empowering communities is a national priority for the Scottish Government. It is an important part of public service reform, focussing attention on reducing disadvantage and inequality and improving outcomes for communities.

161. The Edinburgh Partnership was established as the community planning partnership for the city and is responsible for meeting the statutory requirements of the Community Empowerment (Scotland) Act 2015 (the Act), providing community bodies with new rights in a drive to boost community power and engagement.

162. The Act, which provided the Council with a welcome opportunity to refresh its ways of working, requires the production of a Local Outcomes Improvement Plan (LOIP) or 'Community Plan', The Edinburgh Partnership Community Plan 2018-2028 (Community Plan) underwent an Integrated Impact Assessment (IIA) and was approved by the Partnership Board at its meeting in October 2018 and now provides the framework for supporting the delivery of partnership working to tackle poverty and inequality, considered to be the single most critical challenge faced by community planning partners in the city. This current Community Plan replaces its previous equivalent which had been developed under the old Administration and related to the period 2015-18. A complementary governance framework outlining the vision, membership and remit of the respective components of the Partnership has also been developed.

163. Under the Council's Strategic Planning Framework 2016-2028, the Community Plan forms part of a wider multi-agency approach to improving outcomes for Edinburgh's residents and communities. The Community Plan has been designed to complement and align with wider Council strategies and plans, rather than duplicate or replicate what is already happening.

164. The Community Plan sets out an initial programme of work under these three priority workstreams, identifying:

- What is known now – evidence on the scale of the challenge and opportunity to make improvements through partnership action;
- What is being done now – current partnership activity already in place and the additional activity needed to meet the vision;
- What difference the work within the Community Plan will make – the changes and actions that will be led by the Council through the implementation of the Community Plan, and the outcomes those actions will deliver; and
- How it will be determined whether a difference has been made – the performance indicators set against the plan to provide insight into progress.

165. The developments in community planning have taken significant time to establish. The Community Plan remains in its infancy and many of the key component parts are still being bedded in. During 2019/20 we will re-visit this area to satisfy ourselves that the planned programme of work has been appropriately actioned, good progress is being achieved and that stakeholders are satisfied with the changes made.

Community responsiveness – revised community planning structures

166. The Edinburgh Partnership recognised that the community planning arrangements in the city were complex with the governance model operating at three levels: city, locality and neighbourhood (community).

167. In December 2017 the Partnership agreed to carry out a review and consultation of governance and partnership working arrangements with the aim of identifying a simplified and streamlined model of working that would:

- Provide a shared understanding and clarity of purpose;
- Maximise stakeholder influence and participation; and
- Provide greater accountability and transparency, all with a view to delivering better outcomes for communities and specifically those experiencing the greatest inequality.

168. The work was managed by a project board and was undertaken in two phases: Phase 1 being review and Phase 2, consultation.

169. The review phase, which sought stakeholders' views on the effectiveness, strengths and challenges of the current arrangements and opportunities for improvement, identified weaknesses in the arrangements particularly in relation to transparency, connectivity and community participation. There was a focus on ensuring opportunities were provided for all voices to be heard and in particular on providing a mixture of communication methods that suited different communities and individuals. The review identified that any changes to the governance structure should be radical and not limited to tweaking what was in place.

170. The findings of the review phase were then used to inform the questions posed in the consultation phase, conducted in accordance with the Council's Consultation Framework. The consultation sought the views of participants as to how to simplify the

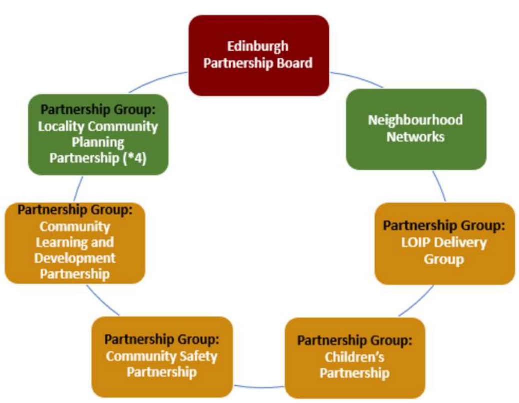
Edinburgh Partnership's governance arrangements and improve community participation in its decision making with two options proposed within.

171. We are satisfied that the one-and-a-half month consultation was accessible to stakeholders in a variety of forms (online, paper based, face-to-face workshops), and we were advised that additional publicity was undertaken through social media messaging, and information posted on partners websites and through newsletters, reducing the risk of exclusion.

172. 80 responses to the consultation were received from a variety of stakeholder groups. Responses were unanimously in favour of the new governance structures helping to strengthen community influence and representation in community planning and a variety of proposals were shared as to how this may be achieved. Participants felt that the new governance structure is one way in which the Edinburgh Partnership will clarify how communities are being listened to and also recognised that better communication was key to improving transparency.

173. The findings from both the review and consultation, together with the statutory requirements of the Act, then informed the development of the new governance arrangements which were approved by the Edinburgh Partnership in October 2018 as follows:

Exhibit 8: New governance arrangements



174. Under the revised governance model, the Edinburgh Partnership Board, with a refreshed membership and remit remains the strategic lead. The Board is now supported by four partnerships, reduced from the 11 previous partnership and advisory groups. All four partnerships, each with their own remit and membership are directly accountable to the Board.

175. Additionally there are now four locality community planning partnerships (LCPPs) established (albeit not determined by statutory regulation) which are accountable to the Board in respect of leading, delivering and progress on the locality improvement plan (LIP). We have been advised that the LCPPs should be fully operational by December 2019. These LCPPs replace the locality committees previously in place which have now been disbanded.

176. The revised neighbourhood networks foundation (NNs) is based around the old Neighbourhood Partnership boundaries, applying established geography to determine the neighbourhood networks: previously there were 12 neighbourhood partnerships and now there are 13 networks. These bodies are continuing as community planning bodies whilst the membership, boundaries and remit of the new NNs are considered. It has been recognised that there are already established informal networks within communities and that the development of the NNs should be about broadening and linking them together.

177. The overall role of the networks will be to identify the priorities and outcomes for community planning through building effective and meaningful community participation. Responsibility for determining how best to ensure the different community voices are heard will form a key element of the networks remit.

178. The remit and membership of the locality community planning partnerships and neighbourhood networks are currently being developed with partners as part of the stakeholder engagement process at a local level. However, to ensure consistency across the city, we understand that these will be subject to the agreement of the Board as part of its governance framework, albeit this should not be to the detriment of appropriately recognising the diversity of all communities represented.

179. Good communication across all the groups within the governance structure is seen as key to ensuring trust is built between groups.

180. Whilst an agreed revised governance model has now been reached, it must be recognised that the evolving legislative landscape could bring with it a need for further changes in the future. We are satisfied that the Council has invested significant resource over the last year and a half in reaching its revised position with regard to its Partnership governance structure and its Community Plan. However, whilst the implementation phase remains live, we will need to ensure that we re-visit this in

2019/20 to satisfy ourselves that the revised structures have been satisfactorily rolled out and are delivering needed results.

Following the public pound

181. The Council uses a number of arms-length external organisations (ALEOs) to provide services on its behalf, including Transport for Edinburgh Limited and CEC Holdings Limited . While the ALEOs are responsible for the delivery of the services, the Council remains responsible for the public money it provides to the ALEO and the quality of services the ALEO provides. The Council needs to hold ALEOs to account for their use of public funds and should have sufficient governance arrangements in place to do so.

182. A Council Governance Hub, chaired by the Chief Executive, has been established to scrutinise the management of the Council's ALEOs, seek assurance over the delivery of services and to ensure that the Council is aware of any risks. ALEOs are also required to report to the Council once a year with their forward plans which are considered at the relevant Council committee, with their accounts and past performance is scrutinised by the Governance, Risk and Best Value Committee.

183. We are satisfied that the Council's following the public pound arrangements appear to be well-developed and improving.

Standards of conduct

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

Risk management

185. Well-developed risk management arrangements help Councils to make effective decisions and secure better use of resources. The Council's GRBV committee is responsible for monitoring the effectiveness of the risk management arrangements in place with risk management responsibilities held at corporate, divisional and team level and leadership teams reviewing risks quarterly.

186. Emerging risks are escalated to the Corporate Leadership Team (CLT) as appropriate. During our review, we were satisfied that risks are actively managed and subject to escalation or scaling down as appropriate. There is now a single risk management system in place to manage Health and Social Care Partnership and Integration Joint Board risks.

187. The Council reviewed its Enterprise Risk Management Policy and risk appetite in August 2018. We consider this provides a strong basis for monitoring risk. A review of GRBV meetings confirmed there is robust discussion on the CLT's risk reports.

188. The Councils highest 6 corporate risk as reported in August 2019 are:

- Health and social care services -- increased demands for services and demographic changes impacting adversely on financial and operational performance;
- The age and condition of certain Council properties impacting on operational delivery and the safety of staff and service users;
- The lack of appropriately qualified programme management resource to successfully deliver major programmes and projects on budget and to time;
- Information and data security failure;
- Reduced funding and increased demand impacting on medium term financial planning;
- Occurrence of a major incident.

189. During the year there have been changes in the organisation and personnel within the risk management team. Arrangements going forward are currently being reviewed with the intention of further delegating responsibility to teams and reviewing the use of future risk management arrangements.

190. Overall, we are satisfied that risk management arrangements appear to be embedded across the Council. We did however note that risk no longer features as a standing heading on Council reports requiring decisions. We recommend that is re-introduced to ensure it is properly considered in decision-making.

Action plan point 5

Responding to audit recommendations

191. In August 2019 internal audit's annual audit opinion for 2018/19 was reported to the Council's GRBV. The opinion stated that the Council's established control environment; governance and risk management arrangements, had not adapted or evolved sufficiently to support the effective management of the risk environment and the Council's most significant risks. A red rated opinion was issued reflecting that significant enhancements were required to the Council's established control environment to ensure that the most significant risks were mitigated and managed. Internal audit

highlighted the following significant areas where improvement was required:

- Key first line management controls (most notably quality assurance reviews) had frequently not been established or were not consistently reviewed to support the management of key service delivery risks;
- Significant concerns continued to be highlighted in relation to the management of technology risks.
- Further improvements were required to ensure that: Senior Responsible Officers and project managers are manging projects in line with the Council's project management framework, whole of life costing is applied to projects and that adequate project management resource is provided to support major projects
- A new Corporate Property Strategy which is achievable and realistic is required as is complete and accurate data on all Council property assets.

192. The red rated audit opinion has not changed since the previous financial year. The Council needs to make clear progress in addressing the weaknesses identified to allow an improved internal audit opinion.

193. We are concerned that there are still considerable overdue findings from internal audit reports and late management responses to draft internal audit reports. Whilst these are reported monthly to the Corporate Leadership Team and quarterly to GRBV this trend has continued throughout 2018/19. In August 2019 internal audit reported that 47 internal audit findings (those overdue where management action had not been actioned or evidenced) were outstanding. Of these 26 were more than one year old. 118 management actions were also identified as overdue. There were high rated findings in both overdue management actions and internal audit findings.

194. Whilst we are satisfied that internal audit is seen as an important element of the internal control framework by senior management and Councillors there needs to be a greater prioritisation of addressing issues raised by internal audit across the Council.

Action plan point 6

CGI contract management

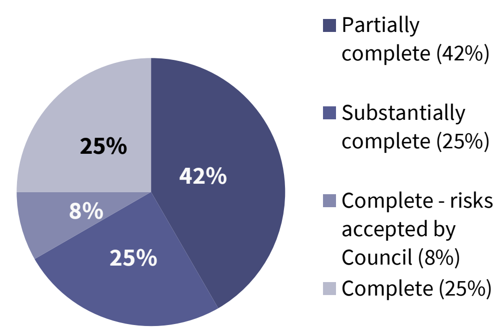
195. As part of our 2016/17 external audit of the City of Edinburgh Council, we performed a review of CGI's security management arrangements. CGI was appointed in 2016 for an initial period of seven years to provide outsourced ICT and transformation related services to the Council.

196. Our review contained twelve recommendations, 9 of which were rated as "High".

197. The findings from this report were presented to the November 2017 Governance, Risk & Best Value (GRBV) Committee as a 'B' agenda item. In response to the findings, the Committee agreed that an update on progress with agreed actions should be presented to the January 2018 and then the May 2018 meetings.

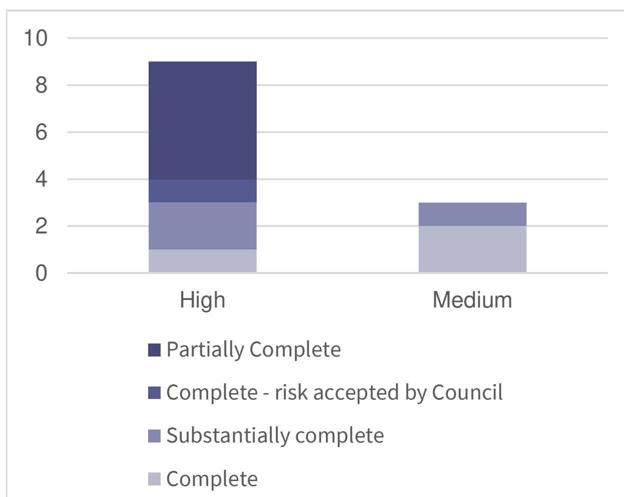
198. The progress report submitted to the May 2018 GRBV Committee was as follows:

CGI Security Management follow-up May 2018 – Summary of progress



199. By grade the position was:

Completion rates by risk grading



200. As part of our external audit work for the 2018/19 audit, we requested an update from CGI with supporting evidence to allow us to assess the extent

to which progress has been made in addressing outstanding recommendations.

201. Overall, the evidence received from CGI has not been sufficient to allow us to form an opinion on whether recommendations have been addressed. Based on the evidence that has been provided, there is limited evidence of progress against the majority of recommendations.

Action plan point 7

202. In particular, we noted that there has not yet been any internal vulnerability scanning performed. CGI agreed to provide this service in early 2018 and it is concerning that this action remains outstanding.

203. We also noted that controls in relation to management and monitoring of generic and default privileged accounts for the Wintel environment are not sufficiently robust to confirm that access can be attributed to a named individual and that use of such accounts is subject to regular monitoring. CGI does include details in monthly security reports of active privileged accounts but these do not provide any assurance on their appropriateness and when the accounts were last used.

204. The patching status of servers and desktops is reported on a monthly basis to the Security Working Group. We noted that the patching levels of the Wintel and UNIX environments are continuing not to meet agreed standards.

Best value focus – fairness and equality

External strategies

205. The Council has continued during the year to develop its Equality, Diversity, and Rights Framework 2017-21. The Framework includes a set of five service improvement outcomes, developed through engagement with members of the Edinburgh Equality and Rights Network, community planning partners, and senior managers and chief officers in the Council.

206. The Framework outcomes were informed by community and service area intelligence drawn from engagement processes, including the development of the Edinburgh City Vision 2050, along with insights from needs assessments and performance information.

207. At the time of completing our audit, it was clear that the external arrangements around fairness and equality, and the Edinburgh Partnership Community Plan ('Community Plan'), were still in the implementation phase.

208. Discussion about concrete outcomes against which the Community Plan will measure indicated that whilst broad outcomes around employment rates, neighbourhood satisfaction, access to affordable housing, and child poverty rates are in place, ways of measuring and outcomes against other equalities measures are yet to be fully determined.

209. The Community Plan 2018- 2028 makes clear that the Council will continue to measure, monitor and develop the plan to reflect the community and progress made. We will consider during 2019/20 whether appropriate actions, and ongoing monitoring and reporting have been implemented.

Internal Council strategies

210. The Council's internal arrangements are also undergoing a transformation. A new Diversity and Inclusion Strategy and Plan is due for committee approval in October 2019.

211. The new strategy clearly looks to engage with the current Council staff to assess the Council make-up and identify gaps, as well as to strengthen internal policies to support staff with varied needs.

212. The plan includes greater involvement with staff networks and plans to use focus groups and external third parties to help inform the process of developing a more inclusive culture that promotes diversity and respect.

213. As reported by Audit Scotland, the Council has a responsibility to tackle poverty, reduce inequality and promote fairness, respect and dignity for all citizens. In achieving Best Value the Council has to be able to demonstrate that: equality and equity considerations lie at the heart of strategic planning and service delivery, that there is a commitment to tackling discrimination, advancing equality of opportunity and promoting good relations within the organisation and the wider community, that equality, diversity and human rights are embedded in its vision and strategic direction and throughout all of its work, including its collaborative and integrated community planning and other partnership arrangements, and there is a culture which encourages and is working towards the elimination of discrimination.

214. We are satisfied from our review of Council documents (including the Business Plan, Change Strategy, the Community Plan and Equalities and Rights Impact Assessments (ERIAs)) as well as discussions with key staff that there is evidence that equality, diversity and human rights are embedded in the Council's vision and strategic direction.

215. Equality considerations are included in the Council's planning, evaluation and reporting processes. There is evidence that there is a commitment to tackling discrimination and advancing equality opportunities and promoting good relations within the organisation and externally, including in its collaborative and integrated community planning and partnership working.

Edinburgh and South East Scotland Regional City Deal

216. On 7 August 2018 the Council signed the Edinburgh and South-East Scotland City Region Deal. Other co-signatures to the Deal included five other local authorities, the region's universities and colleges and the region's business and third sectors. The Deal committed the UK and Scottish Governments to jointly invest £600m over the next 15 years with regional partners committing to add in excess of £700m. Projects included within the Deal included transport, research development and innovation, culture, employability and housing.

217. The principal projects impacting directly on the City of Edinburgh Council's responsibilities were:

- West Edinburgh public transport infrastructure
- IMPACT concert hall
- New housing partnership
- Housing infrastructure projects

218. Business cases for each of the projects are required to be approved by both Governments and the Councils/HE/FE Courts involved and then by the Joint Committee. To date 8 business cases covering approximately 30% of the total projects envisaged under City Deal have been approved.

219. The City of Edinburgh Council was appointed as the accountable body for City Region Deal finance and all grant funding from the Government with the exception of funding on the Sheriffhall roundabout project will be channelled through the Council. In the year to March 2019 no funding was received relating to City Deal projects, the first funds of £41.6m being received from the Scottish Government in April 2019.

220. A Joint Committee comprising the leaders from the six local authorities involved and representatives from the universities/college sectors, the business sector and the third sector together with a secretariat has been established. The Joint Committee will meet at least four times during the year and will oversee and monitor the implementation of the City Deal Programme. Below the Joint Committee, an Executive Board will be supported by Advisory and Thematic Advisory Boards and Groups. Project groups will be established as part of the respective Business Cases and these will feed into the Advisory Boards. Standing Orders setting out delegated authority levels were approved by the Joint Committee in November 2018.

221. City Deal work is supported by a Programme Management Office established within the Council. This is jointly funded by the 7 partners to the Deal.

222. In 2019/20 further consideration will be required with regard to the accounting required to reflect City Deal transactions and other contributions within City of Edinburgh Council's accounts. We recommend that these discussions take place as soon as possible.

223. Whilst the majority of the City Deal is concerned with the funding of construction projects it is clear that the groups which have been set up as part of the City Deal governance structure enable regional partners to come together to consider joint working over a range of regional issues.

7. Value for money

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

The Council continues to monitor its' performance against "The Programme for the Capital Business Plan 2017 – 2022." The Council outlines its ongoing commitment to improve and invest in local services delivered to citizens.

We are satisfied the Council reports its public performance in line with the Local Government Benchmarking Framework. We also consider the 2018/19 Annual Performance Report, represents an honest and balanced view of the 2018/19 performance of the Council.

The Council in 2018/19 has demonstrated improvements in performance in several areas including delayed discharge levels and the number of families and young people living in temporary, bed and breakfast accommodation.

Certain performance indicators in waste management, adult social care services and homelessness however remain poor and significant improvements are required, including the pace of change in implementing such improvements.

Value for money

Performance framework

224. The Council published "The Programme for the Capital: The City of Edinburgh Council Business Plan 2017-2022" in August 2017. The business plan sets out the Council's vision and strategic aims for the term of the administration. These strategic aims are summarised as delivering:

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

Public Performance Reporting

225. It is the duty of a local authority to make arrangements for the reporting to the public of the outcomes of the performance of its functions.

226. Public performance reporting is a fundamental requirement of Best Value. Local authorities must ensure that in approaching public performance reporting they must: engage stakeholders, give an honest and balanced picture plus, information is published in a timely and engaging manner.

Local Government Benchmarking Framework

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

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

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

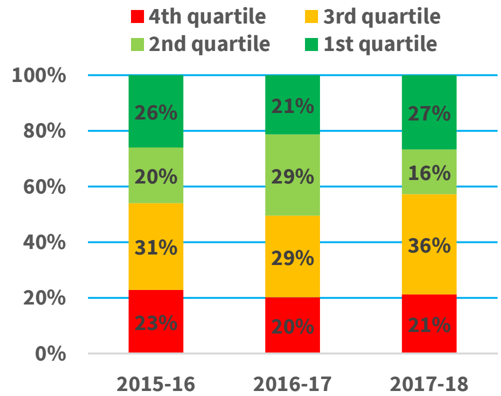
SPI 2: Each Council will report its performance in accordance with the requirements of the Local Government Benchmarking Framework.

228. We are satisfied the Council reports its' public performance in line with the Local Government Benchmarking Framework. We also consider the 2018/19 Annual Performance Report, represents an honest and balanced view of the 2018/19 performance of the Council.

229. Overall, the City of Edinburgh's performance compared to other Scottish local authorities declined in 2017/18 (Exhibit 9 on "performance relative to other Scottish authorities"). The analysis relates to 2017/18 given the timeframe for collecting and publishing LGBF information. Across 75 Local Government Benchmarking Framework (LGBF) indicators, the Council improved performance in 36 of the indicators; has seen two indicators maintaining performance and reported a decline in 37 indicators. Four children's performance indicators, which are collected every two years with 2016/17 being the latest update, have not been included. Areas of poor performance falling below the national average include:

- The quality and housing standard of Council provided houses (measured by the dwellings meeting the Scottish Housing Quality Standard), remains the lowest nationally for the fourth year in a row. Performance however, has improved in 2017/18 to 80.7% compared to 2016/17 at 75.6%
- The Council recorded lower levels of satisfaction with refuse collection at 63.3%, placing the City of Edinburgh as the lowest ranked authority in Scotland.
- 88.7% of assessed streets achieved a cleanliness score (LEAMS). This is a reduction of 3.6% compared to 2016/17. Satisfaction with street cleaning continued to decline and the Council achieved a low score of 61.3%.
- The cost of road maintenance (measured per kilometre of roads) continues to be substantially higher than the Scottish average. In comparison to other urban cities in Scotland (Aberdeen City, Glasgow City and Dundee City), the Council has comparatively high costs for road maintenance.

Exhibit 9: Overall 2017/18 performance slightly declined relative to other Scottish authorities.



Source: Local Government Benchmarking Framework, Improvement Service 2019.

230. Our performance analysis demonstrates that there are areas the Council performs strongly in, which include:

- Cost indicators for primary, secondary and pre-school per pupil.
- The percentage of rent lost due to voids in 2017/18 was 0.58%, 0.31% less than the Scottish average.
- The proportion of individuals earning less than the living wage has decreased to 14% in 2017/18. Edinburgh City Council ranks as the second-best performing authority within this indicator.
- Adult satisfaction with parks, open spaces, museums and galleries continues to increase year-on-year. This is in part due to the Council continuing to provide low cost leisure services to citizens.

231. In terms of the Council's performance in 2018/19 against previous years, whilst there has been some improvement in some of the Councils key indicators we are disappointed to note that there is a continuation of areas of poor performance within Adult Social Care Services, Environmental Services and Homelessness.

Action plan point 8

Adult Social Care Services

232. Our annual audit plan identified a significant audit risk relating to Health and Social Care:

Value for Money: Health and social care

Our audit in 2017/18 highlighted specific concerns around the performance of health and social care outcomes. An analysis of performance against the rest of Scotland for national outcome indicators continues to place it in the lowest quartile for a number of key indicators including:

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

In December 2018 the follow-up report from the Care Inspectorate and HIS on services for older people in Edinburgh was published. It found that whilst Edinburgh had made some progress in certain areas only limited progress had been made in improving outcomes and experiences for older people and that there was a lack of strategic leadership and ownership of the improvement agenda. A further report on progress will be made in 2019/20.

The half-year update, reported to the Finance and Resources Committee in December 2018, pointed to an anticipated year-end overspend, without the identification and implementation of further savings measures, of £7.041million. This position primarily reflected a combination of additional expenditure relative to approved levels in the areas of Direct Payments, Individual Service Funds and Care at Home and higher-than-budgeted transport costs, alongside a shortfall in income. The overall level of overspend was expressed net of £3.780million of non-recurring EIJB contributions.

An agreement on funding to support additional service activity, receipt of which is predicated on the achievement of improvements in delayed discharge levels, is in the process of being finalised with NHS Lothian.

The Chief Executive has written to the Chief Officer of the Edinburgh Health and Social Care Partnership, re-emphasising the urgent need for development of both a suitably-robust EIJB recovery plan for 2018/19 and detailed and sustainable savings proposals for 2019/20, given the resulting and increasing impact on the remainder of the Council's activity. Members of the Finance and Resources Committee have also met with the Chief Officer of the Edinburgh Health and Social Care Partnership and the Chief Financial Officer of the EIJB to discuss the EIJB's current and anticipated financial challenges and, more critically, their plans to re-attain financial sustainability.

The Council's financial offer to the EIJB for 2019/20 includes continuation of the £4million additional funding provided in 2018/19, £9.127million for additional demography pressures, and an on-going commitment to recognising the Scottish Living Wage, along with a further £0.845million for the Carers' Act. The Council will also pass on, in full to the EIJB, the monies provided through the Local Government Settlement for expansion of free personal care for those under 65 years of age. Additional funding of £2.5million is to be added to the Council Priorities Fund and drawn down based on achievement of prolonged improvements in service outcomes i.e. delayed discharge, timings for assessment. £0.2million is also being made available as transitional funding for organisations facing the greatest impacts following the loss of EIJB grant funding.

Excerpt from the 2018/19 External Audit Plan

233. Edinburgh City Council is one of the key partners in the Edinburgh Health and Social Care Partnership (EHSCP). In 2018/19, EIJB prioritised focus on shifting the balance of care from a medical and/or residential setting to supporting more residents within their homes.

234. In 2018/19, performance outcomes were better in the following of areas within adult social care services:

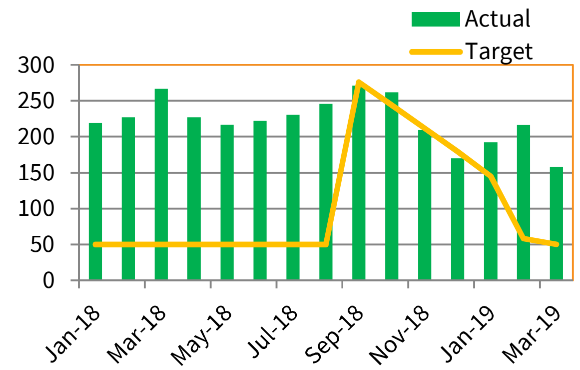
- Total number of people delayed awaiting discharge from hospital (Exhibit 10)
- The total number of people with an overdue care assessment review fell by 26% in comparison to 2017/18.
- The number of individuals in the community awaiting care packages stood at 440 patients, a 52% reduction from 2017/18.
- Average waiting times for non-urgent assessments reduced to 37 days, the lowest waiting period since 2016.

235. Exhibit 10 demonstrates that the EIJB met its aims for delayed discharges in the months of September, November and December 2018. March 2019 saw the

lowest figure of individuals awaiting discharge at 158.

236. The Edinburgh Health and Social Care Partnership has been working with care providers to support recruitment growth and reduce waiting times via the Sustainable Community Support Programme. As at March 2019, 440 residents in the community were awaiting a package of care – 548 fewer people compared to 2017/18.

Exhibit 10: The Edinburgh Health and Social Care Partnership have not reached Delayed discharge targets in 2018/2019.



Source: Performance Report to Edinburgh Integration Joint Board.

237. The proportion of residents receiving care at home remained at 57% in 2018/19. This is due in part to the ongoing demand for care at home services.

Care inspectorate findings

238. In June 2019 the Care Inspectorate in partnership with Education Scotland and Healthcare Improvement Scotland and HMICS published a report on children and young people in need of care and protection in Edinburgh.

239. The inspection collected and reviewed evidence against 22 quality indicators set out in the Care Inspectorate's quality framework for children and young people in need of care and protection and involved meetings with children and young people, parents and carers, staff and those with leadership and management responsibilities.

240. Edinburgh's Partnership works through multi-agency childrens' services management groups across four localities. The report's conclusion was

"*The Care Inspectorate and its scrutiny partners are confident that the partnership has the capacity to continue to improve and to address the points highlighted in this report.*

Staff are competent, confident and clear in their understanding about the expectations of their roles with children in need of care and protection. Supported by collaborative leaders and a positive approach to learning and development, they can further build on the good practice we have seen.

The self-evaluation submitted by the partnership as part of this inspection demonstrated its knowledge of areas of improvement and reflected a collaborative response that included staff at all levels.

The initial response to concern element of the interagency referral discussion process was robust.

Services are responsive to the needs of children and young people and there is a willingness to try new approaches and look for solutions.

However, while we are confident the partnership has the capacity to continue to improve, to do this they will need to evaluate the impact of services and use evidence more systematically. Using data, feedback and lessons from quality assurance activity in a more joined-up way will help the partnership know consistently what is making a difference and what needs to change. Continuing to embed self-evaluation will help the partnership establish how to deliver improvement in outcomes for children and young people."

241. Across a range of areas reviewed for the quality and effectiveness of services the Partnership scored well with no areas considered weak or unsatisfactory.

Environmental Services

242. Waste Management Services have identified two key measures of success, the number of missed bin service requests and customer satisfaction (using Edinburgh's People Survey). Compared to last year, the Council's performance against other local authorities fell, with a significant number of indicators in the lowest performing quartile.

243. The four-day week collection model implemented by the Council took a few months to settle in. There were significant periods of disruption particularly between October 2018 and January 2019 where performance was impacted (Exhibit 11 on "domestic missed bin requests").

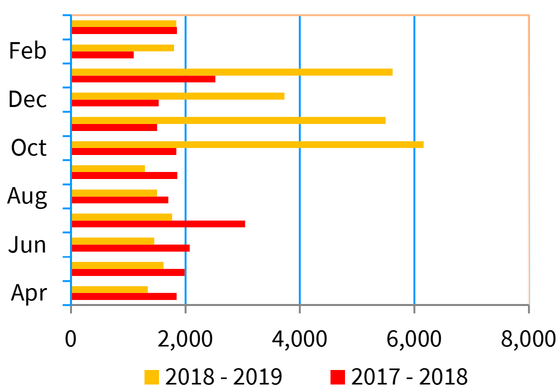
244. 10,786 more calls were received in 2018/19 compared to 2017/18 in relation to the collection of missed service requests for domestic kerbside bins. The total number of missed service requests for domestic kerbside bins equates to 0.16% of all collections carried out in the year.

245. Communal bin service requests received 21,868 calls in 2018/19, a significant increase from 15,155 in 2017/18. Various factors contributed to this including: contamination of recycling bins, resident misuse and capacity.

246. As Exhibit 11 outlines, performance has improved in recent months. However, planned internal targets have yet to be achieved.

247. The Council has embarked on a longer-term redesigning project, to restructure the way in which the communal bin service is delivered, following significant resident dissatisfaction. A review is being conducted on operations and the long-term delivery of these services.

Exhibit 11: Individual domestic missed bin service requests increased in 2018/2019.



248. The chargeable garden waste service (fee for brown bin collection) implemented in October 2018, brings Edinburgh City Council in line with many other UK local authorities. The Council now collects garden waste from 68,000 households and residents still have the opportunity to use household waste recycling centres for garden waste at zero cost.

249. As at March 2019 household recycling rates reduced by 1.5% to 41.1%. Customer satisfaction with recycling also declined in 2017/18 to 65% - a 7% decrease on 2016/17.

250. The volume of materials rejected at sorting plants was greater this year. This was due to the volatile global crisis in the recycling sector. South-East Asian countries closed their doors to imports of recycled materials which led to exports of plastic waste in the UK falling by 3%. Nonetheless, the Council is collaborating with processing partners to reduce the volume of rejected material.

251. The Scottish Government aims to end landfill by 2021 and in order to deliver on this target; the Council opened a new energy-from-waste facility at Millerhill. This has changed how the Council manages 110,000 tons of rubbish that Edinburgh citizens put into grey bins.

Homelessness

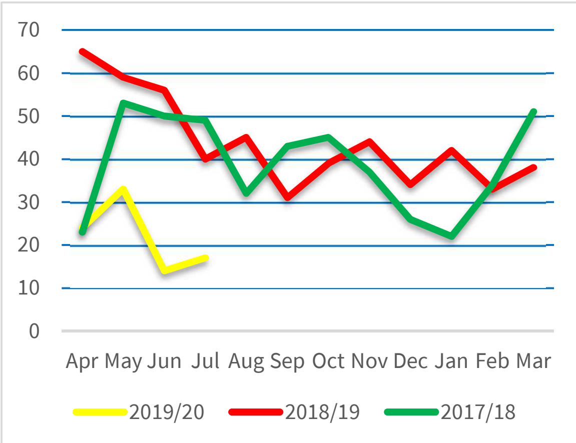
252. Overall, improvements have been made within Homelessness services, with 4 out of 7 performance indicators in the Annual Performance Report 2018/19 outlining progress. In 2018, a Homelessness Taskforce was introduced to identify long-term solutions to tackle homelessness and recommend alternative methods to improve quality shared housing facilities. In response to the Taskforce, the Council increased the number of furnished flats used as temporary accommodation and now provides cooking and laundry facilities in shared housing accommodation.

253. Between April 2018 and March 2019 (based on temporary accommodation placement cases closed during this period), there were 465 placements involving a breach of the 'Homeless Persons (Unsuitable Accommodation) (Scotland) Amendment Order 2017' (Exhibit 12 on "Unsuitable accommodation order breach"). The amendment order reduced the number of days local authorities could use unsuitable accommodation such as B&Bs for families with children and pregnant women, from 14 to 7 days. In 2018/19 the City of Edinburgh accounted for 75% of all 620 breaches in Scotland.

254. At 31 March 2019 the number of families and young people living in B&Bs had decreased by over 50% compared to the prior year. Only 21 families were staying in B&B accommodation in addition to 3 young adults. Furthermore, there was a decrease of £0.4M in spend on B&Bs/ shared houses in 2018/19.

255. Edinburgh City Council has developed its Rapid Rehousing Transition Plan which aims to remove the need for temporary housing by matching the number of homes available to the number of citizens becoming homeless. The Council has committed to building 20,000 new affordable homes. In the period between April 2016 and March 2018, 4,033 new homes were built.

Exhibit 12: Unsuitable accommodation order breach



256. The Council faces a number of challenges around rapid rehousing, including:

- In 2017/18, 800 households presented themselves as homeless from the private rented sector – a trend which is increasing year on year.
- 15% of overall housing stock in Edinburgh is social rent, compared to the Scottish national average of 25%.
- On average, private rents are up to £1,000 per month compared to the national average of £800 per month.

257. The Council has invested in housing officers and implemented a 'Help-To-Rent' scheme in order to assist homeless people to increase their housing options and have better access to the private rented sector market.

Service Improvement Plans

Housing Services Improvement Plan

258. The Council demonstrates a commitment to achieving the ten-year goal to deliver 20,000 new homes. In 2018/19 a record 1,600 affordable homes were approved for social rent, mid-market rent and low-cost home ownership. There are currently around, 2,300 affordable homes under construction on 35 sites across the city. Due to the strength of the pipeline programme, the Affordable Housing Supply Programme (AHSP) secured an additional £12 million in grant funding from the Scottish Government in 2018/19 and invested a record total of £53.1 million of grant subsidy. This funding was spent in full by the end of March 2019. This was a 29% increase on the original funding allocation. The programme also approved just under 1,000 of the homes (83% for social rent), completed almost 700 new affordable homes and saw almost 1,200 new homes start on site.

259. Edinburgh Living, a housing partnership with Scottish Futures Trust is now operational and has 33 homes for mid rent in management with a strong pipeline of planned acquisitions from the Council's housebuilding programme.

260. The Council is also investing in energy efficient homes. All Council homes need to meet Energy Efficiency Standards for Social Housing by December 2020. Almost 70% of all Council homes met this standard at the end of 2018/19, a 23% increase on 2017/18 levels. Additionally, the Council's new energy advice service assisted over 800 tenants on methods to reduce fuel bills.

261. The three year Housing Service Improvement Plan aims to increase customer satisfaction, improve performance and reduce operating costs. The Council's main priority is to develop highly responsive and effective services to customers. In June 2019, Housing and Economy Committee received a report on the HSIP that prioritised six improvement workstreams; repairing and maintaining homes, finding and letting homes, collecting rent, looking after estates, improving and building homes. Good progress has been made in completing the actions identified for the first year of the plan.

Road Services Improvement Plan

262. The Council established the Road Services Improvement Plan following poor performance within road services. In December 2018, 47% of identified key actions were marked as completed. Performance indicators which have improved or maintained at previous levels in this area include:

- The road condition index score was maintained at 36.4% in 2016 – 2018 (reported on a two-year rolling basis).
- The percentage of emergency road defects made safe within 24 hours stood at 95% which is above the Council's internal target.
- 2017/18 figures for satisfaction with road maintenance were at the lowest percentage since 2014 at 42%. Whilst considerable work has been undertaken to restructure Road Services, it is too early to state whether this has arrested the decline in this key performance measure.

8. Appendices

Appendix 1: Respective responsibilities of the Council and the Auditor

Responsibility for the preparation of the annual accounts

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

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

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

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

The Head of Finance is also responsible for:

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

Auditor responsibilities

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

- they give a true and fair view in accordance with applicable law and the 2018/19 Code of the state of the affairs of the Council and its group as at 31 March 2019 and of its income and expenditure for the year then ended;
- they have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2018/19 Code;
- they have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, the Local Authority Accounts (Scotland) Regulations 2014 and the Local Government in Scotland Act 2003;
- the audited part of the Remuneration Report has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014;
- the information given in the Management Commentary is consistent with the financial statements and has been prepared in accordance with statutory guidance issued under the Local Government Scotland Act 2003; and
- the information given in the Annual Governance Statement is consistent with the financial statements and has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016).

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

- adequate accounting records have not been kept; or
- the financial statements and the audited part of the Remuneration Report are not in agreement with accounting records; or
- we have not received all the information and explanations we require for our audit.

Wider scope of audit

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

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

Best value

Appointed auditors have a duty to be satisfied that local government bodies have made proper arrangements to secure best value.

Our work in respect of the Council's best value arrangements has been integrated into our audit approach, including our work on the wider scope audit dimensions.

Independence

International Standard on Auditing (UK) 260 "Communication with those charged with governance" requires us to communicate on a timely basis all facts and matters that may have a bearing on our independence.

Group non-audit services

Scott-Moncrieff provides taxation services to CEC Holdings Group and Transport for Edinburgh Group. All tax services are provided by independent partners and staff who have no involvement in the audit of those financial statements. The total value of taxation services provided is approximately £58,000.

Confirmation of independence

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

Appendix 2: Our approach to the wider scope audit

Our approach to the wider scope audit (as set out in our 2018/19 External Audit Plan) builds upon our understanding of the Council which we developed from previous years, along with discussions with management and review of minutes and key strategy documents.

During our audit we also considered the following risk areas as they relate to the Council:

- EU withdrawal
- Changing landscape of public financial management
- Dependency on key suppliers
- Openness and transparency

Overall we concluded that the Council has appropriate arrangements in place in respect of these areas as noted below:

Impact of EU withdrawal	The Council has assessed the impact of EU withdrawal on the organisation as it relates to workforce, finance and regulation and where appropriate is taking steps to mitigate any impact. The Council mapped out its EU/EEA workforce over 18 months ago and has issued written communications directly to its EU/EEA staff keeping them up to date with the latest news from the Home Office and giving them advice on how to apply for settled status. The Council has offered all non-EU staff who may have a partner/family member impacted by Brexit the opportunity to sign up for the written communication. The Council has contacted all line managers advising them of the settled status situation and has created dedicated Brexit intranet pages; that have the latest news about Brexit and useful links for EU/EEA staff to support them with their settled status application. HR also meet with elected members to discuss the potential risks facing the Council and its service provision due to Brexit. The Council has met with partnership colleagues in the NHS to discuss potential service implications due to Brexit and the Integration Joint Board will consider the potential impact of Brexit as part of their workforce planning activities. The Council and Strategic Planning Partnership who deliver the European Social Fund (ESF) programme on behalf of the city operate core employability projects and Social Inclusion projects. These projects are currently worth over £1.5 million a year and have an impact of £3.75 million (including match) a year supporting vulnerable people to find employability, employment and training skills within our economy. Potential loss of these projects and funding will have a negative impact on Edinburgh College, Further and Higher Education institutions within the city. The Council continues to work with other local authorities and COSLA to assess the potential impact on funding after the guarantees around funding until 2020 have ended. Mitigating actions in respect of these risks are incorporated within the refreshed Economic Strategy. The Council's refreshed Revenue Budget Strategy, due to be considered by the Finance and Resources Committee in October 2019, will include explicit reference to the potential implications of EU withdrawal, both in terms of direct ESF/ERDF support and wider potential indirect impacts on inflation and public spending. Insofar as their influence can be predicted at this time, these will be incorporated in wider sensitivity analyses of funding and expenditure. Work is on-going with COSLA and Scotland Excel to examine potential impacts on supply chains, with key areas for consideration including ICT, food and the impact of

	port/road congestion holding up goods; storage/stockpiling by suppliers may also potentially increase costs. On-going risk assessment and contingency planning is being actively discussed at the Brexit Cross-Party Working Group and the Brexit Resilience Working Group. The Council has identified and assessed the risks to the organisation, including current controls and required treatment actions, details of which are held in the EU Exit Resilience Risk Register, which continues to be developed.

Changing landscape of financial management	Following recommendations of the Scottish Budget Review Group, the Scottish Government has indicated that it will bring forward a three-year funding settlement for local government from 2020/21 onwards. The Council has a well-developed and responsive medium term revenue budget framework. The Council does not however currently have a long term financial strategy. We understand that this will be developed and presented to the Council over the course of 2019/20. The development of a three year funding settlement will assist the Council in the development of its longer term financial strategy.

Dependency on key suppliers	Following the collapse of Carillion, it became apparent that public sector bodies face significant risks where key suppliers are experiencing difficult trading conditions. In light of this, the Council's GRBV committee received a report which set out the Council's position in respect of the potential impact following the collapse of Carillion and the steps being taken to review other construction companies that may have issued profit warnings to assess any further potential risks. The paper noted that the Council has some residual exposure arising from two identified projects in terms of not being able to enforce warranties and guarantees from Carillion PLC should the need arise. The Council has had a consistent approach to the review of economic and financial standing of new contract awards for several years. Following the collapse of Land Engineering in 2017, the Council took steps to improve this process. The risks arising from Carillion PLC entering liquidation brought the issue into focus again and a detailed note was prepared for elected members in March 2018 on the monitoring of supplier contracts.

Openness and transparency	Across the public sector there is an increasing focus on how public money is used and what public bodies are achieving. In that regard, openness and transparency supports understanding and scrutiny and public sector bodies must ensure that they keep pace with public expectations on openness and transparency. In 2017/18 we reported that in relation to Council and committee meetings, there were clear arrangements in place to ensure that members of the public could attend Council and committee meetings as observers, and that agendas were available in advance of each meeting. All committee meetings are broadcast on the Council's website and a large archive is available for review. We consider these conclusions remain appropriate for 2018/19. x

Care income, financial assessments and financial guardianship	In response to the identified risks we noted the following: • In 2018/19 3,000 care income assessments were carried out. We were unable to identify the number that were outstanding/yet to be finalised at 31 March 2019. The Council does not currently set a target time within which care income assessments should be carried out. • No Council officers undertake financial guardianship roles.

Appendix 3: Best Value Programme

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

Under the Code of Audit Practice (May 2016), and supplementary guidance issued by Audit Scotland, we are required to consider and make judgements on 8 Best Value themes over the course of our appointment. This work will build our assessment of the Council's approach to demonstrate Best Value, which will help to risk assess and inform the coverage of the full Best Value Assurance Report. The table below outlines our coverage to date and plans for the remaining 2 years of our appointment.

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

Looking forward

In May 2019 the Accounts Commission confirmed that City of Edinburgh Council was included in the programme of Best Value audits planned for 2020. It is currently anticipated that best value audit work will be undertaken between February and April 2020 with the outcomes reported in a Best Value Assurance Report in July/August 2020.

The Best value audit will draw upon the findings from the annual audits undertaken at the Council. As part of our audit in 2018/19 we have included in this report our conclusions regarding the Council's arrangements in relation to Fairness and Equality and Community Planning.

In preparation for the forthcoming Best Value audit, the Council has undertaken its own self-assessment. This will be formally reported to the leadership team and Council over the next month. We understand that the self-assessment identifies the following areas where the Council performs well:

- being aware of challenges
- governance, decision making and scrutiny
- partnership and collaborative working.

In contrast the self-assessment notes the need for further work in relation to:

- effective workforce planning
- progress with health and social care integration.

Appendix 4: Accounts Commission Strategic Priorities

The Accounts Commission, within its Strategy and Annual Action Plan sets out its plans and priorities to fulfil its oversight and scrutiny role, with the overriding aim to hold Councils to account for the pace, depth and continuity of improvement facilitated by effective governance. We aim to support the Accounts Commission's work by using our annual audit work to assess how the Council is progressing against the Commission's priorities. The Strategic Plan for 2018-23 (https://www.audit-scotland.gov.uk/uploads/docs/report/2018/ac_strategy_plan_18-23.pdf) contains five strategic priorities.

Our assessment against the priorities is outlined below.

2018/19 Strategic Priority	Our assessment
Having clear priorities with a focus on outcomes, supported by effective long term planning	The Council's Business plan: "A Programme for the Capital: The City of Edinburgh Council Business plan 2017/22" was approved in August 2017. The Council has also consulted on a 2050 City Vision which is planned to be finalised in October 2019. Consultation responses were considered by the Policy and Sustainability Committee in August 2019. The Council has a number of longer-term financial plans including the Medium Term Financial Strategy 2019–24, the Housing Revenue Account Budget 2019 – 24 and a Capital Investment Programme 2019/20 to 2023/24. A Change Strategy: Risks and Reserves 2019-2023 report was also reported to Council in February 2019. There are a number of other supporting strategies which set out the Council's priorities and focus on outcomes e.g. the Edinburgh Partnership Community Plan 2018-2028 which was agreed in October 2018. Whilst broad outcomes have been identified within this plan, further discreet outcomes are anticipated to emerge as ways of working evolve.
Demonstrating the effective appraisal of options for changing how services are delivered in line with their priorities.	The Council does consider options appraisal for major capital programmes and projects e.g. the tram extension. Options are also included in certain other areas such as the Council's consideration of political management arrangements. However formal option appraisal for the delivery of services is patchy and this is an area the Council needs to improve on.
Ensuring that members and officers have the right knowledge, skills and support to design, develop and deliver effective services in the future.	New members to the Council go through a comprehensive training programme. During a Council term any new members also receive this training. Workshops are held for elected members as and when required to ensure knowledge and skills support is available for complex or technical areas such as planning.
Empowering local communities and involving them in the design and delivery of local services and planning for their local area.	There has a been extensive public consultation around the Community Plan 2018-2028 and Edinburgh Partnership Governance Framework during 2018/19. Individuals and community groups were also consulted on their views on local priorities and services. Feedback was incorporated into four Locality Improvement Plans for 2017 to 2022, the ongoing development and delivery of which primarily rests with the Local Community Planning Partnerships (LCPPs) formed under the revised Partnership governance structure.
Reporting the organisation's performance in a way that enhances	The Annual Performance Report reports annual performance across a range of KPIs from one year to the next. This was considered by Council in June 2019.

