

# Notice of meeting and agenda

## Governance, Risk and Best Value Committee

**10.00 am Tuesday, 17th September, 2019**

Dean of Guild Court Room - 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

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

## 2. Declaration of Interests

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

## 3. Deputations

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- 3.1 If any

## 4. Minutes

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| 4.1 | Minute of the Governance, Risk and Best Value Committee of 13 August 2019 – submitted for approval as a correct record | 7 - 12 |
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## 5. Outstanding Actions

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| 5.1 | Outstanding Actions – 17 September 2019 | 13 - 28 |
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## 6. Work Programme

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| 6.1 | Governance, Risk and Best Value Work Committee Work Programme – 17 September 2019 | 29 - 36 |
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## 7. Business Bulletin

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- 7.1 None.

## 8. Reports

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<b>8.1</b>	City of Edinburgh Council – 2018/19 Annual Audit Report to the Council and the Controller of Audit – Report by Executive Director of Resources	37 - 256
<b>8.2</b>	External Audit Review of Internal Financial Controls, 2018/19 – Report by Executive Director of Resources	257 - 280
<b>8.3</b>	Capital Investment Programme - Outturn 2018/19 and Revised Budget 2019-24 (incorporating slippage) - referral from the Finance and Resources Committee	281 - 304
<b>8.4</b>	Capital Monitoring 2019/20 Period 3 - referral from the Finance and Resources Committee	305 - 316
<b>8.5</b>	Capital Monitoring 2019/20 Period 3 - referral from the Finance and Resources Committee	317 - 334
<b>8.6</b>	Revenue Monitoring 2019/20 - Period three report – Report by Executive Director of Resources	335 - 358
<b>8.7</b>	Treasury Management: Annual Report 2018/19 - referral from the City of Edinburgh Council	359 - 380
<b>8.8</b>	Corporate Governance Framework Self-Assessment 2018/19 – Report by Chief Executive	381 - 406
<b>8.9</b>	Whistleblowing Update – Report by Chief Executive	407 - 410

## 9. Motions

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9.1 If any

## 10. Resolution to consider in private

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10.1 The Committee, is requested under Section 50(A)(4) of the Local Government (Scotland) Act 1973, to exclude the public from the meeting for the following items of business on the grounds that they would involve the disclosure of exempt information as defined in Paragraphs 1, 12 and 15 of Part 1 of Schedule 7A of the Act.

## 11. Private Reports

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11.1 Whistleblowing Monitoring Report – Report by Chief Executive 411 - 438

**Andrew Kerr**

Chief Executive

## Committee Members

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

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

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



## Further information

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If you have any questions about the agenda or meeting arrangements, please contact , Committee Services, City of Edinburgh Council, Business Centre 2.1, Waverley Court, 4 East Market Street, Edinburgh EH8 8BG, Tel 0131 553 8242/ 0131 529 4237, email [jamie.macrae@edinburgh.gov.uk](mailto:jamie.macrae@edinburgh.gov.uk) / [martin.scott@edinburgh.gov.uk](mailto:martin.scott@edinburgh.gov.uk).

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

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

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## Minutes

### Governance, Risk and Best Value Committee

10.00am, Tuesday, 13 August 2019

#### Present

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

#### 1. Minute

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##### Decision

To approve the minute of 4 June 2019 as a correct record.

#### 2. Outstanding Actions

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

##### Decision

1) To agree to close the following Actions:

**Action 10** – Housing Service – Annual External Audit Follow Up

**Action 11** – The Governance Relationship between the Council and the EIJB

**Action 14** – Corporate Leadership Team Risk Report

**Action 18(1)** – Accounts Commission – Safeguarding public money: are you getting it right? – referral from the Finance and Resources Committee

2) To otherwise note the outstanding actions.

(Reference – Outstanding Actions – 13 August 2019, submitted.)

#### 3. Work Programme

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##### Decision

To note the Work Programme.

(Reference – Governance, Risk and Best Value Committee Work Programme – 13 August 2019, submitted.)

### 3. Business Bulletin

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#### Decision

To note the Business Bulletin.

(Reference – Governance, Risk and Best Value Committee Business Bulletin – 13 August 2019, submitted.)

### 4. Internal Audit Quarterly Update Report: 1 April to 30 June 2019

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Details were provided of Internal Audit (IA) reviews completed as at 30 June 2019, progress with the 2018/19 IA plan and current IA priorities.

#### Decision

- 1) To note the progress with the delivery of the 2019/20 Internal Audit (IA) plan.
- 2) To note the performance against IA key performance indicators.
- 3) To note the outcomes of the Team Central post implementation review and progress with key IA priorities and ongoing areas of focus.
- 4) To note that there was an item on the agenda for the next Partnership at Work meeting with Trade Unions on how to improve the culture around internal auditing and that this would be proposed as an item for the next Joint Consultative Group meeting.

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

### 5. Internal Audit: Overdue Findings and Late Management Responses as at 1 July 2019

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The current overdue findings arising from Internal Audit (IA) reports and late management responses to draft IA reports were considered. A total of 76 open IA findings remained to be addressed across the Council as at 1 July 2019. This included the remaining 7 of the 26 historic Council findings that were with IA for validation and excluded open and overdue Internal Audit findings for the Edinburgh Integration Joint Board and the Lothian Pension Fund.

#### Decision

- 1) To note the status of the overdue Internal Audit (IA) findings as at 1 July 2019.
- 2) To note the progress with delivery of the 2019/20 IA plan.
- 3) To agree that revised dates would be included for all audits on future reports.