2018/19 Strategic Priority	Our assessment
accountability to citizens and communities, helping them contribute better to the delivery of improved outcomes.	The Council also measures and reports performance against other local authorities as part of the Local Government Benchmarking Framework. The 52 Coalition Commitments are part of the Council's performance reporting. The status of each commitment is reported annually to Council and 6-monthly to Executive Committees.

Appendix 5: Action plan

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

Action plan grading structure

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

The rating structure is summarised as follows:

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

Current year action plan

Action plan point	Issue & recommendation	Management comments
1. Property, plant and equipment Rating **High** Paragraph Ref 25-29	Key assumptions and estimates over the valuation of council dwellings held on the HRA account are not adequately reviewed on an annual basis, outwith the five year valuation cycle, to ensure these remain appropriate. The Council incurred a revaluation increase of £526.6million in 2018/19. Key assumptions and estimates noted included; • The selection and valuation of beacon properties used to value Council dwellings • The adjustment factor applied to valuation of Council dwellings **Recommendation** We recommend that all key assumptions and estimates made in the valuation of council dwellings are reviewed on an annual basis, with the outcome formally reported to the Council. The Council should consider performing interim check valuations of Council dwellings.	On an annual basis, we will consider an appropriate percentage increase to the council dwelling values each year, based on the growth in the housing sector and a check on our adjustment factor to make sure it is still appropriate. We will also carry out check valuations on a small representative sample of the beacon properties. **Responsible officer:** Operational Estate Manager, Resources **Implementation date**: March 2020

Action plan point	Issue & recommendation	Management comments
2. Public inspection notice Rating **Medium** Paragraph Ref 79	In 2018/19 we received correspondence relating to the notice of the public right to inspect. Upon review there was found to be a delay in displaying the hard copy of the public inspection notice which is required to be published prior to 17 June as outlined by the 2014 Regulations. The notice was published in the local newspaper and on the City of Edinburgh Council website by 17 June 2019, however, was not available at Council offices until 26 June 2019. **Recommendation** We highlighted issues with regards to the public inspection in 2017/18 and we would recommend the Council makes arrangements to ensure full compliance in 2019/20.	While detailed procedure notes are already in place, these will be reviewed to introduce an element of independent review, thereby ensuring all key steps are undertaken by the required dates. **Responsible officer:** Principal Accountant, Corporate Accounts **Implementation date:** June 2020 (for 2019/20 inspection process)

Action plan point	Issue & recommendation	Management comments
3. Committee reporting Rating **Medium** Paragraph Ref 153	The Council's political management arrangements have been modified from 1 August 2019. In considering committee remits the Council considered committee statistics including the volume of reports being submitted to committees. We recommend that further consideration is given as to whether the content of reports can be improved in terms of their clarity and use of technology.	The Council is currently implementing a new committee management system. This will seek to improve reporting arrangements and will be accompanied by further training for report authors. A report is scheduled to be considered by the Governance, Risk and Best Value Committee following implementation which will consider the benefits and further areas to improve. **Responsible officer:** Democracy, Governance and Resilience Senior Manager **Implementation date:** January 2020

Action plan point	Issue & recommendation	Management comments
4. Elected member and officer protocols Rating **Medium** Paragraph Ref 154	During the 2018/19 audit, it has become clear that the arrangements for sharing sensitive information between some Councillors and the leadership team require to be reviewed. There are tensions which arise from dealing with personal sensitive data and the rights of Councillors to have access to all information required to carry out their duties. It is important that all Councillors and senior staff have a clear understanding of their rights and responsibilities in relation to information held by the Council. **Recommendation** Councillors and the senior leadership team should review the current protocols to ensure these are still appropriate and that both members and officers can comply fully with their responsibilities.	The Council has clear protocols for access to documentation and these are outlined in the member/officer protocol. This document is set to be reviewed in 2019 and an exercise will be carried out with elected members and senior management to ascertain where the protocol needs to be improved including access to documentation. **Responsible officer:** Democracy, Governance and Resilience Senior Manager **Implementation date:** January 2020

Action plan point	Issue & recommendation	Management comments
5. Risk management Rating **Medium** Paragraph Ref 190	Overall, we are satisfied that risk management arrangements appear to be embedded across the Council. We did however note that risk no longer features as a standing heading on Council reports requiring decisions. **Recommendation** We recommend that is re-introduced to ensure it is properly considered in decision-making.	The "risk" heading has been removed from the template but risk has not been removed as a key element of the content of the report. The stakeholder/community impact section includes engagement, equalities, risk, governance, health and safety, compliance and regulatory implications and report writers are required to cover these individual elements when preparing a report. The report writing guidance retains a section titled risk and authors are still required to cover risk in the same manner as before. **Responsible officer:** Democracy, Governance and Resilience Senior Manager **Implementation date:** n/a

Action plan point	Issue & recommendation	Management comments
6. Implementation of audit recommendations Rating **High** Paragraph Ref 194	We are concerned that there are still considerable overdue findings from internal audit reports and late management responses to draft internal audit reports. Whilst these are reported monthly to the Corporate Leadership Team and quarterly to GRBV this trend has continued throughout 2018/19. In August 2019 internal audit reported that 47 internal audit findings (those overdue where management action had not been actioned or evidenced) were outstanding. Of these 26 were more than one year old. 118 management actions were also identified as overdue. There were high rated findings in both overdue management actions and internal audit findings. Whilst we are satisfied that audit is seen as an important element of the internal control framework by senior management and Councillors there needs to be a greater prioritisation of addressing issues raised by internal audit across the Council.	While significant progress has been made in verifying historic and/or re-opened findings, it is acknowledged that more needs to be done to implement and evidence completion of some more recent audit actions. To this end, Directorate action plans have been developed and are subject to regular monitoring and CLT consideration including, in the case of more complex findings, opportunities to provide interim or alternative assurance with respect to the issues concerned. **Responsible officer:** Chief Executive and all Executive Directors **Implementation date:** On-going

Action plan point	Issue & recommendation	Management comments
7. CGI contract management Rating **High** Paragraph Ref 201	As part of our external audit work for the 2018/19 audit, we requested an update from CGI with supporting evidence to allow us to assess the extent to which progress has been made in addressing outstanding recommendations. Overall, the evidence received from CGI has not been sufficient to allow us to form an opinion on whether recommendations have been addressed. Based on the evidence that has been provided, there is limited evidence of progress against the majority of recommendations. Whilst we are satisfied that audit is seen as an important element of the internal control framework by senior management and Councillors there needs to be a greater prioritisation of addressing issues raised by external audit across the Council.	The Council is continuing to liaise with its ICT partner to provide evidence to demonstrate full implementation of the recommendations contained within the audit report, taking due account as appropriate of available alternative forms of assurance. In this regard, additional information was provided on 11 September to consider. **Responsible Officer:** Chief Officer, Customer and Digital Services **Implementation date:** December 2019

Action plan point	Issue & recommendation	Management comments
8. Service performance Rating **High** Paragraph Ref 231	In terms of the Council's performance in 2018/19 against previous years, whilst there has been some improvement in some of the Councils key indicators we are disappointed to note that there is a continuation of areas of poor performance within Adult Social Care Services, Environmental Services and Homelessness. Significant improvements are required, including the pace of change in implementing such improvements.	**Adult Social Care Services** The EIJB is continuing to work with partners to support the delivery of sustainable improvement. The recent establishment of a Performance and Delivery Committee should provide clearer oversight, more focussed scrutiny and regular progress updates. **Responsible officer:** Chief Officer, Health and Social Care Partnership **Implementation date:** On-going **Environmental Services** A number of improvement actions have been identified and are planned for implementation as follows: Commence operation of the two new Waste Transfer Stations in the East (Seafield) and West (Bankhead) of the city to improve waste collection reliability (Head of Place Management, October 2019); Finalise the design of the new communal waste and recycling collection service (Head of Place Management, March 2020) Complete the rollout of the Routesmart system to ensure that all waste and recycling routes are delivered and monitored for effectiveness (Waste and Cleansing Manager, March 2020). **Homelessness** Having already secured more than 500 shared house spaces, we are actively working towards identifying alternative forms of accommodation such as temporary furnished tenancies to meet the targets set in the RRTP. Efforts are also continuing to facilitate a steady supply of housing through the housebuilding programme, rent deposit scheme, increased access to mid-market rent properties and increases in preventative work. **Responsible officer:** Homelessness and Housing Support Senior Manager **Implementation date:** On-going

Follow up of prior year recommendations

Of the 11 recommendations raised within our prior year annual audit reports which had yet to be implemented, we note that three have now been implemented, four are progressing and four have yet to be implemented. Details are given below.

1. User access controls

Initial rating	Issue & recommendation	Management comments
Low	**Issue** We noted during our audit that any member of the Council finance team with ledger access can post entries to organisations that the Council provides financial ledger services to even though they may have no interaction with those organisations. **Risk** There is a risk that incorrect or fraudulent postings could be made to those organisations' financial ledgers. **Recommendation** We recommend that the Council reviews user access controls to the financial ledger.	There is no existing system-based means of preventing staff from posting journal entries affecting other organisations. Initial indications are that the cost of introducing such controls would likely be prohibitive relative to the resulting benefits. As part of the detailed monitoring of these organisations' financial affairs, however, transaction lists for the Lothian Valuation Joint Board and SEStran are reviewed on a monthly basis and this identifies any of an unexpected nature. This check will be formally evidenced going forward. **Responsible officer:** Business Partnering Senior Manager, Finance **Implementation date:** October 2018
Current status	**Audit update**	**Management response**
Complete	We noted during our current year audit that arrangements have now been put in place to tailor and restrict user access to the ledger.	N/A

2. Property, plant and equipment

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

Current status	Audit update	Management response
In progress	An asset valuation handbook was developed and disseminated to all individuals undertaking valuations in 2018/19. This contained the formal instructions from the Council. Action complete A reconciliation was performed between the records held by the valuer and the Council's asset register. This identified 64 assets omitted from the Council's asset register which were subsequently valued and added to the asset register. Action complete An overarching valuation report was prepared, in accordance with the requirements of the RICS Red Book. Action complete. Instructions formally highlight the need to assess whether there is any indication of impairment. The valuer used the results of condition surveys performed in 2018/19 as a key source of evidence. Whilst we deem this to be an appropriate source of evidence, it only provides assurance over a proportion of the Council's operational estate and does not take cognisance of other sources of information, such as the level of repairs and maintenance required in the year. We would encourage the Council to further develop its procedures for assessing whether there has been an impairment.	The Operational Estate Manager is currently in discussions with Facilities Management regarding what data is available on repairs that could be used to improve the identification of impairments. Once this has been reviewed, we will look at ways to develop the final procedure and ensure that impairments are assessed in accordance with that procedure. **Responsible officer:** Operational Estate Manager, Resources **Implementation date:** TBC

3. Common good income and expenditure transactions

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

Current status	Audit update	Management response
Complete	Income and expenditure transactions pertaining to the Common Good Fund have been disclosed as required in the 2018/19 annual accounts. Audit testing confirmed no material misstatement in the balances reported.	N/A

4. Common good – asset register

<table>
<tr><th>Initial rating</th><th>Issue & recommendation</th><th>Management comments</th></tr>
<tr><td>High</td><td>Issue
The Council is currently compiling a common good register to comply with the requirements of the Community Empowerment (Scotland) Act 2015. We noted during our audit that there are assets included on this register which are not currently accounted for as common good in the annual accounts. No adjustment was made to the 2017/18 annual accounts however it is anticipated that there will be an increase in value of common good assets in 2018/19.
Risk
There is a risk that the common good accounts are misstated.
Recommendation
The Council, in preparing the 2018/19 common good fund annual accounts should review the accounting policies for property, plant and equipment and heritage assets to ensure that:
• The assets are classified correctly;
• The appropriate valuation basis has been applied; and
• Depreciation is applied dependent on the accounting policy and classification of the asset.</td><td>The consultation on the revised common good register is anticipated to begin on 27 September 2018. During this consultation and in advance of the 2018/19 year end, the respective assets of the Common Good Fund and the Council will continue to be assessed and any required reclassification undertaken.
As part of this reclassification of assets, the Council will consider the appropriate valuation basis, paying due consideration to statutory mitigation, and ensure that the depreciation applied is consistent with the accounting policy and classification.
Responsible officer: Principal Accountant (Corporate Accounts), Finance
Implementation date: May 2019</td></tr>
<tr><th>Current status</th><th>Audit update</th><th>Management response</th></tr>
<tr><td>In progress</td><td>The first draft of the asset register was released for consultation in line with the required timescale set by the statutory guidance. The asset register has been reviewed and those assets agreed via legal consultation to be common good have been transferred during 2018/19. A number of assets are still being reviewed by the Council. This review is set to take place over the coming months and an updated asset register will be provided to the Finance and Resources committee for approval.</td><td>The first version of the Common Good Register was published on the Council's Common Good webpage on 28 June 2019, complying with Scottish Government guidance.
The Register will now be presented to the Finance and Resources Committee for approval on 26 September 2019 as part of the Common Good Annual Performance Report.
Assets still under consideration comprise a schedule annexed to the Common Good Register. The Common Good status of these assets is currently being considered by legal counsel and the Council Solicitor and this is stated in the asset register.</td></tr>
</table>

Initial rating	Issue & recommendation	Management comments
		Annexing a list of "property still under investigation" complies with Scottish Government Guidance. Work on categorising civic regalia and artefacts that are assets of the Common Good fund is advancing well and the list is to be finalised at a future meeting of the Common Good Project. Those categorised as assets of the Common Good will be added to the register which is live on the Council's webpage. **Responsible officer:** Principal Accountant (Corporate Accounts), Finance **Implementation date:** March 2020

5. Options appraisal – tram extension project

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

Current status	Audit update	Management response
Complete	A high-level options assessment was carried out and presented as part of the Final Business Case.	N/A

6. Financial sustainability – Health and Social Care

Initial rating	Issue & recommendation	Management comments
High	**Issue** During 2017/18 it became clear that the services that the Council deliver for Edinburgh Integration Joint Board would incur an overspend of over £7million. Planned savings of £6million were not delivered in 2017/18. As a result, and as in 2016-17, additional contributions were made to the IJB. The Council has allocated an additional non-recurring contribution of £4million in 2018-19 to help support capacity challenges. **Risk** There is a risk that the budget for adult social care is insufficient to deliver the level of improvement required. **Recommendation** The Council should work with the Edinburgh IJB and other partners to ensure that funding is sufficient to support transformation change.	The Health and Social Care Partnership has identified a broad programme of activity/ transformational changes to optimise delivery within the funding available from the two partner organisations, CEC and NHS Lothian. **Responsible officer:** Chief Officer, Edinburgh Health and Social Care Partnership **Implementation date:** March 2019
Current status	**Audit update**	**Management response**
Outstanding	As noted in the financial sustainability section of this report the EIJB continues to face financial pressures. The EIJB's financial plan in 2019/20, despite a challenging efficiencies programme and the release of unallocated funds, remains unbalanced by £7.1million as at 31 August 2019. The financial and service performance of the EIJB remains a high risk issue and the Council needs to work together with the EIJB and NHS Lothian to reach an agreed financial settlement.	The EIJB Medium Term Financial Plan will be presented to the Board in December 2019 following the approval of the Strategic Plan 2019-2022. **Responsible officer:** EIJB Chief Finance Officer **Implementation date:** December 2019

7. Performance reporting

Initial rating	Issue & recommendation	Management comments
Medium	**Issue** As a result of ongoing development work on the new Community Plan, the Edinburgh Partnership has not yet reported on the outcomes achieved against the Community Plan 2015-18. **Risk** The Council has not fully complied with the Accounts Commission's Statutory Performance Indicator Direction. Without regular reporting on the achievement of outcomes, it may be difficult to assess effectiveness of steps taken by the Partnership. **Recommendation** The Council should ensure that arrangements are in place to regularly report to the Edinburgh Partnership on the delivery of outcomes.	The Council team supporting the Edinburgh Partnership (EP) is aware of the delay in the production of the annual performance report and is currently working on drafting this report. It should be noted that the Edinburgh Partnership will be focusing its attention on a review of governance arrangements and the new community plan currently in development, so discussion of the performance report will likely not happen until the end of 2018. As part of the development of the new community plan, high-level performance indicators are being identified to support monitoring of progress going forward. Creating a performance framework around these indicators will be a key stage in the early days of the new plan. Finally, the EP has also started to shift the focus of its discussions onto thematic outcomes. This allows it to have more in-depth discussions on progress to date, covering joint working, existing barriers and impact for communities. At its last meeting in June, the discussion focused on partnership working to address causes of motorbike crime. **Responsible officer:** Policy and Insight Senior Manager **Implementation date:** December 2018
Current status	**Audit update**	**Management response**
In progress	The Edinburgh Partnership considered the final progress report for the Community Plan 2015-18 at its meeting on 6 December 2018. The Partnership approved the new Local Outcome Improvement Plan 2018-2028 at its meeting on 30 October 2018. A further report on the performance framework for the new plan was presented to the meeting in June 2019.	Work has begun to embed this performance framework through developing reporting formats and identification of appropriate KPIs for the priorities within the new plan. There will be a further performance update for the LOIP provided to the Edinburgh Board in December. The Annual progress reports on the Children's services plan and the Criminal Justice outcome Improvement Plan are being presented at the Edinburgh Partnership Board in September. **Responsible officer:** Policy and Insight Senior Manager **Implementation date:** December 2019

8. Health and Social Care performance

Initial rating	Issue & recommendation	Management comments
High	**Issue** Despite investment in interventions, some of the key performance measures for health and social care remain poor. Our review of progress against the improvement plan concluded that reporting and therefore governance of the plan lacked clarity and focus. As a result, the pace of change and level of improvement has not been good enough. **Risk** There is a risk that key indicators continue to decline. Delayed discharges mean that partnership resources are directed towards unnecessary acute care, rather than the preventative strategic priorities. **Recommendation** The Council must ensure that effective scrutiny arrangements are in place to monitor and assess improvement.	The transformational programme, which is still in the final stages of development, is intended to optimise the systems, processes and delivery within existing statutory expectations, as well as shift the strategic focus to prevention and early intervention in order to deliver best possible outcomes and constrain the growth of demand. **Responsible officer:** Chief Officer, Edinburgh Health and Social Care Partnership **Implementation date:** March 2019
Current status	**Audit update**	**Management response**
Outstanding	Whilst there has been some improvement in performance, it remains too early to conclude whether this can be sustained. The approval of a new Strategic Plan should provide a framework for delivering real improvement however there is a danger that this is compromised by the significant financial challenges faced by the IJB in reaching a balance position.	The IJB is continuing to work with partners to support the delivery of sustainable improvement. The recent establishment of a Performance and Delivery Committee should provide clearer oversight, more focussed scrutiny and regular progress updates. **Responsible officer:** Chief Officer, Edinburgh Health and Social Care Partnership **Implementation date:** On-going

2016/17 recommendations which were outstanding in 2018/19

9. Register of interests

Initial rating	Issue & recommendation	Management comments
Medium	The Council discloses within its annual accounts material transactions with related parties. These can be defined as bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. The Councillors' register of interests is one way that the Council can identify its related parties. On review of the Councillors' register of interests we identified four additional interests which had not been declared. There is a risk, should the registers not be updated, that the Council does not identify and report all related party transactions in its annual accounts. It is the responsibility of a Councillor to make sure that he/she is familiar with, and their actions comply with, the provisions of the Code of Conduct. The Ethical Standards in Public Life, etc. (Scotland) Act 2000 does impose on Councils a duty to help their members to comply with the relevant code. Councillors should be reminded of the importance of ensuring the register of interests is updated regularly and completely **2017/18 Audit update** Despite actions been taken during 2017/18 to remind and support Councillors in their responsibilities to maintain a register of interests, our review of the Councillors' register of interests in 2017/18, identified eight Councillors for which not all interests had been disclosed and a further six for which the registers had not been updated to reflect the fact that the interests had ceased. While it is the responsibility of a Councillor to make sure that he/she is familiar with, and their actions comply with, the provisions of the Code of Conduct, the Ethical Standards in Public Life, etc. (Scotland) Act 2000 do impose on Councils a duty to help their members to comply with the relevant code. We would encourage the Council to consider the following: • Request that Councillors' review and update their register of interests on a formal basis at least twice a year; one of which should be done as at the 31 March	**2016/17 management comments** The Council has robust arrangements to remind Councillors of their duties under the Act. • We regularly review Elected Member Register of Interests; • Remind Elected Members of their responsibilities in registering any changes/updates within a month of the change occurring; • Check individual registers for anomalies that we can identify and highlight these to relevant elected members to prompt updates; • Regularly review our process; • Provide appropriate guidance and prompts to Elected Members to support compliance. For the new Council in May 2017: • We explained the requirement for Elected Members to make their first Register of Interest within one month of election in their introduction letter/pack issued at the count, with a copy of the Code of Conduct and the relevant form; • We emphasised the importance of this requirement in the Code of Conduct training sessions that formed part of the Induction and Training Programme for Elected Members (May/June 2017). • We reminded Elected Members ahead of the deadline (31 May 2017) • We engaged with political Group Business Managers to secure their support in reminding their members ahead of the deadline; • We issued additional guidance on declaring property income under remuneration following a couple of queries on this topic and after seeking clarification from the Standards Commission; • We reminded all Elected Members that they would need to update their Register of Interests to reflect appointments made at Council in June 2017; • We reminded Elected Members of their responsibilities for updating their Register of Interests following further appointments at Council in August and to remind about registering gifts and hospitality.

Initial rating	Issue & recommendation	Management comments
	2018. Confirmation of no changes should also be obtained. Council staff should review the disclosures against, for example Companies House records, to ensure disclosures are complete and discuss with Councillors any omissions identified with a view to updating the registers.	We will continue to remind regularly Councillors of their duties under the Act. **2017/18 management comments** The Council continues to have robust arrangements to support elected members in fulfilling their duties under the Councillors' Code of Conduct. This includes a twice-yearly reminder and additional reminders after appointments at Council meetings. Officers have concerns over reviewing disclosures to Companies House with elected members as the responsibility for complying with the Code is for each individual member and the Council should not put in place arrangements that could dilute that ownership and responsibility. However, as a means of continuing to improve the process, committee management software is being explored that would simplify the process for elected members in updating their register which currently is a paper-based exercise. **Responsible officer:** Democracy, Governance and Resilience Senior Manager **Implementation date:** On-going
Current status	**Audit update**	**Management response**
In progress	Our review of the Councillors' register of interests in 2018/19, identified a number of Councillors for which either not all interests had been disclosed or for which the registers had not been updated to reflect the fact that the interests had ceased	The Council is currently implementing a new committee management software system that will simplify the process for elected members updating their register. Training is provided to all elected members on the requirements of the Code of Conduct and it remains the responsibility of individual elected members to update their register accurately and timeously. **Responsible officer:** Democracy, Governance and Resilience Senior Manager **Implementation date:** on-going

10. Publication of the Council's Corporate Governance framework self-assessment

Initial rating	Issue & recommendation	Management comments
Medium	In April 2016, CIPFA published a revised Delivering Good Governance in Local Government: Framework (2016 Edition). The Council has a Local Code of Corporate Governance in place, but the annual self-assessment against the Code had not been undertaken at the time of our report. We also noted that the Annual Governance Statement was not subject to separate scrutiny by a committee as part of the preparations for the annual accounts process. **2017/18 Audit update** It is good practice for the Audit Committee (GRBV at the Council) to review the Annual Governance Statement and Assurance Statements as part of preparations for the annual accounts. We noted during our review in 2017/18 (refer to paragraph 169) that the Annual Governance Statement had not been subject to separate scrutiny.	**2016/17 management comments** The Council revised its Corporate Governance Framework self-assessment template to reflect the revised CIPFA/SOLACE framework. The 2016/17 self-assessment exercise commenced on 4 September 2017 and is scheduled for scrutiny by the Governance, Risk and Best Value Committee on 28 November 2017. As in previous years, the Annual Governance Statement was considered by Council on 29 June 2017. Given the local government election in May 2017 and the introduction of revised political management arrangements it would have been difficult to provide for separate scrutiny ahead of Council consideration. **Responsible Officer:** Governance and Democratic Services Manager **Completion Date:** November 2017 **201718 management comments** The process for completion of the annual assurance statements and the Corporate Governance Framework is being reviewed and the new timescales will allow for early scrutiny of the assurance statements and annual governance statement for 2018/19. **Responsible officer:** Democracy, Governance and Resilience Senior Manager
Current status	**Audit update**	**Management response**
Outstanding	We continue to note that there has been no change to this process, which means that the GRBV has not had the opportunity to consider whether the assurance statements reflect their understanding of risk or consider the adequacy of planned governance improvements.	Management acknowledges that delays to the completion of documentation meant that the annual governance statement did not go to the Governance, Risk and Best Value Committee prior to the publication of the accounts. A review of timescales, the effectiveness of the assurance documentation and the linkages to the Corporate Governance Framework will take place in late 2019. It has been agreed that this review will also involve members of the Governance, Risk and Best Value Committee. **Responsible officer:** Democracy, Governance and Resilience Senior Manager **Implementation date:** December 2019

11. Delayed discharges

Initial rating	Issue & recommendation	Management comments
High	The Council's performance in relation to delayed discharges has continued to worsen in the period to June 2017 despite a focus being given to the issue. Edinburgh has regularly had the highest number of delayed discharges of any Integration Authority in Scotland. We recommend that improving performance in this area remains a priority. **2017/18 Audit update** We note that while a range of interventions have been taken to improve performance, the level of delayed discharges continues to significantly exceed target levels.	Performance is closely monitored at: • A weekly Star Chamber meeting of key managers from the four localities and hospital sites – progress, challenges being faced (e.g. reductions in provider capacity) and improvement actions are identified and discussed. • The IJB, which receives a "Whole System Delays" report at each of its meetings. The report includes progress with key improvement workstreams, including reviewing the contract with care at home providers. **Responsible Officer:** Interim Chief Officer, Edinburgh Health and Social Care Partnership NHS Director **Completion Date:** December 2017 **2017/18 management comments** There is a large-scale remedy programme being undertaken across the entire Discharge Pathway, including: • Whole-systems Delayed Discharge Oversight Group established and chaired by CO • New dedicated Delayed Discharge Lead appointed • Whole-system analysis and impact undertaken and Action Plan formulated with stretch timescales • Realignment of delivery platform – including interface with acute services via the Hub – is in the process of being implemented **Responsible Officer:** Chief Officer, Edinburgh Health and Social Care Partnership **Completion Date:** August 2019
Current status	**Audit update**	**Management response**
Outstanding	Towards the end of 2018/19 there was some improvement in the level of delayed discharges. It is important this is sustained over the forthcoming year.	The IJB is continuing to work with partners to support the delivery of sustainable improvement. The recent establishment of a Performance and Delivery Committee should provide clearer oversight, more focussed scrutiny and regular progress updates. **Responsible officer:** Chief Officer, Edinburgh Health and Social Care Partnership **Implementation date:** On-going

Appendix 2

2018/2019

AUDITED ANNUAL ACCOUNTS

The City of Edinburgh Council

Annual Accounts

Year to 31 March 2019

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MANAGEMENT COMMENTARY

Introduction

The Audited Annual Accounts present the financial position and performance of the Council, together with the financial position of the wider Council Group, for the year to 31 March 2019.

The Annual Accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 using the Council's management structure as a reporting basis, which is the same basis as in the previous year.

The City of Edinburgh Council was constituted under the Local Government, etc. (Scotland) Act 1994 and became the unitary local authority to Scotland's capital city in April 1996. The Council brought together most of the services delivered by the previous regional and district councils, with its primary current frontline functions being the provision of education to school-age children within the city, social care services, economic development, a range of community-based services such as roads maintenance, street lighting and refuse collection and quality of life functions such as libraries, culture, recreation and parks. Services are delivered to 522,472 citizens across the 102 square mile Council area.

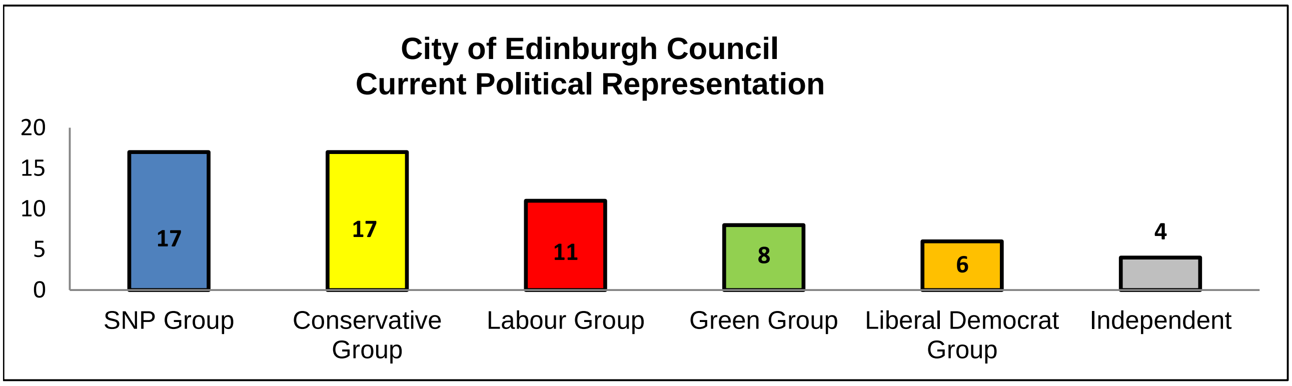
The structure of the Council continues to evolve but the tables below indicate the latest position, with the services with an Executive Director or Chief Officer in bold. In the prior year covered in these accounts, Safer and Stronger Communities was a separate service (constituent parts of which are marked with an asterisk) but since the beginning of the 2018/19 financial year it has been part of Communities and Families.

Communities and Families	**Place**	**Health and Social Care**
Schools and Lifelong Learning	Environment (inc. waste and parks)	Edinburgh Integration Joint Board
Children's social work	Transport (inc. parking)	Older people's services
Community education	Roads, bridges and flood prevention	Learning and Physical disabilities
Libraries and Sports	Housing and Regulatory Services	Mental Health
Early Years	Planning and building standards	Substance Misuse
Community Justice*	**Resources**	**Services reporting to the Chief Executive**
Homelessness services*	Customer Services and Digital Services	
Family and Household Support*		Strategy and Communications
	Finance	
	Legal and Risk	
	Human Resources	
	Property and Facilities Management	

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

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

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



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

Details of the senior councillors' remuneration and committee roles, for those in office during the financial year, are disclosed in the Remuneration Report from page 122 of these financial statements.

MANAGEMENT COMMENTARY

Edinburgh and the Council's Role

Edinburgh is one of the best cities in the world in which to live, work and study. It is a city full of vibrancy and opportunity and, as a council, we are working hard to ensure that all residents can share in its success. We will keep investing in the things that support and sustain growth while confronting the challenges that come with it.

Edinburgh has seen significant recent population growth, with a 12.2% increase between 2006 to 2016, compared to a national rise of 5.3%. Analysis of population trends suggests the total number of residents is projected to increase by at least 80,000 people, with c. 25% increases for those aged 12 to 17 and those over 75, by 2027. This growth will place further demands on a range of frontline services and as such, the Council’s budget framework continues to provide additional annual sums in respect of growing numbers of school pupils, at-risk children, older people and those with physical and/or learning disabilities.

A growing population is one of the most visible signs of the city’s economic success. However, not all of our citizens share in that success and alongside our affluent areas, the city contains some of the most deprived communities in Scotland. Within the most deprived wards of our city as many as 30% of all residents live in households below the poverty threshold. Narrowing these gaps and allowing all residents to share in the city’s success therefore forms a key strand of the City Vision.

City of Edinburgh Council's Corporate Strategy

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

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

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

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

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

MANAGEMENT COMMENTARY

Risks and Uncertainty

The **Corporate Leadership Team's (CLT) prioritised risks** reported to the Governance, Risk and Best Value Committee on 7 May 2019 are outlined below. The report reflects the current highest priority risks of the Council along with the key controls in place to mitigate them.

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

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

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

3 **Programme and Project Delivery -** Due to availability of appropriately-skilled project and programme management resource, there is a risk that the Council is unable to ensure the effective management and successful delivery, on time and budget, of major programmes and projects.

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

5 **Medium-term Financial Planning (to 2022) -** given reduced funding availability, increasing demand for social care services, challenges in achieving planned savings, public perception of (and reaction to) proposed changes, competing priorities, the requirement to ring-fence budgets and potential legislative changes following Brexit, the Council could find it more difficult to undertake medium-term financial planning.

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

7 **Housebuilding Programme** - Due to capacity within the house-building industry, the availability of suitable land, uncertainties around planning assumptions used in financial models (demographics, demand, economic factors etc.) there are risks to the delivery of the Council's housebuilding programme.

8 **Electoral Events -** Due to the national political situation and the current status of Brexit, there is an increased likelihood in the short-term of a requirement to hold a General Election or referendum in addition to currently planned elections. Potential effects include pressure on service delivery due to short-notice redeployment of trained and/or experienced staff to election activities.

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

10 **Public Safety -** Due to increasing footfall in key locations, primarily during the Festivals, Christmas and Hogmanay, combined with the volume of traffic on the city's roads, there is an increased possibility of a collision between a pedestrian and vehicle. This could result in serious injury (mental and/or physical) or death, liability claims against the Council, and associated negative publicity for the city.

11 **Brexit -** Due to the national political environment and ongoing preparations for Brexit, there are uncertainties around potential impacts upon the Council. Impacts could include the requirement for additional elections in the short-term, increased supply chain risks and employment pressures in the medium-to-long term, with subsequent impacts on particular areas of service delivery.

12 **Changes to Decisions** - Difficult choices about services may be made through the Council decision making process. There is a risk that public reaction to such decisions may change over time, requiring decisions to be revisited and potentially altered. This could result in decisions being made out with long-term strategies, with associated impacts upon budgets, and ability to meet legislative requirements.

13 **Sustainability and Corporate Social Responsibility -** Due to potential changes in legislation, increased media attention and public focus upon global issues such as climate change, environmental and corporate social responsibility, the Council could be required to alter its planning arrangements and assumptions to incorporate additional requirements.

Other Risks, Challenges and Uncertainties

Per the March 2019 Accounts Commission Report, '**Local Government in Scotland: Challenges and Performance 2019**', all Councils in Scotland face further challenges and uncertainties. These have been noted as;

- The **United Kingdom's decision to leave the European Union** will have an impact on councils' work. The Council has set up a working group to plan for a number of scenarios to mitigate this risk, including potential impacts on availability of staffing for Council services.
  A detailed report was considered by the Corporate Policy and Strategy Committee on 7 August 2018, with a further update provided to the Committee on 14 May 2019.
- The **2012 and 2016 Scotland Acts** introduced new financial and social security powers. As a result, Scotland's budget is influenced by Scottish ministers' tax decisions and how well the Scottish economy performs compared to the rest of the UK. In its five-year strategy, the Scottish Government estimates that the Scottish budget could vary by up to six per cent by 2022/23.
- In 2018, the Scottish Government and COSLA launched the **Local Governance Review** of how powers and responsibilities are shared across national and local government and with communities. The aim of the review is to give local communities more say in how public services in their area are run, with legislation to be developed in 2019.
  The **latest update** was considered by the Corporate Policy and Strategy Committee on 4 December 2018.
- Councils and their partners are developing fresh approaches to financially empowering local communities and actively involving them in making decisions. For example, the Council has developed a case for the introduction of a **Transient Visitor Levy (TVL)**.

Performance Overview

While the Council is required by statute to report publicly on its performance across a range of areas set out by the Accounts Commission, a suite of additional measures continues to be reported quarterly to the Corporate Leadership Team and Executive Committees will consider an overview of performance relevant to their area, scrutinising indicators, improvement actions, issues and opportunities on an annual basis. The Policy and Sustainability Committee will also consider performance on a six-monthly basis providing holistic strategic oversight and scrutiny. This thematic reporting is intended to complement financial data in giving a more rounded and informed picture of overall performance. In this vein, a new balanced scorecard approach is being implemented to bring together all aspects of performance in a single format.

Edinburgh-specific performance data for 2018/19 has also been provided through a range of other channels, including the **Edinburgh People Survey**, audits and inspections. Performance against a suite of local-level, outcome-focused "quality of life" indicators is in addition monitored on a regular basis, with corresponding areas for improvement identified.

Council Performance and Best Value

The **Local Government Benchmarking Framework 2017/18 - Edinburgh Overview** was reported to Corporate Policy and Strategy Committee on 14 May 2019.

The Council's Annual Performance Report for 2018/19 was additionally considered by Council on 27 June 2019. This report set out both progress against the three themes underpinning the Change Strategy (further details of which are included on page 15) and the full suite of statutory performance indicators for 2018/19.

The **Council's Annual Audit Report for 2018/19** notes that the Council will likely be subject to an external Best Value Audit in early 2020. The Best Value assessment considers whether the Council has achieved continuous improvement not in all service areas, but in the outcomes within the Council's strategic priority areas.

While necessarily based on 2017/18 Scotland-wide data, the Council's Annual Audit Report for 2018/19 highlights a continuing decline in comparative performance against Scotland's other local authorities as assessed by the Local Government Benchmarking Framework, with poor performance in some adult social care, environmental and homelessness service indicators. Good progress in the implementation of the Housing and Roads Services Improvement Plans is, however, noted.

Financial Performance

Comparative Performance

Under Section (1) (1) (a) of the Local Government Act 1992, the Accounts Commission has a statutory power to define the performance information that councils must publish locally in the following financial year with a view to facilitating comparison over time within, and across, authorities.

Provisional 2018/19 data were included in the Council's Annual Performance Report for 2018/19 presented to Council on 27 June 2019.
In addition, **an overview** of the Council's 2017/18 performance against the sixty efficiency- and outcome-related indicators comprising the framework and other relevant indicators as they related to the Council's then five strategic themes has been produced, as well as more detailed briefings on the framework's seven elements. These briefings analyse not only existing performance but, more importantly, consider areas for improvement and planned or proposed actions to address these.

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

Revenue - General Fund

The Council's financial performance is presented in the Comprehensive Income and Expenditure Statement, which can be seen on page 20. This statement has been prepared using International Financial Reporting Standards. To show the net position of the Council, it is necessary to adjust the Comprehensive Income and Expenditure Statement for statutory items that require to be taken into account in determining the position on the General Fund and Housing Revenue Account for the year. These are summarised in the Movement in Reserves Statement (page 17).

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

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

	Budget 2018/19 £000	Actual 2018/19 £000	(Under) / Over Spend £000
General Fund services	**833,321**	**845,652**	**12,331**
Non-service specific areas			
Loans charges / interest on revenue balances	113,280	107,521	(5,759)
Other non-service specific costs	29,523	23,246	(6,277)
Council Tax Reduction Scheme*	26,672	24,293	(2,379)
Net Cost of Benefits	(291)	(812)	(521)
Dividend and other interest received	(10,618)	(12,019)	(1,401)
Non-service specific areas total	**158,566**	**142,229**	**(16,337)**
Movements in Reserves			
Net contribution to / (from) earmarked funds	(3,789)	(697)	3,092
Contribution to / (from) Renewal and Repairs Fund	173	173	0
Contribution to / (from) Capital Fund	(980)	(980)	0
Movements in Reserves total	**(4,596)**	**(1,504)**	**3,092**
Sources of funding			
General Revenue Grant	(363,757)	(363,757)	0
Distribution from Non-Domestic Rate pool	(340,474)	(340,474)	0
Council Tax	(283,060)	(283,728)	(668)
Sources of funding total	**(987,291)**	**(987,959)**	**(668)**
Transfer (to) / from Council Priorities Fund	**0**	**(1,582)**	**(1,582)**

Fees and charges levied by the Council have been offset against the cost of providing services and are included within the actual cost of General Fund Services shown above.
*uncommitted funds linked to the in-year underspend in respect of the Council Tax Reduction Scheme of £2.379m were transferred to an earmarked reserve.

MANAGEMENT COMMENTARY

Financial Performance - continued

Budget performance - General Fund - continued

On 22 February 2018, the Council set a balanced budget for 2018/19 with delivery of approved savings and prompt identification and management of underlying or emerging risks and pressures key to maintaining financial stability in the year. The approved budget was predicated on the delivery of £36.5m of directorate-specific and corporate savings.

The Council's outturn position shows a net underspend against budget of £1.582m. This net position is attributable to two main factors:

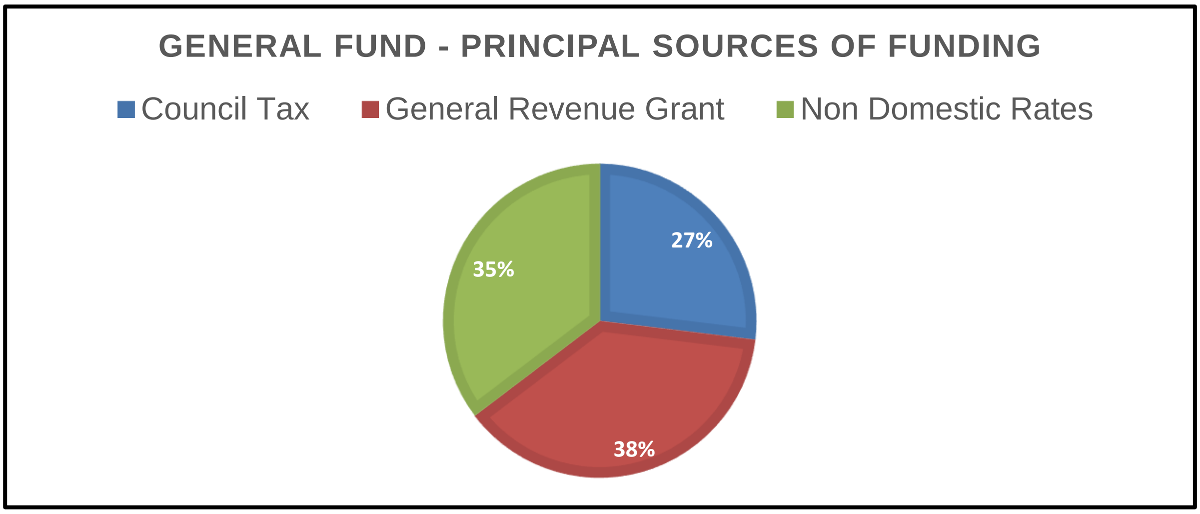
- Throughout the financial year it was reported to the Finance and Resources Committee that there were underlying pressures within, in particular, the Health and Social Care Partnership/EIJB and rising pupil rolls, home-to-school transport, temporary accommodation and community access to schools affecting the Communities and Families Directorate. In light of these pressures, a number of measures, including further tightening of workforce and financial controls, a review of discretionary expenditure and identification of other non-recurring income and expenditure savings, was initiated such that a balanced outturn for the year as a whole was delivered.
- The £12.331m general fund services overspend was offset by a £13.245m underspend in non-service specific areas, reserves and funding. Net savings in loans charges contributed £5.759m, additional interest and income received contributed £1.401m, additional income from Council Tax contributed £0.668m with the remainder primarily representing savings against inflationary provisions.

The net underspend of £1.582m has been set aside within the Council Priorities Fund.

Principal Sources of Funding - General Fund

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

	£000
Council Tax, net of Council Tax Reduction Scheme (CTRS)	259,435
General Revenue Grant	363,757
Distribution from Non-Domestic Rates pool	340,474
Total	963,666



Financial Performance - continued

Reserves

General Fund

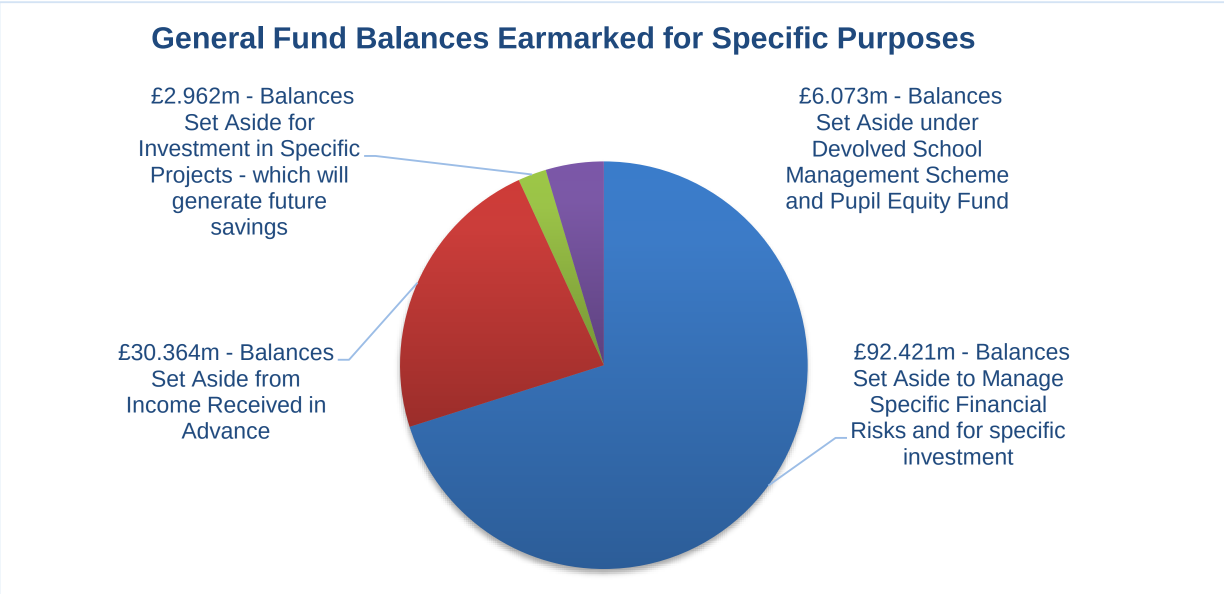
The Council's General Fund reserves comprise two elements:

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

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

The **latest review** was in February 2019, as part of the 2019/20 budget setting process. The unallocated General Fund balance remains at £13.025m, which equates to 1.36% of the annual budgeted net expenditure. There were no planned or actual contributions to the unallocated General Fund for 2018/19.

In addition, the Council has a further £131.820m, (2017/18 £138.260m) of balances earmarked for specific purposes. Details can be seen in note 12 to the Financial Statements. The chart below highlights the split of these balances.



These balances are held for a number of reasons:

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

The decrease in reserves from the previous year mainly reflects a drawdown of the Council Tax Discount Fund to support planned development of affordable housing.

In summary, the level of reserves at 31 March 2019, together with the forward strategy, is considered appropriate in view of the financial liabilities and risks likely to face the Council in the short to medium term.

Other Reserves

The Council holds other usable reserves; these are the Capital Grants Unapplied Account with a balance of £15.784m, the Capital Fund with a balance of £55.908m and the Renewal and Repairs Fund with a balance of £26.346m, including £2.126m of monies for schools prepaid under PPP arrangements.

MANAGEMENT COMMENTARY

Financial Performance - continued

Financial Ratios

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

Council Tax	2018/19	2017/18	Notes on interpretation of ratios
In-year collection rate	97.03%	96.78%	This shows the % of Council Tax collected during the financial year that relates to bills issued for that year. It does not include collection of sums billed relating to previous financial years. The collection rate is stated on a line-by-line basis. The indicator shows that in-year collection levels improved, with the 2018/19 collection rate being the highest achieved since the Council's formation in 1996.
Council Tax income as a percentage of overall funding	26.92%	26.23%	This shows the proportion of total funding that is derived from Council Tax, net of Council Tax Reduction Scheme (CTRS). The increase is mainly due to a combination of greater property numbers and the application of a 3% rise across all bands relative to a lower level of increase in other elements of funding.
Debt and Borrowing - Prudence			**Notes on interpretation of ratios**
Capital Financing Requirement	£1,549.5m	£1,575.9m	The capital financing requirement represents the underlying need to borrow to fund expenditure on assets and shows a decrease of around 2% during the year. Financing costs are provided for within the Council's Long-Term Financial Plan. Further details of the capital financing requirement can be seen in note 38 to the Financial Statements.
External debt levels	£1,446.9m	£1,476.4m	External debt levels include long-term commitments in respect of finance leases (mainly schools provided through PPP schemes) together with borrowing undertaken to finance capital expenditure and show a year-on-year decrease of around 2%. External debt levels are lower than the capital financing requirement as the Council has adopted a position of under borrowing, as set out in the Treasury Strategy.
Debt and Borrowing - Affordability			**Notes on interpretation of ratios**
Financing costs to net revenue stream - General Fund	11.16%	11.64%	These ratios show the proportion of total revenue funding that is used to meet financing costs.
Financing costs to net revenue stream - HRA	37.29%	37.33%	
Impact of capital investment on Council Tax	-1.07%	-0.60%	These ratios show incremental impact of financing costs (the increase or (decrease) in financing costs from the previous financial year) as a percentage of Council Tax, in respect of costs payable through the General Fund and house rents for the HRA.
Impact of capital investment on house rents	1.34%	2.78%	

Financial Performance - continued

Treasury Management Strategy

The **Annual Treasury Strategy 2019/20** was approved on 14 March 2019. The key points are:

- the Council's total capital expenditure is forecast to be £2.039 billion between 2018/19 and 2023/24;
- the Council's underlying need to borrow at 31 March 2024 is forecast to be £1.913 billion;
- the opportunity to mitigate future interest rate risk with alternatives to the Public Works Loan Board (PWLB) will continue to be sought and the risk locked out where appropriate; and
- £299m of the Council's external debt is due to mature by 2024.

The Treasury Management Annual Report for 2018/19 was considered by the Finance and Resources Committee on 15 August 2019. For the fifth year in a row, the Council's capital repayments were greater than its new capital expenditure funded by borrowing, meaning that the underlying need to borrow for a capital purpose reduced during the year. The Council continued its successful medium-term strategy of funding capital expenditure from a reduction in temporary investments and the cash fund once again outperformed its benchmark.

Capital Strategy

The **Capital Strategy 2019-2024** was approved at Full Council on 14 March 2019.

The report provides a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of Council services and is linked to a number of other key plans and policies such as the Annual Treasury Strategy, the Capital Investment Programme and HRA Budget Strategy.

Capital Expenditure

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

The outturn position for capital expenditure is summarised below:

Capital expenditure	**Revised Budget 2018/19 £000**	**Actual 2018/19 £000**	**(Slippage) / Acceleration £000**
General Fund services	246,364	185,812	(60,552)
Housing Revenue Account	80,934	80,963	29
Total capital expenditure	327,298	266,775	(60,523)
Capital receipts and other contributions			
- General Fund services	(59,086)	(48,512)	10,574
- Housing Revenue Account	(47,171)	(55,393)	(8,222)
Government and other grants			
- General Fund services	(127,142)	(128,326)	(1,184)
- Housing Revenue Account	(11,349)	(9,070)	2,279
Total capital income	(244,748)	(241,301)	3,447
Capital Receipts and Grants Carried Forward			
- Set aside in temporary investments	15,137	15,212	75
- Set aside in Capital Fund	859	825	(34)
- Set aside in Capital Grants Unapplied Account	0	12,339	12,339
Total capital income carried forward	15,996	28,376	12,380
Balance to be funded through borrowing			
- General Fund services	76,132	37,350	(38,782)
- Housing Revenue Account	22,414	16,500	(5,914)
Total advances from loans fund	98,546	53,850	(44,696)

Expenditure on General Fund services slipped in total by £60.552m. The majority of slippage related to delays on the Early Years initiative projects, lending to the National Housing Trust (NHT) and Edinburgh Living LLPs and major bridge projects, caused by factors largely out with the Council's control, however acceleration in the programme of Asset Management Works partly offset the slippage in these projects.

MANAGEMENT COMMENTARY

Financial Performance - continued

Capital Expenditure

The Council received £49.405m of general capital grant during 2018/19. The support provided through general capital grant enables the Council to direct resources to its own priorities.

Capital expenditure for the year totalled £266.775m. Major capital projects undertaken during the year included:

- Educational properties - £28.431m;
- Investing in new council homes and enhancing existing assets through the Housing Revenue Account programme - £80.963m;
- Social housing through the housing development fund - £53.164m;
- Roads, carriageways and other infrastructure - £27.730m;
- Cultural and other recreational venues - £2.920m;
- Providing funding for homes for mid market rent from private developers through the National Housing Trust - £20.418m; and
- Providing funding for homes for mid market rent from private developers through the Edinburgh Living LLP - £2.734m.

Housing Revenue Account

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

In February 2018, the Council approved the five year Housing Revenue Account Budget Strategy. The budget set out the long-term investment priorities underpinning the Council's strategy to reduce the cost of living for tenants and to provide good quality, well managed, affordable and low cost housing people on low to middle incomes. The investment priorities are; expand and accelerate the development of affordable and low-cost housing; continue to modernise existing Council homes and neighbourhoods; and transformation of front line services to tenants to tackle inequality and reduce their costs of living.

The HRA Capital Programme is geared towards delivering the HRA Budget Strategy, which aims to expand and accelerate the development of affordable and low-cost homes; to improve tenants' homes, upgrade external fabric of mixed tenure building and estates; and to transform frontline services to reduce tenants' costs of living. 2018/19 was the largest capital programme to date; an 11% increase from the previous year's programme.

Delivery in 2018/19 has been strong. The Housebuilding Programme continues to grow, with around 1,300 homes completed or under construction this year. A total of 182 homes were completed at Pennywell (Phase 2), Calder Gardens, West Pilton and Clermiston in 2018/19, including the 22 mid market rented homes that were purchased by Edinburgh Living. At the end of the financial year, over 700 new homes were under construction, with a further 3,000 homes in design and development stages.

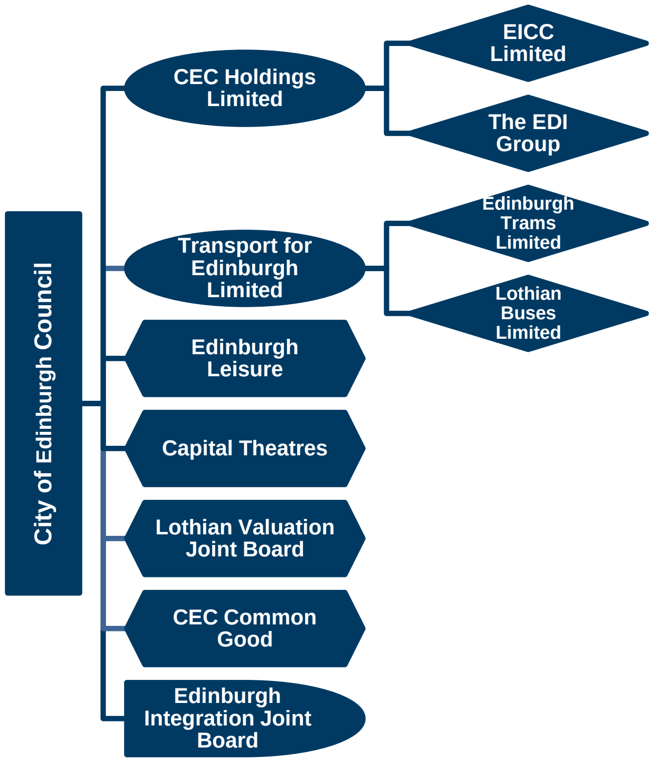
The 2019/20 programme will continue to invest in the internal modernisation of homes with an aim to bring existing homes up to the same quality as new homes and estates over the next 15 years. At the same time, investment in external fabrics, estates and secure door entry systems will be scaled up to meet statutory commitments. This includes £35m investment to deliver Energy Efficiency Standard for Social Housing (EESSH) and energy related improvements over the next two years; installation of secure door entry systems in 1,290 mixed tenure blocks over the next three years, where this is the cause of Scottish Housing Quality Standards (SHQS) non-compliance; and establishing a dedicated mixed tenure delivery team to engage with residents, liaise with owners and to progress mixed tenure projects.

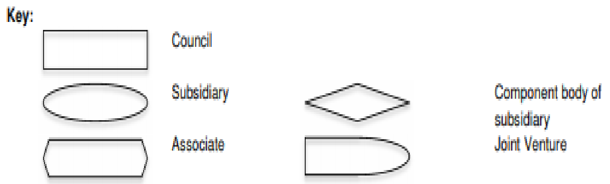
MANAGEMENT COMMENTARY

Financial Performance - continued

Group Accounts

In accordance with the Code of Practice on Local Authority Accounting in the United Kingdom, Group Accounts have been prepared, which consolidate the financial interests the Council has in subsidiaries, associates and joint ventures, where the interest is considered material. Note 9 details the interests the Council holds and further financial details about the entities. The adjacent chart shows the components in the structure of the Group. Information on the Common Good can be found on page 110 and the International Conference Centre Trusts have now been discharged.





CEC Holdings Ltd

EDI Group Ltd (subsidiary of CEC Holdings Ltd)

The EDI Group was established in 1988 by The City of Edinburgh Council to carry out the development of Edinburgh Park, now regarded as one of the principal business parks in Europe. In early 2017, the Council conducted a review of its approach to the use of surplus land and its interactions with the property market and concluded that the default position will be that the land or buildings are used to deliver affordable housing, meaning that EDI has no future pipeline of projects. As a result, in the longer term the Council decided it should not have an arm's length development company. The Council therefore instructed the directors to begin a process of closure, with the majority of land transferring to the Council and all staff leaving by October 2018, with the company's activities now overseen by Council officers under the governance of a scheme of delegation and service level agreement. The company will continue to trade into 2019 and beyond until such time as all projects currently being undertaken by EDI have either concluded or have been transferred to the Council.

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

EICC Ltd operates a prime conference venue in the centre of Edinburgh. The Centre was built in 1995 and since that time has welcomed 1.3 million delegates from more than 120 countries, generating £600m of economic impact for the city region.

In 2018, the Centre saw its operating and financial performance improve for the fourth successive year, with the profit before tax from continuing operations increasing from £0.579m in 2017 to £0.760m, notwithstanding limited clients' budgets, increased competition from a growing number of conference centres and aggressive price competition from venues across the globe. The Company's revenues for the year amounted to £8.763m, which was an increase of £0.844m on the previous year and generated a gross profit of £1.360m, an increase of 19.61%.

Transport for Edinburgh Ltd

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

The Group retained a substantial share of the local public transport market in Edinburgh and the Lothians. Revenue has increased by 6.4% from the previous year to £176.5m with net reserves of £148.8m at year end. The Group faced significant operating and cost pressures in 2018 and anticipates these pressures to persist in 2019, however, the Group will remain proactive in seeking to relieve their impact.

MANAGEMENT COMMENTARY

Financial Performance - Group Accounts - continued

Lothian Valuation Joint Board (LVJB)

The Board reported an audited overall underspend of £0.099m against a revised budget of £5.847m during 2018/19. The primary reasons for the reported position against budget were savings from the implementation of a new staffing structure through the Transformational and Cultural Change Programme and a focused reduction in travel expenses. The cost of Individual Electoral Registration (IER) was fully funded by a grant, against which an underspend of £0.372m was carried forward to 2019/20 to mitigate the risk of the removal of Cabinet Office funding and ongoing legacy costs arising from IER.

Edinburgh Leisure

Edinburgh Leisure operates over fifty sport and leisure facilities across the city on behalf of the Council, attracting over four million visits each year, with the aim of inspiring Edinburgh to become a more active and healthy city. The range of facilities includes sport and leisure centres, swim centres, golf courses, tennis courts, bowling greens and sports pitches.

In 2018/19, an underlying surplus on unrestricted funds of £0.404m was achieved against a backdrop of increasing competition, increasing cost pressures and a reduced payment for service from the Council.

Edinburgh Leisure continues to work with the Council and other stakeholders on a range of projects, including Movement for Memories that will support people living with dementia to get active, the Active Mums project which encourages mums to incorporate physical activity into their lives and the #YouCan initiative which aims to empower care-experienced young people to lead more active, healthy lives.

Capital Theatres

2018/19 was a period of very positive trading for the Trust, welcoming over 503,000 paying visitors to the Trust's venues, the first time the half a million mark has been exceeded.

The Trust changed its name to Capital Theatres on 28 February 2018 to reflect the organisation's growth and to establish a brand for the Trust's three venues – the Festival Theatre, King’s Theatre and The Studio.

The three venues have hosted a variety of productions during the year, including two "blockbuster" shows, War Horse and Les Misérables, Scottish Ballet and Scottish Opera performances and several touring premieres. The King's pantomime, Beauty and the Beast, once again broke all records during the capital city's Christmas season.

The Trust's Learning and Participation work has continued in 2018/19, with the involvement in the Life Change Trust and contribution as co-funder of the Edinburgh Performing Arts Development (EPAD).

Edinburgh Integration Joint Board

The Edinburgh Integration Joint Board was formally delegated the functions and resources of the Council's Health and Social Care Service and NHS Lothian's Community Health Partnership, with effect from 1 April 2016. At that time an assessment was undertaken on the relationship of the Council with the Edinburgh Integration Joint Board and on the basis of level of control, being fifty percent Board representation, and wider materiality levels, this Joint Venture has been consolidated into the Group accounts for the year to 31 March 2019, see note 9.3.

The Board was in the final year of implementing its initial three year strategic plan, which sets out how the health and social care services delegated by The City of Edinburgh Council and NHS Lothian will be developed and changed over the period to meet the changing needs of the population and achieve better outcomes for people. The budget of around £700m will fund community health and social care services, including GP practices and some elements of acute hospital services. Work is underway to establish a renewed Strategic Plan for 2019-2022.

Group Summary

Net assets for 2018/19 include a combined group pension liability of £600.979m (2017/18 £428.245m), as shown in note 42.9. This reflects the inclusion of pension liabilities relating to the Council, other employees, including subsidiary companies and the incorporation of Lothian and Borders Valuation Joint Board as an associate within the group. This exceeds the value of distributable reserves held by the Group. It should be noted that this is a snapshot of the position at 31 March 2019. The actuarial valuation, which takes a longer term view, will consider the appropriate employers' contribution rates and these, together with employee contributions and revenues generated from fund investments, will be utilised to meet the financing of these liabilities. It is therefore appropriate to adopt a going concern basis for the preparation of the group financial statements.

MANAGEMENT COMMENTARY

Wider Policy Environment and Future Developments

The Council has delivered over £263m of recurring savings since 2012/13, equivalent to around 25% of its net budget. This has allowed the combined financial challenges of increasing demographic-led service demand, inflationary pressures and legislative reform to be addressed whilst steadily improving performance across many areas.

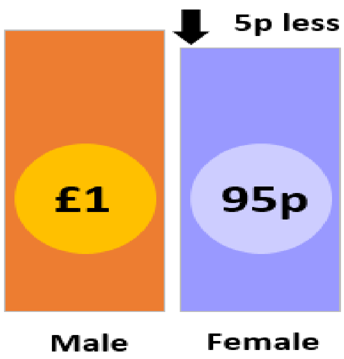
Equality and Rights

The Council's second **Equality, Diversity, and Rights Framework** covers the period 2017-21.

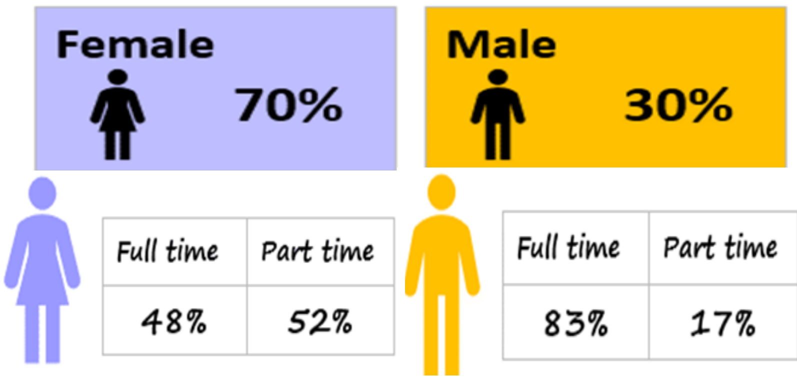
The Council is committed to the principle that all employees should receive equal pay for doing equal work, or work of equal value, regardless of age, sex, race, disability status, sexual orientation, religion or belief, working pattern, employment status, caring responsibilities or trade union membership.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

In accordance with our duties arising as a result of the Equality Act 2010 (Specific Duties) (Scotland) Regulations 2012, we have updated our gender pay gap based on data from 31 March 2018.

Whilst our overall mean gender pay gap is 4.8%, this report on the **Gender Pay Gap** recognises that we would like to reduce the gender pay gap and identifies areas for further analysis.



The headcount of our relevant employees is 17,024 (these employees hold a total of 17,874 contracts in the analysis dataset). The gender split of our total contracts is:



Local Development Plan

The **Edinburgh Local Development Plan (LDP)** was adopted on 24 November 2016. To support the growth of Edinburgh and to ensure the city grows in a sustainable way, new infrastructure provision and enhancements associated with new development (particularly additional school, transport and green space provision) must be delivered. The Council has identified the infrastructure actions required to help deliver the growth and these are set out in the LDP Action Programme.

The financial assessment of the **Edinburgh Local Development Plan Action Programme 2019** was considered by the Finance and Resources Committee on 1 February 2019.

Edinburgh and South-East Scotland Region City Deal

The City Region Deal brings together local authorities and public sector partner organisations across the South-East of Scotland and serves as a mechanism for accelerating growth by pulling in significant government investment.

The City Region Deal is also about providing greater autonomy and decision-making powers for the region to help partners deliver public services more effectively and to tackle inequality and deprivation. **A £1.1bn deal** from the UK and Scottish Governments was confirmed on 20 July 2017, with both governments jointly investing £600m and regional partners adding up to £500m over the next 15 years.

The **latest update** was considered by the Corporate Policy and Strategy Committee on 14 May 2019.

Welfare Reform

The rollout of full service Universal Credit (UC) across Edinburgh began on 28 November 2018. The Department for Work and Pensions (DWP) confirmed that all claimants on the former live service for UC have transitioned to full service UC within Edinburgh.

At the end of December 2018 there were 577 council tenants known to be receiving UC.

The **latest update** was considered by the Corporate Policy and Strategy Committee on 14 May 2019.

MANAGEMENT COMMENTARY

Edinburgh Tram - York Place to Newhaven

The Final Business Case for the **Edinburgh Tram - York Place to Newhaven** was approved at The City of Edinburgh Council meeting on 14 March 2019.

The Edinburgh Tram York Place to Newhaven route is 4.6km long and completes the originally envisaged Phase 1a of the Edinburgh tram network. This will link Edinburgh Airport, the city centre and the Waterfront area: three of the Council's four priority investment zones under its Economy Strategy.

The tram line to Newhaven is affordable, on the basis that a £1.9 million cashflow challenge in the early years can be funded from reserves. Reserves used would be replenished from profits in future years, with all reserves being repaid by 2027. There are opportunities to reduce the requirement for reserves from efficiencies in tram maintenance and further maximisation of tram advertising income. This conclusion is based on robust and prudent analysis of costs and revenues and assumes an extraordinary dividend from Lothian Buses of £20 million over a 10 year horizon. In the longer term, tram revenues can fund the extension and provide additional income to the Council.

Council Change Strategy: Planning for Change and Delivering Services 2019-2023

On 25 June 2015, Council approved a report on the **Transformation Programme** which set out the future operating model for the Council.

Since the start of transformation to 3 June 2019, staff accounting for approximately 1,078 FTE have left or are confirmed to be leaving the organisation under Voluntary Early Release Arrangements (VERA) or Voluntary Redundancy (VR) arrangements, under the Transformation Programme. The one-off cost associated with these cases is £46.7m and the overall payback is 13.5 months, which is in line with the original planning assumptions.

The Finance and Resource Committee approved the publication of the Change Strategy, **Planning for Change and Delivering Services 2019-2023** on 27 September 2018.

The latest update on the Strategy was considered at the City of Edinburgh Council meeting on **21 February 2019**.

It is anticipated that a further update will be considered in October 2019.

The Council's Change Strategy has identified three key principles of (i) driving improvements to deliver high-quality services, (ii) targeting investment on prevention and early intervention and (iii) delivering sustainable and inclusive growth. In recognising that such a transformational shift can only be achieved over the medium-to longer-term, however, a staged approach will be adopted, with a suite of shorter-term measures identified to provide necessary financial breathing space in 2019/20 to provide the foundation for this more fundamental longer-term change.

Budget Framework

On **21 February 2019**, the Council set a balanced budget for 2019/20. Delivery of approved savings and prompt identification and management of underlying or emerging risks and pressures will again be key to maintaining financial stability in the coming year.

Conclusion

In 2021, it is forecast that the number of people aged 65 and over will overtake the number of people aged under 18. By 2023 there will be 4,000 more children in our schools than there are today, and our total population will have increased by 23,000 people. We need to be prepared to support more children in our schools, while at the same time look after an ageing population who will need support from the Council and NHS alike. We need to make sure that the city continues to be open, progressive and forward-thinking so that everyone can share in the benefits. To do this we need to be a modern organisation focused upon even more efficient and effective delivery of our public services. We cannot continue to do things the same way we always have, we need to change and improve.

ANDREW KERR
Chief Executive
27 September 2019

STEPHEN S. MOIR
Executive Director of Resources
27 September 2019

CAMMY DAY
Depute Council Leader
27 September 2019

ELEANOR BIRD
Leader of the SNP Group
27 September 2019

STATEMENT OF RESPONSIBILITIES FOR THE ANNUAL ACCOUNTS

The Authority's Responsibilities

The Authority is required:

- to make arrangements for the proper administration of its financial affairs, including group interests, and to secure that the proper officer of the authority has the responsibility for the administration of those affairs (section 95 of the Local Government (Scotland) Act 1973). In this Authority, that officer is the Head of Finance.
- to manage its affairs to secure economic, efficient and effective use of its resources and safeguard its assets.
- to ensure the Annual Accounts are prepared in accordance with legislation (The Local Authority Accounts (Scotland) Regulations 2014), and so far as is compatible with that legislation, in accordance with proper accounting practices (section 12 of the Local Government in Scotland Act 2003).
- to approve the Annual Accounts for signature.

I confirm that these Annual Accounts were approved for signature by the Finance and Resources Committee at its meeting on 26 September 2019.

CAMMY DAY
Depute Council Leader

27 September 2019

ELEANOR BIRD
Leader of the SNP Group

27 September 2019

The Section 95 Officer's responsibilities

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

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

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

The Section 95 Officer has also:

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

Annual Accounts

I certify that the financial statements give a true and fair view of the financial position of the Council and its Group at the reporting date and the transactions of the Council and its Group for the year ended 31 March 2019.

HUGH DUNN, CPFA
Head of Finance
Section 95 Officer

27 September 2019

MOVEMENT IN RESERVES STATEMENT

This statement shows the movement from the start of the year to the end on the different reserves held by the authority, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other 'unusable reserves'. The Movement in Reserves Statement shows how the movements in year of the authority's reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return to the amounts chargeable to Council Tax or rents for the year. The net increase/decrease line shows the statutory General Fund balance and Housing Revenue Account balance movements in the year following those adjustments.

Council 2018/19 **2018/19**	**General Fund Balance £000**	**Housing Revenue Account Balance £000**	**Renewal and Repairs Fund £000**	**Capital Grants Unapplied Account £000**	**Capital Fund £000**	**Total Usable Reserves £000**	**Total Unusable Reserves £000**	**Total Reserves £000**
Balance at 31 March 2018	151,285	0	58,123	4,796	63,558	277,762	2,240,857	2,518,619
Movement during 2018/19								
Total Comprehensive Income and Expenditure	(155,471)	30,771	0	0	0	(124,700)	235,849	111,149
Adjustments between accounting basis and funding basis under regulations (Note 11)	143,298	(56,815)	0	10,988	(7,650)	89,821	(89,821)	0
Net increase / (decrease) before transfers to statutory reserves	(12,173)	(26,044)	0	10,988	(7,650)	(34,879)	146,028	111,149
Transfer (to) / from other statutory reserves (Note 12.3)	5,733	26,044	(31,777)	0	0	0	0	0
Increase / (decrease) in year	(6,440)	0	(31,777)	10,988	(7,650)	(34,879)	146,028	111,149
Balance at 31 March 2019	**144,845**	**0**	**26,346**	**15,784**	**55,908**	**242,883**	**2,386,886**	**2,629,769**

Group - 2018/19 **2018/19**	**Total Usable Reserves £000**	**Total Unusable Reserves £000**	**Council Total Reserves £000**	**Group Reserves £000**	**Total Reserves £000**
Balance at 31 March 2018	277,762	2,240,857	2,518,619	202,196	2,720,815
Movement during 2018/19					
Total Comprehensive Income and Expenditure	(124,700)	235,849	111,149	(4,673)	106,476
Adjustments between accounting basis and funding basis under regulations (Note 11)	89,821	(89,821)	0	0	0
Net increase / (decrease) before transfers to statutory reserves	(34,879)	146,028	111,149	(4,673)	106,476
Transfer (to) / from other statutory reserves (Note 12.3)	0	0	0	0	0
Increase / (decrease) in year	(34,879)	146,028	111,149	(4,673)	106,476
Balance at 31 March 2019	**242,883**	**2,386,886**	**2,629,769**	**197,522**	**2,827,291**

MOVEMENT IN RESERVES STATEMENT

Council Re-stated 2017/18 Comparative Data	General Fund Balance £000	Housing Revenue Account Balance £000	Renewal and Repairs Fund £000	Capital Grants Unapplied Account £000	Capital Fund £000	Total Usable Reserves £000	(re-stated) Total Unusable Reserves £000	Total Reserves £000
Balance at 31 March 2017	142,611	0	64,149	766	61,178	268,704	1,511,573	1,780,277
Movement during 2017/18								
Total Comprehensive Income and Expenditure	(75,058)	14,469	0	0	0	(60,589)	798,930	738,341
Adjustments between accounting basis and funding basis under regulations (Note 11)	89,588	(23,511)	0	4,030	2,379	72,486	(72,486)	0
Net increase / (decrease) before transfers to statutory reserves	14,530	(9,042)	0	4,030	2,380	11,898	726,444	738,342
Transfer (to) / from other statutory reserves (Note 12.3)	(5,856)	9,042	(6,026)	0	0	(2,840)	2,840	0
Increase / (decrease) in year	8,674	0	(6,026)	4,030	2,380	9,058	729,284	738,342
Balance at 31 March 2018	**151,285**	**0**	**58,123**	**4,796**	**63,558**	**277,762**	**2,240,857**	**2,518,619**

Group - 2017/18 Re-stated	Total Usable Reserves £000	Total Unusable Reserves £000	Total Reserves £000	Group Reserves £000	Total Reserves £000
Balance at 31 March 2017	268,704	1,511,573	1,780,277	141,194	1,921,471
Movement during 2017/18					
Total Comprehensive Income and Expenditure	(60,589)	798,930	738,341	61,002	799,343
Adjustments between accounting basis and funding basis under regulations (Note 11)	72,486	(72,486)	0	0	0
Net increase / (decrease) before transfers to statutory reserves	11,898	726,444	738,342	61,002	799,344
Transfer (to) / from other statutory reserves (Note 12.3)	(2,840)	2,840	0	0	0
Increase / (decrease) in year	9,058	729,284	738,342	61,002	799,344
Balance at 31 March 2018	**277,762**	**2,240,857**	**2,518,619**	**202,196**	**2,720,815**

GROUP COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

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

for the year ended 31 March 2019

2017/18			**Gross Expend.**	**Income**	**Net Expend.**
£000		**Notes**	**£000**	**£000**	**£000**
	SERVICES				
356,769	Communities and Families		499,998	(85,595)	414,403
156,558	Place		338,116	(198,062)	140,054
(26,172)	Housing Revenue Account		82,894	(105,024)	(22,130)
202,393	Health and Social Care		519,355	(303,678)	215,677
222,476	Resources		328,799	(45,489)	283,310
11,133	Chief Executive		11,810	(1,341)	10,469
32,362	Safer and Stronger Communities		0	0	0
3,629	Lothian Valuation Joint Board		3,575	0	3,575
(625)	Net cost of benefits		192,673	(193,484)	(811)
29,113	Other non-service specific costs		53,328	10,234	63,562
(7,845)	Subsidiary Companies		198,036	(190,330)	7,706
979,791	**COST OF SERVICES**		2,228,584	(1,112,769)	1,115,815
5,263	Gains on disposal of non-current assets				(5,888)
93,901	Financing and Investment Income and Exp.	13.			80,214
(1,026,666)	Taxation and Non-Specific Grant Income	14.			(1,058,679)
52,289	**(SURPLUS) / DEFICIT ON PROVISION OF SERVICES**				131,462
3,339	Associates and Joint Ventures Accounted for on an Equity Basis				(377)
2,106	Taxation of Group entities	14.			(275)
57,734	**GROUP (SURPLUS) / DEFICIT**				130,810
(525,125)	Surplus on Revaluation of Non-Current Assets			(316,011)	
(14)	(Surplus) on Revaluation of Available for Sale Financial Assets			0	
77,350	Return on assets excluding amounts incl. in Financing and Investment Inc / Exp			(183,615)	
(351,162)	Changes in Financial and Demographic Assumptions / Other Experience			263,604	
(58,126)	Other Unrealised (Gains) / Losses			(1,264)	
(857,077)	Other Comprehensive Income and Expend.				(237,286)
(799,343)	**TOTAL COMPREHENSIVE (INCOME) / EXPENDITURE**				(106,476)

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

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

for the year ended 31 March 2019

2017/18			Gross Expend.	Income	Net Expend.
£000	**SERVICES**	**Notes**	**£000**	**£000**	**£000**
356,769	Communities and Families		499,998	(85,595)	414,403
156,558	Place		338,116	(198,062)	140,054
(26,172)	Housing Revenue Account		82,894	(105,024)	(22,130)
202,393	Health and Social Care		519,355	(303,678)	215,677
222,476	Resources		328,799	(45,489)	283,310
11,133	Chief Executive		11,810	(1,341)	10,469
32,362	Safer and Stronger Communities		0	0	0
3,629	Lothian Valuation Joint Board		3,575	0	3,575
(625)	Net cost of benefits		192,673	(193,484)	(811)
29,113	Other non-service specific costs		53,328	10,234	63,562
987,636	**COST OF SERVICES**		2,030,548	(922,439)	1,108,109
5,292	Gains on disposal of non-current assets				(6,001)
94,327	Financing and Investment Income and Exp.	13.			81,271
(1,026,666)	Taxation and Non-Specific Grant Income	14.			(1,058,679)
60,589	**(SURPLUS) / DEFICIT ON PROVISION OF SERVICES**				124,700
(525,125)	Surplus on Revaluation of Non-Current Assets			(316,011)	
77,350	Return on assets excluding amounts incl. in Financing and Investment Inc / Exp			(183,615)	
(351,162)	Changes in Financial and Demographic Assumptions / Other Experience			263,604	
7	Other Unrealised Losses			173	
(798,930)	Other Comprehensive Income and Expend.				(235,849)
(738,341)	**TOTAL COMPREHENSIVE (INCOME) / EXPENDITURE**				(111,149)

RECONCILIATION OF THE COUNCIL'S POSITION TO THE GROUP POSITION

£000		**£000**
(738,341)	Total Comprehensive (Income) and Expenditure on the Council's Comprehensive Income and Expenditure Statement (CIES)	(111,149)
(6,941)	Subsidiary and associate transactions included in the Council's CIES	(5,815)
(49,768)	(Surplus) / deficit arising from other entities included in the Group Accounts Subsidiaries	11,406
(4,293)	Associates and Joint Ventures	(918)
(799,343)	Group total Comprehensive (Income) / Expenditure for the year	(106,476)

BALANCE SHEET

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

31 March 2018				31 March 2019	
Re-stated Group £000	Re-stated Council £000		Notes	Group £000	Council £000
1,444	1,444	Intangible Assets	17.	335	335
4,316,788	4,193,054	Property, Plant and Equipment	15.	4,600,761	4,485,705
18,321	17,891	Investment Properties	16.	19,136	18,916
30,885	30,885	Heritage Assets	18.	31,304	31,304
2,580	2,580	Assets Held for Sale	23.	1,586	1,586
619	0	Financial Assets	43.	0	0
59,466	0	Other Long-Term Assets (Pension)		65,471	0
8,288	20,280	Long-Term Investments	22.	11,698	23,690
29,823	0	Investments in Associates and Joint Ventures		32,538	0
99,830	106,275	Long-Term Debtors	20.	131,380	134,932
4,568,044	4,372,409	**Long-Term Assets**		4,894,209	4,696,468
21,757	20,722	Short-Term Investments	22.	17,100	17,100
20,126	20,126	Assets Held for Sale	23.	17,606	17,606
26,836	26,836	Financial Assets	43.	25,959	25,959
13,958	2,513	Inventories	19.	13,285	2,984
130,199	113,922	Short-Term Debtors	20.	124,485	106,294
137,022	113,405	Cash and Cash Equivalents	21.	135,844	106,679
349,898	297,524	**Current Assets**		334,279	276,622
(70,945)	(70,946)	Short-Term Borrowing	43.	(75,002)	(73,722)
(176,797)	(149,750)	Short-Term Creditors	24.	(216,567)	(175,270)
(29,272)	(25,431)	Provisions	25.	(36,710)	(33,810)
(277,014)	(246,127)	**Current Liabilities**		(328,279)	(282,802)
(1,187,742)	(1,201,404)	Long-Term Borrowing	43.	(1,136,414)	(1,150,591)
(204,720)	(196,067)	Other Long-Term Liabilities	43.	(219,165)	(213,259)
(16,452)	0	Deferred Tax		(15,957)	0
(25,223)	(25,223)	Deferred Liability	43.	(37,201)	(37,201)
(2,916)	0	Liabilities in Associates and Joint Ventures		(4,713)	0
(483,060)	(482,493)	Other Long-Term Liabilities (Pensions)	27.5	(659,468)	(659,468)
(1,920,113)	(1,905,187)	**Long-Term Liabilities**		(2,072,918)	(2,060,519)
2,720,815	**2,518,619**	**Net Assets**		**2,827,291**	**2,629,769**
2,360,288	2,240,857	**Unusable Reserves**	27.	2,505,652	2,386,886
360,527	277,762	**Usable Reserves**	12.	321,639	242,883
2,720,815	**2,518,619**	**Total Reserves**		**2,827,291**	**2,629,769**

The unaudited accounts were issued on 15 June 2019. The audited accounts were issued on 27 September 2019.

HUGH DUNN, CPFA
Head of Finance
27 September 2019

CASH FLOW STATEMENT

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

Year to 31 March 2018				Year to 31 March 2019	
Group £000	**Council £000**		**Notes**	**Group £000**	**Council £000**
		Operating Activities			
52,289	60,589	Surplus on the Provision of Services		131,462	124,700
2,106	0	Adjustment to Surplus / (Deficit) for Taxation of Group entities		(275)	0
(281,640)	(268,582)	Adjustments to Surplus on the Provision of Services for non-cash movements		(424,427)	(390,892)
(17,303)	(17,729)	Adjustments for items included in the Surplus on the Provision of Services that are investing or Financing Activities		14,799	13,742
(244,548)	(225,722)	Net cash flows from operating activities	28.	(278,441)	(252,450)
		Investing Activities			
202,805	179,919	Net cash flows from investing activities	30.	204,420	187,703
		Financing Activities			
64,552	65,540	Net cash flows from financing activities	31.	75,199	71,473
22,809	19,737	**Net decrease in cash and cash equivalents**		1,178	6,726
(159,831)	(133,142)	Cash and cash equivalents at 1 April		(137,022)	(113,405)
(137,022)	(113,405)	Cash and cash equivalents at 31 March	21.	(135,844)	(106,679)
22,809	19,737	**Net decrease in cash and cash equivalents**		1,178	6,726

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting Policies

The Annual Accounts summarise the authority's transactions for the 2018/19 financial year and its position at the year-end of 31 March 2019. The authority is required to prepare Annual Accounts by the Local Authority Accounts (Scotland) Regulations 2014, which Section 12 of the Local Government in Scotland Act 2003 requires to be prepared in accordance with proper accounting practices. These practices under Section 21 of the 2003 Act primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under Section 12 of the 2003 Act.

1.1 Material Items

Items of income and expenditure are material if individually or collectively they could influence the decisions or assessments of users of the financial statements, by omission or misstatement. Materiality is an expression of the relative significance of a matter in the context of the annual accounts as a whole.

The assessment of materiality is based on 1% of gross expenditure, at net cost of services level, as this is considered to be the principal consideration for users when assessing the Group and Council's performance. The materiality assessment is set out in the table below.

Specific levels of materiality are considered appropriate for both the Trading Operation and the Housing Revenue Account. The trading operation has been assessed on 5% of its cumulative three year deficit and the Housing Revenue Account on 1% of gross expenditure.

Group	Council	HRA	Trading
£m	£m	£m	£m
20.312	18.616	0.74	0.023

The principle of materiality does not, however, override the need for relevant statutory disclosures (such as those included within the remuneration report), even if the amounts concerned would otherwise fall below the materiality threshold. Similarly, the assessment of materiality also considers the nature of transactions, irrespective of amount, insofar as these might influence a user of the financial statements.

1.2 Recognition of Income and Expenditure

- The revenue and capital accounts have been prepared on an accruals basis in accordance with the Code of Practice. Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

  Income from service recipients is recognised when the goods or services are transferred to the service recipient.

  Supplies are recorded as expenditure when they are consumed. Where there is a gap between the date the supplies are received and their consumption, they are carried as inventories on the Balance Sheet.

- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded on the Balance Sheet.
- Provision has been made in the relevant accounts for bad and doubtful debts.
- Revenue from Council Tax and Non Domestic Rates is recognised when it is probable that the economic benefits will flow to the Council and the amount of revenue can be measured reliably. Revenue is measured at the full amount receivable (net of any bad debt provision) as they are non-contractual, non-exchange transactions.

1.3 Value Added Tax

Value added tax (VAT) is excluded from the financial statements unless it is non-recoverable from HM Revenue and Customs.

1.4 Overheads

The costs of support services are reported in accordance with the current management structure. Certain support service costs are recovered through direct charges during the year.

1.5 Events after the balance sheet date

Events after the balance sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Annual Accounts are authorised for issue. Two types of events can be identified:

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting Policies - continued

1.5 Events after the balance sheet date - continued

- those that provide evidence of conditions that existed at the end of the reporting period - the Annual Accounts are adjusted to reflect such events.
- those that are indicative of conditions that arose after the reporting period - the Annual Accounts are not adjusted to reflect such events, but where the effect would have been material, disclosure is made in the notes of the nature of the event and its estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Annual Accounts.

1.6 Prior period adjustments, changes in accounting policies and estimates

Prior period adjustments may arise as a result of a change in accounting policy or to correct a material error. Changes in accounting policy are only made when required by proper accounting practice or to provide more reliable or relevant information on the Council's financial position. Where a change is made, it is applied retrospectively by adjusting opening balances and comparative amounts for the prior period, as if the new policy had always been applied. Changes in accounting estimation techniques are applied in the current and future years and do not give rise to a prior period adjustment.

1.7 Public Private Partnership - School Buildings, Maintenance and Other Facilities

Public Private Partnership (PPP) contracts are agreements to receive services, where the responsibility for making available the non-current assets required to provide the services passes to the PPP contractor. As the Council is deemed to control the services that are provided under this scheme and as ownership of the schools and other facilities will pass to the Council at the end of the contracts for no additional charge, the Council carries the non-current assets used under the contracts on its Balance Sheet.

Non-current assets recognised on the Balance Sheet are revalued and depreciated in the same way as other assets owned by the Council.

The amounts payable to the PPP operators each year are analysed into five elements:

- fair value of the services received during the year - debited to services in the Comprehensive Income and Expenditure Statement.
- finance cost - an interest charge of 8.968% (PPP1 scheme), 5.895% (PPP2 scheme) and 8.197% (James Gillespie's High School) on the outstanding balance sheet liability - debited to 'financing and investment income and expenditure' in the Comprehensive Income and Expenditure Statement.
- contingent rent - increases in the amount to be paid for the property arising during the contract - debited to 'financing and investment income and expenditure' in the Comprehensive Income and Expenditure Statement.
- payment towards liability - applied to write down the value of the finance lease on the Balance Sheet.
- lifecycle replacement costs - recognised as non-current assets on the Balance Sheet.

Service Concession Agreements are accounted for in accordance with IFRIC 12 ‘Service Concession Arrangements’. The Standard recognises that the Council is in control of services provided under the PPP scheme. As ownership of the long-term assets will pass to the Council at the end of the contract for no additional charge, the Council carries the assets on the Balance Sheet.

1.8 Fair Value measurement - surplus assets and investment properties

Surplus assets, investment properties and relevant financial instruments are measured at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value of an asset or liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting Policies - continued

1.8 Fair Value measurement - surplus assets and investment properties - continued

In measuring the fair value, the market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use is taken into account.

Appropriate valuation techniques have been applied, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy as:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities that the authority can access at the measurement date.
- Level 2 - inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 - unobservable inputs for the asset or liability.

1.9 Property, Plant and Equipment

- **Categories of Assets**

  Property, plant and equipment is categorised into the following classes:

Council dwellings	Other land and buildings
Vehicles, plant, furniture and equipment	Infrastructure assets, e.g. roads and footways
Community assets, e.g. parks	Assets under construction
Surplus assets (assets that are surplus to requirements, but there are no clear plans to sell these at the current time)	

- **Recognition**

  Expenditure on the acquisition, creation or enhancement of non-current assets has been capitalised on an accruals basis. Expenditure lower than £6,000 on individual assets is charged to revenue.

- **Measurement**

  Infrastructure, community assets and assets under construction are measured at historical cost.

  All other classes of property, plant and equipment are measured at fair value.

  - Other land and buildings - fair value is the amount that would be paid for the assets in their existing use.
  - Council dwellings - fair value is measured at existing use value - social housing.
  - Vehicles, plant, furniture and equipment - fair value is the amount equivalent to depreciated historical cost for short life and/or low value assets. For assets with longer lives and/or high values, fair value is the amount that would be paid for the asset in its existing use or depreciated replacement cost for specialised /rarely sold assets where insufficient market-based evidence exists.
  - Surplus assets - fair value is the price that would be paid for an asset in its highest and best use.

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting Policies - continued

1.9 Property, Plant and Equipment - continued

- **Depreciation**

  Depreciation is provided on all property, plant and equipment, other than freehold land, community assets and assets under construction.

  The Council depreciates its non-current assets in the year of acquisition. The Council operates a five-year rolling revaluation programme for assets and provides for depreciation on a straight line basis on the opening book value plus the cost of acquisitions and enhancements during the year over the remaining useful life of the asset. Thus the charge to the Comprehensive Income and Expenditure Statement for the year is impacted by changes in asset value during the year arising from enhancements but not revaluation.

  Component accounting is applied as part of the revaluation process. As a result, where a building asset is split down into further components for the first time in year, the depreciation charge is based on the opening book value over the opening remaining useful life of the asset rather than subsequent component values and associated lives. The difference is not considered material.

- **Charges to Revenue for use of Non-Current Assets**

  Service revenue accounts, support services and trading accounts are debited with the following amounts to record the real cost of holding non-current assets during the year:

  - depreciation attributable to the assets used by the relevant service.
  - impairment losses attributable to the clear consumption of economic benefits on property, plant and equipment used by the service and other losses where there are no accumulated gains in the Revaluation Reserve against which they can be written off.

  The Council is not required to raise Council Tax to cover depreciation or impairment losses. Depreciation and impairment losses are therefore a reconciling item in the Movement in Reserves Statement for the General Fund and Housing Revenue Account by way of an adjusting transaction with the capital adjustment account.

- **Revaluations**

  Where assets are included in the Balance Sheet at fair value, revaluations are carried out at intervals of no more than five years. The Council operates a rolling programme for revaluations. The determination of fair value of land and buildings is undertaken by the Council's Operational Estate Manager.

- **De-recognition**

  An asset is de-recognised either on its disposal, or where no future economic benefits or service potential are expected from its use or disposal. The gain or loss arising from de-recognition of an asset is included in 'surplus or deficit on the provision of services' within the Comprehensive Income and Expenditure Statement when the asset is de-recognised.

  The gain or loss on de-recognition of property, plant and equipment assets is a reconciling item in the Movement in Reserves Statement for the General Fund and Housing Revenue Account.

- **Components**

  Component accounting is applied to all assets that comprise land and buildings. Land and buildings are treated as separate components of an asset and accounted for separately.

  The building component of an asset is separated into further components primarily to those with a carrying value of over £5 million. This policy is also applied to buildings with a carrying value of less than £5 million where enhancement expenditure is considered significant in relation to the overall carrying value of the building component.

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting Policies - continued

1.9 Property, Plant and Equipment - continued

Where it is necessary to break a building down into further components, the following categories are applied:

- Structural - includes external and internal walls, traditional roofing, doors, etc.
- Non-traditional roofing - includes flat roof, non-traditional roof coverings and industrial type roofs.
- Finishes - includes doors, windows and room finishes.
- Mechanical and electrical services - includes water, heat, ventilation, electrical, lifts, fire and communications.
- Fittings and furnishings - includes fittings, furnishings and sanitary appliances.

1.10 Revenue Expenditure Funded from Capital Under Statute

Expenditure that may be capitalised under statutory provisions that does not result in the creation of assets for the Council has been charged to the 'cost of services' in the Comprehensive Income and Expenditure Statement.

These costs are a reconciling item in the Movement in Reserves Statement for the General Fund by way of an adjusting transaction with the capital adjustment account.

1.11 Group Account Consolidation

The group has reviewed its investments in other entities to assess whether the conclusion to consolidate is different under IFRS 10 than under IAS 27. No differences were found.

Group accounts have been prepared on the following basis:

- Accounting policies for group members have been aligned where possible.
- The following methods of consolidation have been used:
  - Subsidiaries - line-by-line basis;
  - Associates - equity method.
- Transport for Edinburgh Limited's and CEC Holdings Limited's reporting periods are to 31 December. As this is within three months of the Council's reporting period (to 31 March), no consolidation adjustments have been made.
- Inter-company transactions have been eliminated on consolidation.
- Group members' financial statements have been prepared on an accruals basis, with the exception of the International Conference Centre Income Trust and International Conference Centre Expenditure Trust, which have been prepared on a cash basis.