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

## **6. Internal Audit: Proposed additions to the 2019/20 Internal Audit Plan**

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A report was presented requesting retrospective approval from the Committee for inclusion of the Transfer of the Management Development Funds (TMDF) review that was added to the 2019/20 IA annual plan at the request of the Scottish Government and for the approval for the incorporation of a review of the financial processes performed by the Council on behalf of the City Deal into the planned review of Budget Setting and Management that was included in the 2019/20 Internal Audit annual plan.

### **Decision**

- 1) To note the addition of the Transfer of the Management Development Funds (TMDF) Internal Audit (IA) review added to the 2019/20 IA annual plan at the request of the Scottish Government.
- 2) To approve incorporation of a review of the financial processes supporting the Edinburgh and South East Scotland City Region Deal (City Deal) into the planned review of Budget Setting and Management that is included in the 2019/20 Internal Audit annual plan.
- 3) To note that inclusion of these reviews would be accommodated using currently available resources, with no requirement to reprioritise or replace any existing audits included in the plan.

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

## **7. Internal Audit Annual Opinion for the year ended 31 March 2019**

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Details were provided on the Internal Audit's annual opinion for the City of Edinburgh Council for the year ended 31 March 2019, prepared in line with the Public Sector Internal Audit Standards requirements.

### **Decision**

- 1) To note the Internal Audit opinion for the year ended 31 March 2019.
- 2) To request that the Chief Executive, Executive Directors and Chief Officer of the Edinburgh Health and Social Care Partnership, supported by the Chief Internal Auditor, report to the relevant Executive Committee at the earliest opportunity and the subsequent GRBV Committee setting out clear plans to ensure the closure of all historic and overdue internal audit management actions to enable an improvement to the overall Internal Audit Opinion for 2019/20 and to refer all audits with a red finding to the next meeting of the appropriate Executive Committee for their consideration and that action plans would be reported back to GRBV.

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

## 8. Corporate Leadership Team Risk Register

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An update was provided on the Corporate Leadership Team's view of the Council's top risks and the key controls in place to mitigate them as at 17th July 2019. These risks and the associated controls had previously been scrutinised and challenged by the Corporate Leadership Team and were presented for oversight and review.

### Decision

- 1) To note the Corporate Leadership Team Risk Register and the assurance provided by the risk management framework, controls and mitigations in operation.
- 2) To agree that future reports would provide more clarity regarding areas of responsibility for the council and elsewhere with regards to Brexit.

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

## 9. Edinburgh Health and Social Care Partnership Annual Assurance Statement

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The Edinburgh Health and Social care Partnership Annual Assurance Statement was submitted for scrutiny. Details were also provided of areas where controls needed to be enhanced.

### Decision

- 1) To note the annual assurance statement for 2017/18.
- 2) To note the areas where the Partnership was partially compliant and note the actions taken to strengthen the controls to ensure compliance for the 2018/19 assurance statement.

(Reference – report by Chief Officer, Edinburgh Health and Social Care Partnership, submitted.)

## 10. Internal Audit Update for the period 23 October 2018 to 6 May 2019 - referral from the Edinburgh Integration Joint Board Audit and Risk Committee

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The Edinburgh Integration Joint Board (EIJB) Audit and Risk Committee had referred a report on the progress of Internal Audit (IA) assurance activity on behalf of the EIJB performed by the EIJB's partners (the City of Edinburgh Council and NHS Lothian) IA teams to the Governance Risk and Best Value Committee for noting and scrutinising, as a number of the open EIJB Audit findings related to operational service delivery for the Health and Social Care Partnership by the Council.

### Decision

To note the report.

(References – Edinburgh Integration Joint Board Audit and Risk Committee, 31 May 2019; referral from the Edinburgh Integration Joint Board Audit and Risk Committee, submitted.)

## **11. Annual Update on Council Transport Arms-Length Companies - referral from the Transport and Environment Committee**

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The Transport and Environment Committee had referred the Annual Update on Council Transport Arms-Length Companies for consideration. The progress made by Transport for Edinburgh, Edinburgh Trams Limited and Lothian Buses over the last 12 months was reported in line with the Council's governance arrangements, which required an annual update on performance of arm's length organisations. This was the first update on the Transport companies.

### **Decision**

- 1) To note the report.
- 2) To agree that the report to Policy and Sustainability Committee later this year would provide additional clarity regarding the reporting arrangements for ALEOs to the Council and governance schematics and this should be referred back to GRBV.
- 3) To agree that future reports would include a more detail about strategy and communication and accessibility.

(References – Transport and Environment Committee, 20 June 2019 (item 3); referral from the Transport and Environment Committee, submitted.)

## **12. Marketing Edinburgh Annual Update**

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An update was provided on the annual performance of Marketing Edinburgh for the year 2018/19, including a final update on key performance indicators (KPIs) within the Service Level Agreement (SLA) with the Council in 2018/19

### **Decision**

- 1) To note the report.
- 2) To agree that details would be provided about the amount of income generated by Film Edinburgh for the Council.

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

## **13. Financial Systems Access Controls**

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The Committee, in terms of Section 50(A)(4) of the Local Government (Scotland) Act 1973, excluded the public from the meeting during consideration of the following item of

business for the reason that it involved the likely disclosure of exempt information as defined in Paragraphs 14 of Part 1 of Schedule 7(A) of the Act.

### **Decision**

- 1) To note the outcomes of the Financial Systems Access Controls Internal Audit review.
- 2) To refer the report to the Edinburgh Integration Joint Board Audit and Assurance Committee for consideration.