NOTES TO THE FINANCIAL STATEMENTS

2. Expenditure and Funding Analysis - Council

The objective of the Expenditure and Funding Analysis is to demonstrate to Council Tax and rent payers how the funding available to the authority (i.e. government and other grants, rents, fees and charges, Council Tax and business rates) for the year has been used in providing services in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. The Expenditure and Funding Analysis also shows how this expenditure is allocated for decision making purposes between the Council's services. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement on Page 20.

2018/19	**Net Expend. Chargeable to the General Fund and HRA Balances**	**Adjustments**	**Net Expenditure in the CIES**
	£000	**£000**	**£000**
Communities and Families	397,307	17,096	414,403
Place	54,295	85,759	140,054
Housing Revenue Account	0	(22,130)	(22,130)
Health and Social Care	208,237	7,440	215,677
Resources	172,582	110,728	283,310
Chief Executive	9,656	813	10,469
Lothian Valuation Joint Board	3,575	0	3,575
Cost of Services	**845,652**	**199,706**	**1,045,358**
Other income and expenditure			
Net cost of benefits	(811)	0	(811)
Other non-service specific costs	23,246	40,161	63,407
Net deficit on trading activities	0	36	36
Net income and changes in relation to investment properties and changes in their fair value	0	(2,768)	(2,768)
Interest and investment income	(12,020)	(386)	(12,406)
Interest payable and similar charges *(loan charges in management reporting)*	107,521	(25,086)	82,435
Net pension interest cost	0	14,129	14,129
Gains on disposal of assets	0	(6,001)	(6,001)
Contribution to Renewal and Repairs Fund	173	(173)	0
Contribution from Capital Fund	(980)	980	0
Contribution from General Fund	(697)	697	0
Income from Council Tax	(259,435)	0	(259,435)
Government Grants	(363,757)	0	(363,757)
Distribution from NDRI pool	(340,474)	0	(340,474)
Capital grants and contributions	0	(95,013)	(95,013)
(Surplus) / Deficit on the provision of services	**(1,582)**	**126,282**	**124,700**

Opening General Fund and HRA Balance	151,285
Contributions to / (from) reserves, including those within services *(see notes 12.1 and 12.3 for detail)*	(8,022)
Surplus on the provision of services	1,582
Closing General Fund and HRA Balance at 31 March	144,845

For a split of the balance between the General Fund and the HRA, see the Movement in Reserves Statement on page 17.

The Council has continued to undergo a programme of transformation during 2018/19. The most significant service reporting change related to Safer and Stronger Communities being transferred to Communities and Families, during the financial year.

NOTES TO THE FINANCIAL STATEMENTS

2. Expenditure and Funding Analysis - Council - continued

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

Opening General Fund and HRA Balance	142,611
Contributions to / (from) reserves, including those within services *(see notes 12.1 and 12.3 for detail)*	6,258
Surplus on the provision of services	2,416
Closing General Fund and HRA Balance at 31 March	151,285

For a split of the balance between the General Fund and the HRA, see the Movement in Reserves Statement on page 18.

NOTES TO THE FINANCIAL STATEMENTS

2. Expenditure and Funding Analysis - Council

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

2018/19	**Adjusts. For Capital Purposes £000**	**Net Change for Pensions Adjusts. £000**	**Other Differences £000**	**Total Statutory Adjusts. £000**
Communities and Families	409	13,891	1,112	15,412
Place	73,122	8,787	146	82,055
Housing Revenue Account	(49,685)	2,035	(523)	(48,173)
Health and Social Care	192	8,179	(59)	8,312
Resources	110,913	7,415	60	118,388
Chief Executive	9	779	(4)	784
Cost of Services	**134,960**	**41,086**	**732**	**176,778**
Other income and expenditure				
Other non-service specific costs	(1,333)	41,770	(3)	40,434
Net income and changes in relation to investment properties and changes in their fair value	0	0	(1,026)	(1,026)
Interest and investment income	(115)	0	1	(114)
Interest payable and similar charges	(42,460)	0	(1,334)	(43,794)
Net pension interest cost		14,129	0	14,129
Gains on disposal of assets	(6,001)	0	0	(6,001)
Capital grants and contributions	(95,013)	0	0	(95,013)
Total Adjustments	**(9,962)**	**96,985**	**(1,630)**	**85,393**

Notes -

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

2. Expenditure and Funding Analysis - Council - continued

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

2018/19	**Total Statutory Adjusts. b/fwd £000**	**Presentation Adjusts. £000**	**Use of Reserves £000**	**Total Adjusts. £000**
Communities and Families	15,412	(783)	2,467	17,096
Place	82,055	422	3,282	85,759
Housing Revenue Account	(48,173)	0	26,043	(22,130)
Health and Social Care	8,312	(880)	8	7,440
Resources	118,388	(16,081)	8,421	110,728
Chief Executive	784	0	29	813
Cost of Services	**176,778**	**(17,322)**	**40,250**	**199,706**
Other income and expenditure				
Other non-service specific costs	40,434	3,583	(3,856)	40,161
Net deficit on trading activities	0	36	0	36
Net income and changes in relation to investment properties and changes in their fair value	(1,026)	(1,742)	0	(2,768)
Interest and investment income	(114)	0	(272)	(386)
Interest payable and similar charges	(43,794)	18,708	0	(25,086)
Net pension interest cost	14,129	0	0	14,129
Gains on disposal of assets	(6,001)	0	0	(6,001)
Use of reserves	0	(3,263)	4,767	1,504
Capital grants and contributions	(95,013)	0	0	(95,013)
Total Adjustments	**85,393**	**0**	**40,889**	**126,282**

Notes -

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

NOTES TO THE FINANCIAL STATEMENTS

2. Expenditure and Funding Analysis - Council - continued

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

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

Notes -

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

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

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

2. Expenditure and Funding Analysis - Council - continued

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

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

Notes -

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

NOTES TO THE FINANCIAL STATEMENTS

2. Expenditure and Funding Analysis - Council

2.2 Segmental Analysis of Expenditure and Income included in Expenditure and Funding Analysis

2018/19	**Communities and Families**	**Place**	**Housing Revenue Account**	**Health and Social Care**
Expenditure	**£000**	**£000**	**£000**	**£000**
Employee expenses	309,712	81,762	10,758	88,237
Other service expenses	182,626	189,852	44,496	215,450
Support service recharges	0	0	6,742	0
Interest payments	78	0	18,897	0
Debt repayments *(HRA only)*	0	0	52,916	0
Total Expenditure	**492,416**	**271,614**	**133,809**	**303,687**
Income				
Revenues from external customers	(46,125)	(139,043)	(102,814)	(20,924)
Income from recharges for services	(44)	(458)	(150)	0
Government grants and other contribs.	(48,940)	(77,818)	(30,730)	(74,526)
Interest and investment income	0	0	(115)	0
Total Income	**(95,109)**	**(217,319)**	**(133,809)**	**(95,450)**
Cost of Services	**397,307**	**54,295**	**0**	**208,237**

	Resources	**Chief Executive**	**Lothian Valuation Joint Board**	**Council Total**
Expenditure	**£000**	**£000**	**£000**	**£000**
Employee expenses	75,112	7,376	0	572,957
Other service expenses	130,942	3,781	3,575	770,722
Support service recharges	40	0	0	6,782
Interest payments	18,521	0	0	37,496
Debt repayments *(HRA only)*	0	0	0	52,916
Total Expenditure	**224,615**	**11,157**	**3,575**	**1,440,873**
Income				
Revenues from external customers	(29,790)	(431)	0	(339,127)
Income from recharges for services	(9,546)	(462)	0	(10,660)
Government grants and other contribs.	(12,697)	(608)	0	(245,319)
Interest and investment income	0	0	0	(115)
Total Income	**(52,033)**	**(1,501)**	**0**	**(595,221)**
Cost of Services	**172,582**	**9,656**	**3,575**	**845,652**

	Subsidiaries	**Associates and Joint Ventures**	**Group Total**
Expenditure	**£000**	**£000**	**£000**
Employee expenses	102,332	0	675,289
Other service expenses	75,754	0	846,476
Support service recharges	0	0	6,782
Depreciation, amortisation and impairment	19,950	0	19,950
Interest payments	0	0	37,496
Debt repayments *(HRA only)*	0	0	52,916
Net expend from Associates and Joint Ventures	0	984	984
Total Expenditure	**198,036**	**984**	**1,639,893**
Income			
Revenues from external customers	(190,361)	0	(529,488)
Income from recharges for services	0	0	(10,660)
Government grants and other contribs.	31	0	(245,288)
Interest and investment income	0	0	(115)
Net income from Associates and Joint Ventures	0	(1,361)	(1,361)
Total Income	**(190,330)**	**(1,361)**	**(786,912)**
Cost of Services	**7,706**	**(377)**	**852,981**

2. Expenditure and Funding Analysis - Council - continued

2.2 Segmental Analysis of Expenditure and Income included in Expenditure and Funding Analysis

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

2017/18 Comparative Data	**Resources**	**Chief Executive**	**Safer and Stronger Communities**	**Lothian Valuation Joint Board**
Expenditure	**£000**	**£000**	**£000**	**£000**
Employee expenses	71,834	7,697	19,354	0
Other service expenses	129,339	5,613	62,565	3,741
Support service recharges	63	0	0	0
Interest payments	18,450	0	0	0
Total Expenditure	**219,686**	**13,310**	**81,919**	**3,741**
Income				
Revenues from external customers	(28,001)	(410)	(38,026)	(112)
Income from recharges for services	(9,236)	(490)	0	0
Government grants and other contribs.	(12,145)	(1,391)	(13,423)	0
Total Income	**(49,382)**	**(2,291)**	**(51,449)**	**(112)**
Cost of Services	**170,304**	**11,019**	**30,470**	**3,629**

2017/18 Comparative Data	**Council Total**	**Subsidiaries**	**Associates and Joint Ventures**	**Group Total**
Expenditure	**£000**	**£000**	**£000**	**£000**
Employee expenses	537,388	98,306	0	635,694
Other service expenses	722,510	61,143	0	783,653
Support service recharges	7,452	0	0	7,452
Depreciation, amortisation and impairment	0	10,143	0	10,143
Interest payments	38,169	0	0	38,169
Debt repayments *(HRA only)*	37,764	0	0	37,764
Net expend from Associates and Joint Ventures	0	0	5,790	5,790
Total Expenditure	**1,343,283**	**169,592**	**5,790**	**1,518,665**
Income				
Revenues from external customers	(318,354)	(146,468)	0	(464,822)
Income from recharges for services	(10,380)	0	0	(10,380)
Government grants and other contribs.	(192,408)	(30,969)	0	(223,377)
Interest and investment income	(57)	0	0	(57)
Net income from Associates and Joint Ventures	0	0	(2,451)	(2,451)
Total Income	**(521,199)**	**(177,437)**	**(2,451)**	**(701,087)**
Cost of Services	**822,084**	**(7,845)**	**3,339**	**817,578**

NOTES TO THE FINANCIAL STATEMENTS

3. Expenditure and Income Analysed by Nature
Group

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

	2018/19	2017/18
Expenditure	**£000**	**£000**
Employee expenses	766,484	681,538
Other service expenses	1,215,609	1,143,754
Support service recharges	6,782	7,452
Depreciation, amortisation and impairment	239,622	200,477
Interest payments	181,511	192,026
Net Interest in the profit/loss of associates and joint ventures	(377)	3,339
Total Expenditure	**2,409,631**	**2,228,586**
Income		
Fees, charges and other service income	(887,603)	(903,257)
(Gain) / Loss on the disposal of assets	(5,888)	5,263
Interest and investment income	(101,331)	(98,087)
Income from Council Tax and Non-Domestic Rates	(599,909)	(604,311)
Government grants and other contributions	(589,077)	(493,862)
Recognised capital income	(95,013)	(76,598)
Total Income	**(2,278,821)**	**(2,170,852)**
Group (Surplus) / Deficit	**130,810**	**57,734**

Council

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

	2018/19	2017/18
Expenditure	**£000**	**£000**
Employee expenses	664,152	583,232
Other service expenses	1,139,978	1,080,586
Support service recharges	6,782	7,452
Depreciation, amortisation and impairment	219,672	190,334
Interest payments	169,882	178,891
Total Expenditure	**2,200,466**	**2,040,495**
Income		
Fees, charges and other service income	(697,243)	(696,318)
(Gain) / Loss on the disposal of assets	(6,001)	5,292
Interest and investment income	(88,492)	(84,606)
Income from Council Tax and Non-Domestic Rates	(599,909)	(604,311)
Government grants and other contributions	(589,108)	(523,365)
Recognised capital income	(95,013)	(76,598)
Total Income	**(2,075,766)**	**(1,979,906)**
(Surplus) / Deficit on the Provision of Services	**124,700**	**60,589**

NOTES TO THE FINANCIAL STATEMENTS

4. Accounting Standards that have been issued but not yet adopted

The Code requires the disclosure of information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. This applies to the adoption of the following new or amended standards within the 2019/20 Code:

The Code requires implementation from 1 April 2019 and there is therefore no impact on the 2018/19 financial statements.

- Amendments to IAS 40 Investment Property: Transfers to Investment Property
- Annual Improvements to IFRS Standards 2014-2016 Cycle
- IFRIC 22 Foreign Currency Transactions and Advance Consideration
- IFIRC 23 Uncertainty over Income Tax Treatments
- Amendments to IAS 9 Financial Instruments
- IFRS 16 Leases

5. Judgements Made in Applying Accounting Policies

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

5.1 Provision of School Buildings

The Council is deemed to control the services provided under the Public Private Partnership agreements (PPP1 and PPP2) and the Design, Build, Finance and Maintain (DBFM) for James Gillespie's High School, for the provision of school buildings, maintenance and other facilities with Edinburgh Schools Partnership (PPP1), Axiom Education Limited (PPP2) and Hub South East Scotland (JGHS). The Council has entered into an agreement for the provison of the new Queensferry High School which is currently under construction under a DBFM arrangement.

The accounting policies for public private partnerships have been applied to these arrangements and the schools (valued at net book value of £511.628m at 31 March 2019) are recognised as Property, Plant and Equipment on the Council's Balance Sheet.

5.2 Group Membership

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

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

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

Item	Uncertainty	Effect if Actual Results Differ from Assumptions
Property, Plant and Equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. A reduction in spending on repairs and maintenance would bring into doubt the useful lives assigned to the assets. Council dwellings are valued using the Beacon Method which aggregates the vacant possession values of each unit of housing stock. The beacon discount factor is determined by applying a capitalisation yield to the gross rental income and comparing this to the aggregate value. This methodology takes account of regional variations in capital values, stock condition, rent arrears and voids. The discount factor applied in the 2018-19 revaluations is 38% (48% previously).	If the useful life of assets is reduced, depreciation increases and the carrying value of the assets falls. It is estimated that the annual depreciation charge would increase and the carrying value would fall by £21.470m for each year that useful lives were reduced. If the discount factor is increased by 1%, this would lead to a corresponding reduction in the total value of council dwellings of £23.891m.
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.	The effects on the net pensions liability of changes in individual assumptions can be measured. Note 42.6 provides further information on the Council's pension liability.
	The interim solution to avoid inequalities between men and women's benefits following the introduction of the Single Status Pension in 2016 has resulted in a recalculation of pension liabilities related to the estimated impact of Guaranteed minimum pension (GMP) indexation changes.	The estimate for the Council is that total liabilities could be 0.33% higher as at 31 March 2019 approximately £10.32m. The increased liability has been reflected in the pension liability as a past service cost. This estimate will be revised at the upcoming valuation.
	Legislation requires the Local Government Pension Scheme (LGPS) to undertake periodic valuations to monitor the cost of the LGPS to ensure it remains sustainable and affordable. The costs management process has been paused following the Court of Appeal ruling that the transitional arrangments in both the Judges' Pension Scheme (McCloud) and Firefighters' Pension Scheme (Sargeant) were age discriminatory. These cases could have knock on implications for the LGPS (potentially increasing the liabilities).	The Council's actuary has included an estimate within the pension liability as a past service costs (see Note 42.2) which will be subject to future revision as the oucome of the judgement becomes clearer in line with the upcoming valuation.

NOTES TO THE FINANCIAL STATEMENTS

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

Arrears	At 31 March, the Council had a balance of sundry debtors of £26.542m. A review of significant balances suggested that an impairment of doubtful debts of £3.215m (12.1%) was appropriate. In the current economic climate it is not certain that this will be sufficient.	If collection rates were to deteriorate, a 5% increase in the rate of the impairment of doubtful debts would require an additional £1.327m to be set aside as an allowance.
House Rent Arrears	At 31 March, the Council had a balance of housing rent arrears of £6.907m. A review of significant balances suggested that an impairment of doubtful debts of £5.773m (83.6%) was appropriate. In the current economic climate it is not certain that this will be sufficient.	There is a relatively high level of arrears and the impairment set aside should help protect against potential loss of income to the Council arising from welfare reforms such as Universal Credit and the reduction in the benefits cap announced in the UK Government's budget, which will potentially impact on the level of rent arrears.

This list does not include assets and liabilities that are carried at fair value based on recently observed market prices.

7. **Material Items of Income and Expense**
The Council set aside a net increase in provisions of £8.4m, the most significant changes being a £12m increase relating to contractual obligations and claims identified during the year offset by use of provisions and reductions in expected claims in others.

8. **Events After the Balance Sheet Date**
Although the Council approved the Tram extension project on 14 March 2019, the contracts for the commencement of works were not signed as at 31 March 2019. The budgeted capital committment for the initial groundwork contracts is £127m.

9. **Subsidiaries and Associates**
The Council holds shares in various trading companies, either as a controlling or minority shareholder.
The Council is also represented on the Boards of various companies that are limited by guarantee and have no share capital. It participates in these companies by means of Board membership and the provision of funding and management support.

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

Subsidiaries:	**Shareholding**	
● CEC Holdings Limited	100.00%	
● Transport for Edinburgh Limited	100.00%	
Associates:		
● Edinburgh Leisure	33.33%	Board representation
● Capital Theatres	33.33%	Board representation
● Lothian Valuation Joint Board	61.14%	Funding percentage
● Common Good	100.00%	
Joint Venture	**Interest**	
● Edinburgh Integration Joint Board	50.00%	Board representation

NOTES TO THE FINANCIAL STATEMENTS

9. Subsidiaries and Associates - continued

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

	Shareholding	
● Capital City Partnership Limited	100.00%	
● CEC Recovery Limited (formerly tie Limited)	100.00%	
● Marketing Edinburgh Limited	100.00%	
● Energy for Edinburgh Limited	100.00%	
● Edinburgh Living MMR LLP	> 75% controlling interest	(dormant to 31.12.18)
● Edinburgh Living MR LLP	> 75% controlling interest	(dormant to 31.12.18)
● Telford NHT LLP	> 75% controlling interest	

In January 2019 the Council bought out the developer's share in Telford NHT LLP and now holds majority control of this associate, in conjunction with the Scottish Futures Trust.

LFPE Limited and LPFI Limited are now consolidated in the annual accounts of Lothian Pension Fund.

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

9.1 Subsidiary Companies

- **CEC Holdings Limited**

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

The most recent audited results of the company are as follows:	31.12.18 £000	31.12.17 £000
Net assets	18,137	17,263
Net (profit) / loss before taxation	(158)	3,648
Retained profit / (loss) carried forward	(51,059)	(51,338)

The Council inherited its interest in CEC Holdings Limited following the local government reorganisation in 1996. It is considered that this was on an acquisition basis, however, as no consideration was given for these interests, there was no goodwill involved in these transactions.

- **Transport for Edinburgh Limited**

The principal activities of the company are as a holding company for the City of Edinburgh Council's interest in public transport companies; Lothian Buses Limited and Edinburgh Trams Limited. The company is wholly owned by the City of Edinburgh Council.

The Council's major shareholding in Lothian Buses of 5,824,139 (91.01%) £1 ordinary shares (fully paid) was transferred to Transport for Edinburgh Limited in 2014.

The Council inherited its interest in Lothian Buses Limited, following the reorganisation of local government in 1996. It is considered that this was on an acquisition basis, however, as no consideration was given for these interests, there was no goodwill involved in these transactions.

Edinburgh Trams Limited commenced a fare paying revenue service on 31 May 2014.

The most recent audited results of the company are as follows:

Transport for Edinburgh Limited (Consolidated Group)	31.12.18 £000	31.12.17 £000
Net assets	148,768	154,951
Net (profit) / loss before taxation	6,920	(11,948)
Retained earnings	58,789	63,923
Dividend paid	6,180	6,610

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

NOTES TO THE FINANCIAL STATEMENTS

9. Subsidiaries and Associates - continued

9.2 Associates

- **Edinburgh Leisure**

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

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

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

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

The most recent audited results of the company are as follows:	**31.03.19**	**31.03.18**
	£000	**£000**
Net assets / (liabilities)	610	209
Net operating (profit) / loss	(1,114)	683
Earnings / (Losses) carried forward	610	209

Although Edinburgh Leisure is included in the Group Accounts, as the nature of its activities is a core part of Council policy, the Council has no legal interest in the assets or liabilities of the company.

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

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

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

The most recent audited results of the company are as follows:	**31.03.19**	**31.03.18**
	£000	**£000**
Net assets	4,877	3,920
Net operational (profit) / loss	(828)	(360)
Fund balances carried forward	4,877	3,920

Although Capital Theatres is included in the Group Accounts, due to its activities being a core part of the Council's policy, the Council has no legal interest in the assets or liabilities of the company.

- **Lothian Valuation Joint Board**

The Lothian Valuation Joint Board provides Valuation Appeals, Lands Valuation, Electoral Registration and Council Tax Valuation Services.

The Board comprises 16 members of whom nine are elected by the City of Edinburgh, three by West Lothian and two each by East and Midlothian Councils. Costs incurred by the Lothian Valuation Joint Board are apportioned in accordance with the non-domestic rateable subjects and dwellings valued for Council Tax within the areas of each constituent authority.

	31.03.19	**31.03.18**
	£000	**£000**
Deficit for the year	1,520	1,121
Net Liabilities	(7,709)	(4,769)
Usable reserves	897	798
Unusable reserves	(8,606)	(5,567)
Total reserves	(7,709)	(4,769)

NOTES TO THE FINANCIAL STATEMENTS

9.3 Joint Ventures

- **Edinburgh Integration Joint Board**

  The Edinburgh Integration Joint Board (EIJB) was established by order of Scottish Ministers on 27 June 2015 under the Public Bodies (Joint Working) (Scotland) Act 2014.

  The Board comprises 10 voting members, made up of five elected members appointed by the City of Edinburgh Council and five NHS non-executive directors appointed by NHS Lothian, along with a number of non voting members.

  The expenditure incurred by the EIJB is covered in full by income received from the partner bodies, NHS Lothian and the City of Edinburgh Council. EIJB will therefore commission services from the parent bodies based on the approved strategic plan.

The most recent audited results of the Board are as follows:	**31.03.19 £000**	**31.03.18 £000**
Gross expenditure	726,394	704,815
Surplus for the year	(1,342)	(4,662)
Usable reserves	9,694	8,352

9.4 Audit Opinions noted on the Accounts of the Companies

Unless otherwise indicated, the companies' accounts are audited.

9.5 Shareholder Support to Council Companies

A number of companies within the group are currently dependent on the continued financial support of the Council. The companies are EICC Limited, a subsidiary of CEC Holdings Limited - (the Council owns 100% of the shares in CEC Holdings Limited), Capital Theatres (formerly Festival City Theatres Trust) and Edinburgh Leisure.

9.6 Financial Impact of Consolidation

The effect of inclusion of subsidiaries and associates on the Group Balance Sheet is to increase both reserves and net assets by £197.522m (2017/18 £202.196m) representing the Council's share of the realisable surpluses or deficits in these companies.

10. Contingent Liabilities

Contingent Assets and Liabilities are not recognised in the accounting statements. Where there is probable inflow or outflow of economic benefits or service potential, these are disclosed in the notes to the financial statements.

There may be outstanding liability claims or claims to be submitted against the Council in relation to insured and uninsured losses or incidents. The actual cost and timing of any claims cannot be estimated with reasonable accuracy and consequently no specific provision has been made in the financial statements in respect of any such claims.

The Scottish Child Abuse Inquiry was set up in October 2015 to examine the abuse of children in care from the 1930s to the present day and has identified a number of care institutions it wishes to investigate, including four council establishments - Howdenhall Centre, St Katherine's and two children's homes that closed in the 1980s. The Council has set up a project team to support the inquiry, review historic records and ensure that the evidence required by the Inquiry can be provided. There is a possibility that these investigations may give rise to significant claims against local authorities in Scotland, including the Council.

NOTES TO THE FINANCIAL STATEMENTS

11. Adjustments Between Accounting Basis and Funding Basis Under Regulations

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the Council in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure.

	Usable Reserves		
2018/19	**General Fund Balance £000**	**Housing Revenue Account Balance £000**	**Capital Receipts Reserve £000**
Adjustments primarily involving the Capital Adjustment Account			
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement (CIES)			
Charges for depreciation and impairment of non-current assets	196,986	21,446	0
Movements in the market value of investment properties	(965)	(60)	0
Amortisation and impairment of intangible assets	1,240	0	0
Capital grants and contributions applied	(67,951)	(24,789)	0
Capital funded from revenue	(6,088)	(32,800)	0
Donated assets	(2,273)	0	0
Capital fund used to finance new capital expenditure	0	0	0
Revenue expenditure funded from capital under statute	59,774	0	0
Insertion of items not debited or credited to the CIES			
Statutory provision for the financing of capital investment	(68,529)	(20,115)	0
Capital expenditure charged against General Fund and HRA balances	(59,774)	0	0
Adjustments primarily involving the Capital Grant Unapplied Account			
Application of grants to capital financing transferred to the Capital Adjustment Account	0	0	0
Adjustments primarily involving the Capital Receipts Reserve			
Net (gain) / loss on sale of property, plant and equipment and assets held for sale	(3,619)	(2,382)	25,953
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	(25,953)
Adjustments primarily involving the Financial Instruments Adjustment Account			
Amount by which finance costs charged are different from finance costs chargeable in the year in accordance with statutory requirements	(1,334)	(567)	0
Adjustments primarily involving the Pensions Reserve			
Reversal of items relating to retirement benefits debited or credited to the CIES	158,464	3,910	0
Employer's pension contributions and direct payments to pensioners payable in the year	(63,886)	(1,502)	0
Adjustments primarily involving the Employee Statutory Adjustment Account			
Amount by which officer remuneration charges to the CIES are different from remuneration chargeable in the year in accordance with statutory requirements	1,253	44	0
Total Adjustments	143,298	(56,815)	0

NOTES TO THE FINANCIAL STATEMENTS

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

2018/19	Usable Reserves Capital Grants Unapplied Account £000	Capital Fund £000	Movement in Unusable Reserves £000
Adjustments primarily involving the Capital Adjustment Account			
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement (CIES)			
Charges for depreciation and impairment of non-current assets	0	0	(218,432)
Movements in the market value of investment properties	0	0	1,025
Amortisation of intangible assets	0	0	(1,240)
Capital grants and contributions applied	12,339	0	80,401
Capital funded from revenue	0	0	38,888
Donated assets	0	0	2,273
Capital fund used to finance new capital expenditure	0	(7,385)	7,385
Revenue expenditure funded from capital under statute	0	0	(59,774)
Insertion of items not debited or credited to the CIES	0	0	0
Statutory provision for the financing of capital investment	0	(265)	88,909
Capital expenditure charged against General Fund and HRA balances	0	0	59,774
Adjustments primarily involving the Capital Grant Unapplied Account			
Application of grants to capital financing transferred to the Capital Adjustment Account	(1,351)	0	1,351
Adjustments primarily involving the Capital Receipts Reserve			
Net gain / (loss) on sale of property, plant and equipment and assets held for sale	0	0	(19,952)
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	25,953
Adjustments primarily involving the Financial Instruments Adjustment Account			
Amount by which finance costs charged are different from finance costs chargeable in the year in accordance with statutory requirements	0	0	1,901
Adjustments primarily involving the Pensions Reserve			
Reversal of items relating to retirement benefits debited or credited to the CIES	0	0	(162,374)
Employer's pension contributions and direct payments to pensioners payable in the year	0	0	65,388
Adjustments primarily involving the Employee Statutory Adjustment Account			
Amount by which officer remuneration charges to the CIES are different from remuneration chargeable in the year in accordance with statutory requirements	0	0	(1,297)
Total Adjustments	10,988	(7,650)	(89,821)

NOTES TO THE FINANCIAL STATEMENTS

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

	Usable Reserves		
2017/18 Comparative Data	**General Fund Balance £000**	**Housing Revenue Account Balance £000**	**Capital Receipts Reserve £000**
Adjustments primarily involving the Capital Adjustment Account			
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement (CIES)			
Charges for depreciation and impairment of non-current assets	167,712	21,356	0
Movements in the market value of investment properties	1,420	0	0
Amortisation of intangible assets	1,267	0	0
Capital grants and contributions applied	(65,319)	(11,280)	0
Capital funded from revenue	(2,726)	(19,474)	0
Revenue expenditure funded from capital under statute	44,411	0	0
Insertion of items not debited or credited to the CIES			
Statutory provision for the financing of capital investment	(63,110)	(18,290)	0
Capital expenditure charged against General Fund and HRA balances	(44,411)	0	0
Adjustments primarily involving the Capital Grant Unapplied Account			
Application of grants to capital financing transferred to the Capital Adjustment Account	0	0	0
Adjustments primarily involving the Capital Receipts Reserve			
Net loss / (gain) on sale of property, plant and equipment and assets held for sale	1,825	3,467	21,879
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	(21,879)
Adjustments primarily involving the Financial Instruments Adjustment Account			
Amount by which finance costs charged are different from finance costs chargeable in the year in accordance with statutory requirements	(1,393)	(536)	0
Adjustments primarily involving the Pensions Reserve			
Reversal of items relating to retirement benefits debited or credited to the CIES	108,133	2,377	0
Employer's pension contributions and direct payments to pensioners payable in the year	(58,864)	(1,128)	0
Adjustments primarily involving the Employee Statutory Adjustment Account			
Amount by which officer remuneration charges to the CIES are different from remuneration chargeable in the year in accordance with statutory requirements	643	(3)	0
Total Adjustments	89,588	(23,511)	0

NOTES TO THE FINANCIAL STATEMENTS

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

	Usable Reserves		
2017/18 Comparative Data	**Capital Grants Unapplied Account £000**	**Capital Fund £000**	**Movement in Unusable Reserves £000**
Adjustments primarily involving the Capital Adjustment Account			
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement (CIES)			
Charges for depreciation and impairment of non-current assets	0	0	(189,068)
Movements in the market value of investment properties	0	0	(1,420)
Amortisation of intangible assets	0	0	(1,267)
Capital grants and contributions applied	4,051	0	72,548
Capital funded from revenue	0	0	22,200
Revenue expenditure funded from capital under statute	0	0	(44,411)
Insertion of items not debited or credited to the CIES	0	0	
Statutory provision for the financing of capital investment	0	2,379	79,021
Capital expenditure charged against General Fund and HRA balances	0	0	44,411
Adjustments primarily involving the Capital Grant Unapplied Account			
Application of grants to capital financing transferred to the Capital Adjustment Account	(21)	0	21
Adjustments primarily involving the Capital Receipts Reserve			
Net (loss) / gain on sale of property, plant and equipment and assets held for sale	0	0	(27,171)
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	21,879
Adjustments primarily involving the Financial Instruments Adjustment Account			
Amount by which finance costs charged are different from finance costs chargeable in the year in accordance with statutory requirements	0	0	1,929
Adjustments primarily involving the Pensions Reserve			
Reversal of items relating to retirement benefits debited or credited to the CIES	0	0	(110,510)
Employer's pension contributions and direct payments to pensioners payable in the year	0	0	59,992
Adjustments primarily involving the Employee Statutory Adjustment Account			
Amount by which officer remuneration charges to the CIES are different from remuneration chargeable in the year in accordance with statutory requirements	0	0	(640)
Total Adjustments	4,030	2,379	(72,486)

NOTES TO THE FINANCIAL STATEMENTS

12. Usable Reserves

12.1 Transfers to and from Usable Reserves

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

Group Reserves	Balance at 01.04.18 £000	Net Transfers Out 2018/19 £000	Net Transfers In 2018/19 £000	Balance at 31.03.19 £000
Subsidiaries				
CEC Holdings Limited				
Revenue reserves	(51,338)	279	0	(51,059)
Capital grants unapplied account	1,803	(282)	0	1,521
Transport for Edinburgh Limited				
Revenue reserves	123,852	(5,134)	0	118,718
Total Usable Reserves - Subsidiaries	**74,317**	**(5,137)**	**0**	**69,180**
Associates and Joint Ventures				
Common Good Fund - Reserves	2,387	(35)	0	2,352
Edinburgh Leisure - Reserves	69	0	134	203
International Conference Centre Trusts				
Income Trust	1	(1)	0	0
Expenditure Trust	20	(20)	0	0
Capital Theatres - Reserves	1,307	0	319	1,626
Lothian Valuation Joint Board - Reserves	488	0	60	548
Edinburgh Integration Joint Board - Reserves	4,176	0	671	4,847
Total Usable Reserves - Associates and Joint Ventures	**8,448**	**(56)**	**1,184**	**9,576**
Total Usable Reserves - Subsidiaries, Associates and Joint Ventures	**82,765**	**(5,193)**	**1,184**	**78,756**

NOTES TO THE FINANCIAL STATEMENTS

12. Usable Reserves - continued

12.1 Transfers to and from Usable Reserves - continued

	Balance at 01.04.17 £000	Net Transfers Out 2017/18 £000	Net Transfers In 2017/18 £000	Balance at 31.03.18 £000
Group Reserves				
Subsidiaries				
CEC Holdings Limited				
Revenue reserves	(51,410)	0	72	(51,338)
Capital grants unapplied account	2,262	(459)	0	1,803
Transport for Edinburgh				
Revenue reserves	69,708	0	54,144	123,852
Total Usable Reserves - Subsidiaries	**20,560**	**(459)**	**54,216**	**74,317**
Associates and Joint Ventures				
Common Good Fund - Reserves	2,402	(15)	0	2,387
Edinburgh Leisure - Reserves	(2,879)	0	2,948	69
International Conference Centre Trusts				
Income Trust	810	(809)	0	1
Expenditure Trust	4,072	(4,052)	0	20
Capital Theatres - Reserves	1,087	0	220	1,307
Lothian Valuation Joint Board - Reserves	619	(131)	0	488
Edinburgh Integration Joint Board - Reserves	1,845	0	2,331	4,176
Total Usable Reserves - Associates and Joint Ventures	**7,956**	**(5,007)**	**5,499**	**8,448**
Total Usable Reserves - Subsidiaries, Associates and Joint Ventures	**28,516**	**(5,466)**	**59,715**	**82,765**

NOTES TO THE FINANCIAL STATEMENTS

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

	Balance at 01.04.18 £000	Transfers Out 2018/19 £000	Transfers In 2018/19 £000	Balance at 31.03.19 £000
Council's Usable Reserves				
General Fund				
Balances Set Aside to Manage Financial Risks and for Specific Investment				
Balances set aside for specific inv.	40,649	(13,147)	14,794	42,296
Council Priorities Fund	7,691	(2,852)	1,786	6,625
Contingency funding, workforce mgmt.	18,143	0	51	18,194
Dilapidations Fund	5,077	(356)	1,000	5,721
Insurance Funds	15,875	(83)	3,793	19,585
	87,435	(16,438)	21,424	92,421
Balances Set Aside from Income Received in Advance				
Licensing and Registration Income	3,080	(855)	359	2,584
Recycling balances	697	(697)	0	0
Revenue grants and contributions received in advance of planned expenditure	4,830	(1,620)	2,184	5,394
Council Tax Discount Fund	27,432	(12,346)	3,545	18,631
Other earmarked balances	218	(16)	1	203
City Strategic Investment Fund	5,461	(2,054)	145	3,552
	41,718	(17,588)	6,234	30,364
Balances Set Aside for Investment in Specific Projects which will Generate Future Savings				
Energy Efficiency Fund	178	0	66	244
Spend to Save Fund and similar projects	3,171	(716)	263	2,718
	3,349	(716)	329	2,962
Balances Set Aside under Devolved School Management Scheme and Pupil Equity Fund				
Balances held by schools under Devolved School Management (DSM) and Pupil Equity Fund (PEF)	5,758	(5,758)	6,073	6,073
Surplus on Housing Revenue Account transferred to Renewal and Repairs Fund	0	0	0	0
Unallocated General Fund	13,025	0	0	13,025
Total General Fund	151,285	(40,500)	34,060	144,845
Housing Revenue Account Balance	0	0	0	0
Renewal and Repairs Fund	58,123	(35,273)	3,496	26,346
Capital Fund	63,558	(8,892)	1,242	55,908
Capital Receipts Reserve	0	(25,953)	25,953	0
Capital Grants Unapplied Account	4,796	(1,351)	12,339	15,784
Total Usable Reserves - Council	**277,762**	**(111,969)**	**77,090**	**242,883**
Total Usable Reserves - Group	**360,527**	**(117,162)**	**78,274**	**321,639**

NOTES TO THE FINANCIAL STATEMENTS

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

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

NOTES TO THE FINANCIAL STATEMENTS

12. Usable Reserves - continued

12.2 Devolved School Management and Pupil Equity Funding

A net credit balance of £6.073m (2017/18 £5.758m) is held within the General Fund in accordance with the Devolved School Management scheme and permitted carry forward of the newly resourced Pupil Equity Fund.

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

2018/19	**General Fund £000**	**HRA Balance £000**	**Renewal / Repairs Fund £000**	**Capital Receipts Reserve £000**
Transfers out	(40,500)	0	(35,273)	(25,953)
Transfers in	34,060	0	3,496	25,953
Total movements in fund	(6,440)	0	(31,777)	0
Recognised in Comprehensive Income and Expenditure Statement	(12,173)	(26,044)	0	0
Transfers to other earmarked reserves	5,733	26,044	(31,777)	0
Total movements in fund	(6,440)	0	(31,777)	0

	Capital Grants Unapplied £000	**Capital Fund £000**	**Group Usable Reserves £000**	**Total £000**
Transfers out	(1,351)	(8,892)	(5,193)	**(117,162)**
Transfers in	12,339	1,242	1,184	**78,274**
Total movements in fund	10,988	(7,650)	(4,009)	**(38,888)**
Recognised in Comprehensive Income and Expenditure Statement	10,988	(7,650)	(4,673)	**(39,552)**
Transfers to other earmarked reserves	0	0	664	**664**
Total movements in fund	10,988	(7,650)	(4,009)	**(38,888)**

2017/18 Comparative Data	**General Fund £000**	**HRA Balance £000**	**Renewal / Repairs Fund £000**	**Capital Receipts Reserve £000**
Transfers out	(34,778)	(432)	(9,474)	(21,879)
Transfers in	43,452	432	3,448	21,879
Total movements in fund	8,674	0	(6,026)	0
Recognised in Comprehensive Income and Expenditure Statement	14,530	(9,042)	0	0
Transfers to other earmarked reserves	(5,856)	9,042	(6,026)	0
Total movements in fund	8,674	0	(6,026)	0

NOTES TO THE FINANCIAL STATEMENTS

12. Usable Reserves - continued

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

2017/18 Comparative Data	**Capital Grants Unapplied £000**	**Capital Fund £000**	**Group Usable Reserves £000**	**Total £000**
Transfers out	(21)	(2,513)	(5,466)	**(74,563)**
Transfers in	4,051	4,893	59,715	**137,870**
Total movements in fund	4,030	2,380	54,249	**63,307**
Recognised in Comprehensive Income and Expenditure Statement	4,030	2,380	57,280	**69,178**
Transfers to other earmarked reserves	0	0	(3,031)	**(5,871)**
Total movements in fund	4,030	2,380	54,249	**63,307**

13. Financing and Investment Income and Expenditure

	2018/19		**2017/18**	
	Group £000	**Council £000**	**Group £000**	**Council £000**
Interest payable and similar charges	82,444	82,435	89,236	88,950
Interest cost on defined benefit obligation	99,067	87,447	102,790	89,941
Interest receivable and similar income	(12,201)	(12,406)	(10,504)	(10,413)
Interest income on plan assets	(86,361)	(73,318)	(84,563)	(71,179)
Net income in relation to investment properties and changes in their fair value	(2,771)	(2,923)	(3,094)	(3,014)
Net (surplus) / deficit from trading activities	36	36	36	42
	80,214	81,271	93,901	94,327

14. Taxation and Non-Specific Grant Income	**2018/19**		**2017/18**	
	Group £000	**Council £000**	**Group £000**	**Council £000**
Council Tax income	(259,435)	(259,435)	(249,248)	(249,248)
Non-domestic rates	(340,474)	(340,474)	(355,063)	(355,063)
Non-ring fenced government grants	(363,757)	(363,757)	(345,757)	(345,757)
Capital grants and contributions	(95,013)	(95,013)	(76,598)	(76,598)
Taxation expenses	(275)	0	2,106	0
	(1,058,954)	(1,058,679)	(1,024,560)	(1,026,666)

NOTES TO THE FINANCIAL STATEMENTS

15. Property, Plant and Equipment

15.1 Depreciation

Depreciation is provided in the year of an asset's purchase. Assets in the course of construction are not depreciated until they are brought into use. Where depreciation is provided for, assets are depreciated using the straight line method over the following periods:

Council dwellings	50 years
Buildings	50 years (assets not subject to component accounting)
Buildings - structural	50 years
Buildings - non-traditional roofing	35 years
Buildings - finishes	25 years
Buildings - mechanical and electrical	20 years
Buildings - fittings and furnishings	15 years
PPP Schools	40 years (PPP1 schools) and 35 years (PPP2 schools)
Infrastructure assets	20 years
Vehicles, plant, furniture and equipment	5 years to 30 years, to reflect estimated useful life 3 years to 15 years, Group Companies

15.2 Capital Commitments

At 31 March 2019, the Council had entered into a number of contracts for the construction or enhancement of property, plant and equipment. These are budgeted to cost £295.064m. A number of these amounts relate to contract retentions, as projects are now complete. Similar commitments at 31 March 2018 were £256.725m.

	£000	Expected Completion Date
Queensferry High School	19,900	Mar-20
Craigmillar Town Centre	14,500	Apr-20
Zero Waste Fund	29,520	May-20
St James Quarter - Growth Accelerator Model	61,400	Sep-20
North Bridge refurbishment	17,300	Dec-20
Energy efficient street lighting project	18,850	May-21
Meadowbank Sports Centre	36,894	Dec-21
Housing projects	30,748	2019-2020
Other works	3,702	2019-2021
Roads and transport infrastructure	10,859	2019-2021
School estates extensions, upgrades and builds	18,741	2019-2021
Pennywell Town Centre and phase 3	32,650	2021-2023
	295,064	

NOTES TO THE FINANCIAL STATEMENTS

15. Property, Plant and Equipment - continued

15.3 Movements on Balances - Group

Movements in 2018/19

	Council Dwellings £000	Other Land and Buildings £000	Vehicles, Plant, Furniture and Equipment £000	Infrastructure Assets £000
Cost or Valuation				
At 1 April 2018	1,370,303	2,075,364	323,984	1,431,378
Additions	30,349	40,233	26,348	34,073
Revaluation increases / (decreases) recognised in the Revaluation Reserve	66,921	89,305	(124)	0
Revaluation decreases recognised in the Surplus on the Provision of Services	(217)	(55,688)	(2,382)	0
Derecognition - disposals	(1,842)	(799)	(10,091)	0
Derecognition - other	0	0	(2,384)	0
Assets reclassified (to) / from held for sale	0	(6,016)	0	0
Other movements in cost or valuation	18,993	13,080	0	0
At 31 March 2019	1,484,507	2,155,479	335,351	1,465,451
Accumulated Depreciation and Impairment				
At 1 April 2018	(71,600)	(108,452)	(142,816)	(633,143)
Depreciation charge	(20,329)	(61,266)	(29,342)	(68,517)
Depreciation charge written out to Revaluation Reserve	91,605	68,556	0	0
Depreciation written out to the Surplus on the Provision of Services	27	3,471	334	0
Derecognition - disposals	156	35	9,246	0
Derecognition - other	0	0	2,384	0
Depreciation on assets transferred to Held for Sale	0	55	0	0
At 31 March 2019	(141)	(97,601)	(160,194)	(701,660)
Net book value				
At 31 March 2019	1,484,366	2,057,878	175,157	763,791
At 31 March 2018	1,298,703	1,966,912	181,168	798,235

NOTES TO THE FINANCIAL STATEMENTS

15. Property, Plant and Equipment - continued

15.3 Movements on Balances - Group

Movements in 2018/19

	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	Total Property Plant and Equipment £000
Cost or Valuation				
At 1 April 2018	14,050	1,421	56,299	**5,272,799**
Additions	5,087	0	87,742	**223,832**
Revaluation increases / (decreases) recognised in the Revaluation Reserve	(238)	0	0	**155,864**
Revaluation decreases recognised in the Surplus on the Provision of Services	(8,318)	0	0	**(66,605)**
Derecognition - disposals	(1,594)	0	(2,809)	**(17,135)**
Derecognition - other	0	0	0	**(2,384)**
Assets reclassified (to) / from held for sale	0	0	0	**(6,016)**
Other movements in cost or valuation	0	0	(32,071)	**2**
At 31 March 2019	8,987	1,421	109,161	**5,560,357**
Accumulated Depreciation and Impairment				
At 1 April 2018	0	0	0	**(956,011)**
Depreciation charge	0	0	0	**(179,454)**
Depreciation charge written out to Revaluation Reserve	0	0	0	**160,161**
Depreciation written out to the Surplus on the Provision of Services	0	0	0	**3,832**
Derecognition - disposals	0	0	0	**9,437**
Derecognition - other	0	0	0	**2,384**
Depreciation on assets transferred to Held for Sale	0	0	0	**55**
At 31 March 2019	0	0	0	**(959,596)**
Net book value				
At 31 March 2019	8,987	1,421	109,161	**4,600,761**
At 31 March 2018	14,050	1,421	56,299	**4,316,788**

NOTES TO THE FINANCIAL STATEMENTS

15. Property, Plant and Equipment - continued
15.4 Movements on Balances - Group Accounts
2017/18 Comparative Data

Re-Stated	Council Dwellings £000	Other Land and Buildings £000	Vehicles, Plant, Furniture and Equipment £000	Infrastructure Assets £000
Cost or Valuation				
At 1 April 2017	1,077,207	1,852,238	304,161	1,403,042
Additions	33,712	37,357	30,220	28,336
Revaluation increases / (decreases) recognised in the Revaluation Reserve	263,274	198,430	0	0
Revaluation decreases recognised in the Surplus on the Provision of Services	(69)	(52,970)	0	0
Derecognition - disposals	(11,215)	(2,324)	(6,387)	0
Derecognition - other	0	(819)	(4,010)	0
Assets reclassified (to) / from held for sale	0	6,463	0	0
Other movements in cost or valuation	7,394	36,989	0	0
At 31 March 2018	1,370,303	2,075,364	323,984	1,431,378
Accumulated Depreciation and Impairment				
At 1 April 2017	(52,984)	(136,630)	(133,008)	(567,358)
Depreciation charge	(19,625)	(46,356)	(19,432)	(65,785)
Depreciation charge written out to Revaluation Reserve	241	63,191	0	0
Depreciation written out to the Surplus on the Provision of Services	4	11,098	0	0
Derecognition - disposals	764	115	5,614	0
Derecognition - other	0	130	0	0
Impairment losses recognised in the Surplus on the Provision of Services	0	0	4,010	0
At 31 March 2018	(71,600)	(108,452)	(142,816)	(633,143)
Net book value				
At 31 March 2018	1,298,703	1,966,912	181,168	798,235
At 31 March 2017	1,024,223	1,715,608	171,153	835,684

15. Property, Plant and Equipment - continued
15.4 Movements on Balances - Group
2017/18 Comparative Data

Re-stated	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	Total Property Plant and Equipment £000
Cost or Valuation				
At 1 April 2017	14,562	2,421	53,096	**4,706,727**
Additions	5,168	362	46,224	**181,379**
Revaluation increases / (decreases) recognised in the Revaluation Reserve	(8)	0	0	**461,696**
Revaluation decreases recognised in the Surplus on the Provision of Services	(5,672)	0	0	**(58,711)**
Derecognition - disposals	0	0	0	**(19,926)**
Derecognition - other	0	0	0	**(4,829)**
Assets reclassified (to) / from held for sale	0	0	0	**6,463**
Other movements in cost or valuation	0	(1,362)	(43,021)	**0**
At 31 March 2018	14,050	1,421	56,299	**5,272,799**
Accumulated Depreciation and Impairment				
At 1 April 2017	0	0	0	**(889,980)**
Depreciation charge	0	0	0	**(151,198)**
Depreciation charge written out to Revaluation Reserve	0	0	0	**63,432**
Depreciation written out to the Surplus on the Provision of Services	0	0	0	**11,102**
Derecognition - disposals	0	0	0	**6,493**
Derecognition - other	0	0	0	**130**
Impairment losses recognised in the Surplus on the Provision of Services	0	0	0	**4,010**
At 31 March 2018	0	0	0	**(956,011)**
Net book value				
At 31 March 2018	14,050	1,421	56,299	**4,316,788**
At 31 March 2017	14,562	2,421	53,096	**3,816,747**

NOTES TO THE FINANCIAL STATEMENTS

15. Property, Plant and Equipment - continued

15.5 Movements on Balances - Council

Movements in 2018/19

	Council Dwellings £000	Other Land and Buildings £000	Vehicles, Plant, Furniture and Equipment £000	Infrastructure Assets £000
Cost or Valuation				
At 1 April 2018	1,370,303	2,013,461	156,538	1,424,708
Additions	30,349	40,233	14,252	34,073
Revaluation increases / (decreases) recognised in the Revaluation Reserve	66,921	89,305	(124)	0
Revaluation decreases recognised in the Surplus on the Provision of Services	(217)	(55,688)	(2,382)	0
Derecognition - disposals	(1,842)	(799)	(2,338)	0
Derecognition - other	0	0	(2,384)	0
Assets reclassified (to) / from held for sale	0	(6,016)	0	0
Other movements in cost or valuation	18,993	13,080	0	0
At 31 March 2019	1,484,507	2,093,576	163,562	1,458,781
Accumulated Depreciation and Impairment				
At 1 April 2018	(71,600)	(77,150)	(68,036)	(626,940)
Depreciation charge	(20,329)	(61,073)	(9,865)	(68,237)
Depreciation charge written out to Revaluation Reserve	91,605	68,556	0	0
Depreciation written out to the Surplus on the Provision of Services	27	3,471	334	0
Derecognition - disposals	156	35	2,317	0
Derecognition - other	0	0	2,384	0
Other movements in cost or valuation	0	55	0	0
At 31 March 2019	(141)	(66,106)	(72,866)	(695,177)
Net book value				
At 31 March 2019	1,484,366	2,027,470	90,696	763,604
At 31 March 2018	1,298,703	1,936,311	88,502	797,768

Included within Other Land and Buildings is £2.274m for donated assets related to timing of PPP lifecycle maintenance spend by the contract provider, ahead of the planned programme.

15. Property, Plant and Equipment - continued

15.5 Movements on Balances - Council

Movements in 2018/19

Cost or Valuation	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	Total Property Plant and Equipment £000	PPP and similar Assets £000
At 1 April 2018	14,050	1,421	56,299	**5,036,780**	593,418
Additions	5,087	0	87,742	**211,736**	21,355
Revaluation increases / (decreases) recognised in the Revaluation Reserve	(238)	0	0	**155,864**	(46,769)
Revaluation decreases recognised in the Surplus on the Provision of Services	(8,318)	0	0	**(66,605)**	(31,991)
Derecognition - disposals	(1,594)	0	(2,809)	**(9,382)**	0
Derecognition - other	0	0	0	**(2,384)**	0
Assets reclassified (to) / from held for sale	0	0	0	**(6,016)**	0
Other movements in cost or valuation	0	0	(32,071)	**2**	(15,843)
At 31 March 2019	8,987	1,421	109,161	**5,319,995**	520,170
Accumulated Depreciation and Impairment					
At 1 April 2018	0	0	0	**(843,726)**	(43,603)
Depreciation charge	0	0	0	**(159,504)**	(14,258)
Depreciation charge written out to Revaluation Reserve	0	0	0	**160,161**	47,424
Depreciation written out to the Surplus on the Provision of Services	0	0	0	**3,832**	1,895
Derecognition - disposals	0	0	0	**2,508**	0
Derecognition - other	0	0	0	**2,384**	0
Other movements in cost or valuation	0	0	0	**55**	0
At 31 March 2019	0	0	0	**(834,290)**	(8,542)
Net book value					
At 31 March 2019	8,987	1,421	109,161	**4,485,705**	511,628
At 31 March 2018	14,050	1,421	56,299	**4,193,054**	549,815

The disclosure for PPP and similar assets is for information only. The costs and depreciation are included in 'Other Land and Buildings' and 'Assets Under Construction'.

NOTES TO THE FINANCIAL STATEMENTS

15. Property, Plant and Equipment - continued

15.6 Movements on Balances - Council

2017/18 Comparative Data

Re-stated Cost or Valuation	**Council Dwellings £000**	**Other Land and Buildings £000**	**Vehicles, Plant, Furniture and Equipment £000**	**Infrastructure Assets £000**
At 1 April 2017	1,077,207	1,790,335	159,328	1,396,372
Additions	33,712	37,357	3,510	28,336
Revaluation increases / (decreases) recognised in the Revaluation Reserve	263,274	198,430	0	0
Revaluation decreases recognised in the Surplus on the Provision of Services	(69)	(52,970)	0	0
Derecognition - disposals	(11,215)	(2,324)	(2,290)	0
Derecognition - other	0	(819)	(4,010)	0
Assets reclassified (to) / from held for sale	0	6,463	0	0
Other movements in cost or valuation	7,394	36,989	0	0
At 31 March 2018	1,370,303	2,013,461	156,538	1,424,708
Accumulated Depreciation and Impairment				
At 1 April 2017	(52,984)	(105,526)	(64,347)	(561,444)
Depreciation charge	(19,625)	(46,158)	(9,776)	(65,496)
Depreciation charge written out to Revaluation Reserve	241	63,191	0	0
Depreciation written out to the Surplus on the Provision of Services	4	11,098	0	0
Derecognition - disposals	764	115	2,077	0
Derecognition - other	0	130	0	0
Impairment losses recognised in the Surplus on the Provision of Services	0	0	4,010	0
At 31 March 2018	(71,600)	(77,150)	(68,036)	(626,940)
Net book value				
At 31 March 2018	1,298,703	1,936,311	88,502	797,768
At 31 March 2017	1,024,223	1,684,809	94,981	834,928

NOTES TO THE FINANCIAL STATEMENTS

15. Property, Plant and Equipment - continued

15.6 Movements on Balances - Council

2017/18 Comparative Data

Re-stated	**Community Assets £000**	**Surplus Assets £000**	**Total Assets Under Construction £000**	**Total Property Plant and Equipment £000**	**PPP and similar Assets £000**
Cost or Valuation					
At 1 April 2017	14,562	2,421	53,096	**4,493,321**	594,858
Additions	5,168	362	46,224	**154,669**	40
Revaluation increases / (decreases) recognised in the Revaluation Reserve	(8)	0	0	**461,696**	(1,480)
Revaluation decreases recognised in the Surplus on the Provision of Services	(5,672)	0	0	**(58,711)**	0
Derecognition - disposals	0	0	0	**(15,829)**	0
Derecognition - other	0	0	0	**(4,829)**	0
Assets reclassified (to) / from held for sale	0	0	0	**6,463**	0
Other movements in cost or valuation	0	(1,362)	(43,021)	**0**	0
At 31 March 2018	14,050	1,421	56,299	**5,036,780**	593,418
Accumulated Depreciation and Impairment					
At 1 April 2017	0	0	0	**(784,301)**	(32,687)
Depreciation charge	0	0	0	**(141,055)**	(14,106)
Depreciation charge written out to Revaluation Reserve	0	0	0	**63,432**	3,190
Depreciation written out to the Surplus on the Provision of Services	0	0	0	**11,102**	0
Derecognition - disposals	0	0	0	**2,956**	0
Derecognition - other	0	0	0	**130**	0
Impairment losses recognised in the Surplus on the Provision of Services	0	0	0	**4,010**	0
At 31 March 2018	0	0	0	**(843,726)**	(43,603)
Net book value					
At 31 March 2018	14,050	1,421	56,299	**4,193,054**	549,815
At 31 March 2017	14,562	2,421	53,096	**3,709,020**	562,171

The disclosure for PPP assets is for information only. The costs and depreciation are included in 'Other Land and Buildings'.

NOTES TO THE FINANCIAL STATEMENTS

15. Property, Plant and Equipment - continued

15.7 Council Dwellings, Other Land and Buildings and Investment Properties

The Council carries out a rolling programme of revaluations that ensures that all property, plant and equipment required to be measured at fair value is revalued at least every five years. All valuations were carried out internally. Valuations of land and buildings were carried out under the direction of the Council's Operational Estate Manager, L. Turner RICS, in accordance with the Statements of Asset Valuation Practice and Guidance Notes of The Royal Institution of Chartered Surveyors. Fixtures and fittings are included in the valuation of the buildings where appropriate.

The significant assumptions applied in estimating fair value are:

- Unless otherwise stated, all properties with a greater than de minimis value were assumed to be in a reasonable state of repair and have a life expectancy of more than fifty years. Where the Council has a planned replacement programme asset life is reviewed accordingly.

- The valuations were prepared using information from the Council's internal records, together with the valuation roll produced by Lothian Valuation Joint Board.

- Not all properties were inspected.

The following statement shows the progress of the Council's five-year rolling programme for the revaluation of property, plant and equipment.

Council assets	**Council Dwellings £000**	**Other Land and Buildings £000**	**Vehicles, Plant, Furniture and Equipment £000**	**Infrastructure Assets £000**
Carried at historical cost	3	49,050	98,394	1,458,781
Valued at fair value as at:				
31 March 2019	1,481,869	808,791	0	0
31 March 2018	502	753,154	0	0
31 March 2017	0	204,982	0	0
31 March 2016	1,009	155,132	0	0
31 March 2015	1,124	122,467	65,168	0
Total cost or valuation	1,484,507	2,093,576	163,562	1,458,781

Council assets	**Community Assets £000**	**Surplus Assets £000**	**Assets Under Construction £000**	**Total £000**
Carried at historical cost	8,987	1	109,161	1,724,377
Valued at fair value as at:				
31 March 2019	0	0	0	2,290,660
31 March 2018	0	0	0	753,656
31 March 2017	0	0	0	204,982
31 March 2016	0	1,420	0	157,561
31 March 2015	0	0	0	188,759
Total cost or valuation	8,987	1,421	109,161	5,319,995

15. Property, Plant and Equipment - continued

15.8 Surplus Assets and Investment Properties - Fair Value Disclosure

Recurring fair value measurements using:	Quoted prices in active markets for identical assets (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Fair Value as at 31 March 2019
	£000	£000	£000	£000
Surplus assets	0	1,421	0	1,421
Investment properties - advertising hoardings	0	18,916	0	18,916
Total cost or valuation	0	20,337	0	20,337

- There were no transfers between levels during the year.
- The fair value for surplus assets has been based on the market approach using current market conditions and recent sales prices and other relevant information for similar assets in similar locations. Market conditions are such that similar properties are actively purchased and sold and the level of observable inputs is significant, leading to the properties being categorised at level 2 in the fair value hierarchy. In estimating the fair value of the Council's surplus assets, the assumption has been made that these would be disposed of for highest and best use consideration.
- The fair value for investment properties has been based on the market approach using current rent receivable with a capitalisation rate applied. The rate reflects the return that an investor would expect from the capital employed. There is evidence of lettings from the Council's property information systems which have been used to determine valuation parameters and the level of observable inputs is significant, leading to the investment properties being categorised at level 2 in the fair value hierarchy. In estimating the fair value of the Council's investment properties, the highest and best use of the properties is their current use.

16. Investment Properties

Policy

Investment properties are initially measured at cost. After initial recognition, investment properties are measured at fair value (the price that would be received for the asset in its highest and best use).

Any gains or losses arising from a change in the fair value of investment properties are recognised in the Comprehensive Income and Expenditure Statement for the period in which they arise.

Investment properties are revalued annually.

Investment properties held at fair value are not depreciated.

Investment properties are de-recognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

The gain or loss arising from the retirement or disposal of an investment property is recognised in the 'surplus or deficit on provision of services' within the Comprehensive Income and Expenditure Statement in the period of the retirement or disposal.

Note

16.1 Income and Expenses on Investment Properties

Income of £1.743m (£1.594m 2017/18) and expense £Nil (£Nil 2017-18) have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

There are no restrictions on the Council's ability to realise the value inherent in its investment properties or on the Council's right to the remittance of income and the proceeds of disposal.

16. Investment Properties - continued

16.2 Movement in Fair Value - continued

The following table summarises the movement in the fair value of investment properties over the year.

	2018/19		2017/18	
	Group £000	Council £000	Group £000	Council £000
Value at 1 April	18,321	17,891	16,821	16,471
Additions:				
- Subsequent expenditure	0	0	0	0
Disposals	0	0	0	0
Net (loss) / gain from fair value adjustments	815	1,025	1,500	1,420
Value at 31 March	19,136	18,916	18,321	17,891

17. Intangible Assets

Policy

Intangible fixed assets represent software licences purchased by the Council.

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

Intangible fixed assets are initially measured at cost. Software licences are depreciated over the period of the licence, commencing in the year of acquisition.

Note

The carrying value of intangible assets of the Group and the Council is £0.335m in 2018/19 (£1.444m in 2017/18).

The carrying amount of intangible assets is amortised on a straight-line basis. The amortisation of £1.240m in 2018/19 (2017/18 £1.249m) was charged to Resources.

18. Heritage Assets

Policy

Heritage assets comprise the following:

Monuments and statues

Civic regalia and artefacts

Archival collections

Libraries' special collections

Museum and gallery collections

Intangible heritage assets represent three private vehicle registration plates.

It has not been practical or possible to split out all heritage assets belonging to the common good fund, charities or trusts. Therefore, the Council's Balance Sheet may hold elements of heritage assets that belong to other entities. Work is on-going to establish and maintain a common good register, in accordance with the Community Empowerment (Scotland) Act 2015.

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

Heritage asset valuations may be made by any method that is appropriate and relevant. Furthermore valuations need not be carried out by external valuers and there is no prescribed period between valuations.

18. Heritage Assets - continued

The following measurement bases have been applied, based on the most relevant and appropriate information available. This is set in the context where it is not practicable to obtain up to date valuations for all heritage assets at a cost which is commensurate with the benefits to users of the Council's financial statements.

Monuments and statues	Historic value
Civic regalia and artefacts	Insurance purposes valuation
Archival collections	Insurance purposes valuation, based on restoration costs
Libraries' special collections	Insurance purposes valuation
Museum and gallery collections	Insurance purposes valuation
Private vehicle registration plates	Cost or current value information is not readily available, therefore these assets have not been recognised on the Council's Balance Sheet

Heritage assets are deemed to have indeterminate lives and a high residual value; hence it is not considered appropriate to charge depreciation.

18.1 Reconciliation of the Carrying Value of Heritage Assets

Note

Movements in 2018/19

Cost or Valuation	Monuments and Statues £000	Civic Regalia and Artefacts £000	Archival Collections £000
At 1 April 2018	423	2,047	6,797
Additions	155	0	0
Revaluation increases / (decreases) recognised in the Revaluation Reserve	317	0	0
Revaluation decreases recognised in the Surplus / Deficit on the Provision of Services	(9)	0	0
Transferred to Common Good	(44)	0	0
At 31 March 2019	842	2,047	6,797
Net book value			
At 31 March 2019	842	2,047	6,797
At 31 March 2018	423	2,047	6,797

Cost or Valuation	Libraries' Special Collections £000	Museum and Gallery Collections £000	Total Heritage Assets £000
At 1 April 2018	1,975	19,643	30,885
Additions	0	0	155
Revaluation increases / (decreases) recognised in the Revaluation Reverse	0	0	317
Revaluation decreases recognised in the Surplus / Deficit on the Provision of Services	0	0	(9)
Transferred to Common Good	0	0	(44)
At 31 March 2019	1,975	19,643	31,304
Net book value			
At 31 March 2019	1,975	19,643	31,304
At 31 March 2018	1,975	19,643	30,885

NOTES TO THE FINANCIAL STATEMENTS

18. Heritage Assets - continued

18.1 Reconciliation of the Carrying Value of Heritage Assets - continued

2017/18 Comparative Data

Cost or Valuation	**Monuments and Statues £000**	**Civic Regalia and Artefacts £000**	**Archival Collections £000**
At 1 April 2017	665	2,047	6,797
Additions	166	0	0
Revaluation increases / (decreases) recognised in the Revaluation Reverse	(4)	0	0
Revaluation increases / (decreases) recognised in the Surplus on the Provision of Services	(404)	0	0
At 31 March 2018	423	2,047	6,797
Net book value			
At 31 March 2018	423	2,047	6,797
At 31 March 2017	665	2,047	6,797

Cost or Valuation	**Libraries' Special Collections £000**	**Museum and Gallery Collections £000**	**Total Heritage Assets £000**
At 1 April 2017	1,975	19,643	31,127
Additions	0	0	166
Revaluation increases / (decreases) recognised in the Revaluation Reverse	0	0	(4)
Revaluation increases / (decreases) recognised in the Surplus on the Provision of Services	0	0	(404)
At 31 March 2018	1,975	19,643	30,885
Net book value			
At 31 March 2018	1,975	19,643	30,885
At 31 March 2017	1,975	19,643	31,127

18. Heritage Assets - continued

18.2 Details of Heritage Assets

- Valuations on Monuments and Statues are carried out under the direction of the Council's Operational Estate Manager. Monuments and Statues are valued on a historic basis.
- Civic Regalia and artefacts include items such as the Lord Provost's Badge and Chain of Office and the Rosebery Jewel. The value of these assets is based on an insurance purposes valuation carried out in 1998.
- Archival collections include historical records which relate to the history of Edinburgh and its surrounding areas. The value of these assets is based on a current insurance purposes valuation based on restoration costs only. This valuation has not changed since 2008/09.
- Libraries' special collections include items such as rare book collections and pictures in Calotype. The value of these assets is based on an insurance purposes valuation carried out in 2007 with a minor proportions valuation being updated in 2014.
- Museums and Gallery collections include various collections held at a number of museums across Edinburgh. They include items held within the Social History, Applied Art, Writers' Museum, Childhood, City Art Centre and Picture Loan Scheme. The value of these assets is based on insurance purposes valuations carried out in 2003 along with a minor proportions valuation being updated in 2014. A small minority of the assets are based on insurance purposes valuations carried out in 1996.
- The valuations for heritage assets have all been carried out internally and although they are from earlier periods, they are considered the most appropriate and relevant. Carrying out valuations for the majority of collections held is very costly and time consuming so it is not practicable to obtain recent valuations at a cost which is commensurate with the benefits to users of the financial statements. The carrying amounts of these heritage assets will be reviewed with sufficient regularity in the future to ensure they are brought up to date and remain appropriate.
- It has not been practical or possible to split out all heritage assets belonging to common good, charities or trusts. Therefore, the Council's balance sheet may hold this element of heritage assets that belong to other entities.
- The Council has three private vehicle registration plates which meet the definition of intangible heritage assets. These have not been recognised on the balance sheet due to lack of information on cost or current value. They are limited registration numbers that rarely become available for sale and therefore no relevant or appropriate current value can be placed on these.

19. Inventories

Policy

Inventories are measured at the lower of cost and net realisable value.

Inventories acquired through a non-exchange transaction are measured at their fair value as at the date of acquisition.

Inventories held for distribution at no charge or a nominal charge are measured at the lower of cost and current replacement cost.

Note	**2018/19**		**2017/18**	
	Group	**Council**	**Group**	**Council**
Total	**£000**	**£000**	**£000**	**£000**
Balance at 1 April	13,958	2,513	16,166	3,048
Purchases	60,057	15,184	54,088	13,923
Held by a third party	192	192	39	39
Recognised as an expense in the year	(60,403)	(14,872)	(56,333)	(14,495)
Stock written off	(519)	(33)	(2)	(2)
Balance at 31 March	13,285	2,984	13,958	2,513

The majority of the Council inventory transactions and balances relate to fuel and building materials, with catering supplies, community equipment and clothing making up the remainder. The Group inventory mainly relates to fuel and work in progress.

NOTES TO THE FINANCIAL STATEMENTS

20. Debtors

20.1 Long-term Debtors

	2018/19		2017/18	
	Group £000	Council £000	Group £000	Council £000
Council Tax	89,366	89,366	83,295	83,295
Trade Debtors	41,421	41,421	35,035	35,035
Prepayments	0	0	0	0
Other Debtors	121,562	125,114	91,667	98,112
Total long-term debtors before provision for impairment	252,349	255,901	209,997	216,442
Less: Provision for impairment	(120,969)	(120,969)	(110,167)	(110,167)
Total net long-term debtors	131,380	134,932	99,830	106,275

Long-term debtors include £11.184m (2017/18 £12.440m) and £Nil (2017/18 £0.319m) for sums recoverable from Police Scotland and Fire Scotland respectively. These sums relate to monies advanced to the former joint boards for capital expenditure.

20.2 Current Debtors

	2018/19		2017/18	
	Group £000	Council £000	Group £000	Council £000
Council Tax	112,089	112,089	102,140	102,140
Trade Debtors	54,818	49,225	59,665	55,729
Prepayments	5,086	2,528	20,866	18,646
Other Debtors	64,248	54,208	54,685	44,564
Total current debtors before provision for impairment	236,241	218,050	237,356	221,079
Less: Provision for impairment	(111,756)	(111,756)	(107,157)	(107,157)
Total net current debtors	124,485	106,294	130,199	113,922

20.3 Provision for Impairment

	2018/19		2017/18	
	Group	Council	Group	Council
Long-term provision for impairment	£000	£000	£000	£000
Council Tax	(83,290)	(83,290)	(81,431)	(81,431)
Trade Debtors	(22,043)	(22,043)	(21,687)	(21,687)
Other Debtors	(15,636)	(15,636)	(7,049)	(7,049)
Total long-term provision for impairment	(120,969)	(120,969)	(110,167)	(110,167)
Current provision for impairment	£000	£000	£000	£000
Council Tax	(102,082)	(102,082)	(98,998)	(98,998)
Trade Debtors	(9,534)	(9,534)	(7,948)	(7,948)
Other Debtors	(140)	(140)	(211)	(211)
Total current provision for impairment	(111,756)	(111,756)	(107,157)	(107,157)

21. Cash and Cash Equivalents

The balance of cash and cash equivalents comprises the following elements. Investments maturing within three months of the balance sheet are deemed to be cash and cash equivalents.

	2018/19		2017/18	
	Group £000	Council £000	Group £000	Council £000
Cash held	353	353	360	360
Bank current accounts	29,323	158	8,287	(15,330)
Short-term deposits:				
With banks or building societies	32,936	32,936	19,415	19,415
With other local authorities	73,232	73,232	108,960	108,960
	135,844	106,679	137,022	113,405

NOTES TO THE FINANCIAL STATEMENTS

22. Investments

22.1 Long-Term Investments

	2018/19 Group £000	2018/19 Council £000	2017/18 Group £000	2017/18 Council £000
Transport for Edinburgh	0	5,824	0	5,824
Tudor Trust	350	350	350	350
TIE	1	1	1	1
CEC Holdings	7,876	14,044	7,876	14,044
Telford NHT	3,471	3,471	61	61
	11,698	23,690	8,288	20,280

22.2 Short-Term Investments

	2018/19 Group £000	2018/19 Council £000	2017/18 Group £000	2017/18 Council £000
Local Authority Loans	17,100	17,100	20,722	20,722
Transport for Edinburgh Financial Assets	0	0	1,034	0
	17,100	17,100	21,756	20,722

23. Assets Held for Sale

Policy

Current assets held for sale are assets that the Council has identified as surplus to requirements, are being actively marketed and it is expected that the sale will be realised within twelve months of the Balance Sheet date.

Non-current assets held for sale are assets that the Council has identified as surplus to requirements, are being actively marketed, but it is not expected that the sale will be realised within twelve months of the Balance Sheet date.

Assets held for sale are measured at the lower of carrying value and fair value less costs to sell at the Balance Sheet date. Where the sale is expected to occur in more than twelve months, the cost is measured at present value.

Current and non-current assets held for sale are not depreciated.

Note

23.1 Non-Current Assets - Held for Sale

	2018/19 Group £000	2018/19 Council £000	2017/18 Group £000	2017/18 Council £000
Balance at 1 April	2,580	2,580	13,498	13,498
Additions	25	25	9	9
Assets reclassified as held for sale:				
Property, Plant and Equipment	0	0	(53)	(53)
Assets sold	(19)	(19)	(3,477)	(3,477)
Transfers from non-current to current	(1,000)	(1,000)	(7,397)	(7,397)
Balance at 31 March	1,586	1,586	2,580	2,580

23.2 Current Assets - Held for Sale

	2018/19 Group £000	2018/19 Council £000	2017/18 Group £000	2017/18 Council £000
Balance at 1 April	20,126	20,126	29,359	29,359
Additions	193	193	(88)	(88)
Revaluation gains/(losses) recognised in the revaluation reserve	4,000	4,000	0	0
Assets reclassified as held for sale:				
Property, Plant and Equipment	5,960	5,960	(6,410)	(6,410)
Assets sold	(13,673)	(13,673)	(10,132)	(10,132)
Transfers from non-current to current	1,000	1,000	7,397	7,397
Balance at 31 March	17,606	17,606	20,126	20,126

24. Creditors

	2018/19 Group £000	2018/19 Council £000	2017/18 Group £000	2017/18 Council £000
Trade Creditors	(84,173)	(79,330)	(88,090)	(88,090)
Council Tax refundable to taxpayer	(1,980)	(1,980)	(1,004)	(1,004)
Other Tax payable	(13,914)	(10,598)	(13,918)	(9,982)
Other Creditors	(105,160)	(73,971)	(63,814)	(42,652)
PFI Creditor	(8,206)	(8,206)	(8,022)	(8,022)
Finance Leases (non PFI)	(3,134)	(1,185)	(1,949)	0
	(216,567)	(175,270)	(176,797)	(149,750)

25. Provisions

Policy

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

Note

Provision has been made within the Group Financial Statements for outstanding payments of £36.727m (2017/18 £29.272m).

Of this amount, £33.810m (2017/18 £25.431m) relates to the Council. These include estimates of settlements on outstanding equal pay, compensation, insurance and other claims, contract arrangements, land acquisition costs for the tram project and Council Tax discounts that require to be set aside for housing projects. The precise amount of these payments is unknown, however, provision has been made in the accounts, based on the Council's assessment of the costs.

	Group £000	Council £000
Balance at 1 April 2018	(29,272)	(25,431)
Additional provisions made during the year	(18,711)	(16,794)
Amounts used during the year	6,239	3,381
Unused amounts reversed during the year	5,034	5,034
Balance at 31 March 2019	(36,710)	(33,810)

26. Reserves

Policy

Reserves held on the Balance Sheet are classified as either usable or unusable reserves.

Usable reserves hold monies that can be applied to fund expenditure or reduce Council Tax. Unusable reserves cannot be applied to fund expenditure.

Usable Reserves

The Council operates the following usable reserves:

- Capital receipts reserve - this represents capital receipts available to finance capital expenditure in future years.
- Capital grants unapplied account - holds capital grants and contributions that have been received towards specific works that have yet to be completed.
- Capital fund - under Schedule 3 of the Local Government (Scotland) Act 1975, certain receipts derived from the sale of property may also be used to create a capital fund "to be used for defraying any expenditure of the authority to which capital is properly applicable, or in providing money for repayment of the principal of loans".
- Renewal and repairs fund - holds monies set aside for the renewal and repair of Council property and funds for PPP school lifecycle maintenance. This fund is operated under the terms of Schedule 3 to the Local Government (Scotland) Act 1975.
- General Fund - held to mitigate financial consequences of risks and other events impacting on the Council's resources. Monies within the General Fund can be earmarked for specific purposes.

Note

Movements in the Group and the Council's usable reserves are detailed in the Movement in Reserves Statement (on pages 17 to 18) and Note 12.

NOTES TO THE FINANCIAL STATEMENTS

27. Unusable Reserves

Policy

The Council operates the following unusable reserves:

- Revaluation reserve - holds unrealised gains arising since 1 April 2007 from holding non-current assets.
- Capital adjustment account - provides a mechanism between the different rates at which assets are depreciated and are financed through the capital controls system.
- Financial instruments adjustment account - provides a mechanism between the different rates at which gains and losses (such as premiums on the early repayment of debt) are recognised under the Code and are required by statute to be met from the General Fund.
- Pensions reserve - represents the net monies which the Council requires to meet its pension liability, as calculated under IAS19, Employee Benefits. The Council operates a pensions reserve fund under the terms of the Local Government Pension Reserve Fund (Scotland) Regulations 2003.
- Employee statutory adjustment account - represents the net monies which the Council requires to meet its short-term compensated absences for employees under IAS19.

27.1 Summary of Unusable Reserves

	Balance as at: 31 March 2019 £000	31 March 2018 £000
Revaluation Reserve	1,666,037	1,378,280
Capital Adjustment Account	1,437,923	1,403,298
Financial Instruments Adjustment Account	(41,548)	(43,467)
Pensions Reserve	(659,468)	(482,493)
Employee Statutory Adjustment Account	(16,058)	(14,761)
Total Council Unusable Reserves	2,386,886	2,240,857
Subsidiaries, Associates and Joint Ventures	118,766	119,431
Total Group Unusable Reserves	2,505,652	2,360,288

27.2 Revaluation Reserve

The revaluation reserve contains the gains made by the Council arising from increases in the value of its property, plant and equipment. The balance is reduced when assets with accumulated gains are: revalued downwards or impaired and the gains are lost; used in the provision of services and the gains are consumed through depreciation; or disposed of and the gains are realised.

The reserve contains unrealised gains accumulated since 1 April 2007, the date the reserve was created. Accumulated gains arising before 1 April 2007 were consolidated into the capital adjustment account.

		2018/19 £000		Re-stated 2017/18 £000
Balance at 1 April		1,378,280		873,986
Upward revaluation of assets	405,501		603,757	
Downward revaluation of assets and impairment losses not charged to the Surplus on the Provision of Services	(89,490)		(78,632)	
Surplus on revaluation of non-current assets not posted to the Surplus on the Provision of Service		316,011		525,125
Difference between fair value depreciation and historical cost depreciation	(130)		(5,665)	
Accumulated gains on assets sold	(28,124)		(15,166)	
Amount written off to the capital adjustment account		(28,254)		(20,831)
Balance at 31 March		1,666,037		1,378,280

NOTES TO THE FINANCIAL STATEMENTS

27. Unusable Reserves - continued

27.3 Capital Adjustment Account

The capital adjustment account provides a balancing mechanism for timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (CIES) (with reconciling postings from the revaluation reserve to convert fair value figures to a historical cost basis). The account is credited with the amounts set aside by the Council to finance the costs for acquisition, construction and enhancement of non-current assets. The account also holds accumulated gains and losses on investment properties and revaluation gains accumulated on property, plant and equipment prior to 1 April 2007.

Note 11 provides details of the source of the transactions posted to this account, except those involving the revaluation reserve.

		2018/19 £000		2017/18 £000
Balance at 1 April		1,403,298		1,402,884
Reversal of items relating to capital expenditure debited or credited to the CIES				
Charges for depreciation and impairment of non-current assets	(157,814)		(141,055)	
Revaluation losses on property, plant and equipment heritage assets and assets held for sale	(60,619)		(48,012)	
Amortisation and impairment of intangible assets	(1,240)		(1,267)	
Capital funded from revenue	38,888		22,200	
Revenue exp. funded from capital under statute	(59,774)		(44,411)	
Amounts of non-current assets written off on disposal or sale as part of the gain / loss on disposal to the CIES	(19,952)		(27,172)	
	(260,511)		(239,717)	
Adjusting amounts written out of the revaluation reserve	28,254		20,831	
Net written out amount of the costs of non-current assets consumed in the year		(232,257)		(218,886)
Capital financing applied in the year:				
Use of the capital receipts reserve to finance new capital expenditure	25,953		21,879	
Donated assets	2,273			
Use of capital fund for new capital expenditure	7,385			
Capital grants and contributions credited to the CIES that have been applied to capital financing	80,401		72,548	
Application of grants from the capital grants unapplied account / capital fund	1,351		21	
Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	88,909		79,021	
Capital expenditure charged against the General Fund and HRA balances	59,774		44,411	
		266,046		217,880
Movements in the market value of investment properties credited to the CIES		1,025		1,420
Transfer to the General Fund		0		0
Other unrealised losses debited to the CIES		(189)		0
Balance at 31 March		1,437,923		1,403,298

NOTES TO THE FINANCIAL STATEMENTS

27. Unusable Reserves - continued

27.4 Financial Instruments Adjustment Account

The financial instruments adjustment account provides a balancing mechanism between the different rates at which gains and losses (such as premiums on the early repayment of debt) are recognised under the Code and are required by statute to be met from the General Fund and Housing Revenue Account. This account also holds the equivalent interest rate adjustment on lender option / borrower option loans.

		2018/19 £000		2017/18 £000
Balance at 1 April		(43,467)		(45,390)
Proportion of premiums incurred in previous financial years to be charged against the General Fund and HRA balances in accordance with statutory requirements	1,849		1,849	
Proportion of equivalent interest rate calculation on lender option / borrower option loans (LOBOs)	70		74	
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in accordance with statutory requirements		1,919		1,923
Balance at 31 March		(41,548)		(43,467)

The Council operates a loans pool on behalf of the General Fund and Housing Revenue Account. With the transfer of responsibility for Police and Fire services to the new national bodies, all movements are now reflected on the Council's Balance Sheet. An element of the cost, however, is recovered through the pooled interest rate and therefore there is no financial impact on the Council.

27.5 Pensions Reserve

The pensions reserve provides a balancing mechanism arising from the different arrangements for accounting for post employment benefits (pension costs) and for funding pensions in accordance with statutory provisions. The Council accounts for pensions in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs.

Statutory arrangements, however, require benefits to be financed as the Council makes its contributions to Lothian Pension Fund or pays any pensions for which it is directly responsible.

NOTES TO THE FINANCIAL STATEMENTS

27. Unusable Reserves - continued
27.5 Pensions Reserve - continued

The debit balance on the pension reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources that the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits require to be paid.

	2018/19 £000	2017/18 £000
Balance at 1 April	(482,493)	(705,786)
Actuarial gains or (losses) on pension assets and liabilities	(79,989)	273,812
Reversal of items relating to retirement benefits debited or credited to the Surplus on the Provision of Services in the Comprehensive Income and Expenditure Statement	(162,374)	(110,511)
Employer's pension contributions and direct payments to pensioners payable in the year	65,388	59,992
Balance at 31 March	(659,468)	(482,493)

27.6 Employee Statutory Adjustment Account

The employee statutory adjustment account provides a balancing mechanism arising from the different arrangements that would otherwise impact on the General Fund and HRA balances from accruing for compensated absences earned but not taken in the year (annual leave entitlement carried forward at 31 March). Statutory arrangements require that the impact on the General Fund and HRA balances is mitigated by transfers to or from this account.

		2018/19 £000		2017/18 £000
Balance at 1 April		(14,761)		(14,121)
Settlement or cancellation of accrual made at the end of the preceding year	14,761		14,121	
Amount accrued at the end of the current year	(16,058)		(14,761)	
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements		(1,297)		(640)
Balance at 31 March		(16,058)		(14,761)

NOTES TO THE FINANCIAL STATEMENTS

27. Unusable Reserves - continued

27.7 Unusable Reserves - Group Members

	Balance as at: 31 March 2019 £000	31 March 2018 £000
Subsidiaries		
CEC Holdings Limited	76,292	75,696
Transport for Edinburgh	24,226	25,275
Associates and Joint Ventures		
Common Good	23,510	21,864
Lothian Valuation Joint Board	(5,262)	(3,404)
Total Unusable Reserves - Subsidiaries, Associates and Joint Ventures	118,766	119,431

28. Cash Flow Statement - Operating Activities

The cash flows for operating activities include the following items:

	2018/19		2017/18	
	Group £000	Council £000	Group £000	Council £000
Cash paid to and on behalf of employees	571,307	571,307	560,154	560,154
General Revenue Grant	(363,757)	(363,757)	(345,757)	(345,757)
Non-Domestic Rates receipts from national pool	(340,474)	(340,474)	(355,063)	(355,063)
Other net operating cash payments / (receipts)	(116,137)	(116,137)	(85,056)	(85,056)
Net cash flows from subsidiary companies	(26,028)	0	(18,826)	0
Net cash flows from operating activities	(275,089)	(249,061)	(244,548)	(225,722)

29. Cash Flow Statement - Operating Activities - continued

The cash flows for operating activities include the following items:

	2018/19		2017/18	
	Group £000	Council £000	Group £000	Council £000
Interest received	(5,519)	(5,406)	(4,324)	(4,233)
Interest paid	82,766	82,435	89,285	88,950
Investment income received	(7,000)	(7,000)	(6,180)	(6,180)

NOTES TO THE FINANCIAL STATEMENTS

30. Cash Flow Statement - Investing Activities

	2018/19		2017/18	
	Group £000	Council £000	Group £000	Council £000
Purchase of Property, Plant and Equipment, Investment Property and Intangible Assets	230,998	218,902	187,617	170,649
Proceeds from the Sale of Property, Plant and Equipment, Investment Property and Intangible Assets	(19,563)	(18,770)	(24,841)	(24,277)
Net purchase of Short-Term and Long-Term Investments	(1,800)	(1,053)	20,773	20,884
Other payments for investing activities	55,316	49,136	49,211	42,601
Other receipts from investing activities	(60,531)	(60,512)	(29,955)	(29,938)
Net cash flows from investing activities	204,420	187,703	202,805	179,919

31. Cash Flow Statement - Financing Activities

	2018/19		2017/18	
	Group £000	Council £000	Group £000	Council £000
Cash Receipts of Short- and Long-Term Borrowing	(654)	(2,875)	(1,891)	0
Other Receipts for Financing Activities	22,243	22,243	3,297	3,297
Cash Payments for the Reduction of the Outstanding Liability relating to Finance Leases and on-Balance Sheet PPP Contracts	3,650	2,145	8,791	7,888
Repayment of short-term and long-term borrowing	49,960	49,960	54,355	54,355
Net cash flows from financing activities	75,199	71,473	64,552	65,540

32. Trading Operations

Edinburgh Catering Services - Other Catering continues to meet the definition of a significant trading operations under the terms of the Local Government in Scotland Act 2003, as amended.

32.1 Edinburgh Catering Services - Other Catering

Edinburgh Catering Services - Other Catering is a quality accredited trading operation providing a catering service to staff and the public across seven Council buildings which includes civic hospitality in Waverley Court and the City Chambers.

	2018/19 £000	2017/18 £000	2016/17 £000	Cumulative £000
Turnover	966	931	902	n/a
Deficit	(36)	(42)	(191)	(269)

Edinburgh Catering Services - Other Catering failed to achieved its statutory obligation to break even over the three-year period.

There has been a significant reduction in losses over the last three years. A revised tariff will be implemented in the new financial year to ensure the service covers its inflationary cost rises, mainly around food, beverages and staff costs. A new till system will be introduced to track income trends more effectively and proposals to rationalise the service delivery locations will be pursued.

The results of Edinburgh Catering Services - Other Catering are included within 'Financing and Investment Income and Expenditure' in the Comprehensive Income and Expenditure Statement.

NOTES TO THE FINANCIAL STATEMENTS

33. Financial Support and Guarantees

33.1 Loans and guarantees

The Council has made loans to the following organisations at less than market interest rates (soft loans).

	2018/19 £000 Transport for Edinburgh Ltd.	2017/18 £000 Transport for Edinburgh Ltd.	2018/19 £000 Spartans Community Football Academy	2017/18 £000 Spartans Community Football Academy
Opening Balance	939	899	55	54
New Loans	0	0	0	0
Increase in the Discounted Amount	42	40	5	4
Fair Value Adjustment	0	0	0	0
Loan Repayment	(981)	0	(3)	(3)
Balance Carried Forward	0	939	57	55
Nominal Value Carried Forward	0	1,000	99	102

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

The Transport for Edinburgh loan related to two £500,000 loans to Transport for Edinburgh Ltd. to provide a loan facility to Tramco for its general working capital purposes and funding its business and activities. These loans were fully repaid during the year to 31 March 2019.

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

33.2 Guarantees

In February 2018 the Council agreed to provide a formal pension guarantee to Lothian Pension Funds on behalf of Edinburgh Leisure.

From 1 April 2018 Lothian Pension Fund introduced a new investment strategy, whereby for those employers closed to new entrants but who do not meet the criteria for the Funds low-risk strategy, would be moved to a medium risk strategy.

Edinburgh Leisure would fall into this category and the impact would be a considerable increase in contribution rates and would likely result in a significant impact on services provided by this entity.

The Council approved providing a pension guarantee which enabled Edinburgh Leisure to be moved back to a low-risk strategy, avoiding the additional financial costs.

In June 2018 the Council also approved to provide a pension guarantee to Lothian Pension Fund on behalf of Lothian Buses, to enable them to merge their existing pension fund into Lothian Pension Fund, to streamline the pension portfolio and bring associated financial efficiencies.

NOTES TO THE FINANCIAL STATEMENTS

33. Financial Support and Guarantees - continued

33.3 Shared Equity Scheme / Scheme of Assistance

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

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

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

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

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

In June 2018 the Council purchased the interest in a shared equity loan scheme from PARC for £0.512m. The scheme provided assistance to buyers to purchase homes from PARC and twenty two loans remain in the scheme. These sums are included in long-term debtors.

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

33.4 National Housing Trust

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

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

The Telford NHT LLP with Miller Homes was bought over by the Council in January 2019.

Phase 3 will deliver up to 368 mid-market rent homes across three separate sites by December 2020. All NHT Phase 3 projects are now in contract and construction has commenced. The total required budget for NHT3 is £50.1m for three projects. Fruitmarket NHT3 has completed, with investment totalling £9.153m and delivery of 80 homes. Spend on the two remaining projects under NHT Phase 3 commenced in 2018/19 and will continue into 2019/20 and 2020/21, with the last NHT homes due to complete at Shrubhill in late 2020.

NOTES TO THE FINANCIAL STATEMENTS

33. Financial Support and Guarantees - continued

33.4 National Housing Trust - continued

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

Developer	Development Site	Phase	Total No. of Units	2018/19 £000	Prior Years £000	Total £000
Places for People	Lochend North	1	126	0	13,323	13,323
Places for People	Lighthouse Court	1	62	0	6,492	6,492
Teague Homes Limited	Salamander Place / Leith Links	1	145	0	15,551	15,551
City of Edinburgh Council	Telford North	1	89	0	10,299	10,299
FP Newhaven Ltd	Sandpiper Road	2	96	0	11,908	11,908
Ediston Homes Ltd	Fruitmarket	3	80	0	9,153	9,153
Cruden Homes	Western Harbour	3	90	11,279	0	11,279
Places for People	Shrubhill	3	58	9,139	0	9,139
			746	**20,418**	**66,726**	**87,144**

These sums are included within long-term debtors, as detailed in note 20.1.

34. Agency Income and Expenditure

The Council has entered into agency agreements with other local public bodies to provide and receive services, the income and expenditure for which is included in the Comprehensive Income and Expenditure Statement.

During the financial year the total Agency income was £11.799m (2017/18 £10.981m) and Agency Expenditure £8.619m (2017/18 £8.370m).

The Council also undertakes, on an agency basis, the financial administration on behalf of the Scottish Cities Alliance. During the year £0.653m (2017/18 £0.913m) was paid out to the respective lead authorities of the projects concerned, included in the totals above.

The Council acts as the Billing Authority for a number of Business Improvement Districts (BIDs). The Council collects a levy from the business rate payers on behalf of the BID bodies, Essential Edinburgh, Edinburgh West End, Greater Grassmarket (wound up February 2018) and Queensferry Ambition (wound up August 2017). During the year income of £1.185m (2017/18 £1.232m) was collected and £1.138m (2017-18 £1.18m) paid out to BID schemes, included in the totals above.

In August 2018 the Edinburgh and South-East Scotland City Region Deal (ESESCR Deal) was signed and committed a total of £600m of funding from both the Scottish and UK Governments, over 15 years. The Council has undertaken, on an agency basis, to act as the accountable body for the management of the Deal. The 2018/19 grant awarded to the ESESCR Deal totalled £41.6m, the funding of which was received in April 2019, with all funds remitted onwards to the respective ESESCR Deal projects.

35. Audit Costs

The fees payable to Scott Moncrieff in respect of external audit services undertaken in accordance with the Code of Audit Practice are £0.594m (2017/18 £0.578m).

In addition, the Council paid audit fees to Scott Moncrieff for the audit of CEC Recovery Limited's (formerly tie Limited) accounts. The Council paid £0.003m during 2018/19 (2017/18 £0.002m) for the audit of the 2017/18 financial statements.

NOTES TO THE FINANCIAL STATEMENTS

36. Grant Income

Policy

- **Revenue**

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

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

- **Capital**

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

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

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

Note

Grants and contributions credited to the Comprehensive Income and Expenditure Statement include the following:

	2018/19		2017/18	
	£000	**£000**	**£000**	**£000**
Credited to taxation and non-specific grant income				
General revenue funding	(363,757)		(345,757)	
Non-domestic rates	(340,474)		(355,063)	
Capital grants and contributions	(95,013)		(76,598)	
		(799,244)		(777,418)
Credited to services				
Central Government Bodies	(202,802)		(210,879)	
Other Local Authorities	(3,288)		(2,895)	
NHS bodies	(70,336)		(62,588)	
Other entities and individuals	(10,469)		(3,867)	
		(286,895)		(280,229)
Total		(1,086,139)		(1,057,647)

NOTES TO THE FINANCIAL STATEMENTS

37. Related Parties

During the year, the Council entered into a number of transactions with related parties. The most material of these transactions, not disclosed elsewhere, are shown below.