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



# Outstanding Actions

## Governance, Risk and Best Value Committee

17 September 2019

No	Date	Report Title	Action	Action Owner	Expected completion date	Actual completion date	Comments
1	01/08/2017	<a href="#">Governance, Risk and Best Value Work Programme – 1 August 2017</a>	To note an investigation report on retention of case records would be reported to the appropriate committee and a timescale for this would be provided as soon as possible.	Executive Director for Communities and Families	November 2019 <del>August 2019</del> <del>April 2019</del>		<p><b><u>May 2019</u></b></p> <p>Strategy and Comms are preparing a paper which will include the outcomes of the audit findings – this will be reported to the Corporate Policy and Strategy Committee and referred thereafter to GRBV.</p> <p><b><u>Update</u></b></p> <p>The internal auditor's investigation is still</p>

No	Date	Report Title	Action	Action Owner	Expected completion date	Actual completion date	Comments
							<p>ongoing therefore it may take a few months before an update is provided.</p> <p>The Executive Director for Communities and Families will provide an update once the Chief Internal Auditor's investigation is concluded.</p> <p>The final audit report would be referred from the Corporate Policy and Strategy Committee to GRBV.</p>
2	26/09/2017	<a href="#">Principles to Govern the Working Relationships between the City of Edinburgh Council</a>	To accept the high-level principles subject to further information on how	Chief Internal Auditor	May 2020 <del>September 2019</del>		<p><b>Update September 2019</b></p> <p>Please note that a</p>

No	Date	Report Title	Action	Action Owner	Expected completion date	Actual completion date	Comments
		<a href="#">Governance, Risk and Best Value Committee and the Edinburgh Integrated Joint Board Audit and Risk Committee</a>	elected members could best engage with the process.		January 2019 <del>November 2017</del>		briefing note by the Chief Internal Auditor has been circulated to members separately.
3	31/07/18	<a href="#">Internal Audit Opinion and Annual Report for the Year Ended 31 March 2018</a>	To request that each Director bring forward a plan on how they will strengthen the control environment within their Directorate and in future include reference to this within each Director's assurance statement.	Chief Executive and all Executive Directors/Chief Officer, EHSCP	August 2019 <del>19 March 2019</del>		<p><b>Recommended for Closure</b></p> <p>Assurance schedules were reported as follows:</p> <p>Resources – 30 October 2018</p> <p>Place – 27 November 2018</p> <p>Communities and Families – 15 January 2019</p> <p>Chief Executive (Strategy and Communications) – 19 February 2019</p>

No	Date	Report Title	Action	Action Owner	Expected completion date	Actual completion date	Comments
							Edinburgh Health & Social Care Partnership – <del>19 March 2019</del> June 2019 August 2019  (EHSCP Assurance Schedule is on the agenda for August 2019)
4	31/07/18	<a href="#">Expansion of Early Learning and Childcare from 600 – 1140 hours by 2020. Audit Scotland Report and Risks</a>	To ask the Chief Executive to submit a report to the Edinburgh Partnership on workforce planning.	Chief Executive / Executive Director for Communities and Families	October 2019 <del>June 2019</del>		<b><u>May 2019</u></b>  The report was submitted to the Education, Children and Families Committee in <a href="#">March 2019</a> and it will be submitted to the Edinburgh Partnership in October 2019.  <b><u>October 2018</u></b>  A report is

No	Date	Report Title	Action	Action Owner	Expected completion date	Actual completion date	Comments
							scheduled to go to the Education, Children and Families Committee in March 2019 and will be reported to the Edinburgh Partnership thereafter.
5	28/08/18	<a href="#">Committee Reporting</a>	To request a report by the end of 2019 to monitor the impact of the steps taken to improve the process.	Chief Executive	December 2019		
6	25/09/18	<a href="#">City of Edinburgh Council – 2017/18 Annual Audit Report to the Council and the Controller of Audit</a>	<p>1) To agree that Place Directorate would provide a briefing note to members on the housing issues in the report.</p> <p>2) To agree that a report be brought</p>	<p>Executive Director of Place</p> <p>Executive Director of Place</p>	<p>October 2018</p> <p>January 2019</p>		<p>1. <b>CLOSED</b> – briefing circulated to GRBV members on 12 October 2018.</p> <p>2. <b>CLOSED</b> – Roads Improvement</p>

No	Date	Report Title	Action	Action Owner	Expected completion date	Actual completion date	Comments
			back to committee to provide a progress update on the Roads Improvement Programme.				Plan progress update on the agenda for January 2019.
			3) To agree that the Governance, Risk and Best Value Committee Work Programme would be updated to include two overview reports; one on Housing and one on Health and Social Care, covering outstanding audit issues and the direction of travel. The Health and Social Care report was expected to include details of	Chief Officer, Edinburgh Health and Social Care Partnership	August 2019 <del>June 2019</del> <del>March 2019</del>		<b>Recommended for Closure</b>  Details of the outstanding audit issues were included in the report on the agenda for August 2019 at Item 8.6 – Internal Audit Update (referral from the IJB Audit and Risk Committee). An overview of IJB governance was provided in a report

No	Date	Report Title	Action	Action Owner	Expected completion date	Actual completion date	Comments
			Integration Joint Board (IJB) governance and the responsibilities of the IJB and the Council.				<p>to the March meeting of GRBV: <a href="#">The Governance Relationship between the Council and the EIJB</a></p> <p><u>May 2019 (Update)</u></p> <p><del>The Health and Social Care overview report will now be submitted in August 2019</del></p> <p><u>March 2019 (Update)</u></p> <p><del>The Health and Social Care overview report will now be submitted in June 2019</del></p> <p><del>Overview reports on Health and Social Care and</del></p>