	2018/19 Expenditure	2018/19 Income	2018/19 Debtor / (Creditor)	2017/18 Net Expenditure / (Income)	2017/18 Debtor / (Creditor)
	£000	£000	£000	£000	£000
Capital City Partnership	4,293	(218)	216	4,666	0
CEC Holdings (incl. EDI Group, EICC)	72	(125)	3,784	243	(332)
Edinburgh Festival Theatres	611	(130)	0	515	0
Edinburgh Leisure Limited	11,978	(1,265)	147	8,575	0
Edinburgh Trams Ltd	645	(7)	1,442	(2,007)	0
Lothian Buses	1,715	(77)	10	1,401	0
Edinburgh Living MMR	2,734	(1,738)	2,748	0	0
Edinburgh Integration Joint Board	209,306	(231,273)	(12,373)	(19,079)	(8,378)
Lothian Valuation Joint Board	3,583	(56)	(1,715)	3,567	0
Telford NHT	3,454	0	0	0	0
NHS Bodies	4,248	(27,456)	219	(23,290)	4,587
Other Local Authorities	3,548	(2,513)	126	1,064	502
HMRC	0	0	(1,769)	0	581
Pension Fund	15	(257)	(3,722)	(246)	(247)
Scottish Government	11,669	(89)	28,623	7,708	21,780
Scottish Police Authority	2,221	(14)	0	2,787	0
Scottish Qualifications Authority	1,538	0	0	1,510	0
Other					
Audit Scotland	665	0	(382)	0	(387)
Autism Initiative UK	4,408	0	0	4,389	0
Bethany Christian Trust	799	(0)	0	1,487	0
Criminal Justice Bodies	555	0	0	616	0
Dean and Cauvin Charitable Trust	935	0	0	1,192	0
Edinburgh International Festival Society	2,210	(263)	43	2,246	0
Edinburgh Military Tattoo	0	(406)	0	(401)	0
Edinburgh Vol. Org. Council	1,314	(0)	0	1,328	0
Festivals Edinburgh Ltd	153	0	0	176	0
Handicab	452	0	0	449	0
Hubco	8,941	0	0	3,648	0
Lifecare Edinburgh	354	0	0	340	0
Marketing Edinburgh	1,363	(27)	11	1,146	0
Police Scotland	206	(1,835)	11,154	(2,484)	12,412
Scottish Fire and Rescue Service	39	(335)	(15)	(777)	964
Scottish Water	15	(11)	70	0	70
SESTRAN	1	(25)	356	1	0
SUSTRANS	2,930	(0)	1,685	0	10
Transport Scotland	20	0	0	0	629
Spartans	59	(4)	57	38	0
Port of Leith Housing	4,370	(1)	0	4,321	0
Royal Blind Asylum and School	1,636	0	0	1,347	0
Royal Lyceum Theatre Co Ltd	354	(50)	0	361	0
Total	**293,408**	**(268,175)**	**30,714**	**6,837**	**32,191**

NOTES TO THE FINANCIAL STATEMENTS

38. Capital Expenditure and Capital Financing

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

	2018/19		2017/18	
	£000	£000	£000	£000
Opening capital financing requirement		1,575,864		1,610,256
Capital Investment				
Property, plant and equipment	211,736		154,669	
Heritage Assets	155		166	
Assets held for sale	218		(79)	
Intangible assets	131		46	
Capital Receipts transferred to Capital Fund	825		4,971	
National Housing Trust - Consent to borrow (see note 32.4)	20,418		6,470	
Edinburgh Living LLP - Consent to borrow	2,734		0	
Acquisition of Long Term Investment	3,471		0	
Revenue expenditure funded from capital under statute	59,774		44,411	
Adjustments to PPP schools during the year	0		0	
		299,462		210,654
Sources of Finance				
Capital receipts	(25,953)		(21,879)	
Capital Funded from Current Revenue	(38,888)		(22,200)	
Government grants and other contributions	(148,910)		(116,980)	
Write down of EDI Loan Stock	(2,200)		0	
PPP schools - - under construction and lifecycle additions	(20,175)		0	
Loans fund / finance lease repayments	(89,734)		(83,987)	
		(325,860)		(245,046)
Closing capital financing requirement		1,549,466		1,575,864
Explanation of movements in year				
(Decrease) / increase in underlying need to borrow or fund from credit arrangements		(35,886)		(34,392)
Assets acquired under finance leases		9,488		
(Decrease) / Increase in capital financing requirement		(26,398)		(34,392)

NOTES TO THE FINANCIAL STATEMENTS

39. Leases

39.1 Assets Leased in - Finance Leases

Policy

Finance leases, which have substantially transferred to the authority the benefits and risks of ownership of a non-current asset, are treated as if the asset had been purchased outright.

Assets acquired under finance leases are included in non-current assets at the lower of the fair value or the present value of the minimum lease payments. The capital element of the lease is included as obligations under finance leases / creditors.

The lease rentals comprise capital and interest elements. The capital element is applied to reduce the outstanding obligation and the interest element is charged to revenue on a straight line basis over the terms of the lease.

Note

The Council has acquired a waste treatment facility and its IT equipment under finance leases. The assets classified under these leases are included in property, plant and equipment in the Balance Sheet:

	2018/19		2017/18	
	Group £000	Council £000	Group £000	Council £000
Value at 1 April	9,093	0	0	0
Additions during the year	9,488	9,488	9,742	0
Repayments during the year	(2,753)	(805)	(649)	0
Derecognition	0	0	0	0
Value at 31 March	15,828	8,683	9,093	0
Other land and buildings	0	0	0	0
Vehicles, plant, equipment and furniture	15,828	8,683	9,093	0
Value at 31 March	15,828	8,683	9,093	0
Finance Lease Liabilities	**£000**	**£000**	**£000**	**£000**
Not later than one year	3,134	1,185	1,949	0
Later than one year and not later than five years	8,756	3,560	7,144	0
Between six and ten years	2,134	2,134	0	0
Between eleven and fifteen years	1,804	1,804	0	0
	15,828	8,683	9,093	0

39.2 Assets Leased in - Operating Leases

Policy

Leases that do not meet the definition of a finance lease are accounted for as operating leases.

Rental payments, net of benefits received, under operating leases are charged to the relevant service on a straight line basis over the life of the lease.

Note

The Group leases in property, vehicles and copying equipment financed under the terms of operating leases. The amount charged to the Comprehensive Income and Expenditure Statement under these arrangements and the value of future payments under operating leases is shown

39. Leases - continued

39.2 Assets Leased in - Operating Leases - continued

Under these operating leases, the Group and Council is committed to paying the following sums, of which £0.000m is recoverable from employees (2017/18 £0.002m):

	2018/19		2017/18	
	Group	Council	Group	Council
Future Repayment Period		£000	£000	£000
Not later than one year	9,610	741	1,603	1,155
Later than one year and not later than five years	37,615	2,172	2,875	1,859
Later than five years	78,025	3,559	5,154	4,001
	125,250	**6,472**	**9,632**	**7,015**
Value at 31 March				
Other land and buildings	7,992	6,454	8,922	6,989
Vehicles, plant, equipment and furniture	117,258	18	710	26
	125,250	**6,472**	**9,632**	**7,015**
Recognised as an expense during the year	10,511	1,508	2,043	1,508

39.3 Assets Leased Out by the Council - Operating Leases

Policy

Rental income received under operating leases is credited to the relevant service in accordance with the terms specified in the lease agreement.

Note

The Council leases out property, equipment and infrastructure under operating leases for a number of purposes, including:

- for economic development purposes, including regeneration and to provide suitable affordable accommodation for local businesses.
- to arm's-length companies for the provision of services such as sport and leisure and theatres.

In 2018/19 the Council entered into a new operating lease arrangement with Edinburgh Trams for the lease of the tram infrastructure.

The future minimum lease payments receivable under non-cancellable leases in future years are:

	2018/19 £000	2017/18 £000
Not later than one year	21,239	12,683
Later than one year and not later than five years	72,298	39,978
Later than five years	324,856	149,919
	418,393	202,580

The Council has a number of leases that are agreed for a period of over 100 years, the majority of which relate to land.

40. Public Private Partnerships and Similar Contracts

40.1 PPP - Education Projects

In 2001, the Council entered into a Public Private Partnership (PPP1) for the provision of school buildings, maintenance and other facilities with Edinburgh Schools Partnership. This agreement was supplemented by a further agreement in April 2004, which now requires Edinburgh Schools Partnership either to replace or substantially renovate ten primary, five secondary and two special schools, together with one close support unit and a community wing, and to maintain these schools to an agreed standard. When the agreement ends in July 2033 the schools will be handed to the Council with a guaranteed maintenance-free life of five years.

In April 2007, the Council entered into a second Public Private Partnership (PPP2) for the provision of school buildings, maintenance and other facilities with Axiom Education Limited. This required Axiom Education Limited to replace six secondary schools and two primary schools and to maintain these schools to a high standard. When the agreement ends in July 2038 the schools will be handed to the Council with an agreed major maintenance-free life of five years.

In December 2013, the Council entered in to an agreement with Hub South East Scotland for the provision of a new building for James Gillespie's High School. This has been procured using a Design, Build, Finance and Maintain (DBFM) agreement with Hub South East Scotland. The concession is due to terminate in July 2041.

Under the agreements the Council is committed to paying the following sums as detailed in the contractor's final bid model:

	Payment for Services £000	Reimburse. of Capital Expenditure £000	Interest £000	Total £000
Payable in 2019/20	19,701	8,206	18,310	46,217
Payable within two to five years	89,413	32,594	69,179	191,186
Payable within six to ten years	130,250	46,180	77,500	253,930
Payable within eleven to fifteen years	138,758	57,962	64,174	260,894
Payable within sixteen to twenty years	76,762	44,492	35,630	156,884
Payable within twenty one to twenty five years	1,561	6,631	1,203	9,395
	456,445	196,065	265,996	918,506

Payments due under the following schemes have been inflated by: 1.11% per annum for the PPP1 scheme, 1.67% per annum for the PPP2 scheme and 2.5% per annum for the James Gillespie's High School scheme, reflecting the terms of the separate contracts and assumed inflation of 2.5% per annum.

The amounts disclosed as reimbursement of capital expenditure are included in creditors and other long-term liabilities on the Balance Sheet. These are not subject to the above inflationary uplifts.

The unitary charges paid to the service providers include amounts to compensate them for the capital expenditure incurred and interest payable whilst the capital expenditure remains to be reimbursed. The liability outstanding to pay the service providers for capital expenditure incurred is as follows:

	2018/19 £000	2017/18 £000
Balance at 1 April	204,089	211,977
PPP unitary charge restatement adjustment	(1)	4
Repayments during the year	(8,023)	(7,892)
Balance at 31 March	196,065	204,089

The Council has entered into a DBFM agreement with Hub South East Scotland for the provision of the new Queensferry High School. Capital expenditure of £17.9m related to the construction of the school is reported as Assets Under Construction within the balance sheet and as a future finance lease liability.

NOTES TO THE FINANCIAL STATEMENTS

40. Public Private Partnerships and Similar Contracts

40.2 PPP - Residual Waste

In 2016, the Council entered into a twenty five year contract with FCC to supply residual waste treatment at Millerhill. The contract is a joint arrangement between the Council and Midlothian Council on an 80:20 split respectively. This contract became operational in April 2019.

Under the agreements the Council is committed to paying the following sums as detailed in the contractor's final bid model:

	Payment for Services £000	Reimburse. of Capital Expenditure £000	Interest £000	Prepayment £000	Total £000
Payable in 2019/20	4,801	6,125	3,505	(1,994)	12,437
Within two to five years	24,944	31,878	22,110	0	78,932
Within six to ten years	38,189	5,155	23,065	0	66,409
Within eleven to fifteen years	44,326	8,100	19,773	0	72,199
Within sixteen to twenty years	51,571	13,066	14,114	0	78,751
Within twenty one to twenty five years	60,842	20,388	4,932	0	86,162
Within twenty six to thirty years	1,581	379	(172)	0	1,788
	226,254	85,091	87,327	(1,994)	396,678

Payments due under the scheme have been inflated by 1.06% per annum reflecting the terms of the contracts.

40.3 Provision of Information Technology services

In 2015 the Council entered into a seven year contract with CGI for the provision of information technology services. This contract became operational on 1 April 2016.

Under the agreement the Council is committed to paying the following sums in cash terms (assuming an inflationary uplift). These sums exclude amounts disclosed under finance leases for ICT asset additions.

Future Repayment Period	£000	Inflationary Uplift
2019/20	32,441	2.5%
2020/21 - 2022/23	66,773	2.5%
	99,214	

40.4 Provision of Parking Enforcement

The Council has entered into a five year contract with NSL for the provision of parking enforcement. The contract commenced on 1 October 2014 and ends on 30 September 2019. There is also a five year extension clause at the end of this period, which is currently under review.

Under the agreement the Council is committed to paying the following sums in cash terms (renegotiated annually):

Future Repayment Period	£000
2019/20	3,327
	3,327

40. Public Private Partnerships and Similar Contracts - continued

40.5 Other Rolling Contracts

The Council has entered into a number of rolling contracts to provide services, which are mainly care orientated through 'Supporting People'. The annual value of these contracts is £32.564m.

41. Pension schemes accounted for as defined contribution schemes

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

	2018/19		2017/18	
	£000	**%**	**£000**	**%**
Amount paid to Scottish Government in respect of teachers' pension costs	22,873		21,971	
As a percentage of teachers' pensionable pay		17.20		17.20
Amount paid in respect of added years	0		0	
As a percentage of teachers' pensionable pay		0.00		0.00
Capitalised value of discretionary awards entered into prior to 2015/16	18,949		18,220	

At 31 March 2019, creditors include £3.673m (2017/18 £2.898m) in respect of teachers' superannuation.

42. Defined Pension Schemes

42.1 Participation in Pension Scheme

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

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

In terms of this scheme, in 2018/19 the Council paid an employer's contribution of £58.521m (2017/18 £54.042m) into the Lothian Pension Fund, representing 22.5% (2017/18 21.3%) of pensionable pay. Contribution rates are determined by the Fund's Actuary based on triennial actuarial valuations of the pension fund. The data is based on the latest available valuations as at March 2017.

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

NOTES TO THE FINANCIAL STATEMENTS

42. Defined Pension Schemes - continued

42.2 Transactions Relating to Post-Employment Benefits

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

	2018/19		2017/18	
Comprehensive Income and Expenditure Statement	**£000**	**£000**	**£000**	**£000**
Cost of services:				
Service cost, comprising:				
Current service costs	103,040		93,031	
Past service costs	45,205		287	
Effect of Settlements	0		(1,569)	
		148,245		91,749
Financing and investment income:				
Net interest expense		14,129		18,762
Total post employee benefit charged to the surplus on the provision of services		162,374		110,511
Other post-employment benefits charges to the Comprehensive Income / Expenditure Statement				
Re-measurement of the net defined liability, comprising:				
Return on plan assets, excluding the amount incl. in the net interest expense above.	(183,615)		77,350	
Actuarial (gains) and losses arising on changes in financial assumptions	259,229		(92,581)	
Actuarial (gains) and losses arising on changes in demographic assumptions	0		(8,303)	
Other experience	4,375		(250,278)	
		79,989		(273,812)
Total post-employment benefits charged to the Comprehensive Income / Expenditure Statement		242,363		(163,301)
Movement in Reserves Statement				
Reversal of net charges made to the surplus on the provision of services for post-employment benefits in accordance with the Code.		(162,374)		(110,511)
Actual amount charged against the General Fund Balance for pensions in the year:				
Employer's contributions payable to the scheme		59,815		54,403
Contributions in respect of unfunded benefits		5,573		5,589
		65,388		59,992

NOTES TO THE FINANCIAL STATEMENTS

42. Defined Pension Schemes - continued

42.3 Pension Assets and Liabilities Recognised in the Balance Sheet

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

	2018/19 £000	**2017/18 £000**
Fair value of employer assets	2,970,647	2,720,975
Present value of funded liabilities	(3,548,983)	(3,124,427)
Present value of unfunded liabilities	(81,132)	(79,041)
Net liability arising from defined benefit obligation	(659,468)	(482,493)

42.4 Reconciliation of the Movements in the Fair Value of Scheme Assets

	2018/19 £000	**2017/18 £000**
Opening fair value of scheme assets	2,720,975	2,747,964
Effect of settlements	0	(5,711)
Interest income	73,318	71,179
Re-measurement gain / (loss):		
Return on plan assets, excluding the amount included in the net interest expense	183,615	(77,350)
Contributions from employer	59,815	54,403
Contributions from employees into the scheme	16,446	15,508
Contributions in respect of unfunded benefits	5,573	5,589
Benefits paid	(83,522)	(85,018)
Unfunded benefits paid	(5,573)	(5,589)
Closing fair value of scheme assets	2,970,647	2,720,975

Reconciliation of Present Value of the Scheme Liabilities	**2018/19 £000**	**2017/18 £000**
Present value of funded liabilities	(3,124,427)	(3,368,139)
Present value of unfunded liabilities	(79,041)	(85,611)
Opening balance at 1 April	(3,203,468)	(3,453,750)
Current service cost	(103,040)	(93,031)
Interest cost	(87,447)	(89,941)
Contributions from employees into the scheme	(16,446)	(15,508)
Re-measurement gain / (loss):		
Change in financial assumptions	(259,229)	92,581
Change in demographic assumptions	0	8,303
Other experience	(4,375)	250,278
Past service cost	(45,205)	(287)
Effects of settlements	0	7,280
Benefits paid	83,522	85,018
Unfunded benefits paid	5,573	5,589
Closing balance at 31 March	(3,630,115)	(3,203,468)

NOTES TO THE FINANCIAL STATEMENTS

42. Defined Pension Schemes - continued

42.5 Fair Value of Employer Assets

The following asset values are at bid value as required under IAS19.

	2018/19 £000	%	2017/18 £000	%
Consumer *	316,076	11	372,813	14
Manufacturing *	365,504	9	405,093	15
Energy and Utilities *	224,417	7	170,219	6
Financial Institutions *	249,909	8	241,734	9
Health and Care *	161,397	6	133,399	5
Information technology *	96,757	3	165,884	6
Other *	289,656	12	170,750	6
Sub-total Equity Securities	1,703,715		1,659,891	
Debt Securities:				
UK Government *	301,834	11	263,793	10
Corporate Bonds (non-investment grade)	0	0	53,015	2
Sub-total Debt Securities	301,834		316,808	
Private Equity				
All *	0	0	8,672	0
All	40,287	1	41,007	2
Sub-total Private Equity	40,287		49,679	
Real Estate:				
UK Property	201,206	6	174,887	6
Overseas Property	0	0	2,845	0
Sub-total Real Estate	201,206		177,732	
Investment Funds and Unit Trusts:				
Equities *	29,345	1	26,153	1
Bonds	75,308	3	0	0
Infrastructure	368,743	12	322,478	12
Other	0	0	6,215	0
Sub-total Investment Funds and Unit Trusts	473,397		354,846	
Derivatives:				
Foreign Exchange *	750	0	1,252	0
Sub-total Derivatives	750		1,252	
Cash and Cash Equivalents				
All *	249,458	8	160,768	6
Sub-total Cash and Cash Equivalents	249,458		160,768	
Total Fair Value of Employer Assets	2,970,647	100	2,720,975	100

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

42. Defined Pension Schemes - continued

42.6 Basis for Estimating Assets and Liabilities

Hymans Robertson, the independent actuaries to Lothian Pension Fund, have advised that the financial assumptions used to calculate the components of the pension expense for the year ended 31 March 2019 were those from the beginning of the year (i.e. 31 March 2018) and have not been changed during the year. The main assumptions in the calculations are:

Investment returns	
Actual return for period from 31 March 2018 to 31 March 2019	9.50%
Total return for period from 1 April 2018 to 31 March 2019	9.50%

Average future life expectancies at age 65:		**31.03.19**	**31.03.18**
Current pensioners	male	21.7 years	21.7 years
Current pensioners	female	24.3 years	24.3 years
Future pensioners	male	24.7 years	24.7 years
Future pensioners	female	27.5 years	27.5 years

Period ended	**31.03.19**	**31.03.18**
Pension increase rate	2.5%	2.4%
Salary Increase rate	4.2%	4.1%
Discount rate	2.4%	2.7%

Estimation of defined benefit obligations is sensitive to the actuarial assumptions set out above. In order to quantify the impact of a change in the financial assumptions used, the Actuary has calculated and compared the value of the scheme liabilities as at 31 March 2019 on varying bases. The approach taken by the Actuary is consistent with that adopted to derive the IAS19 figures.

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

Change in assumptions at 31 March 2019	**Approximate % Increase to Employer**	**Approximate Monetary Amount £000**
0.5% decrease in Real Discount Rate	10%	359,756
0.5% increase in the Salary Increase Rate	2%	61,058
0.5% increase in the Pension Increase Rate	8%	291,140

42.7 Impact on the Council's Cash Flows

The objectives of the scheme are to keep employers' contributions at as constant a rate as possible. The Council agreed a contribution stability mechanism with the scheme's actuary until 31 March 2018. The rate was increased by 0.5% from 1 April 2018 and thereafter, for the remainder of the actuarial valuation period of two years, rates could vary from this rate by a maximum increase of 0.5% or a maximum decrease of (0.5%) per annum.

42.8 Information about the defined benefit obligation

	£000	**%**	**Weighted Average Duration**
Active members	1,728,264	48.7	24.8
Deferred members	484,541	13.7	24.7
Pensioner members	1,336,178	37.6	13.1
Total	3,548,983	100.0	19.5

NOTES TO THE FINANCIAL STATEMENTS

42. Defined Pension Schemes - continued

42.8 Information about the defined benefit obligation - continued

The figures are for funded obligations only and do not include the unfunded pensioner liabilities. The durations are effective as at the previous formal valuation as at 31 March 2017.

The unfunded pensioner liability at 31 March 2019 comprises approximately £62.183m (2017/18 £60.821m) in respect of LGPS unfunded pensions and £18.949m (2017/18 £18.220m) in respect of teachers' unfunded pensions. For unfunded liabilities as at 31 March 2019, it is assumed that all unfunded pensions are payable for the remainder of the member's life. It is further assumed that 90% of pensioners are married (or cohabiting) at death and that their spouse (cohabitee) will receive a pension between 37.5% and 50% of the member's pension as at the date of the member's death.

42.9 Pension Reserves - Group Position

The pension reserves shown in the Group Balance Sheet relate to the Council. Pension reserves for the Valuation Joint Board are included in unusable reserves. Local government legislation provides that local authorities have an obligation to meet the expenditure of the joint boards of which they are constituent members. As a consequence, the City of Edinburgh Council has obligations to meet the liabilities arising from the joint board pension deficits as they fall due. Pension reserves for other companies in the group are included in usable reserves. The value of the pension reserves is shown separately below.

Unusable Reserves	**2018/19 Pension Reserve £000**	**2017/18 Pension Reserve £000**
Council	(659,468)	(482,493)
Lothian Valuation Joint Board	(5,432)	(3,628)
	(664,900)	(486,121)

Usable Reserves	**2018/19 £000**	**2017/18 £000**
CEC Holdings	0	(567)
Capital Theatres (formerly Festival City Theatres Trust)	0	0
Edinburgh Leisure	(1,550)	(1,023)
Transport for Edinburgh Ltd	65,471	59,466
	63,921	57,876
Net Pension Reserves	(600,979)	(428,245)

42.10 Analysis of projected amount to be charged to profit or loss for the period to 31 March 2020

	Assets £000	**Obligations £000**	**Net (liability) / asset £000**	**% of pay**
Current service cost	0	(118,003)	(118,003)	(43.9%)
Past service cost including curtailments	0	0	0	0.0%
Effect of settlements	0	0	0	0.0%
Total Service Cost	0	(118,003)	(118,003)	(43.9%)
Interest income on plan assets	71,195	0	71,195	26.5%
Interest cost on defined benefit obligation	0	(87,648)	(87,648)	(32.6%)
Total Net Interest Cost	71,195	(87,648)	(16,453)	(6.1%)
Total included in Profit or Loss	71,195	(205,651)	(134,456)	(50.0%)

The Council's estimated contribution to Lothian Pension Fund for 2019/20 is £59.830m.

42. Defined Pension Schemes - continued

42.11 Strain on the Pension Fund

Lothian Pension Fund has the right to require the Council to make additional payments to the pension fund to reflect the extra cost to the pension fund of immediate payment of benefits to employees who retire early on efficiency, redundancy or voluntary grounds. This amounted to £1.172m, including accrued payments (2017/18 £0.998m).

42.12 Further Information

Further information on Lothian Pension Fund can be found in the Council's Pension Fund's Annual Report which is available upon application to the Chief Executive Officer, Lothian Pension Fund, Atria One, 144 Morrison Street, Edinburgh, EH3 8EX.

43. Financial Instruments

Policy

Classifications

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Non-exchange transactions, such as those relating to taxes, benefits and government grants, do not give rise to financial instruments.

Financial Liabilities

A financial liability is an obligation to transfer economic benefits controlled by the Council and can be represented by a contractual obligation to deliver cash or financial assets or an obligation to exchange financial assets and liabilities with another entity that is potentially unfavourable to the Council.

All of the Council's financial liabilities held during the year are measured at amortised cost and comprised:

- long-term loans from the Public Works Loan Board and commercial lenders,
- lease payables detailed in note 39,
- Private Finance Initiative contracts detailed in note 40, and
- trade payables for goods and services received.

Financial Assets

A financial asset is a right to future economic benefits controlled by the Council that is represented by cash, equity instruments or a contractual right to receive cash or other financial assets or a right to exchange financial assets and liabilities with another entity that is potentially favourable to the Council. The financial assets held by the Council during the year are accounted for under the following classifications:

Amortised cost (where cash flows are solely payments of principal and interest and the Council's business model is to collect those cash flow) comprising:

- cash in hand,
- current, call and notice accounts with banks
- fixed term deposits with banks and building societies,
- loans to other local authorities,
- certificates of deposit and covered bonds issued by banks and building societies,
- treasury bills and gilts issued by the UK Government,
- trade receivables for goods and services provided.

Fair value through other comprehensive income (where cash flows are solely payments of principal and interest and the Council's business model is to both collect those cash flows and sell the instrument; and equity investments that the Council has elected into this category) comprising:

- money market funds

Financial assets held at amortised cost are shown net of a loss allowance reflecting the statistical likelihood that the borrower or debtor will be unable to meet their contractual commitments to the Council.

43. Financial Instruments - continued
Financial Assets - continued

Transition to IFRS 9 Financial Statements

The Council adopted IFRS9 Financial Instruments accounting standard with effect from 1 April 2019. The main changes include the reclassification of financial assets and the earlier recognition of the impairment of financial assets.

The Council has made use of the transitional provisions in IFRS 9 to not restate the prior year's financial statements. The changes made on transition to the balance sheet are summarised below:

Financial Assets	IAS 39 31.3.18 £000	Reclassi - fication £000	Remeas - urement £000	IFRS 9 1.4.18 £000
Debtors				
Loans and receivables	870	0	0	0
Fair Value through Profit / Loss	0	870	(204)	666

As part of the introduction of IFRS9, a further review of the classification of Financial Instruments has been undertaken and as a result, investment in Money Market Funds have been reclassified from Available for Sale to Fair value through Profit and Loss. The Council's shareholding (of £23.340m) in subsidiary companies which was previously classified as 'Unquoted Equity at cost' continue to be held at cost and are no longer classified as finacial instruments.

There was no unrealised gain on the available for sale financial assets (2017/18 £nil).

43.1 Categories of Financial Instruments

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

	31.03.19		31.03.18	
Assets	**Long-Term £000**	**Current £000**	**Long-Term £000**	**Current £000**
At amortised cost				
- Bank Call Accounts (Note 21)	0	32,936	0	19,415
- Local Authority Loans - S-T (Note 22)	0	17,100	0	20,722
- Local Authority Loans - S-T (Note 21)	0	73,232	0	108,960
		123,268		149,097
At fair value through profit and loss				
- Money Market Funds	0	25,959	0	26,836
Total Financial Instruments - Assets	0	272,495	0	325,030

The Investment total does not include £23.34m (2017/18 £20.3m) in unquoted equity in subsidiary companies which are not deemed to be Financial Instruments.

	Long-Term £000	Current £000	Long-Term £000	Current £000
Debtors				
At amortised cost	118,708	68,471	105,549	60,375
Total debtors	118,708	68,471	105,549	60,375
Borrowings				
- Public Works Loans Board	(863,875)	(69,968)	(914,458)	(67,235)
- Salix	(1,024)	(289)	(1,184)	(279)
- Market debt	(285,692)	(3,465)	(285,763)	(3,432)
Total borrowings	(1,150,591)	(73,722)	(1,201,404)	(70,946)
Other Liabilities				
Financial liabilities at amortised cost	0	(26,901)	0	(20,328)
PPP and finance lease liabilities	(213,259)	(9,391)	(196,067)	(8,022)
Deferred liability	(37,201)	0	(25,223)	0
Total other long-term liabilities	(250,460)	(36,292)	(221,290)	(28,350)

NOTES TO THE FINANCIAL STATEMENTS

43. Financial Instruments - continued

43.1 Categories of Financial Instruments - continued

In August 2018, the Council undertook a fixed rate forward starting loan transaction. The Council has committed to drawing down a £60m loan in October 2020 repayable over 25 years on a semi annual annuity basis.

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

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

Further detail on the finance lease and PPP liabilities can be seen in notes 39 and 40.

The future liabilities for the Residual Waste PPP facility are not included above as the facility did not become operational until April 2019.

43.2 Income, Expenses, Gains and Losses

	Financial Liabilities: Measured at Amortised Cost £000	Financial Assets: Measured at Amortised Cost £000	Fair Vaue through Profit / Loss £000	Total £000
Interest expense	63,313	0	0	63,313
Impairment (gain) / loss	0	0	0	0
Total expense in Surplus on the Provision of Services	63,313	0	0	63,313
Interest income	0	(1,361)	(300)	(1,661)
Dividend Income	0	0	0	0
Total Interest and investment income	0	(1,361)	(300)	(1,661)
Net (gain) / loss for the year	63,313	(1,361)	(300)	61,652

In addition to the above interest expense, £1.849m (2017/18 £1.849m) was charged to the loans pool from the financial instruments adjustment account during the year, but not reflected in the Comprehensive Income and Expenditure Statement. It also excludes £0.427m (2017/18 £0.208m) of loans fund expenses charged to the Council.

Dividend income of £7m (2017/18 £6.18m) was received from a subsidiary council company but not included in the table above as the holding is not classified as a financial instrument.

43.3 Fair Value of Assets and Liabilities

The Council has adopted IFRS 13 for the calculation of fair values. Financial assets classified as available for sale are carried in the Balance Sheet at fair value. For Treasury Bills and shares in Money Market Funds, the fair value is taken from the market price. Financial assets classified as loans and receivables and all financial liabilities are carried in the Balance Sheet at amortised cost. Their fair values have been estimated by calculating the net present value of the remaining contractual cash flows at 31 March 2019, using the following methods and assumptions:

- Loans, including PWLB loans, borrowed by the Council have been valued by discounting the contractual cash flows over the whole life of the instrument at the appropriate market rate for local authority loans.
- The value of “Lender’s Option Borrower’s Option” (LOBO) loans has been increased by the value of the embedded options.
- The fair values of other long-term loans and investments have been discounted at the market rates for similar instruments with similar remaining terms to maturity on 31 March.
- The fair values of finance lease assets and liabilities and of PFI scheme liabilities have been calculated by discounting the contractual cash flows (excluding service charge elements) at the appropriate AA-rated corporate bond yield.

43. Financial Instruments - continued

43.3 Fair Value of Assets and Liabilities - continued

- The fair value of soft loan assets has been calculated using the cash flows implied by the appropriate market interest rate which has been deemed to be the appropriate PWLB rate plus a credit spread of between 2% and 5% depending on the party to whom the advance has been made.
- The fair value of short-term instruments, including trade payables and receivables, is assumed to approximate to the carrying amount.

Fair values are shown in the table below, split by their level in the fair value hierarchy:

- Level 1 – fair value is only derived from quoted prices in active markets for identical assets or liabilities, e.g. bond prices.
- Level 2 – fair value is calculated from inputs other than quoted prices that are observable for the asset or liability, e.g. interest rates or yields for similar instruments.
- Level 3 – fair value is determined using unobservable inputs, e.g. non-market data such as cash flow forecasts or estimated creditworthiness.

The fair values are calculated as follows:	Fair Value Level	Principal Oustanding £000	31.03.19 Carrying Amount £000	31.03.19 Fair Value £000	31.03.18 Carrying Amount £000	31.03.18 Fair Value £000
Public Works Loans Board	2	(922,192)	(933,843)	(1,221,824)	(981,692)	(1,283,157)
Salix	2	(1,368)	(1,313)	(1,290)	(1,462)	(1,484)
Market debt	2	(274,900)	(289,157)	(523,985)	(289,195)	(535,839)
Borrowings		(1,198,460)	(1,224,313)	(1,747,099)	(1,272,349)	(1,820,480)
Other long-term liabilities	n/a	(37,201)	(37,201)	(37,201)	(25,223)	(25,223)
Trade creditors	n/a	(26,901)	(26,901)	(26,901)	(20,328)	(20,328)
PPP and Finance Leases	3	(222,650)	(222,650)	(308,033)	(204,089)	(276,650)
Financial liabilities		(1,485,212)	(1,511,065)	(2,119,234)	(1,521,989)	(2,142,681)

The fair value is higher than the carrying amount because the authority's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the rates available for similar loans at the Balance Sheet date.

	Fair Value Level	31.03.19 Carrying Amount £000	31.03.19 Fair Value £000	31.03.18 Carrying Amount £000	31.03.18 Fair Value £000
Investments held at Fair Value through Profit and Loss					
Money Market Funds	1	25,959	25,959	26,836	26,836
		25,959	25,959	26,836	26,836
Investment held at Amortised Cost					
Bank Call Accounts	n/a	32,936	32,936	19,415	19,415
Local Authority Loans	2	90,332	90,267	129,683	129,723
		123,268	123,203	149,098	149,138
Debtors					
Loan Stock	n/a	2,339	2,339	6,445	6,445
Soft Loans	3	55	55	992	992
Other trade debtors	n/a	68,471	68,471	60,375	60,375
		70,865	70,865	67,812	67,812
Total Investments		220,092	220,027	243,746	243,786

43. Financial Instruments - continued

43.4 Financial Assets classified as Fair Value through Profit and Loss

As part of the introduction of IFRS9, a further review of the classification of Financial Instruments has been undertaken and as a result, investment in Money Market Funds have been reclassified from Available for Sale to Fair value through Profit and Loss. The Council's shareholding (of £23.340m) in subsidiary companies which was previously classified as 'Unquoted Equity at cost' continue to be held at cost and are no longer classified as finacial instruments.

Investments held at Fair Value through Profit and Loss	Fair Value Level	31.03.19 Carrying Amount £000	31.03.19 Fair Value £000	31.03.18 Carrying Amount £000	31.03.18 Fair Value £000
Money Market Funds	1	25,959	25,959	26,836	26,836
		25,959	25,959	26,836	26,836

There was no unrealised gain on the available for sale financial assets (2017/18 £nil).

44. Nature and Extent of Risks Arising from Financial Instruments

44.1 Overall Procedures for Managing Risk

The Council's overall risk management procedures focus on the unpredictability of financial markets, and implementing restrictions to minimise these risks. The Council complies with the CIPFA Prudential Code and has adopted the CIPFA Treasury Management in the Public Services Code of Practice. Overall these procedures require the Council to manage risk in the following ways:

- by formally adopting the requirements of the Code of Practice;
- by approving annually in advance prudential indicators for the following three years limiting:
  - the Council's overall borrowing;
  - its maximum and minimum exposures to fixed and variable rates;
  - its maximum and minimum exposures in the maturity structure of its debt;
- by selecting investment counterparties in compliance with the Council's Treasury Policy Statement.

The annual treasury management strategy which incorporates the prudential indicators was approved by the Council on 14 March 2019 and is available on the Council website. The key issues within the strategy are:

- The authorised limit for 2019/20 has been set at £2.205bn. This is the maximum limit for external borrowings and other short and long term liabilities.
- The operational boundary for 2019/20 has been set at £1.919bn. This is the expected upper level of borrowing and other short and long term liabilities during the year.

The prudential indicators are reported and approved as part of the Council's annual budget setting process. Actual performance is also reported annually to members of the Council.

44.2 Key Risks

The Council's activities expose it to a variety of financial risks, the key risks are:

- Credit risk – the possibility that other parties might fail to pay amounts due to the Council;
- Liquidity risk – the possibility that the Council might not have funds available to meet its commitments to make payments;
- Re-financing risk – the possibility that the Council might be requiring to renew a financial instrument on maturity at disadvantageous interest rates or terms;
- Market risk - the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates movements.

44. Nature and Extent of Risks Arising from Financial Instruments - continued

44.3 Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council’s customers. Deposits are with banks, building societies, and other institutions in line with the Council’s prevailing counterparty limits as set out in the Council’s treasury policy statement. Investment decisions are considered daily as part of the daily cash flow management by the Council’s Treasury Team who can, and do, restrict the list further in light of market conditions.

The Council's funds are managed along with those of Lothian Pension Fund and some other related organisations which are pooled for investment purposes as a treasury cash fund. Management of the cash fund is on a low risk, low return basis, with security of the investments the key consideration while at the same time seeking innovative and secure cash investment opportunities. This arrangement has allowed a better management of the Council's risk in the exceptional financial and market circumstances in recent years.

As well as lending monies to other local authorities, the Council purchases UK Government Treasury Bills and has previously purchased Bonds and Floating Rate Notes with an explicit UK Government Guarantee. At 31 March 2019, the Council had £17.1m in short term investments, all of which were loans to other local authorities. Of the net Cash and Cash Equivalents, 55.4% were loans to other local authorities, a further 19.6% was held in two AAA rated Money Market Funds, leaving only 25.0% with banks. All of the monies held on deposit with banks at 31 March 2019 were in call or near call accounts.

The principal outstanding on monies held by the Council under its treasury management arrangements at 31 March 2019 was £149.1 million (31 March 2018: £175.8m). This was held with the following institutions:

Summary	Standard and Poor's Rating	Principal Outstanding 31.03.19 £000	Carry Value 31.03.19 £000	Fair Value 31.03.19 £000	Carry Value 31.03.18 £000
Money Market Funds					
Deutsche Bank AG, London	AAAm	4,004	4,006	4,006	760
Goldman Sachs	AAAm	59	59	59	1
Standard Life	AAAm	21,884	21,895	21,895	26,075
Bank Call Accounts					
Bank of Scotland	A	14,671	14,678	14,678	17,371
Royal Bank of Scotland	BBB+	577	577	577	640
Santander UK	A	1	1	1	462
Barclays Bank	A-	13	13	13	14
Svenska Handelsbanken	AA-	7	7	7	862
HSBC Bank Plc 31 dn	AA-	17,642	17,647	17,634	0
HSBC Bank Plc	AA-	14	14	14	65
UK Pseudo-Sovereign Risk Instruments					
Local Authorities (see below)	n/a	90,227	90,332	90,267	129,683
UK Government Treasury Bills	Aau	0	0	0	0
	Total	149,099	149,229	149,151	175,933

Local Authorities are generally assumed to have a pseudo-sovereign credit rating (which in the UK at 31 March 2019 would have been 'AA' from S&P) due to their tax raising powers and the perceived government support. Very few have their own credit rating.

The Council's maximum exposure to credit risk in relation to its direct investments in banks and building societies of £32.9m cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Council's deposits, but the Council takes a low risk approach to investment. There was no evidence at 31 March 2019 that this risk was likely to crystallise.

NOTES TO THE FINANCIAL STATEMENTS

44. Nature and Extent of Risks Arising from Financial Instruments - continued

44.3 Credit Risk - continued

No breaches of the Council's counterparty criteria occurred during the reporting period and the Council does not expect any losses from non-performance by any of its counterparties in relation to deposits. In October 2008 the Icelandic banking sector defaulted on its obligations. The Council has never had any exposure to Icelandic banks and had no investment in the sector at that time.

In line with the Investment Regulations governing local authorities introduced in 2010, the Council approved an annual investment strategy and treasury policy statement for both the Council and the Cash Fund at its March 2019 meeting. The papers are available on the Council's website. A full list of the deposits outstanding at 31 March 2019 is contained in the Treasury Cash Fund Investment Report for Quarter 1 2019. This is available on request from the Council's Treasury Section - Waverley Court, 4 East Market Street, Edinburgh, EH8 8BG.

All Council invoices become due for payment on issue. Excluding pre-payments of £2.246m (2017/18 £2.172m), trade debtors past due date can be analysed by age as follows:

	2018/19 £000	2017/18 £000
Less than two months	12,325	14,355
Two to four months	1,774	1,805
Four to six months	977	716
Six months to one year	2,153	1,928
More than one year	6,566	7,555
Total	23,795	26,359

Collateral – During the reporting period the Council held no collateral as security.

Credit Risk: Trade Debtors

Loss allowances on debtors have been calculated by reference to the Council's historic experience of default.

Debtors are collectively assessed for credit risk in the following groups:

		31.3.19	
	Range	Gross Receivable	Loss Allowance
Council Tax	3% - 100%	201,454	(185,372)
Non Domestic Rates	1% - 100%	2,940	(1,720)
HRA tenants and other debtors	1% - 90%	8,255	(5,773)
Housing Benefits	75% - 85%	26,285	(20,763)
Sundry debtors	1% - 80%	38,302	(19,097)
Total		277,236	(232,725)

44.4 Liquidity risk

The Council carries out short and medium term cash flow management to ensure that it will have sufficient liquidity to cover all of its payment obligations. This includes monitoring the maturity profile of investments to ensure sufficient liquidity is available for the Council’s day to day cash flow needs. The Council also has ready access to borrowings from the money markets to cover any day to day cash flow needs. It is anticipated that some short to medium term borrowing may be required within the next financial year to meet cashflow and working capital requirements. This will be managed as part of the Council's short- and medium-term cashflow monitoring as required.

44. Nature and Extent of Risks Arising from Financial Instruments - continued

44.4 Liquidity risk - continued

Whilst the PWLB provides access to longer term funds, it also acts as a lender of last resort to the Council. The Council is also required by statute to achieve a balanced budget, which ensures sufficient monies are raised to cover annual expenditure. There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

The Council manages its liquidity position through the risk management procedures above (the setting and approval of prudential indicators and the approval of the treasury and investment strategy reports), as well as through cash flow management procedures required by the Code of Practice.

44.5 Re-financing and Maturity Risk

The Council maintains significant debt and investment portfolios. The re-financing risk to the Council relates to managing the exposure to replacing financial instruments as they mature. As shown in the chart in 44.6, the majority of the Council's debt portfolio consists of fixed rate longer term loans, and as such, the Council has a relatively low re-financing risk on its liabilities. However, the Council has market debt which allows the lender the option to ask for a rate increase at set dates and at that point the Council may choose to repay the loan at no additional cost. This gives a potential re-financing risk which the Council monitors and manages.

The Council's approved treasury strategy addresses the main risks and the treasury team address the operational risks within approved parameters. This includes monitoring the maturity profile of financial liabilities and amending the profile through either new borrowing or the rescheduling of the existing debt. With the margin on new borrowing rates and a separate rate for the premature papayment of loans, it is unlikely that there will be much scope for any substantial rescheduling of PWLB debt. However the Council is in on-going discussion with institutions over the potential to restructure some of the Council's market debt.

The maturity analysis of the principal outstanding on the Council’s debt is as follows:

	2018/19	**2017/18**
	£000	**£000**
Less than one year	(68,018)	(62,982)
Between one and two years	(65,215)	(61,787)
Between two and five years	(156,335)	(174,166)
Between five and ten years	(252,800)	(270,794)
More than ten years	(860,840)	(879,907)
Financial Liabilities	(1,403,208)	(1,449,636)

All trade and other payables are due to be paid in less than one year and trade creditors of £26.900m (2017/18 £20.328m) are not shown in the table above. The above figures show the principal outstanding, therefore, neither accrued interest of £15.116m (2017/18 £16.009m) nor net equivalent interest rate (EIR) adjustments of £10.737m (2017/18 £10.793m) to the carrying amounts of market debt shown in the financial liabilities are included. The future lease liabilities of £17.902m related to the Queensferry High School (per Note 40.1) are also excluded as the repayment profile will not be agreed until the asset comes into use.

The only investment which the Council has with a maturity of greater than one year is £2.339m in EDI loan stock.

44.6 Market risk

Interest rate risk

The Council is exposed to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council, depending on how variable and fixed interest rates move across differing financial instrument periods. For instance, a rise in variable and fixed interest rates would have the following effects:

- borrowings at variable rates – the interest expense charged to the Comprehensive Income and Expenditure Statement will rise;
- borrowings at fixed rates – the fair value of the borrowing liability will fall;
- investments at variable rates – the interest income credited to the Comprehensive Income and Expenditure Statement will rise; and
- investments at fixed rates – the fair value of the assets will fall.

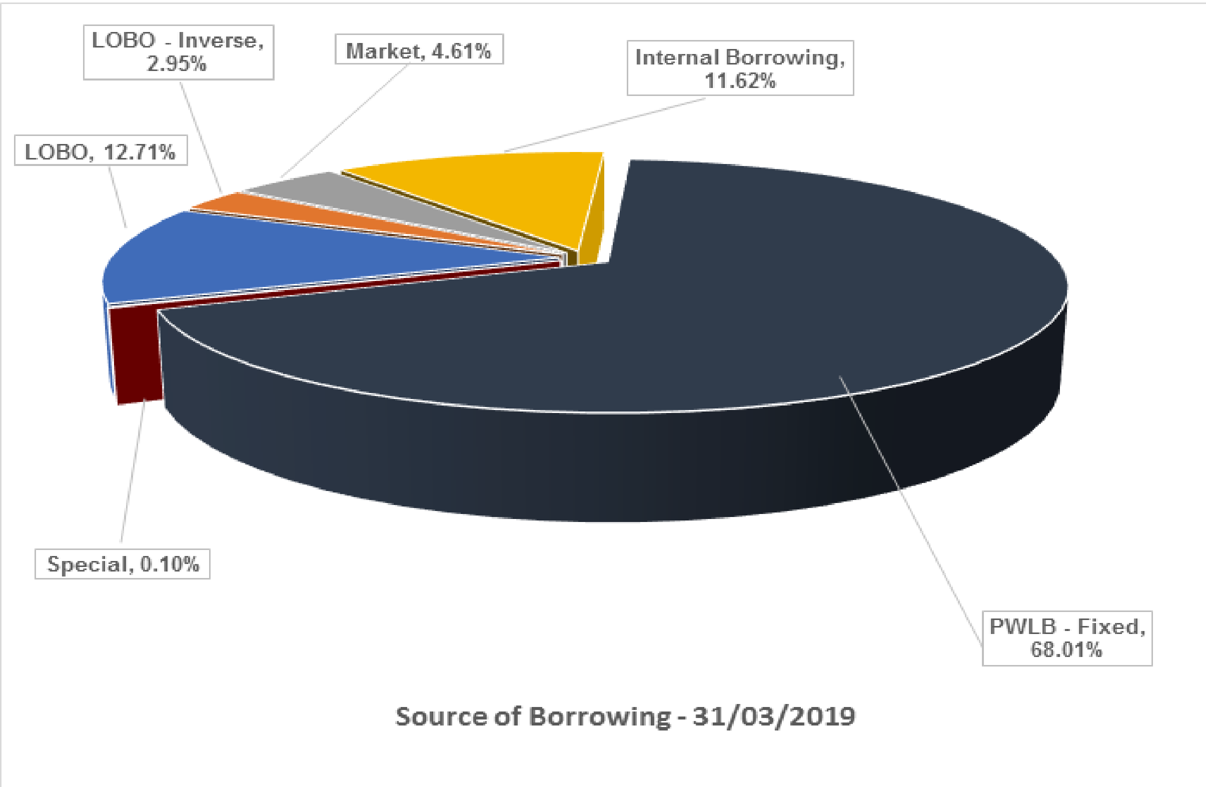
44. Nature and Extent of Risks Arising from Financial Instruments - continued

44.6 Market risk - continued

Borrowings are not carried at fair value on the Balance Sheet, so nominal gains and losses on fixed rate borrowings would not impact on the Comprehensive Income and Expenditure Statement or Movement in Reserves Statement. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Comprehensive Income and Expenditure Statement and affect the General Fund Balance, subject to influences from Government grants. Movements in the fair value of fixed rate investments will be reflected in the Movement in Reserves Statement, unless the investments have been designated as fair value through the Comprehensive Income and Expenditure Statement.