No	Date	Report Title	Action	Action Owner	Expected completion date	Actual completion date	Comments
							<del>Housing report will be submitted in March 2019.</del>
7	30/10/18	Delivery of the New Boroughmuir High School – Post-Project Review (B agenda report)	That the Convener and Vice-Convener would discuss with officers what information on project implementation could be made public.	Convener	August 2019 <del>June 2019</del> <del>March 2019</del>		Convener has been in discussion with officials regarding this matter.
8	15/01/19	<a href="#">Roads Services Improvement Plan</a>	To agree that an update be submitted in October 2019 following the meeting of the Transport and Environment Committee.	Executive Director of Place	January 2020 <del>October 2019</del>		Report due at Transport and Environment Committee in December 2019.
9	15/01/19	<a href="#">Garden Waste Bin Collection Project: What Worked Well and Lessons Learned – referral from the Transport and Environment Committee</a>	To ask that a briefing note be circulated providing details of vehicles, overtime and staffing.	Executive Director of Place	September 2019 <del>August 2019</del> <del>June 2019</del> <del>February</del>		Briefing Note will be issued before Committee meets in September  <del>Briefing Note will be issued before</del>



No	Date	Report Title	Action	Action Owner	Expected completion date	Actual completion date	Comments
					2019		<del>Committee meets in August.</del>  <del>Briefing Note will be issued before Committee meets in June 2019.</del>
10	07.05.19	<a href="#">Business Bulletin - Governance, Risk and Best Value Committee</a>	To request a briefing note providing more detail on how relationships with the third and independent sector were being improved.	Chief Officer, Edinburgh Health and Social Care Partnership	August 2019		<b>Recommended for Closure</b>  Briefing note circulated prior to August GRBV meeting.
11	07.05.19	<a href="#">Internal Audit Quarterly Update Report: 26 November 2018 to 29 March 2019</a>	To request a briefing note on the Developer Contributions audit, covering how the department assessed works carried out and works which were paid for in kind, how costs of particular items were	Executive Director of Place	August 2019 <del>June 2019</del>		<b>Recommended for Closure</b>  A briefing note was circulated to members on 12.08.19.  <del>Briefing Note will be issued before Committee meets</del>

No	Date	Report Title	Action	Action Owner	Expected completion date	Actual completion date	Comments
			calculated, and how developers were being assessed equitably.				<del>in August 2019.</del> <del>Briefing Note will be issued before Committee meets in June 2019.</del>
12	07.05.19	<a href="#">Capital City Partnership: Progress Update</a>	To request a Business Bulletin update detailing the work undertaken on KPIs that was not included in the report.	Executive Director of Place	August 2019 <del>June 2019</del>		<b>Recommended for Closure</b>  Update provided in the Business Bulletin for Committee on 13 August 2019.  <del>This is included on the Business Bulletin for August 2019.</del>
13	04.06.19	<a href="#">Welfare Reform Annual Report</a>	To agree that the Convener would write to the Convener of the Corporate Policy and Strategy Committee recommending that	Convener	August 2019		

No	Date	Report Title	Action	Action Owner	Expected completion date	Actual completion date	Comments
			he write to the UK Government requesting assistance to mitigate the impact of welfare reform, and that details, including any responses, would be provided in the Committee's Business Bulletin.				
14	04.06.19	<a href="#">Accounts Commission – Local Government in Scotland: Challenges and Performance 2019 – referral from the Finance and Resources Committee</a>	1) To request a briefing note clarifying the data in Exhibit 4 of the report on the percentage of young people in poverty.  2) To agree that the Convener would write to the Convener of the Finance and Resources Committee to	Chief Executive          Convener	August 2019		<b>1) Recommended for Closure</b> Update provided in the Business Bulletin for Committee on 12 September 2019.

No	Date	Report Title	Action	Action Owner	Expected completion date	Actual completion date	Comments
			recommend that he write to the Scottish Government conveying the Committee's concerns at the lack of government funding, and that details, including any responses, would be provided in the Committee's Business Bulletin.				
15	04.06.19	<a href="#">Accounts Commission – Safeguarding public money: are you getting it right? – referral from the Finance and Resources Committee</a>	1. To request that the Accounts Commission report be circulated to all members of the Council for information, and to recommend that it be included in the training pack for	Chief Executive	July 2019		1. <b>CLOSED</b> – report circulated to all councillors on 25 July 2019 and to the Governance Team to arrange for it to be included in the training for

No	Date	Report Title	Action	Action Owner	Expected completion date	Actual completion date	Comments
			new councillors.  2) To agree that the Convener would arrange a meeting with a group of members of the Committee and officers to consider the Councillor checklists and identify any gaps.	Convener	TBC		new councillors.
16	04.06.19	<a href="#">Workforce Control Annual Report – referral from the Finance and Resources Committee</a>	To ask the Executive Director of Place for a briefing note on the current use of agency staff within his Directorate, whether this was linked to visitor pressures / festival pressures and whether or not these costs could be quantified.	Executive Director of Place	August 2019		<b>Recommended for Closure</b>  A briefing note was circulated to members on 12.08.19.  <del>Briefing Note will be issued before Committee meets in August 2019.</del>