The Council has a number of strategies for managing interest rate risk. The annual treasury management strategy includes a forecast for short and longer term interest rates. The treasury team continue to monitor market and forecast interest rates during the year and adjust investment policies accordingly. For instance during periods of falling interest rates, and where economic circumstances make it favourable, fixed rate investments may be taken for longer periods to secure better long term returns. Any such strategy is run within the short and medium term liquidity requirements of the Council.

The following chart shows the source of the Council's borrowing. Most of the Council's borrowings are from the Government by way of the Public Works Loans Board (PWLB). As interest rates are historically low, none of the PWLB borrowing was variable rate.



In addition to the borrowing in the chart above, in August 2018, the Council undertook a fixed rate forward starting loan transaction. The Council has committed to drawing down a £60m loan in October 2020 repayable over 25 years on a semi annual annuity basis. The purpose of the transaction was to mitigate the interest rate risk on the Council's future capital financing requirement.

NOTES TO THE FINANCIAL STATEMENTS

44. Nature and Extent of Risks Arising from Financial Instruments - continued

44.6 Market risk - continued

If all interest rates had been 1% higher with all other variables held constant, the financial effect would be:

	£000
Increase in interest payable on variable borrowings	0
Increase in interest receivable on variable rate investments	(854)
Impact on Comprehensive Income and Expenditure Statement	(854)
Increase in Government grant receivable for financing costs	0
Share of overall impact debited to the HRA	0
Decrease in fair value of fixed rate investment assets	0
Decrease in fair value of fixed rate borrowings liabilities	257,132

Price Risk

The Council does not generally invest in equity shares but does have shareholdings of £23.340m (2017/18 £20.280m) in a number of Council owned Companies and joint ventures. Whilst these holdings are generally illiquid, the Council is exposed to losses arising from movements in the prices of the shares.

As the shareholdings have arisen in the acquisition of specific interests, the Council is not in a position to limit its exposure to price movements by diversifying its portfolio.

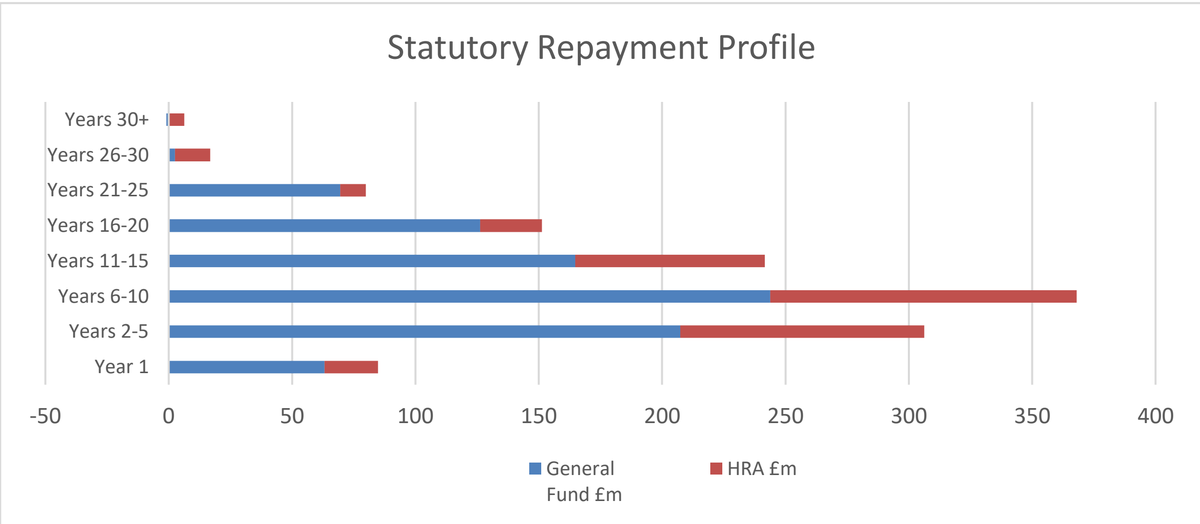
Foreign exchange risk

The Council has no financial assets or liabilities denominated in foreign currencies. It therefore has no exposure to loss arising from movements in exchange rates.

44.7 Repayment Profile

The Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016 require the statutory loans fund to be administered in accordance with the 2016 Regulations, proper accounting practices and prudent financial management.

The Council operates a consolidated loans fund under the terms of these Regulations. Capital payments made by services are financed by capital advances from the loans fund. All advances from the loans fund in the current year have a repayment profile set out using Option 1, the statutory method. All capital advances from the loans fund are repaid using the previous hybrid annuity structure with fixed principal repayments. The Council operates the loans fund to manage historic debt and the balance therefore represents historic borrowing for capital spend.



NOTES TO THE FINANCIAL STATEMENTS

45. The City of Edinburgh Council Charitable Funds

The City of Edinburgh Council administers a number of charitable funds. Over the last few years, the Council has rationalised the number of charitable trusts down from over a hundred to six, with Usher Hall Conservation Trust wound-up in 2017/18 and further plans in place to wind up the Boyd Anderson Trust in 2019/20.

45.1 The funds are:

Scottish Registered Charities	Scottish Charity Registration Number	Market Value 31.03.19 £000	Market Value 31.03.18 £000
Lauriston Castle	SC020737	7,043	7,041
Jean F. Watson	SC018971	6,424	6,311
Edinburgh Education Trust	SC042754	1,021	948
Nelson Halls	SC018946	241	228
The Royal Scots Trust	SC018945	34	32
Boyd Anderson	SC025067	105	109
Total market value		14,868	14,669

These funds do not represent assets of the Council and are not included in the Consolidated Balance Sheet.

45.2 Financial Position of the Scottish Registered Charity Funds

2017/18 £000	Income and Expenditure Account	2018/19 £000
	Income	
89	Investment income	79
0	Other non-investment income	26
89		105
	Expenditure	
(87)	Prizes, awards and other expenses	(22)
(13)	Governance Costs	(16)
(100)		(38)
(11)	Surplus / (Deficit) for the year	67

2017/18 £000	Balance Sheet	2018/19 £000
	Long-Term Assets	
2,075	Investments	2,207
5,275	Artworks - Jean F Watson Trust	5,317
7,020	Heritable property	7,020
14,370	**Total Long-Term Assets**	14,544
	Current Assets	
313	Cash and bank	331
16	Debtors	20
329		351
	Current Liabilities	
(30)	Creditors	(27)
(30)		(27)
14,669	**Total Assets less Liabilities**	14,868
	Funds	
3,293	Capital at 1 April	3,291
(11)	Surplus / (Deficit) for the year	67
9	Realised and unrealised gains on investments	132
0	Realised and unrealised losses on investments	0
3,291		3,490
11,378	Revaluation reserve	11,378
14,669	**Funds at 31 March**	14,868

At the request of the Office of the Scottish Charity Regulator, a separate Trustee's Report and Accounts have been prepared which give further information on the Scottish registered charities in the trusteeship of the Council. A copy of this document may be obtained from the Council's Finance Division at Business Centre 2.6, Waverley Court, 4 East Market Street, Edinburgh, EH8 8BG or on the Council's **website** in due course.

NOTES TO THE FINANCIAL STATEMENTS

46. Prior Period Adjustment

In 2018/19, as part of the valuation process for the Council's dwellings, the valuer reviewed the selection and valuation of all beacon properties and the associated adjustment factor applied, resulting in a significant upward increase. Given the extent of this change, the opening valuation for 2018/19 has been restated and a corresponding upward adjustment reflected as shown below:

Movement in Reserves Statement	2017/18 Statements £000	Council Dwellings £000	2017/18 Re-stated £000
Council's Unusable Reserves			
Comprehensive Income and Expenditure	529,625	269,305	798,930
Net increase / (Decrease) before transfers to statutory reserves	457,139	269,305	726,444
Balance at 31 March 2018	1,971,552	269,305	2,240,857
Group Comprehensive Income and Expenditure Statement			
Surplus on Revaluation of Non-Current Assets	(255,820)	(269,305)	(525,125)
Other Comprehensive Income and Expenditure	(587,772)	(269,305)	(857,077)
Total Comprehensive (Income) / Expenditure	(530,038)	(269,305)	(799,343)
Council Comprehensive Income and Expenditure Statement			
Surplus on Revaluation of Non-Current Assets	(255,820)	(269,305)	(525,125)
Other Comprehensive Income and Expenditure	(529,625)	(269,305)	(798,930)
Total Comprehensive (Income) / Expenditure	(469,036)	(269,305)	(738,341)
Group Balance Sheet			
Property, Plant and Equipment	4,047,483	269,305	4,316,788
Unusable Reserves	2,090,983	269,305	2,360,288
Council Balance Sheet			
Property, Plant and Equipment	3,923,749	269,305	4,193,054
Unusable Reserves	1,971,552	269,305	2,240,857

HOUSING REVENUE ACCOUNT

INCOME AND EXPENDITURE STATEMENT

for the year ended 31 March 2019

The Housing Revenue Account (HRA) Income and Expenditure Statement shows in more detail the income and expenditure on HRA services included in the Council's Comprehensive Income and Expenditure Statement.

2017/18		2018/19	
£000	**EXPENDITURE**	**£000**	**£000**
27,964	Repairs and maintenance	33,823	
19,132	Supervision and management	19,282	
21,356	Depreciation and impairment of non-current assets	21,446	
5,627	Other expenditure	5,873	
(40)	Impairment of debtors	43	
74,039			80,467
	INCOME		
(96,050)	Dwelling rents	(97,455)	
(47)	Non-Dwelling rents (gross)	(41)	
(5,343)	Other income	(7,539)	
(101,440)			(105,035)
(27,401)	Net income for HRA Services (as included in the Council's Comprehensive Income and Expenditure Statement)		(24,568)
208	HRA share of corporate and democratic core		150
1,021	HRA share of other amounts included in the Council's Net Cost of Services but not allocated to specific services		2,288
(26,172)	Net income for HRA Services		(22,130)
	HRA share of other operating expenditure included in the Council's Comprehensive Income and Expenditure Statement		
3,467	(Gain) / loss on sale of HRA fixed assets	(2,381)	
0	Investment Property changes in fair value	(60)	
19,092	Interest payable and similar charges	18,330	
2,306	Interest cost on defined benefit obligation *(pension-related)*	2,306	
(57)	Interest and investment income	(114)	
(1,825)	Interest income on plan assets *(pension-related)*	(1,934)	
(11,280)	Capital grants and contributions	(24,788)	
11,703			(8,641)
(14,469)	Surplus for the year on HRA services		(30,771)

HOUSING REVENUE ACCOUNT

MOVEMENT ON THE HRA STATEMENT

2017/18 £000		2018/19 £000
0	Balance on the HRA at the end of the previous year	0
14,469	Surplus for the year on the HRA Income and Exp Account	30,771
(23,511)	Adjustments between accounting basis and funding basis under statute	(56,814)
(9,042)	**Net increase before transfers to reserves**	(26,043)
9,042	Contribution (to) / from renewal and repairs fund, via the General Fund	26,043
0	**Balance on the HRA at the end of the current year**	0

Adjustments Between Accounting Basis and Funding Basis Under Regulations

£000		£000
	Adjustments primarily involving the Capital Adjustment Account	
	Reversal of items debited or credited to the Income and Expenditure Statement	
21,356	Charges for depreciation and impairment of non-current assets	21,446
(11,280)	Capital grants and contributions applied	(24,788)
0	Movement in the market value of investment properties	(60)
	Insertion of items not debited or credited to the Income and Expenditure Statement	
(18,290)	Statutory provision for the financing of capital investment	(20,115)
(19,474)	Capital funded from revenue	(32,800)
	Adjustments primarily involving the Capital Receipts Reserve	
3,467	Transfer of cash sale proceeds credited as part of the gain / loss on disposal of assets	(2,382)
	Adjustments primarily involving the Financial Instruments Adjustment Account	
(536)	Amount by which finance costs charged are different from finance costs chargeable in the year in accordance with statutory requirements	(567)
	Adjustments primarily involving the Pensions Reserve	
2,377	Reversal of items relating to retirement benefits debited or credited to the Income and Expenditure Statement	3,910
(1,128)	Employer's pension contributions and direct payments to pensioners payable in the year	(1,502)
	Adjustments primarily involving the Employee Statutory Adjustment Account	
(3)	Amount by which officer remuneration charged to the Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	44
(23,511)		(56,814)

HOUSING REVENUE ACCOUNT

Notes to the Housing Revenue Account

1. The number and types of dwellings in the authority's housing stock at 31 March 2019 are as follows:

	2019		2018	
Types of Houses	**Number**	**Annual Average Rent (£)**	**Number**	**Annual Average Rent (£)**
Main provision Council dwellings				
1 Apartment	285	3,970.00	279	3,891.00
2 Apartment	5,499	4,443.00	5,312	4,351.00
3 Apartment	10,103	5,159.00	9,753	5,043.00
4 Apartment	3,460	5,944.00	3,306	5,806.00
5 Apartment	514	6,366.00	496	6,241.00
6 Apartment	9	6,413.00	9	6,287.00
7 Apartment	4	6,212.00	4	6,090.00
8 Apartment	1	6,212.00	1	6,090.00
Mid-market rent dwellings				
2 Apartment	23	5,780.00	22	5,659.00
3 Apartment	84	7,098.00	81	6,966.00
4 Apartment	22	8,946.00	22	8,770.00
	20,004		19,285	

The stock figure represents all types of residential properties, including furnished tenancies, sheltered housing and homelessness units.

2. The amount of rent arrears included as debtors in the Council's Consolidated Balance Sheet was £6.907m (£6.876m 2017/18) against which a provision amounting to £5.773m (£5.730m 2017/18), has been created in respect of non collectable debts.

3. The total value of uncollectable void rents for main provision properties was £0.624m (2017/18 £0.566m). This has been netted against rental income.

COUNCIL TAX INCOME ACCOUNT

The Council Tax Income Account (Scotland) shows the gross income raised from council taxes levied and deductions made under Statute. The resultant net income is transferred to the Comprehensive Income and Expenditure Statement.

for the year ended 31 March 2019

2017/18 £000			2018/19 £000	2018/19 £000
(337,413)	Gross council tax levied and contributions in lieu			(351,763)
53,825	Less:	- Exemptions and other discounts	56,620	
8,481		- Provision for bad debts	8,827	
24,217		- Council Tax Reduction Scheme	24,294	
3,766		- Other reductions	4,091	
90,289				93,832
(247,124)				(257,931)
(2,123)	Previous years' adjustments			(1,504)
(249,247)	**Total transferred to General Fund**			**(259,435)**

Notes to the Council Tax Income Account
The in-year collection rate for Council Tax was 97.0% (2017/18 96.8%).

Each household or occupied dwelling is allocated to a Council Tax band by the Assessor. The charge per Council Tax band is calculated as a proportion of band D - these proportions are determined by legislation. Bands E to H were rebased in 2017/18 by the Scottish Government as per the Council Tax Base table below, with a 3% increase applied to Council Tax in both 2017/18 and 2018/19.

Unoccupied properties are eligible for 10% discount for up to 12 months, from the date the property was last occupied, thereafter 100% additional charge, with certain exceptions. For Council Tax purposes, students and certain other categories of people are not regarded as occupants. Reductions in Council Tax payable are also granted to properties, with certain attributes, that are the sole and main residence of permanently disabled persons.

Charges in respect of water and sewerage are the responsibility of Scottish Water. The Council collects both water and sewerage charges and makes payment to the Water Authority.

Calculation of the Council Tax Base 2018/19

Band		Number of Properties	Disabled Relief	Exemptions	Discounts	Effective Properties	Ratio to Band D	Band D Equivalents	Charges per Band
A	Up to £27,000	23,994	73	3,718	3,387	16,962	6/9	11,308	£826.79
B	£27,001 - £35,000	47,568	67	3,557	6,828	37,250	7/9	28,972	£964.59
C	£35,001 - £45,000	44,506	(14)	3,037	5,426	36,029	8/9	32,026	£1,102.39
D	£45,001 - £58,000	39,890	68	2,748	4,276	32,934	9/9	32,934	£1,240.19
E	£58,001 - £80,000	42,203	(12)	3,726	3,783	34,682	473/360	45,568	£1,629.47
F	£80,001 - £106,000	25,698	(36)	1,576	1,988	22,098	585/360	35,909	£2,015.31
G	£106,001 - £212,000	21,886	(119)	511	1,288	19,968	705/360	39,104	£2,428.71
H	Over £212,000	4,065	(27)	143	190	3,705	882/360	9,077	£3,038.47
					Total			234,898	
				Add:	Contributions in Lieu			511	
				Less:	Provision for Non-Payment			(7,062)	
					Council Tax Base			**228,347**	

NON-DOMESTIC RATES INCOME ACCOUNT

The Non-Domestic Rate Account is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Non-Domestic Rate Account. The statement shows the gross income from the rates and deductions made under statute. The net income is paid to the Scottish Government as a contribution to the national Non-Domestic Rate pool.

for the year ended 31 March 2019

2017/18 £000		2018/19 £000	2018/19 £000
(461,111)	Gross rates levied and contributions in lieu		(476,081)
99,998	Less: - Reliefs and other deductions	103,459	
4,794	- Uncollectable debt written off and provision for impairment	4,904	
104,792			108,363
(356,319)			(367,718)
7,305	Previous years' adjustments		7,867
(349,014)	**Net Non-Domestic Rates Income**		**(359,851)**
	Allocated to:		
(349,501)	Contribution to National Non-Domestic Rates Pool		(360,532)
487	Adjustments for years prior to introduction of National Non-Domestic Rates Pool		681
(349,014)			**(359,851)**

Notes to the Non-Domestic Rates Income Account

Rateable Values as at 1 April 2018	**Number**	**Rateable Value £000**
Shops, offices and other commercial subjects	15,905	655,234
Industrial and freight transport	2,816	81,395
Telecommunications	6	23
Public service subjects	359	50,154
Miscellaneous	3,923	175,605
	23,009	962,412

Contribution to / from National Non-Domestic Rates Pool

The contribution to the National Non-Domestic Rates Pool of £360.532m (2017/18 £349.501m) is the non-domestic rates contributed by the Council through pooling arrangements for government grant purposes. The amount distributed to the Council under these arrangements was £340.474m (2017/18 £355.063m).

With effect from 2011/12, authorities retain in full the income raised locally up to the baseline level assumed in the Local Government Financial Settlement. Any variation from this assumed level is then met by means of a corresponding transfer of funds to or from the Scottish Government. No payment was received under the Business Rates Incentivisation Scheme during the year.

Poundage

Occupiers of non-domestic property pay rates based on the valuation of the property within the valuation roll for Edinburgh. The non-domestic rate poundage is determined by the Scottish Ministers, and was 48.0p per £ in 2018/19 (2017/18 46.6p per £).

Properties with a rateable value greater than £51,000 (2017/18 £35,000) had their rate charges calculated using the poundage of 50.6p per £ (2017/18 49.2p per £).

From 1 April 2008, the Scottish Government introduced the Small Business Bonus Scheme. Business properties with a rateable value of £18,000 or less are entitled to receive relief as set out below:

100% Relief	below	£15,000
25% Relief	£15,001 to	£18,000
Upper limit for combined rateable value		£35,000

COMMON GOOD FUND

Common Good Fund Foreword

The Common Good Fund stands separate from the Council's accounts and has been described as "the ancient patrimony of the community". It was originally derived from the grants by the Sovereigns of Scotland at various times. The present fund is an amalgam of the funds of the City and Royal Burgh of Edinburgh and the Royal Burgh of South Queensferry.

A report on the (Edinburgh) Common Good prepared by the Town Clerk and City Chamberlain in 1905 set out the historical background of the fund and listed its then assets in some detail. The report also stated a "General Principle" that the Fund should be administered "for the purpose of upholding the dignity and suitable hospitality of the City; performing the duties incumbent upon a Royal Burgh ..... maintaining the municipal establishment and managing the municipal affairs; vindicating or extending the corporate rights of the community and defending its interests; acquiring additional land or property for the corporate benefit, or improving existing corporation property, and generally for any purpose which, in the bona fide judgement of the Town Council, is for the good of the community as a whole, or in which the inhabitants at large may share, as distinct from the separate interests or benefit of any particular individual or class, however deserving or needy. The purpose must be limited to those which concern the City and its interests".

The Local Government etc. (Scotland) Act 1994 confirms this interpretation that use of the Fund shall "have regard to the interests of all the inhabitants" of the area.

The Common Good accounts are prepared in accordance with the Council's accounting policies as detailed in Note 1.

In **2015/16**, £2m of the Common Good Fund was earmarked to be utilised to fund a planned property maintenance programme. £111,000 of this funding has been used to fund Scott Monument lighting work and £33,000 on surveys and work at the City Observatory.

The resulting balance of the Common Good Fund is £2.352m as at 31 March 2019 (£2.387m 2017/18). This is split £0.496m in the fund and £1.856m in the planned property maintenance fund.

During 2018/19, the Council made a deficit of £0.035m on the Common Good fund. This is mainly due to no asset disposals in the financial year and other income and overheads remaining stable.

The **Common Good Annual Performance Report** is considered by the Finance and Resources Committee in September each year along with the Audited Annual Accounts.

COMMON GOOD FUND - INCOME AND EXPENDITURE ACCOUNT

2017/18 £000		2018/19 £000	2018/19 £000
	Income		
(9)	Interest and investment income	(16)	
(1,591)	Rent Income	(1,684)	
(1,455)	Capital Funding	(1,189)	
(2,812)	Recharges Income	(1,680)	
(5,867)	**Total Income**	(4,569)	
	Expenditure		
24	Common Good Fund	51	
5,858	Common Good Property Costs	4,553	
5,882	**Total Expenditure**		4,604
15	**(Surplus) / Deficit for the Year**		35

COMMON GOOD FUND - BALANCE SHEET

Re-stated 31 March 2018 £000		31 March 2019 £000	£000
965	Community Assets	2,558	
965	**Property, Plant and Equipment**		2,558
20,819	Long-Term Debtors	20,828	
103	Heritage Assets	147	
20,922	**Long-Term Assets**		20,975
503	Short-Term Investments	449	
1,861	Cash and Cash Equivalents	1,880	
2,364	**Current Assets**		2,329
24,251	**Net Assets**		**25,862**
21,886	Capital Contribution	23,523	
(22)	Capital Adjustment Account	(13)	
21,864	**Unusable Reserves**		23,510
500	Common Good Fund	496	
1,887	Earmarked Reserve	1,856	
2,387	**Usable Reserves**		2,352
24,251	**Total Reserves**		**25,862**

The unaudited accounts were issued on 15 June 2019. The audited accounts were issued on 27 September 2019.

HUGH DUNN, CPFA
Head of Finance
27 September 2019

COMMON GOOD FUND - NOTES TO FINANCIAL STATEMENTS

1. Property, Plant and Equipment and Heritage Assets

1.1 Movements on Balances

Re-stated	Community Assets	Total Property, Plant and Equipment	Heritage Assets
Cost or Valuation	**£000**	**£000**	**£000**
At 1 April 2018	965	965	103
Transfer from / (to) General Fund	1,593	1,593	44
At 31 March 2019	2,558	2,558	147
Net Book Value			
At 31 March 2019	2,558	2,558	147
At 31 March 2018	965	965	103
Cost or Valuation			
At 1 April 2017	1,073	1,073	103
Revaluation (decreases) recognised in the Revaluation Reserve	(108)	(108)	0
At 31 March 2018	965	965	103
Net Book Value			
At 31 March 2018	965	965	103
At 31 March 2017	1,073	1,073	103

These asset categories are not depreciated.

1.2 Developing a Common Good Register

Work is underway to collate information regarding those properties historically considered by the Council to be common good, specifically those included on the Common Good register of assets for accounting purposes, relevant parks and other assets with a public function. Work has also progressed on developing a methodology for assessing all properties' common good status, taking into account the relevant legal tests. Therefore, at the balance sheet date, the Council's balance sheet may hold heritage assets that belong to the Common Good.

A **response** to the Community Empowerment (Scotland) Act 2015 consultation on Common Good matters was approved by the Finance and Resources Committee on 28 September 2017 and submitted to the Scottish Government.

The **legislation** has now been laid in Parliament. The relevant provisions come into force on 27 June 2018, and the Scottish Government published the accompanying guidance in July. The Community Empowerment (Scotland) Act 2015 places a duty on local authorities to "establish and maintain a register of property which is held by the authority as part of the common good" (a common good register).

Before establishing a common good register, the Act requires a local authority to prepare and publish a list of properties that it proposes to include in the register. The Common Good Asset Register for **public consultation** was approved for issuing at the 27 September 2018 Finance and Resources Committee. The consultation closed on 31 December 2018.

COMMON GOOD FUND - NOTES TO FINANCIAL STATEMENTS

2. Unusable Reserves

2.1 Capital Contribution

This balance contains the gains made by the Common Good Fund arising from increases in the value of its property, plant and equipment. The balance is reduced when assets with accumulated gains are:

- transfer to / (from) Common Good;
- revalued downwards or impaired and the gains are lost;
- used in the provision of services and the gains are consumed through depreciation; or
- disposed of and the gains are realised.

The reserve contains unrealised gains accumulated since 1 April 2007, the date the reserve was created. Accumulated gains arising before 1 April 2007 were consolidated into the capital adjustment account.

	2018/19		2017/18	
	£000	£000	£000	£000
Balance at 1 April		21,886		21,994
Movement of assets	1,638		0	
Downward revaluation of assets and impairment losses not charged to the Surplus on the Provision of Services	(1)		(108)	
Surplus / (Deficit) on revaluation of non-current assets not posted to the Surplus on the Provision of Service		1,637		(108)
Derecognition of asset disposals		0		0
Balance at 31 March		23,523		21,886

2.2 Capital Adjustment Account

The capital adjustment account provides a balancing mechanism for timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (CIES) (with reconciling postings from the revaluation reserve to convert fair value figures to a historical cost basis).

The account also holds revaluation gains accumulated on property, plant and equipment prior to 1 April 2007, the date the revaluation reserve was created to hold such gains.

	2018/19	2017/18
	£000	£000
Balance at 1 April	(22)	(22)
Movement in Year	9	0
Balance at 31 March	(13)	(22)

ANNUAL GOVERNANCE STATEMENT

Scope of Responsibility

The City of Edinburgh Council is responsible for ensuring that its business is conducted in accordance with the law and appropriate standards, and that public money is safeguarded, properly accounted for, and used economically, efficiently, effectively and ethically. The Council also has a statutory duty under the Local Government in Scotland Act 2003, to make arrangements to secure best value, which is defined as continuous improvement in the way its functions are carried out.

In discharging these responsibilities, Elected Members and senior officers are responsible for implementing effective arrangements for governing the Council's affairs, and facilitating the effective exercise of its functions, including arrangements for the management of risk.

To this end, the Council has adopted a Local Code of Corporate Governance that is consistent with the principles of the Chartered Institute of Public Finance and Accountancy (CIPFA) and Society of Local Authority Chief Executives (SOLACE) framework 'Delivering Good Governance in Local Government'. This statement outlines how The City of Edinburgh Council delivers good governance and reviews the effectiveness of those arrangements.

This statement explains how the Council has complied with the Local Code of Corporate Governance and how it meets the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom.

This statement also covers the organisations included in the Council's Group Accounts, a list of which is included on page 39 of the Accounts.

The Group's Governance Framework

The governance framework comprises the systems, processes, cultures and values by which the Group is directed and controlled. It also describes the way it engages with, accounts to and leads its communities. It enables the Group to monitor the achievement of its objectives and consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The Council's Local Code of Corporate Governance is supported by evidence of compliance which is regularly reviewed and considered by the Governance, Risk and Best Value Committee. The rest of the Group observes the principles of the code.

The Council has implemented arrangements for monitoring each element of the framework and providing evidence of compliance. The Council's Democracy, Governance and Resilience Senior Manager has reviewed the arrangements and is satisfied that the Code continues to be adequate and effective.

The Council's Corporate Governance Framework has three key elements. These are strategic, decision making structure and internal controls:

Strategic

- The Council's vision and priorities are set out and published in the City of Edinburgh Council Business Plan 2017-2022.The plan forms a central part of the planning and performance framework that connects the strategic vision of the Council and its partners to the detailed operational plans which guide the delivery of our frontline services. The Plan was approved by the Council in August 2017. Building on this, alongside the 2019/20 Budget the Council published a four-year Council Change Strategy. This Change Strategy seeks to set out how the Council will achieve its objectives but also how it will address the significant financial challenges it faces. The Change Strategy was produced and agreed following extensive consultation and engagement with the public and staff. The Change Strategy will be progressed over the coming months and will be a key driver of the 2020/21 budget and ongoing financial framework.
- Implementation of the Change Strategy will be monitored by regular financial monitoring and reporting. In addition, the Change Strategy will be overseen by the Corporate Leadership Team (CLT) based on portfolio management principles, with a monthly report taken to the CLT Change Board. The monthly portfolio update reports on all change across the Council including the level of risk being carried, key deliverables and benefits.
- Scrutiny of performance takes place at every level within the organisation to ensure performance monitoring and service improvement. Service areas continually monitor performance, with senior management teams monitoring their own performance through monthly discussions where areas of risk, good and poor performance will be identified for escalation. CLT focuses on performance quarterly. For both directorates and the CLT a new balanced score card approach is to be implemented which looks to amalgamate all aspects of performance in a single format.
- Executive Committees scrutinise performance relevant to their remit. In addition, the Policy and Sustainability Committee considers performance on a six-monthly basis providing holistic strategic oversight and scrutiny. The Council also considers an annual summary report of all performance issues.

ANNUAL GOVERNANCE STATEMENT

Decision Making Structures

- The Council operates an executive committee structure. This consists of six executive committees which are responsible for policy and financial decision making and scrutiny in their designated areas of responsibility. These committees are Policy and Sustainability, Culture and Communities, Education, Children and Families, Finance and Resources, Housing and Economy and Transport and Environment.
- The Governance, Risk and Best Value Committee provides the Council with assurance of the adequacy of the governance and risk management frameworks and internal control environment. It also provides scrutiny of the Council's financial and non-financial performance, approves and monitors the progress of the Internal Audit risk-based plan, and monitors performance of the Internal Audit service.
- The Council also utilises a range of other committees, some of which are quasi- judicial such as the Development Management Sub-Committee and the Licensing Sub-Committee, to consider individual applications.
- Empowered communities - the Council has created four localities and is using this model to restructure and deliver a range of frontline services. This ensures integrated local services and improved outcomes for citizens. This locality model operates in co-terminosity with our partners (such as police and fire services) enabling closer working and integration of services around our citizens. Local Improvement Plans cover every area of the city and describe in detail our multi-agency approach to improve the delivery of services in our communities.
- The Council plays an important role in the Edinburgh Partnership and its community planning structure. The new framework agreed by the Edinburgh Partnership comprises a Board, four city wide partnerships, four locality partnerships and thirteen neighbourhood networks. The arrangements are designed to support a different way of working and to support the delivery of the Partnership's priorities for the city as set out in the new community plan. The plan focuses on reducing poverty and inequality in the city through making sure people have enough money to live on; access to work, learning and training opportunities; and have a good place to live.
- The CLT meets weekly, led by the Chief Executive and includes all executive directors and the Head of Finance (Section 95 Officer) and Head of Strategy and Communications. A monthly meeting is held which includes all Heads of Service.

Internal Controls

A significant part of the governance framework is the system of internal controls in place to ensure that risks are being identified and managed effectively.

- The Council is embedding a culture of commercial excellence to ensure that its services always deliver Best Value. The Council's Business Plan describes the Council's determination to have leading commercial and procurement practices that are sustainable and realise benefits for customers and the local supply chain. The Council is also developing a more commercial approach in considering how best to use its assets and generate income in the context of our overall strategic objectives and management of risk.
- The roles and responsibilities of Elected Members and Officers are defined in Procedural Standing Orders, Committee Terms of Reference and Delegated Functions, Contract Standing Orders, Scheme of Delegation to Officers, the Member/officer protocol and Financial Regulations. These are subject to annual review.
- The Chief Executive has overall responsibility to Council, as the Council's statutory Head of Paid Service, for all aspects of operational management and overall responsibility for ensuring the continued development and improvement of systems and processes concerned with ensuring appropriate direction, accountability and control.
- The Head of Finance as the Council's Section 95 Officer has overall responsibility for ensuring appropriate advice is given to the Council and Group on all financial matters, keeping proper financial records of accounts and maintaining an effective system of internal financial control.

- The Chief Internal Auditor has overall responsibility to review, appraise and report to management and the Governance, Risk and Best Value Committee on the adequacy of the Council's internal control and corporate governance arrangements and on risks relating to approved policies, programmes and projects.
- The Council's Democracy, Governance and Resilience Senior Manager, reporting to the Head of Strategy and Communications, has responsibility for advising the Council on corporate governance arrangements.
- The risk management policy and framework set out the responsibilities of Elected Members, the Governance, Risk and Best Value Committee, management and staff for the identification and management of risks to key corporate priorities.
- The Council Risk Register and service area risk registers identify risks and the proposed treatment of actions. There is an escalation process in place to ensure identified risks and emerging issues are highlighted at an appropriate level. These registers are regularly reviewed, updated and reported to the Corporate Leadership Team and Governance, Risk and Best Value Committee for scrutiny and challenge.
- A Council Governance Hub, chaired by the Chief Executive, has been established to scrutinise the management of Council Arm's Length External Organisations (ALEOs), seek assurance over the delivery of services and to ensure that the Council is aware of any risks. This responds to the four areas for improvement recommended by Internal Audit - the independence of elected members as directors of companies; governance reporting to Council committees; the Council Observer role; and the annual assurance process for ALEOs. The Hub also provides an opportunity for ALEOs to raise issues directly with the Council's Chief Executive and to engage on issues of common interest.
- ALEOs are required to report to the Council's Chief Executive once a year with their forward plans which are then considered at the relevant Council committee, with their accounts and past performance scrutinised by the Governance, Risk and Best Value Committee.
- Resilience and business continuity plans are in place for all essential Council services. These set out arrangements for continuing to deliver essential services in the event of an emergency or other disruption.
- Codes of Conduct that set out the standards of behaviour expected from Elected Members and officers are in place.
- The Employee Code of Conduct, Anti Bribery Policy and Policy on Fraud Prevention set out the responsibilities of officers and Elected Members in relation to fraud and corruption, and are reinforced by the Councillors' Code of Conduct, the Code of Ethical Standards and the Financial Regulations. Under the mandatory policy awareness programme, it is a requirement that officers regularly confirm their awareness and understanding of these key policies.
- The Whistleblowing policy and the independent and confidential reporting arrangements the Council has in place provide a process for disclosure in the public interest about the Council and its activities by officers, Elected Members and others.
- A Register of Members' Interests and Registers of Officers' Interests are maintained and available for public inspection and a current version of the Register is available on the Council's website.
- The General Data Protection Regulation and Data Protection Act 2018 came into effect on 25 May 2018. The legislation introduced new statutory rights and obligations, as well as increased penalties for non-compliance. In line with legislative requirements and regulatory guidance, various controls and measures were developed and implemented as part of a planned programme of work to reduce the risks associated with non-compliance. These included the development of privacy and processing information, breach procedures, data protection impact assessments, revised contract documentation, guidance, information sharing agreements, and a major training and awareness programme. Data protection compliance and maturity continues to be monitored and promoted through established procedures, communications and an information governance maturity model.

Review of Effectiveness

The Local Code of Governance details the Council's arrangements for monitoring each element of the framework and providing evidence of compliance. The Council's Democracy, Governance and Resilience Senior Manager has reviewed the effectiveness of the Code which has resulted in changes to the 2018/19 process to ensure that the Council's annual governance practice is open, transparent and reflects best practice but also is modernised and meets the needs of a changing Council.

An assurance statement on the effectiveness of the system of internal controls has been provided and was informed by:

- The work of the Corporate Leadership Team which develops and maintains the governance environment;
- The certified annual assurance statements provided by all Executive Directors;
- The certified assurance statements provided by the Chief Executives, Heads of Service and Finance Directors of the Council's group companies;
- Council officers' management activities;
- The Chief Internal Auditor's annual report and internal audit reports, risk-based, across a range of Council services;
- An annual review by the Council's Democracy, Governance and Resilience Senior Manager of the Council's compliance with the Local Code of Corporate Governance, reported to the Governance, Risk and Best Value Committee;
- Reports from the Council's external auditor; and
- Reports by external, statutory inspection agencies.

The evidence of effectiveness from these sources includes:

- In compliance with standard accounting practice, the Head of Finance (Section 95 Officer) has provided the Chief Executive with a statement of the effectiveness of the Group's internal financial control system for the year ended 31 March 2019. It is the Head of Finance (Secion 95 Officer)'s opinion that reasonable but not absolute assurance can be placed upon its effectiveness. Therefore, the Council is continually seeking to improve its internal controls to identify or prevent irregularities.
- Scott-Moncrieff's review of the Council's systems of internal financial control, the results of which were reported to the Governance, Risk and Best Value Committee in September 2019, assessed these to be well-designed, with no significant deficiencies in their design, implementation or operation.
- The Internal Audit Section operates in accordance with CIPFA's Code of Practice for Internal Audit. The Section undertakes an annual work programme based on an agreed audit strategy and formal assessments of risk that are reviewed regularly. During the year, the Chief Internal Auditor reported to the Head of Legal and Risk and Monitoring Officer but had free access to the Chief Executive, all executive directors and elected members along with direct reporting to the Governance, Risk and Best Value Committee.
- Each executive director has reviewed the arrangements in his / her Directorate and reported on their assessment of the effectiveness of control arrangements, together with any potential areas requiring improvement, to the Chief Executive. Where improvement actions are identified, an action plan will be developed and subject to regular monitoring. In reviewing the overall governance framework, the Council has also considered relevant third-party reviews and recommendations. Reliance has also been placed on each organisation's most recent audited accounts together with the Council's detailed knowledge of these organisations as a consequence of their continued involvement. These reviews have not identified any fundamental weaknesses in the framework of governance, risk management and control at the Council.
- The submission of reports, findings and recommendations from Audit Scotland, the external auditor, other inspectorates and Internal Audit, to the Corporate Leadership Team, Governance, Risk and Best Value Committee and Council, where appropriate, supports effective scrutiny and service improvement activities.
- Internal Audit actions are also recorded, monitored and discussed as part of regular updates to the Corporate Leadership Team and Governance, Risk and Best Value Committee and relevant Executive Committees, where appropriate.
- The Council reviewed its decision-making structures in June 2018. This review noted that the committee structure was working well and that executive committees were carrying out their remit. Improvements to the processes that support decision making were explored to enable a more effective structure.

Review of Effectiveness - continued

- The Council webcasts the majority of its committee meetings and retains an extensive library of previous webcasted meetings on its website. The Council offered to webcast Edinburgh Integration Joint Board meetings which was subsequently agreed and commenced in September 2018.
- Concern was raised over potential pressures on the political management arrangements of the Council in February 2019 that may result in some executive committees being unable to effectively scrutinise due to the volume of business.
- The Council reviewed locality committees in February 2019. The review concluded that the expansive remit was unfocused and the capacity and resources required to deliver the committees effectively were challenging for the Council. The committees had not been successful in engaging with communities, although they had been successful in discussing local matters which had not previously been given sufficient direction. Council agreed that the challenges outweighed the benefits and decided to dissolve locality committees from April 2019. It further agreed to focus on the community planning structures within the city and agreed to explore which powers could be delegated to allow the community to have increased influence over Council decisions.
- There has been regular reporting to the Governance, Risk and Best Value Committee on overdue Internal Audit actions and late management responses. These are also reported monthly to the Corporate Leadership Team (CLT). Due to the complexity of overdue findings CLT agreed that directorate action plans be created to assess whether alternative actions could be identified to mitigate the risks. Although the timely completion of management actions requires further improvement, the steps taken to address the deficiencies have taken significant steps to improve the culture in the Council on addressing the risks identified by Internal Audit.
- Meeting the demands of new data protection legislation has led to significant increases in the volume of data protection work. This has resulted in several resource and operational challenges which have had a detrimental effect on statutory obligations and associated timescales. This increase has also impinged on other areas of information rights, including compliance with Scotland’s freedom of information laws. Remedial plans are in place to reduce risks in this area and to ensure that statutory obligations are met.
- Communities and Families operate an annual self-attestation of the effectiveness of operating controls in secondary schools, primary schools, nurseries, libraries, community centres and central service teams. Internal Audit highlighted weaknesses in the model due to the availability of support for the framework from second line of defence business areas and partners.
- The Council’s Governance Hub and the changes to Council Company reporting agreed in June 2016 have strengthened the Council’s oversight and scrutiny of its ALEOs whilst addressing conflicts of interest.
- Financial controls including full documentation of all procedures, development of an anti-money laundering policy, introduction of an independent review of monthly income and expenditure account reconciliations and independent authorisation of changes to Bankline access rights are in place.
- All directorates include budget issues as standing items on the agenda of their regular Senior Management Team (SMT) meetings.
- Each directorate's assurance schedule was scrutinised by the Governance, Risk and Best Value Committee.
- A corporate policy framework has been put in place which enables a consistent application of policy assurance across the organisation. The process was further streamlined in 2017 to ensure it was an effective process but maintained a robust assurance role focussing on continuous improvement and best practice. Further work is necessary to ensure the framework is being maintained across the Council.
- The whistleblowing service employs an independent organisation to ensure a robust, transparent and trustworthy process. The Governance, Risk and Best Value Committee receives a quarterly update on whistleblowing and the Finance and Resources Committee reviews the policy annually.
- Senior management and Heads of Service have formal objectives, with performance reviewed by the appropriate Executive Director. Officers have personal work objectives and receive feedback on their performance through the Council-wide performance review and development process.

Review of Effectiveness - continued

- There is a robust health and safety reporting structure which includes directorate health and safety committees, a quarterly Council health and safety group and a quarterly consultation forum involving the trade unions. Health and safety working groups are in place for fire safety, water safety and asbestos.
- All directorates have risk and assurance committee meetings that meet at least quarterly and ensure escalation of risks. The Corporate Leadership Team's Risk Register continues to be scrutinised quarterly at the Governance, Risk and Best Value Committee.
- Programme/project risks are managed through relevant programme structures and are also reported to the Corporate Leadership Team Change Board. Any new significant change ideas must be agreed through the monthly change board. This approach is now bedding in and being applied to the development of the change strategy, with reporting every six months to the Governance, Risk and Best Value Committee.
- The annual governance statement was not reported to Governance, Risk and Best Value Committee prior to the annual accounts being reported. Further changes to the process are required to allow this.
- A short-life working group was created to work on simplifying and modernising the report template. It aimed to shorten reports and make them more accessible while ensuring sufficient information was included to ensure effective scrutiny. The new template was rolled out in April 2019.
- A single risk management system is now in place to manage Health and Social Care Partnership and Integration Joint Board risks.
- Business Impact Analysis has been completed for all Council services, with an annual review frequency. These set out the resources required to ensure the continuous delivery of essential activities in the event of an emergency or other disruption.
- Resilience submit an annual report to the Corporate Strategy and Policy Committee, detailing training, exercising, planning and incident response.
- The Council maintains registration to the International Standard for Business Continuity, ISO22301 and, as part of that compliance, the Council's Resilience Management System is audited biannually by an external auditor.
- The Chief Internal Auditor reported to the Governance, Risk and Best Value Committee in August 2019 on the overall adequacy of the Council's framework of governance, risk management and controls and found that the Council's established control environment; governance and risk management had not adapted or evolved sufficiently to support the effective management of the changing risk environment and the Council's most significant risks. The Chief Internal Auditor has reported a 'red' rating, with the assessment towards the middle of this category but that relects that significant enhancements are required to the Council's control environment, governance and risk management arrangments.
- Internal Audit highlighted control gaps and residual risks associated with a lack of clear definition and oversight of Partnership business support arrangements provided by the Council to the Health and Social Care Partnership. Service Level Agreements are being created for business support by October 2019.
- Internal Audit highlighted significant enhancements needed in relation to the design of the controls supporting the development, agreement and approval of developer contribution legal agreements.
- An Elected Members' remuneration and expenses scheme is in place and is consistent with the Scottish Government's 'Councillors' Remuneration: allowances and expenses – Guidance'.
- Induction training on roles and responsibilities, and ongoing development opportunities are provided for Elected Members. The Council has revised its Councillor Induction and Training programme, drawing upon best practice from other organisations including The Scottish Parliament, informed by exit interviews conducted with councillors who indicated their intention not to stand again and also reflecting the views of political groups. Some distinctive features of the initial training programme for those elected members joining the Council in May 2017 included a Welcome Event, a 'Freshers Fayre', organised tours, each councillor being allocated a dedicated senior manager as a buddy to assist their assimilation and an informal evening reception at which their families could join them.