No	Date	Report Title	Action	Action Owner	Expected completion date	Actual completion date	Comments
17	04.06.19	<a href="#">Change Portfolio</a>	To agree to an update on the Business Bulletin on the timescale for the Paperless Strategy and Councillors' responsibilities as data controllers.	Executive Director of Resources	October 2019		The Head of Customer and Digital Services is currently finalising processes and will have an update including timescales for inclusion in the papers for October's meeting.
18	13.08.19	<a href="#">Internal Audit Annual Opinion for the year ended 31 March 2019</a>	To request that the Chief Executive, Executive Directors and Chief Officer of the Edinburgh Health and Social Care Partnership, supported by the Chief Internal Auditor, report to the relevant Executive Committee at the earliest opportunity and the subsequent GRBV	Chief Executive / Executive Directors / Chief Officer, EHSCP and Chief Internal Auditor	November 2019		

No	Date	Report Title	Action	Action Owner	Expected completion date	Actual completion date	Comments
			Committee setting out clear plans to ensure the closure of all historic and overdue internal audit management actions to enable an improvement to the overall Internal Audit Opinion for 2019/20 and to refer all audits with a red finding to the next meeting of the appropriate Executive Committee for their consideration and that action plans would be reported back to GRBV.				
19	13.08.19	<a href="#">Annual Update on Council Transport Arms-Length Companies</a>	To agree that the report to Policy and Sustainability Committee later this year would provide additional clarity regarding the	Chief Executive			<b>Update</b> Report will be going to P&S on 26 November

No	Date	Report Title	Action	Action Owner	Expected completion date	Actual completion date	Comments
			reporting arrangements for ALEOs to the Council and governance schematics and this should be referred back to GRBV				
21	13.08.19	<a href="#">Marketing Edinburgh Annual Update</a>	To agree that details would be provided about the amount of income generated by Film Edinburgh for the Council.	Executive Director of Place	November 2019		Briefing Note will be issued before Committee meeting in November 2019



# Work Programme

## Governance, Risk and Best Value Committee

	Title / description	Sub section	Purpose/Reason	Category or type	Lead officer	Stakeholders	Progress updates	Expected date
<b>Section A – Regular Audit Items</b>								
1	Internal Audit: Overdue Recommendations and Late Management Responses		Paper outlines previous issues with follow up of internal audit recommendations, and an overview of the revised process within internal audit to follow up recommendations, including the role of CLG and the Committee	Internal Audit	Chief Internal Auditor	Council Wide	Quarterly	December 2019 March 2020 June 2020
2	Internal Audit Quarterly Activity Report		Review of quarterly IA activity with focus on high and medium risk findings to allow committee to challenge and request to see further detail on findings or to question relevant officers about findings	Internal Audit	Chief Internal Auditor	Council Wide	Quarterly	December 2019 March 2020 June 2020

3	IA Annual Report for the Year		Review of annual IA activity with overall IA opinion on governance framework of the Council for consideration and challenge by Committee	Internal Audit	Chief Internal Auditor	Council Wide	Annually	August 2020
4	IA Audit Plan for the year		Presentation of Risk Based Internal Audit Plan for approval by Committee	Internal Audit	Chief Internal Auditor	Council Wide	Annually	March 2020
5	Accounts Commission	Annual report	Local Government in Scotland: Financial Overview	External Audit	Executive Director of Resources	Council Wide	Annually	January 2020
6	Accounts Commission	Annual report	Local Government in Scotland: Performance and Challenges	External Audit	Executive Director of Resources	Council Wide	Annually	June 2020
7	Annual Audit Plan	Scott Moncrieff	Annual audit plan	External Audit	Executive Director of Resources	Council Wide	Annually	March 2020
8	Annual ISA 260 Audit Report	Scott Moncrieff	Annual Audit Report	External Audit	Executive Director of Resources	Council Wide	Annually	September 2020
9	Interim Audit Report	Scott Moncrieff	Interim audit report on Council wide internal financial control framework	External Audit	Executive Director of Resources	Council Wide	Annually	October 2019
10	IT Audit Report	Scott Moncrieff	Scope agreed during annual external audit planning cycle	External Audit	Executive Director of Resources	Council Wide	Annually	October 2019, as part of the quarterly Status of the ICT Programme Update

11	Internal Audit Charter	Annual Report	Annual Audit Charter	Internal Audit	Executive Director of Resources	Council Wide	Annually	March 2020
<b>Section B – Scrutiny Items</b>								
12	Change Portfolio		To ensure major projects undertaken by the Council were being adequately project managed	Major Project	Chief Executive	All	Six-monthly	December 2019
13	Welfare Reform	Review	Update reports to be referred annually by Corporate Policy and Strategy Committee	Scrutiny	Executive Director of Resources	Council Wide	Annual	June 2020
14	Review of CLT Risk Scrutiny	Risk	Quarterly review of CLT's scrutiny of risk	Risk Management	Chief Executive	Council Wide	Quarterly	December 2019 March 2020 August 2020
15	Whistleblowing Quarterly Report		Quarterly Report	Scrutiny	Chief Executive	Internal	Quarterly	December 2019
16	Workforce Control	Staff	Annual report	Scrutiny	Executive Director of Resources	Council Wide	Annual	June 2020
17	Committee Decisions	Democracy	Annual report	Scrutiny	Chief Executive	Governance, Risk and Best Value Committee	Annual	Date TBC  Re-examine after improved information tracking.
18	Monitoring of Council Policies	Democracy	Annual report	Scrutiny	Chief Executive	Council Wide	Annual	Spring 2019

19	Revenue Monitoring	Review	Progress reports	Scrutiny	Executive Director of Resources	Council Wide	Quarterly	September 2020
20	Capital Monitoring	Review	Progress reports	Scrutiny	Executive Director of Resources	Council Wide	Quarterly	September 2020
21	Revenue Outturn	Review	Progress reports	Scrutiny	Executive Director of Resources	Council Wide	Annual	September 2020
22	Capital Outturn and Receipts	Review	Progress reports	Scrutiny	Executive Director of Resources	Council Wide	Annual	September 2020
23	Treasury – Strategy report	Review	Progress reports	Scrutiny	Executive Director of Resources	Council Wide	Annual	March 2020
24	Treasury – Annual report	Review	Progress reports	Scrutiny	Executive Director of Resources	Council Wide	Annual	September 2020
25	Treasury – Mid-term report	Review	Progress reports	Scrutiny	Executive Director of Resources	Council Wide	Annual	January 2020
26	Status of the ICT Programme	Review	Progress Reports	Scrutiny	Executive Director of Resources	Council Wide	Quarterly	October 2019 January 2020
27	Annual Assurance Schedules	Review	Progress Report	Scrutiny	All Directorates	Council	Annual	October 2019 (Resources) November 2019 (Place) January 2020 (Communities and Families) February 2020

								(Chief Executive) August 2020 (EIJB)
<b>Section C – Council Companies</b>								
28	Capital Theatres	Review	Progress Report	Scrutiny	Executive Director of Place	Council Wide	Annual	December 2019
29	Edinburgh Leisure	Review	Progress Report	Scrutiny	Executive Director for Communities and Families	Council Wide	Annual	January 2020
30	Capital City Partnership	Review	Progress Report	Scrutiny	Executive Director of Place	Council Wide	Annual	May 2020
31	Transport for Edinburgh	Review	Progress Report	Scrutiny	Executive Director of Place	Council Wide	Annual	August 2020
32	Lothian Buses	Review	Progress Report	Scrutiny	Executive Director of Place	Council Wide	Annual	August 2020
33	Edinburgh Trams	Review	Progress Report	Scrutiny	Executive Director of Place	Council Wide	Annual	August 2020
34	Edinburgh International Conference Centre	Review	Progress Report	Scrutiny	Executive Director of Resources	Council Wide	Annual	December 2020
35	Marketing Edinburgh	Review	Progress Report	Scrutiny	Chief Executive	Council Wide	Annual	August 2020

## GRBV Upcoming Reports

## Appendix 1

Report Title	Type	Flexible/Not Flexible
<b>October 2019</b>		
Roads Services Improvement Plan	Scrutiny	Flexible
Quarterly Status of ICT and Digital Services Programme	Scrutiny	Flexible
Interim External Audit Report	Scrutiny	Flexible
Annual Assurance Schedules - Resources	Scrutiny	Flexible
<b>December 2019</b>		
Annual Assurance Schedules - Place	Scrutiny	Flexible
CLT Risk Register	Scrutiny	Flexible
IA Quarterly Update	Scrutiny	Flexible
Edinburgh International Conference Centre - Annual Progress Report	Scrutiny	Flexible

Capital Theatres - Annual Progress Report	Scrutiny	Flexible
IA Overdue Findings and Late Management Responses	Scrutiny	Flexible
Change Portfolio	Scrutiny	Flexible

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## 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

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- 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

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Executive Director of Resources

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# Report

## City of Edinburgh Council – 2018/19 Annual Audit Report to the Council and the Controller of Audit

### 2. Executive Summary

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- 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

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- 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**

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- 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 appraises 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**

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- 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**

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- 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**

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- 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**

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- 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**

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- Appendix 1 – 2018/19 Annual Audit Report to the Council and the Controller of Audit
- Appendix 2 – 2018/19 Audited Annual Accounts



# 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


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## Key messages

<b>Annual accounts</b>	<p>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.</p> <p>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.</p>
 <b>Financial Sustainability</b>	<p>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.</p> <p>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.</p>
 <b>Financial Management</b>	<p>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.</p> <p>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.</p>
 <b>Governance &amp; Transparency</b>	<p>The Council has reviewed its political management arrangements to further improve its decision making effectiveness.</p> <p>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.</p> <p>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.</p>



	<p>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.</p>
 <p><b>Value for Money</b></p>	<p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p>

## 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.
6. International Standards on Auditing in the UK (ISAs (UK)) require us to communicate on a timely basis

## Confirmation of independence



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](http://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](http://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.

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.

#### 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



## 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 reformed 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:

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.

## 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

## 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<sup>1</sup> 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.

<sup>1</sup> 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<sup>2</sup> 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

<sup>2</sup> Regulations 8 to 10 relate to the preparation and publication of unaudited accounts, notice of public right to inspect and object to the accounts and consideration and signing of the audited accounts.



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.	<p>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.</p> <p>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.</p>
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
<b>Expenditure</b>				
Employee pay award	3%	3%	3%	3%
Other inflation	3%	3%	3%	3%
<b>Income</b>				
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 £9.5million 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.