ANNUAL GOVERNANCE STATEMENT

Actions

The status of the previous year's actions is outlined below:

	Action	Responsible Party	Reporting Date
1	The Chief Executive will report to the Governance, Risk and Best Value Committee in June 2018 outlining the actions taken and status of the historic outstanding audit actions. Internal Audit and directorates will continue to work on ensuring improved processes are in place to avoid repeat issues	Chief Executive	Completed
2	Workforce controls will be reported to committee outlining improved and increased management information to facilitate workforce controls, strategic workforce planning and to measure performance	Executive Director of Resources	Completed and an on-going cycle of reporting continues.
3	Overpayments to Council wide employees had been identified by Human Resources. A plan has been developed to address this during 2018	Executive Director of Resources	Implemented and on-going improvements are being progressed
4	A review is taking place of health and safety risk assessments in Facilities Management. Work is also underway with Communities and Families to ensure clarity around roles and responsibilities regarding health and safety.	Executive Director of Resources	Completed
5	Corporate health and safety training programme to be reviewed	Executive Director of Resources	Completed
6	A risk governance framework is being created for Health and Social Care Partnership risks to sit alongside the already established Integration Joint Board risk framework	Chief Officer - Health and Social Care Partnership	Parially completed and constantly evolving
7	The Assurance Statement template will be reviewed by December 2018 to ensure more effective, concise but robust process	Chief Executive	Completed
8	A review has taken place of cash handling within social care and health business support teams and improvements will be rolled out	Chief Officer - Health and Social Care Partnership	Completed
9	Management actions being implemented to ensure processing of payments to contractors effectively and in line with the Council's policies and procedures	Executive Director of Resources	Completed
10	Development of an improved business continuity plan for the Council's mortuary service	Executive Director of Place	Completed
11	Reporting of ALEOs has gone to executive committees and the Chief Executive but not all ALEOs are also reporting to the Governance, Risk and Best Value Committee. Work will be undertaken with directors and the Governance Hub to improve awareness and compliance with the reporting process	Chief Executive	Completed
12	During 2017, issues were identified with service delivery in Building Standards. An improvement plan has been established and will be undertaken with the support of the Scottish Government. Reporting has taken place at the Governance, Risk and Best Value Committee and the Planning Committee	Executive Director of Place	Implemented and on-going improvements are being progressed
13	A review of arrangements is underway to ensure ALEOs have a service level agreement or funding agreement	Executive Director of Place	Completed
14	Action is being taken to ensure a higher percentage of return from schools regarding self-assurance	Executive Director of Communities and Families	Completed
15	To ensure the appointment of deputies for resilience co-ordinators in each directorate	All	Parially completed, constantly being updated
16	Work is ongoing across the Council to identify any gaps regarding compliance with GDPR, this will be monitored and reported to the Corporate Leadership Team as well as being reported to committee	All	Completed

ANNUAL GOVERNANCE STATEMENT

Following the review of effectiveness and the assurance statements from directorates and ALEOs, the following actions have been identified to improve the Council's governance arrangements:

	Action	Responsible Party	Reporting Date
1	A review of delegated authority within the Place directorate is being carried out to ensure that appropriate governance and controls are in place.	Executive Director of Place	September 2019
2	A new balanced score card approach is to be implemented which looks to amalgamate all aspects of performance in a single format	Chief Executive	June 2019
3	The Health and Social Care Partnership aim to complete the risk escalation framework	Chief Officer	March 2020
4	A transformation and change team will provide project support capacity across the Partnership allowing for greater oversight and ensure projects have clear business justification and business cases.	Chief Officer	March 2020
5	Upgrades to HR and Payroll system to be implemented	Executive Director of Resources	September 2019
6	Review of developer contributions held in Finance database	Executive Director of Resources	September 2020
7	Review of historic developer contributions	Executive Director of Place	September 2020
8	Review of Developer contribution process documentation and guidance	Executive Director of Place	March 2020
9	Review of Political Management Arrangements	Chief Executive	Completed May 2019
10	Review Annual Assurance process	Chief Executive	September 2019

Conclusion
In conclusion, our controls framework continues to evolve and improve. Further work will be undertaken to ensure our corporate governance framework and assurance is joined up and changes are integrated into the current operational governance structures. Controls are generally adequate and improving but further work is necessary to ensure that identified improvement plans are monitored and that controls are fully embedded. Increased business in the committee model will require monitoring to ensure that scrutiny is not de-prioritised. Actions included in the plan will improve the Council's governance with many including in-built monitoring by both officers and elected members.

We are satisfied that the actions highlighted in this Statement reflect the Council's commitment to continuous improvement and will further enhance our corporate governance and internal control arrangements.

Certification
It is our opinion that in light of the foregoing, reasonable assurance can be placed upon the adequacy and effectiveness of City of Edinburgh Council and its Group's systems of governance. The annual review demonstrates sufficient evidence that the Code is operated effectively and the Council and its Group comply with the Local Code of Corporate Governance in all significant respects.

ANDREW KERR
Chief Executive

27 September 2019

STEPHEN S. MOIR
Executive Director of Resources

27 September 2019

CAMMY DAY
Depute Council Leader

27 September 2019

ELEANOR BIRD
Leader of the SNP Group

27 September 2019

REMUNERATION REPORT

The Council is required under statute to provide information on the remuneration of each senior officer and each senior elected member, together with any other officer not otherwise included whose remuneration was over £150,000 during the year covered by these accounts. In addition, the Council is required to provide information for the most senior employee within each of its subsidiary companies, together with all other employees whose remuneration exceeds £150,000 in that year.

Remuneration Arrangements

Councillors

The remuneration of Councillors is regulated by the Local Governance (Scotland) Act 2004 (Remuneration) Regulations 2007 (SSI No. 2007/183) as amended by the Local Governance (Scotland) Act 2004 (Remuneration and Severance Payments) Amendment Regulations 2017. The Regulations provide for the grading of councillors for the purposes of remuneration arrangements, as either the Leader of the Council, the Civic Head (the Lord Provost), senior councillors or councillors. The Leader of the Council and the Civic Head cannot be the same person for the purposes of payment of remuneration. A senior councillor is a councillor who holds a significant position of responsibility in the Council's political management structure.

When determining the level of Councillors' remuneration, Scottish Ministers consider the recommendations of the Scottish Local Authority Remuneration Committee (SLARC). SLARC's recommendations were first implemented for councillors elected in the local government elections in May 2007. SLARC was stood down as a committee in February 2013, but the principles of its work continue.

The salary that is to be paid to the Leader of the Council is set out in the Regulations. For 2018/19, the remuneration for the Leader of the City of Edinburgh Council was £50,986. The Regulations permit the Council to remunerate one Civic Head. The Regulations set out the maximum remuneration that may be paid to the Civic Head (the Lord Provost). For 2018/19 this was £38,239. The Council's policy is to pay the Lord Provost at the national maximum.

The Regulations also set out the remuneration that may be paid to Senior Councillors and the total number of Senior Councillors the Council may have (24 for the City of Edinburgh Council). The maximum yearly amount that may be paid to a Senior Councillor is 75% of the total yearly amount payable to the Leader of the Council. The total yearly amount payable by the Council for remuneration of all Senior Councillors shall not exceed £662,802. The Council is able to exercise local flexibility in the determination of the precise number of Senior Councillors and their remuneration within these maximum limits. The Council's current policy is summarised below.

	No. of Posts	**% of amount payable to Leader of the Council**
Depute Leader of the Council	1	75%
Depute Convener	1	50%
Conveners of Culture and Communities, Housing and Economy, Education, Children and Families, Finance and Resources, Planning, Regulatory, Transport and Environment and Integration Joint Board Committees	8	62.5%
Convener of Licensing Board	1	55%
Convener of Governance, Risk and Best Value	1	50%
Vice-Conveners of Culture and Communities, Housing and Economy, Education, Children and Families, Finance and Resources, Planning and Transport and Environment Committees	6	50%
Opposition Group Leaders - Conservative, Green and Liberal Democrat Groups	3	47.5%

In addition, the Council has an arrangement with the Joint Boards to reimburse the Council for any additional costs for councillors that arise from their being a Convener or Vice Convener of the Joint Boards.

REMUNERATION REPORT

Remuneration Paid

The following tables provide details of the remuneration paid to the Council's Senior Councillors, Senior Employees and the remuneration paid to the Chief Executive (or the most senior manager of that body) of each of the Council's subsidiary bodies. Where a Councillor has held more than one post during the year, he/she is only included once within the following table. Salary, fees and allowances represents the total amount received during the year, where the individual was a Senior Councillor for part or all of the year.

Council's Leader, Civic Head and Senior Councillors	**Salary, Fees and Allowances £**	**Taxable Expenses £**	**Non-Cash Expenses / Benefits--in-kind £**	**Total Remun. 2018/19 £**	**Total Remun. 2017/18 £**
A. McVey, Leader of the Council	50,986	53	133	51,172	44,437
F. Ross, Lord Provost	38,239	0	6,107	44,346	40,103
C. Day, Deputy Leader of the Council	38,239	75	129	38,443	34,892
J. Griffiths, Depute Convener	25,493	0	200	25,693	24,218
A. Burns, Leader of the Council *(to 04.05.17)*	n/a	n/a	n/a	n/a	4,632
S. Cardownie, Depute Convener *(to 04.05.17)*	n/a	n/a	n/a	n/a	2,322
<u>Conveners</u>					
D. Wilson, Convener Culture and Communities	31,866	30	847	32,743	31,045
A. Rankin, Convener Finance and Resources	31,866	25	146	32,036	30,010
R. Henderson, Convener Edinburgh Integration Joint Board	32,156	0	783	32,939	25,675
I. Perry, Convener Education, Children and Families	31,866	0	591	32,457	29,974
J. Mowat, Convener Governance, Risk and Best Value	25,493	0	770	26,263	24,351
K. Campbell, Convener Housing and Economy	32,543	0	2,672	35,215	16,105
L. Macinnes, Convener Transport and Environment	31,866	0	381	32,247	27,617
N. Gardiner, Convener Planning	31,866	0	765	32,631	20,947
C. Fullerton, Convener Regulatory	31,866	17	190	32,072	29,043
N. Work, Convener Licensing Board	28,042	95	678	28,815	27,149
<u>Vice-Conveners</u>					
M. Child, Vice Convener Planning and North East Locality Chair	25,173	0	107	25,280	23,135
M. Donaldson, Vice Convener Finance and Resources *(to 29.01.2019)*	21,107	0	113	21,221	23,596
(full year equivalent)	*25,493*				
A. McNeese-Mechan, Vice Convener Culture and Communities	25,880	0	1,345	27,225	16,178
A. Dickie, Vice Convener Education, Children and Families	25,493	0	1,053	26,546	22,665
L M. Cameron, Vice Convener Housing and Economy	25,493	0	1,527	27,021	23,923
K. Doran, Vice Convener Transport and Environment	25,493	0	776	26,269	24,230
M. Main, Vice Convener Governance, Risk and Best Value & Green Group Leader (to 29.06.18)	18,760	0	95	18,855	19,551
<u>Locality Committee Conveners</u>					
M. Watt, South East Locality Chair	24,218	0	789	25,007	21,117
G. Gordon, North West Locality Chair (to 09.02.18)	n/a	n/a	n/a	n/a	21,683
D. Dixon, South West Locality Chair	24,218	0	94	24,312	22,619

REMUNERATION REPORT

Remuneration Paid - continued Council's Leader, Civic Head and Senior Councillors	Salary, Fees and Allowances £	Taxable Expenses £	Non-Cash Expenses / Benefits-in-kind £	Total Remun. 2018/19 £	Total Remun. 2017/18 £
Opposition Group Leaders					
C. Rose, Conservative Group Leader (to 04.05.2017)	n/a	n/a	n/a	n/a	18,095
I. Whyte, Conservative Group Leader	24,218	0	753	24,971	23,648
S. Burgess, Green Group Leader (to 23.11.2017)	n/a	n/a	n/a	n/a	21,429
M. Campbell, Green Group Leader (from 29.06.18 to 29.12.2018)	20,588	0	160	20,748	15,493
C. Booth, Green Group Leader (from 29.12.2018)	18,858	0	114	18,972	17,720
R. Aldridge, Liberal Democrat Group Leader	24,218	0	0	24,218	22,499
Councillors					
G. Barrie, Convener Housing and Economy *(to 15.03.2018)*	n/a	n/a	n/a	n/a	31,371
L. Ritchie, Convener Planning *(to 23.11.2017)*	n/a	n/a	n/a	n/a	24,191
R. Lewis, Convener of Culture and Communities *(to 04.05.2017)*	n/a	n/a	n/a	n/a	3,117
M. Bridgman, Convener Regulatory *(to 04.05.2017)*	n/a	n/a	n/a	n/a	3,138
L. Hinds, Convener Transport and Environment *(to 04.05.2017)*	n/a	n/a	n/a	n/a	3,011
E. Milligan, Convener Licensing Board *(to 04.05.17)*	n/a	n/a	n/a	n/a	2,779
W. Henderson, Convener Police and Fire Scrutiny (to 04.05.2017)	n/a	n/a	n/a	n/a	1,948
G. Munro, Vice Convener Housing and Economy *(to 04.05.17)*	n/a	n/a	n/a	n/a	18,269
I. Campbell, Vice Convener of Culture and Communities *(to 15.03.18)*	n/a	n/a	n/a	n/a	23,358
N. Austin-Hart, Vice Convener of Culture and Communities *(to 04.05.17)*	n/a	n/a	n/a	n/a	2,085
A. Blacklock, Vice Convener Regulatory *(to 04.05.17)*	n/a	n/a	n/a	n/a	2,179
B. Cook, Vice Convener Finance and Resources *(to 04.05.17)*	n/a	n/a	n/a	n/a	2,085
A. Lunn, Vice Convener Planning *(to 04.05.17)*	n/a	n/a	n/a	n/a	2,180

Notes:
1. The amount recharged to Lothian Valuation Joint Board in 2018/19 was £4,251 (2017/18 £3,560). Expenses relate to Councillor role.
2. The full year equivalent under Salary, Fees and Allowances represents the Senior Responsibility Allowance at the year end for the position.

Members' Salaries and Expenses
The Council paid the following amounts to members of the Council during the year (these sums include the totals shown above):

	2018/19 £	2017/18 £
Salaries	1,380,111	1,330,242
Expenses		
Claimed by councillors	742	950
Paid directly by the Council	46,733	40,371

REMUNERATION REPORT

Remuneration Paid - continued
Remuneration paid to Senior Officers

Council's Senior Officers	Salary, Fees and Allowances £	Compensation for Loss of Office £	Total Remun. 2018/19 £	Total Remun. 2017/18 £
A. Kerr, Chief Executive	167,468	0	167,468	167,468
A. Gaw, Executive Director of Communities and Families	150,390	0	150,390	150,390
J. Proctor, Integration Joint Board Chief Officer *(from 01.05.18)*	68,929	0	68,929	n/a
(full year equivalent)			*75,995*	
R. McCulloch-Graham, Integration Joint Board Chief Officer *(to 05.09.17)*	n/a	n/a	0	68,667
M. Miller, Interim Integration Joint Board Chief Officer *(to 30.06.18)*	37,977	0	37,977	87,086
(full year equivalent)			*150,390*	
P. Lawrence, Executive Director of Place	150,390	0	150,390	150,390
J. Irvine, Chief Social Work Officer *(from 30.07.18)*	69,407	0	69,407	n/a
(full year equivalent)			*103,278*	
S. Moir, Executive Director of Resources (Note 2)	150,390	0	150,390	111,984
H. Dunn, Head of Finance (Note 3)	108,720	0	108,720	119,138
Total	903,671	0	903,671	855,123

Notes:

1. J. Proctor took up the position of Chief Officer with 50% of her salary costs from 1 May 2018 reflected above. The full year equivalent figure reflects the salary for the Integration Joint Board Chief Officer, funded 50% by NHS Lothian and the Integration Joint Board.
2. S. Moir was appointed Executive Director of Resources in July 2017. The 2017/18 salary shown for S. Moir is pro-rated accordingly. An additional £2,354 removal and relocation assistance claim was received by S. Moir which is not included in the Remuneration above.

3 H. Dunn was appointed Acting Executive Director of Resources in January 2016 but returned to his substantive role as Head of Finance in July 2017.

4. Pay in lieu of notice is included within Salary, Fees and Allowances where applicable.

REMUNERATION REPORT

Remuneration Paid - continued
Remuneration paid to Senior Officers - continued
Council Subsidiary Companies

EDI Group and EICC are subsidiary companies of CEC Holdings Limited. Figures shown for these companies, Edinburgh Trams Ltd. and Lothian Buses Ltd. are for the year ended 31 December 2018 and 2017 respectively.

Council's Subsidiary Companies	**Salary, Fees and Allowances £**	**Bonus £**	**Other Benefits £**	**Total Remun. 2018/19 £**	**Total Remun. 2017/18 £**
E. Adair, Operations and Finance Director, EDI Group *(to 30.06.18)*	55,546	0	84,050	139,596	106,659
(full year equivalent)				*109,034*	
M. Dallas, Chief Executive, EICC	143,142	27,998	0	171,140	166,454
J. Donnelly, Chief Executive, Marketing Edinburgh Ltd *(Note 1)*	139,200	0	0	139,200	139,200
R. Hunter, Chief Executive, Capital City Partnership	53,729	0	0	53,729	50,414
Transport for Edinburgh					
G. Lowder, Chief Executive	144,281	0	0	144,281	141,800
Lothian Buses Ltd.					
R. Hall, Managing Director	169,331	47,817	521	217,669	211,200
W. Devlin, Engineering Director *(until 31.01.17)*	n/a	n/a	n/a	n/a	12,900
N. Strachan, Finance Director *(until 31.01.17)*	n/a	n/a	n/a	n/a	12,900
Edinburgh Trams Ltd.					
L. Harrison, General Manager	109,962	18,000	0	127,962	111,229
	815,191	93,815	84,571	993,577	952,756

Notes:

1. Marketing Edinburgh Limited entered into two contracts with John P Donnelly Associates Limited for the services of J. Donnelly in the role of Chief Executive. The cost of these contracts is £139,200 in 2018/19, including VAT (2017/18 £139,200, including VAT).

REMUNERATION REPORT

Remuneration Paid - continued

Number of Employees by Pay Band

The total number of Council employees receiving more than £50,000 remuneration for the year (including early retirement / voluntary release costs) is shown below.

	2018/19	2017/18		2018/19	2017/18
£50,000 - £54,999	197	199	£110,000 - £114,999	1	1
£55,000 - £59,999	132	116	£115,000 - £119,999	0	1
£60,000 - £64,999	44	42	£120,000 - £124,999	0	1
£65,000 - £69,999	35	41	£125,000 - £129,999	0	1
£70,000 - £74,999	32	26	£130,000 - £134,999	0	0
£75,000 - £79,999	20	20	£135,000 - £139,999	0	1
£80,000 - £84,999	3	2	£140,000 - £144,999	0	1
£85,000 - £89,999	4	4	£145,000 - £149,999	0	3
£90,000 - £94,999	0	3	£150,000 - £154,999	3	0
£95,000 - £99,999	2	1	£155,000 - £159,999	0	0
£100,000 - £104,999	8	8	£160,000 - £164,999	0	0
£105,000 - £109,999	1	0	£165,000 - £169,999	1	1
			Total No. of Employees	**483**	**472**

Exit Packages

The number of exit packages provided for by the Council and the Group during the year, together with the total cost of those packages is shown in the table below. The total cost shown includes pension strain costs and the capitalised value of compensatory added years payments.

Exit package cost band	**Number of Compulsory Redundancies**		**Number of Other Departures Agreed**		**Total Number of Exit Packages by Cost Band**		**Total Cost of Exit Packages in Each Band**	
	2018/19	**2017/18**	**2018/19**	**2017/18**	**2018/19**	**2017/18**	**2018/19**	**2017/18**
£0 - £20,000							**£000**	**£000**
- Council	0	0	23	48	23	48	179	606
- Group companies	0	0	4	2	4	2	38	25
£20,001 - £40,000								
- Council	0	0	11	38	11	38	311	1,112
- Group companies	0	0	1	0	1	0	31	0
£40,001 - £60,000								
- Council	0	0	4	13	4	13	202	635
- Group companies	0	0	0	0	0	0	0	0
£60,001 - £80,000								
- Council	0	0	9	2	9	2	621	153
- Group companies	0	0	0	0	0	0	0	0
£80,001 - £100,000								
- Council	0	0	2	3	2	3	193	250
- Group companies	0	0	0	0	0	0	0	0
£100,001 - £150,000								
- Council	0	0	4	1	4	1	498	132
- Group companies	0	0	0	0	0	0	0	0
£150,001 - £200,000								
- Council	0	0	2	2	2	2	364	343
- Group companies	0	0	0	0	0	0	0	0
	0	0	60	109	60	109	2,437	3,256

REMUNERATION REPORT

Pension Rights

Pension benefits for councillors and local government employees are provided through the Local Government Pension Scheme (LGPS).

Councillors' pension benefits are based on career average pay. For Pre April 2015 benefits, the councillor's pay for each year or part year ending 31 March (other than the pay in the final year commencing 1 April) is increased by the increase in the cost of living, as measured by the appropriate index (or indices) between the end of that year and the last day of the month in which their membership of the scheme ends. The total revalued pay is then divided by the period of membership to calculate the career average pay. This is the value used to calculate the pension benefits. The Post April 2015 benefits are calculated in the same way as Local Government employees.

For local government employees the Local Government Pension Scheme (LGPS) became a career average pay scheme on 1 April 2015. Benefits built up to 31 March 2015 are protected and based on final salary. Accrued benefits from 1 April 2015 will be based on career average salary.

The scheme's normal retirement age for both councillors and employees is linked to the state pension age (but with a minimum of age 65).

From 1 April 2009 a five tier contribution system was introduced with contributions from scheme members being based on how much pay falls into each tier. This is designed to give more equality between the cost and benefits of scheme membership. Prior to 2009 contributions rates were set at 6% for all non-manual employees.

The tiers and members' contribution rates for 2018/19 were as follows:

Whole Time Pay	Contribution rate
On earnings up to and including £21,300 (2017/2018 £20,700)	5.50%
On earnings above £21,300 and up to £26,100 (2017/2018 £20,700 to £25,300)	7.25%
On earnings above £26,100 and up to £35,700 (2017/2018 £25,300 to £34,700)	8.50%
On earnings above £35,700 and up to £47,600 (2017/2018 £34,700 to £46,300)	9.50%
On earnings above £47,600 (2017/2018 £46,300)	12.00%

From April 2015, when allocating contribution rates to members, pensionable pay means the actual pensionable pay, regardless of hours worked.

There is no automatic entitlement to a lump sum for members who joined the scheme post April 2009. Members may opt to give up (commute) pension for lump sum or bigger lump sum up to the limit set by the Finance Act 2004.

The value of the accrued benefits has been calculated on the basis of the age at which the person will first become entitled to receive a pension on retirement without reduction on account of its payment at that age; without exercising any option to commute pension entitlement into a lump sum; and without any adjustment for the effects of future inflation - assuming that the person left the related employment or service as at 31st March in the year to which the value relates.

The pension figures shown relate to the benefits that the person has accrued as consequence of their total local government service, and not just their current appointment.

Trade Union (Facility Time Publication Requirements) Regulations 2017

The Council is required to report from 1 April 2017 a range of information on facility time made available to its employees who are trade union representatives.

For the reporting year 2018/19, the equivalent of 8.5 FTE (across 16 individuals) of paid facility time was made available, with an associated cost of £0.27m. This sum equates to 0.05% of the Council's overall paybill.

Of the total time made available, seven individuals spent 100% of time during the year on trade union-related activities, nil between 51% and 99%, and the remaining nine between 1% and 50%.

REMUNERATION REPORT

Pension Benefits - continued
Pension Rights - continued
Council's Leader, Civic Head and Senior Councillors

The pension entitlements of senior councillors for the year to 31 March 2019 are shown in the table below, together with the contribution made by the Council to each senior councillor's pension during the year.

	In-year pension contribs.		Accrued Pension Benefits		
	For year to 31.03.2019 £	For year to 31.03.2018 £		As at 31.03.2019 £000	Difference from 31.03.2018 £000
Council's Leader and Civic Head					
A. McVey, Leader of the Council	11,115	9,309	Pension	4	1
			Lump Sum	0	0
F. Ross, Lord Provost	8,336	7,941	Pension	5	1
			Lump Sum	0	0
C. Day, Deputy Leader of the Council	8,336	6,197	Pension	1	1
			Lump Sum	0	0
J. Griffiths, Depute Convener	5,557	5,117	Pension	3	1
			Lump Sum	0	0
A. Burns, Leader of the Council (to 04.05.17)	n/a	987	Pension	0	0
			Lump Sum	0	0
Conveners					
D. Wilson, Convener Culture and Communities	6,947	6,461	Pension	7	1
			Lump Sum	2	0
A. Rankin, Convener Finance and Resources	6,947	6,362	Pension	4	0
			Lump Sum	0	0
R. Henderson, Convener Edinburgh Integration Joint Board	7,010	5,314	Pension	6	1
			Lump Sum	2	0
I. Perry, Convener Education , Children and Families	6,947	6,362	Pension	6	1
			Lump Sum	2	0
J. Mowat, Convener Governance, Risk and Best Value	5,557	5,166	Pension	3	1
			Lump Sum	0	0
K. Campbell, Convener Housing and Economy	7,094	3,275	Pension	n/a	n/a
			Lump Sum	n/a	n/a
L. Macinnes, Convener Transport and Environment	6,947	5,721	Pension	n/a	n/a
			Lump Sum	n/a	n/a
N. Gardiner, Convener Planning	6,947	4,328	Pension	n/a	n/a
			Lump Sum	n/a	n/a
N. Work, Convener Licensing Board	6,113	5,503	Pension	5	1
			Lump Sum	2	0
Vice-Conveners					
M. Child, Vice Convener Planning and North East Locality Chair	5,488	5,503	Pension	10	1
			Lump Sum	16	0
M. Donaldson, Vice Convener Finance and Resources *(to 29.01.2019)*	4,601	5,002	Pension	2	1
			Lump Sum	0	0
A. McNeese-Mechan, Vice Convener Culture and Communities	5,642	3,276	Pension	1	1
			Lump Sum	0	0
A. Dickie, Vice Convener Education, Children and Families	5,557	4,673	Pension	n/a	n/a
			Lump Sum	n/a	n/a
L M. Cameron, Vice Convener Housing and Economy	5,557	4,673	Pension	n/a	n/a
			Lump Sum	n/a	n/a
K. Doran, Vice Convener Transport and Environment	5,557	5,002	Pension	3	1
			Lump Sum	0	0
M. Main, Vice Convener Governance, Risk and Best Value & Green Group Leader *(to 29.06.18)*	4,090	4,029	Pension	2	0
			Lump Sum	0	0

Pension Benefits - continued
Pension Rights - continued
Council's Leader, Civic Head and Senior Councillors

	In-year pension contribs.		Accrued Pension Benefits		
	For year to 31.03.2019 £	For year to 31.03.2018 £		As at 31.03.2019 £000	Difference from 31.03.2018 £000
Locality Committee Conveners					
M. Watt, South East Locality Chair	5,280	4,463	Pension	n/a	n/a
			Lump Sum	n/a	n/a
G. Gordon, North West Locality Chair *(to 09.02.18)*	n/a	4,463	Pension	n/a	n/a
			Lump Sum	n/a	n/a
D. Dixon, South West Locality Chair	5,280	4,792	Pension	3	1
			Lump Sum	0	0
Opposition Group Leaders					
I. Whyte, Conservative Group Leader	5,280	4,792	Pension	6	1
			Lump Sum	2	0
S. Burgess, Green Group Leader *(to 23.11.2017)*	n/a	4,533	Pension	n/a	n/a
			Lump Sum	n/a	n/a
M. Campbell, Green Group Leader (*from 29.06.18 to 29.12.18)*	4,488	3,276	Pension	n/a	n/a
			Lump Sum	n/a	n/a
R. Aldridge, Liberal Democrat Group Leader	5,280	4,792	Pension	5	1
			Lump Sum	2	0
Councillors					
D. Key *(including role as Convener of Lothian Valuation Joint Board)*	4,631	4,304	Pension	3	1
			Lump Sum	0	0
Former Conveners/Vice Conveners					
G. Barrie, Convener Housing and Economy *(to 15.03.2018)*	n/a	6,362	Pension	n/a	n/a
			Lump Sum	n/a	n/a
R. Lewis, Convener of Culture and Communities *(to 04.05.2017)*	n/a	651	Pension	n/a	n/a
			Lump Sum	n/a	n/a
	n/a	641	Pension	n/a	n/a
M. Bridgman, Convener Regulatory *(to 04.05.2017)*			Lump Sum	n/a	n/a
L. Hinds, Convener Transport and Environment *(to 04.05.2017)*	n/a	641	Pension	n/a	n/a
			Lump Sum	n/a	n/a
E. Milligan, Convener Licensing Board *(to 04.05.17)*	n/a	592	Pension	n/a	n/a
			Lump Sum	n/a	n/a
W. Henderson, Convener Police and Fire Scrutiny *(to 04.05.2017)*	n/a	395	Pension	n/a	n/a
			Lump Sum	n/a	n/a
G. Munro, Vice Convener Housing and Economy *(to 04.05.17)*	n/a	3,720	Pension	n/a	n/a
			Lump Sum	n/a	n/a
I. Campbell, Vice Convener of Culture and Communities *(to 15.03.18)*	n/a	4,673	Pension	n/a	n/a
			Lump Sum	n/a	n/a
N. Austin-Hart, Vice Convener of Culture and Communities *(to 04.05.17)*	n/a	444	Pension	n/a	n/a
			Lump Sum	n/a	n/a
A. Blacklock, Vice Convener Regulatory *(to 04.05.17)*	n/a	444	Pension	n/a	n/a
			Lump Sum	n/a	n/a
A. Lunn, A. Lunn, Vice Convener Planning *(to 04.05.17)*	n/a	444	Pension	n/a	n/a
			Lump Sum	n/a	n/a

All senior councillors shown in the above table are members of the Local Government Pension Scheme. Not all senior councillors are members of the Local Government Pension Scheme. The pension figures shown relate to the benefits that the person has accrued as a consequence of their total local government service, including any service with a Council subsidiary body, and not just their current position.

Pension Benefits - continued
Pension Rights - continued
Senior Employees
The pension entitlements of senior employees for the year to 31 March 2019 are shown in the table below, together with the contribution made by the Council to each senior employee's pension during the year.

	In-year pension contribs.		**Accrued Pension Benefits**		
	For year to 31.03.2019 £	**For year to 31.03.2018 £**		**As at 31.03.2019 £000**	**Difference from 31.03.2018 £000**
A. Kerr, Chief Executive	n/a	35,671	Pension	9	0
			Lump Sum	0	0
A. Gaw, Executive Director of Communities and Families	32,785	32,033	Pension	74	3
			Lump Sum	142	0
J. Proctor, Integration Joint Board Chief Officer *(from 01.05.18)*	30,053	n/a	Pension	n/a	n/a
			Lump Sum	n/a	n/a
R. McCulloch-Graham, Integration Joint Board Chief Officer *(to 05.09.17)*	n/a	6,545	Pension	n/a	n/a
			Lump Sum	n/a	n/a
M. Miller, Interim Integration Joint Board Chief Officer (*to 30.06.18)*	8,196	27,860	Pension	61	6
			Lump Sum	115	10
P. Lawrence, Executive Director of Place	32,785	32,033	Pension	25	0
			Lump Sum	n/a	n/a
J. Irvine, Chief Social Work Officer *(from 30.07.18)*	15,131	n/a	Pension	1	1
			Lump Sum	0	0
S. Moir, Executive Director of Resources	32,785	23,853	Pension	n/a	n/a
			Lump Sum	n/a	n/a
H. Dunn, Head of Finance	23,701	25,376	Pension	56	(2)
			Lump Sum	105	(10)
Total	175,436	183,371			

Notes:
All senior employees shown in the previous table above are members of the Local Government Pension Scheme. The pension figures shown relate to the benefits that the person has accrued as consequence of their total local government / public service and not just their current appointment. Accrued pension benefits relate to the position as at 31 March 2019, or the date of leaving, if that is earlier. Employees contribute towards their pensions in accordance with the rates set out on page 128.

There are no accrued pension benefits included in the table above if the employee has been a member of the pension scheme for less than 2 years.

The in-year pension contributions include pension strain costs where applicable.

Council's Subsidiary Companies
The pension entitlements of senior employees within the Council's subsidiary bodies for the year to 31 March 2019 are shown below, together with the contribution made to each senior employee's pension during the year.

Pension Benefits - continued
Council's Subsidiary Companies - continued

	In-year pension contribs.			Accrued Pension Benefits	
	For year to 31.03.2019 £	For year to 31.03.2018 £		As at 31.03.2019 £000	Difference from 31.03.2018 £000
E. Adair, Operations and Finance Director, EDI Group	30,061	21,606	Pension	33	2
			Lump Sum	45	1
M. Dallas, Chief Executive, EICC	18,812	18,283	Pension	n/a	n/a
			Lump Sum	n/a	n/a
<u>Lothian Buses Ltd.</u>					
R. Hall, Managing Director	16,933	16,500	Pension	n/a	n/a
			Lump Sum	n/a	n/a
W. Devlin, Engineering Director *(until 31.01.17)*	n/a	3,109	Pension	n/a	n/a
			Lump Sum	n/a	n/a
N. Strachan, Finance Director *(until 31.01.17)*	n/a	3,109	Pension	n/a	n/a
			Lump Sum	n/a	n/a
<u>Edinburgh Trams Ltd.</u>					
L. Harrison, General Manager	10,996	9,675	Pension	n/a	n/a
			Lump Sum	n/a	n/a
<u>Capital City Partnership</u>					
R. Hunter, Chief Executive	11,112	9,790	Pension	n/a	n/a
			Lump Sum	n/a	n/a
Total	87,914	82,072			

EDI Group and EICC are subsidiary companies of CEC Holdings Limited. Figures shown for these companies, Edinburgh Trams Ltd. and Lothian Buses Ltd. are for the year ended 31 December 2018 and 31 December 2017 respectively.

E. Adair and R. Hunter are the only members of the Local Government Pension Scheme in the above table. The pension figures shown relate to the benefits that the person has accrued as consequence of their total relevant service and not just their current appointment.

There are no accrued pension benefits included in the table above if the employee has been a member of the pension scheme for less than 2 years.

The in-year pension contributions include pension strain costs where applicable.

ANDREW KERR Chief Executive	CAMMY DAY Depute Council Leader	ELEANOR BIRD Leader of the SNP Group
27 September 2019	27 September 2019	27 September 2019

INDEPENDENT AUDITOR'S REPORT

Independent auditor's report to the members of City of Edinburgh Council and the Accounts Commission

Report on the audit of the financial statements

Opinion on financial statements

We certify that we have audited the financial statements in the annual accounts of City of Edinburgh Council and its group for the year ended 31 March 2019 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the group and council-only Movement in Reserves Statements, Comprehensive Income and Expenditure Statements, Balance Sheets, and Cash-Flow Statements, the council-only Housing Revenue Account, Council Tax Income Account, Non-domestic Rates Income Account, Common Good Fund Income and Expenditure Account and Balance Sheet and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 (the 2018/19 Code).

In our opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2018/19 Code of the state of affairs of the council and its group as at 31 March 2019 and of the income and expenditure of the council and its group for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2018/19 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

Basis for opinion

We conducted our audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)), as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. 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 were appointed by the Accounts Commission on 31 May 2016. The period of total uninterrupted appointment is 3 years. We are independent of the council and its group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. Non-audit services prohibited by the Ethical Standard were not provided to the council. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern basis of accounting

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Head of Finance has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the council's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Risks of material misstatement

We have reported in a separate Annual Audit Report, which is available from the Audit Scotland website, the most significant assessed risks of material misstatement that we identified and our conclusions thereon.

INDEPENDENT AUDITOR'S REPORT

Responsibilities of the Head of Finance and City of Edinburgh Council for the financial statements

As explained more fully in the Statement of Responsibilities, the Head of Finance is responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the Head of Finance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Head of Finance is responsible for assessing the council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

The City of Edinburgh Council is responsible for overseeing the financial reporting process.

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.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, intentional omissions, misrepresentations, or the override of internal control. The capability of the audit to detect fraud and other irregularities depends on factors such as the skilfulness of the perpetrator, the frequency and extent of manipulation, the degree of collusion involved, the relative size of individual amounts manipulated, and the seniority of those individuals involved. We therefore design and perform audit procedures which respond to the assessed risks of material misstatement due to fraud.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other information in the annual accounts

The Head of Finance is responsible for the other information in the annual accounts. The other information comprises the information other than the financial statements, the audited part of the Remuneration Report, and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon except on matters prescribed by the Accounts Commission to the extent explicitly stated later in this report.

In connection with our audit of the financial statements, our responsibility is to read all the other information in the annual accounts and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Report on other requirements

Opinions on matters prescribed by the Accounts Commission

In our opinion, the audited part of the Remuneration Report has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003; and
- the information given in the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016).

INDEPENDENT AUDITOR'S REPORT

Matters on which we are required to report by exception

We are required by the Accounts Commission to report to you if, in our opinion:

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

We have the following to report in respect of these matters:

Local authorities have a duty under section 10 of the Local Government in Scotland Act 2003 to conduct their significant trading operations so that income is not less than expenditure over each three year period. The council failed to comply with this statutory requirement for the three year period ending 31 March 2019 in respect of their significant trading operation, Edinburgh Catering Services - Other Catering.

We have nothing to report in respect of the other matters.

Conclusions on wider scope responsibilities

In addition to our responsibilities for the annual accounts, our conclusions on the wider scope responsibilities specified in the Code of Audit Practice, including those in respect of Best Value, are set out in our Annual Audit Report.

Use of our report

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 120 of the Code of Audit Practice, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Nick Bennett (for and on behalf of Scott-Moncrieff Audit Services)
Exchange Place 3
Semple Street
Edinburgh
EH3 8BL

27 September 2019

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The City of Edinburgh Council

10am, Thursday 24 October 2019

Bustracker – Contract Award– referral from the Finance and Resources Committee

Executive/routine
Wards
Council Commitments

1. For Decision/Action

1.1 The City of Edinburgh Council is asked to approve prudential borrowing of up to £2.35m, with the resulting annual repayments of £0.299m able to be met in full through reductions in on-going maintenance costs.

Laurence Rockey

Head of Strategy and Communications

Contact: Martin Scott, Committee Services

Email: martin.scott@edinburgh.gov.uk | Tel: 0131 529 4237

Referral Report

Bustracker – Contract Award – referral from the Finance and Resources Committee

2. Terms of Referral

2.1 On 10 October 2019, the Finance and Resources Committee considered a report by the Executive Director of Place which sought approval to award the contract for the installation of a new Content Management System (CMS), bus station information system and installation of a new on street Real Time Passenger Information (RTPI) system to the winning tendered, 21st Century Solutions, at a maximum cost of £2.9 million.

2.2 The Finance and Resources Committee agreed:

2.2.1 To note the decision taken on 9 March 2018 by the Transport and Environment Committee to authorise the procurement of new Bus Station Information hardware and software management system, to procure a new Content Management System (CMS) and to authorise the advancement of the on-street Real Time Passenger Information (RTPI) signage aspect of the project under the same contract, via an output based specification, to challenge the current market.

2.2.2 To award the new bus station information system, CMS and RTPI on street sign system to 21st Century Solutions for a period of five years with the option of two four-year extension periods at an estimated value of £2.9 million.

2.2.3 To refer, subject to the Committee's consideration, this report to Council for approval of prudential borrowing of up to £2.35m, with the resulting annual repayments of £0.299m able to be met in full through reductions in on-going maintenance costs.

3. Background Reading/ External References

3.1 Minute of the Finance and Resources Committee of 10 October 2019.

3.2 [Finance and Resources Committee – 10 October 2019 - Webcast]

4. Appendices

Appendix 1 – report by the Executive Director of Place

Finance and Resources Committee

10.00am, Thursday, 10 October 2019

Bustracker – Contract Award

Executive/routine	Executive
Wards	All
Council Commitments	

1. Recommendations

1.1 To note the decision taken on 9 March 2018 by the Transport and Environment Committee to authorise the procurement of new Bus Station Information hardware and software management system, to procure a new Content Management System (CMS) and to authorise the advancement of the on-street Real Time Passenger Information (RTPI) signage aspect of the project under the same contract, via an output based specification, to challenge the current market.

1.2 To award the new bus station information system, CMS and RTPI on street sign system to 21st Century Solutions for a period of five years with the option of two four-year extension periods at an estimated value of £2.9 million.

1.3 To refer, subject to the Committee's consideration, this report to Council for approval of prudential borrowing of up to £2.35m, with the resulting annual repayments of £0.299m able to be met in full through reductions in on-going maintenance costs.

Paul Lawrence

Executive Director of Place

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EDINBVRGH
THE CITY OF EDINBURGH COUNCIL

Report

Bustracker – Contract Award

2. Executive Summary

2.1 This report seeks to award the contract for the installation of a new CMS, bus station information system and installation of a new on street RTPI system to the winning tenderer, 21st Century Solutions, at a maximum cost of £2.9 million. The new system will deliver real time information to bus users as well as onward travel information for tram, train and flight information via new colour screens capable of generating revenue via advertising.

3. Background

3.1 Edinburgh's RTPI system, Bustracker, is currently provided by French based company Cofely Ineo. Edinburgh Bus Station's Information Management System and hardware were procured from and installed by TanData, now Vix Technology.

3.2 Both systems were first installed more than 14 years ago. The bus station system has now partially failed and due to its age cannot be repaired or maintained. In a sector where technology has advanced significantly, both systems are outdated and new products exist that can provide more efficient and effective services at lower maintenance costs.

3.3 The Transport and Environment Committee authorised the procurement of a bus station information system, a CMS, and to undertake an informed on-street signage review with a view of updating and replacing to lower operational costs.

4. Main report

4.1 Following Committee approval, Council officers and Lothian Buses agreed a procurement process.

4.2 The scope and aims of this contract include:

4.2.1 introduce a new state of the art RTPI system to Edinburgh;

4.2.2 procure new CMS;

4.2.3 remove the requirement to operate the system over historic private mobile radio and move to a cheaper and more efficient WIFI/GPRS communication solution;

4.2.4 upgrade or replace existing on street signs;

4.2.5 capability to incorporate advertising into the signs with the possibility of generating revenue;

4.2.6 use technology to report back on air pollution;

4.2.7 reduce the reliance on the public reporting display faults;

4.2.8 publicise the uses of the open API for disseminating information;

4.2.9 reduce revenue spend on maintenance;

4.2.10 provision of a bus departure charging system (required) linked to an Automatic Number Plate Recognition (ANPR) system through existing CCTV (desirable);

4.2.11 provision of a Dynamic Stance Allocation system; and

4.2.12 control of departures from bays to ensure operational safety, possibly including interface to traffic signal junction at Bus Station access/egress point.

4.3 Market engagement was undertaken, with several suppliers to support the development of the specification requirements.

4.4 The tendering process was carried out in accordance with the Public Contracts (Scotland) Regulations 2015 and Council Standing Orders.

4.5 The tender opportunity was published on the Public Contracts Scotland (PCS) portal on 15 April 2019 utilising the Open Procedure. Suppliers were instructed to tailor their tenders in relation to two specifications; new Bus Station Information hardware with CMS and advancement of the on-street Real Time Passenger Information signage.

4.6 A total of five companies submitted tenders but two were disqualified from the process based on incomplete tenders. Three tenders were then evaluated using a cost/quality ratio of 60% cost and 40% quality which was broken down into two elements, 30% for CMS and Bus Station and 10% for on street signage.

4.7 The recommendation for award of contract is based on the completed evaluation scores for the tenders as detailed below:

Supplier	Price score % (out of 60)	Quality Score % (out of 30)	Quality Score % (out of 10)	Combined Score % (out of 100)
21st Century Solutions	60%	24.04%	6.5%	90.54%
Supplier B	51.76%	20.89%	6%	78.65%
Supplier C	35.99%	2.63%	0.8%	39.42%

4.8 The supplier with the highest overall score, which represents the most economically advantageous tender, was 21st Century Solutions and it is proposed to award the contract to them for an initial five-year period, with the opportunity to extend for two further periods of four years each.

4.9 Committee is asked to note that a review of all on-street signs will be undertaken and recommendations on replacement options will be presented to Transport and Environment Committee in 2020. Depending on the preferred option, the cost of installation and maintenance may be reduced.

5. Next Steps

5.1 A project inception meeting will be arranged with 21st Century Solutions and the project programme and risk register agreed.

5.2 The project programme will follow an initial three step process:

Step 1: Setup Activities

5.2.1 Method Statements for the system shall be provided to the Project Officer for review and approval;

5.2.2 System and Factory Acceptance Testing carried out to ensure the CMS system is configured correctly scripts are issued to the Project Officer for review and approval; and

5.2.3 System training is provided to the Council and the bus operators.

Step 2: Installation Works

5.2.4 System installation testing; and bus station display upgrading and installation testing.

Step 3: Testing Activities

5.2.5 Silent running (two weeks);

5.2.6 Site acceptance testing (two weeks); and

5.2.7 Taking over the system.

5.3 A review of on-street requirements will be undertaken and recommendations on the options available for replacement will be presented to Transport and Environment Committee in 2020.

6. Financial impact

6.1 The estimated maximum value of this contract is £2.9 million, based on a like-for-like replacement of current signage across the city. Of this total investment, it is anticipated that £0.55 million can be funded from existing capital budgets over two financial years with up to £2.35 million to be obtained through prudential borrowing. The cost of installation, maintenance and infrastructure are fixed for the contract duration and subsequent extensions.

6.2 If the full cost of the system was to be funded fully by prudential borrowing, the overall loan charges associated with this expenditure over a 10-year period would be a principal amount of £2.9 million and interest of £0.9 million, resulting in a total cost of £3.8 million based on a loans fund interest rate of 4.6%. The annual loan charges would be £0.38 million. As noted above, however, the actual sum to be funded by prudential borrowing will be reduced by the level of available capital funding identified from within existing budgets.

6.3 Including potential extensions, it is estimated that the project will deliver significant maintenance and other savings over the contract term. These savings will meet, in full, the costs of prudential borrowing of the associated upfront capital investment, with anticipated overall net revenue savings of at least £0.8 million over this period. The complete removal, replacement of the bus station including CMS and existing Bustracker system will be required to achieve the maximum savings over the new contract duration of 13 years.

6.4 Further savings may also be achieved by a reduced number of on-street signs, this will reduce the associated maintenance costs that will take effect from end of year five of the new contract. There are no maintenance costs associated with years one to five which has been accounted for in the overall contract value. Maintenance costs from year six onwards have been incorporated in the calculated spend profile.

6.5 The expected funding streams and savings in maintenance costs have been reviewed and the annual repayments of prudential borrowing of £0.299 million can be contained within the existing revenue budget in the Council's transport service in each year of the contract term, including extensions.

6.6 It is estimated that the decommissioning of the current system will take up to 18 months. The existing maintenance cost is in the region of £0.48 million per annum and this will be scaled back throughout the decommissioning process.

6.7 The new signage will have the capacity to display 'in full colour' on-street advertising. Further revenue opportunities will be explored in future subject to appropriate planning consent.

6.8 Further opportunities for funding will be explored to reduce the prudential borrowing sum. This will include the European Regional Development Fund.

6.9 The costs associated with procuring this contract incorporating legal fees are estimated to be between £20,001-£35,000.

7. Stakeholder/Community Impact

7.1 SEStran and neighbouring authorities have provided positive feedback and feel that the project will provide significant benefits to public transport users within and outside of Edinburgh.

7.2 Lothian Buses provided input into the specifications to ensure that the new bustracker system is fully compatible with their new system. As the new bustracker system will operate via mobile networks the costs associated with the use and maintenance of the current radio network will move to Lothian Buses.

7.3 Edinburgh Tram provided input into the specifications to ensure that the system can, if required, display real time tram information.

7.4 Engagement with operators using Edinburgh Bus Station showed that most use a solution called 'Ticketer' which is compatible with the new Bustracker system, allowing the display of real time information for most operators. A small number of smaller operators have no solution and they will show scheduled information. 'Ticketer' is also compatible with on street signs allowing us to display information for multiple companies.

7.5 Further consultation with other partners and users will be undertaken where appropriate.

7.6 This project will provide continued provision or enhancement to the quality of life of users through the enhancement of access to employment, educational, leisure and shopping opportunities.

7.7 Withdrawing the service would particularly affect vulnerable users who rely on the reassurance provided by accurate RTPI.

7.8 The proposals in this report are designed to help reduce carbon emissions. By providing accurate information for passengers it is hoped to reduce dependence on transport by private car and increase public transport use.

8. Background reading/external references

8.1 None.

9. Appendices

9.1 Appendix 1 – Summary of Tendering and Tender Evaluation Processes

Appendix 1 – Summary of Tendering and Tender Evaluation Processes

Contract	**CT2119**	
Contract Period	28 October 2019 to 27 October 2032	
Estimated Total Contract Value (including extensions)	£2.9 million	
Procurement Route Chosen	Open Procedure	
Tenders Returned	5	
Price / Quality Split	**Quality 40**	**Price 60**
	Criteria	**Weighting (%)**
Evaluation Criterion and Weightings	Bus Station & CMS	30% (supported by 72 questions)
	On Street Signage	10% (supported by 42 questions)
Evaluation Team	Officers from Public Transport Team supported by consultancy support from Atkins LLP.	