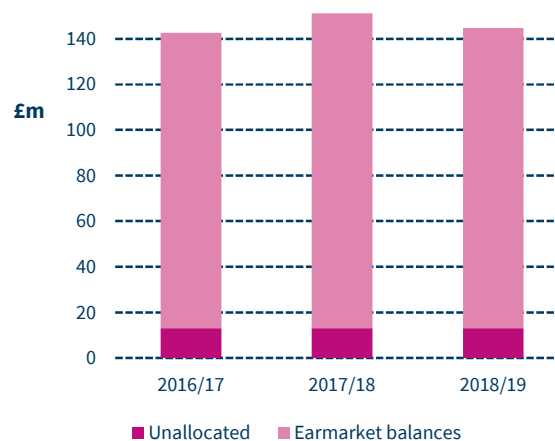
117. The key measure of performance in the year is the movement in the Council's general fund balance. Following the required adjustments, the net impact on the general fund is a decrease of £6.440million to £144.845million<sup>3</sup>. In total, cash backed (useable) reserves held by the Council decreased 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
<b>Total useable reserves</b>	<b>277.762</b>	<b>242.883</b>	<b>(34.879)</b>

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

<sup>3</sup> 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 its 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	-	-
<b>Directorate totals</b>	<b>833.321</b>	<b>845.652</b>	<b>12.331</b>	
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)	-
<b>Total</b>	<b>-</b>	<b>(1.582)</b>	<b>(1.582)</b>	<b>60</b>

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

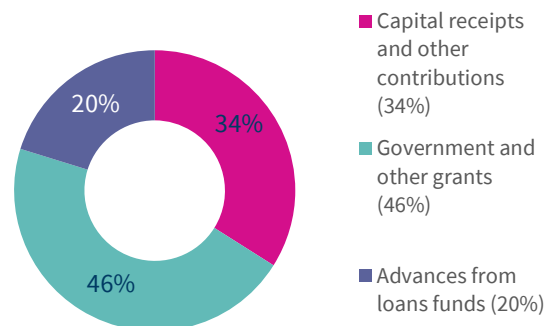


£6.757million towards in-year capital investment, with sums also drawn down from the Strategic Housing Investment Fund (SHIF) during the year to meet the cost of approved projects. The funds held in the SHIF are earmarked for investment in existing housing stock and future capital investment in new homes 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*

- |  |  |
|--|--|
| <p>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.</p> | <p>134. Our review of the financial model involved:</p> <ul style="list-style-type: none"> <li>• Considering the competencies, capabilities and objectivity of all external parties involved in inputting to the financial model.</li> <li>• Reviewing the assumptions and data used to construct the financial model, and</li> <li>• Reviewing the model's architecture and functionality.</li> </ul>   |
| <p>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:</p> <ul style="list-style-type: none"> <li>• Sound governance at a strategic, financial and operational level;</li> <li>• Sound management of resources; and</li> <li>• Use and review of options appraisal</li> </ul>   | <p>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:</p> |
| <p>133. The scope of our work was agreed in conjunction with internal audit.</p>   |  |



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.	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.
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	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.
<b>Systems of internal control</b>	
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

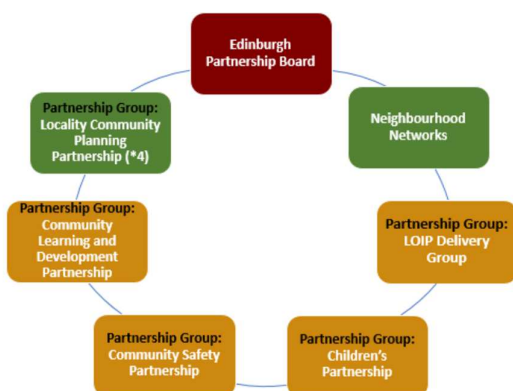
166. The Edinburgh Partnership recognised that the community planning arrangements in the city were complex with the governance model operating at three levels: city, locality and neighbourhood (community).
167. In December 2017 the Partnership agreed to carry out a review and consultation of governance 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 managing 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

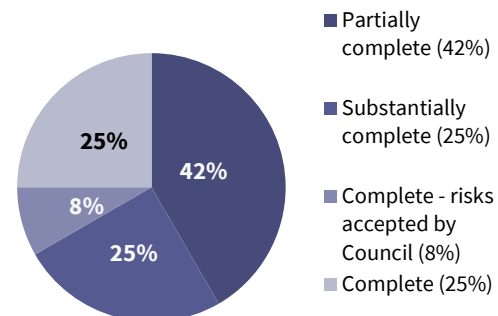
### CGI contract management

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.

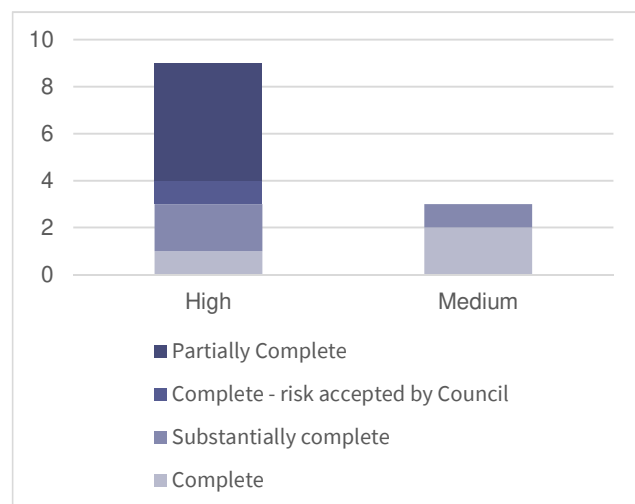
196. Our review contained twelve recommendations, 9 of which were rated as "High".
197. The findings from this report were presented to the November 2017 Governance, Risk & Best Value (GRBV) Committee as a 'B' agenda item. In response to the findings, the Committee agreed that an update on progress with 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-signatories 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.

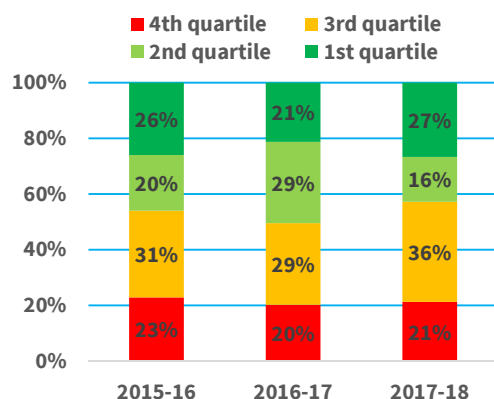
228. We are satisfied the Council reports its’ public performance in line with the Local Government Benchmarking Framework. We also consider the 2018/19 Annual Performance Report, represents an honest and balanced view of the 2018/19 performance of the Council.

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 Council's 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*

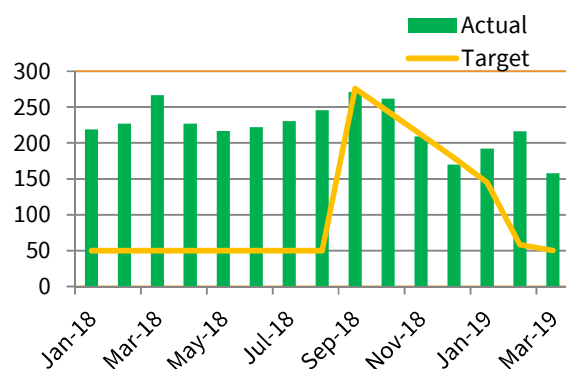
- |  |  |
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| <p>233. Edinburgh City Council is one of the key partners in the Edinburgh Health and Social Care Partnership (EHSCP). In 2018/19, EIJB prioritised focus on shifting the balance of care from a medical and/or residential setting to supporting more residents within their homes.</p> | <ul style="list-style-type: none"> <li>• The total number of people with an overdue care assessment review fell by 26% in comparison to 2017/18.</li> </ul>  |
| <p>234. In 2018/19, performance outcomes were better in the following of areas within adult social care services:</p> <ul style="list-style-type: none"> <li>• Total number of people delayed awaiting discharge from hospital (Exhibit 10)</li> </ul>                                   | <ul style="list-style-type: none"> <li>• The number of individuals in the community awaiting care packages stood at 440 patients, a 52% reduction from 2017/18.</li> <li>• Average waiting times for non-urgent assessments reduced to 37 days, the lowest waiting period since 2016.</li> </ul> |
|  | <p>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</p>   |



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 children's 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.

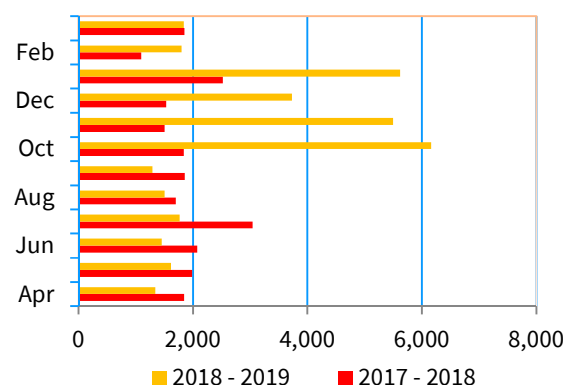
**Environmental Services**

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.

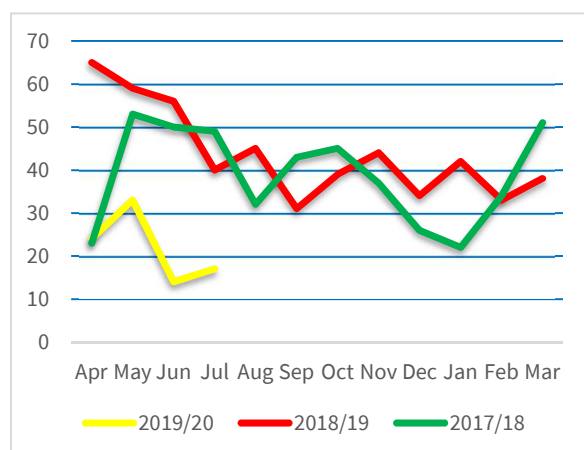
251. The Scottish Government aims to end landfill by 2021 and in order to deliver on this target; the Council opened a new energy-from-waste facility at Millerhill. This has changed how the Council manages 110,000 tons of rubbish that Edinburgh citizens put into grey bins.

#### 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

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# 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



	<p>port/road congestion holding up goods; storage/stockpiling by suppliers may also potentially increase costs.</p> <p>On-going risk assessment and contingency planning is being actively discussed at the Brexit Cross-Party Working Group and the Brexit Resilience Working Group.</p> <p>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.</p>
<b>Changing landscape of financial management</b>	<p>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.</p>
<b>Dependency on key suppliers</b>	<p>Following the collapse of Carillion, it became apparent that public sector bodies face significant risks where key suppliers are experiencing difficult trading conditions.</p> <p>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.</p> <p>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.</p>
<b>Openness and transparency</b>	<p>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.</p> <p>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.</p>

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					
 Financial Management / Sustainability	Effective use of resource				Sustainability
	Financial Governance	Financial governance			
	Financial and service planning	Resource management			
 Governance and transparency	Governance & accountability				
	Governance, decision making and scrutiny	Governance, decision making and scrutiny	Managing risk effectively	Public performance reporting	Governance, decision making and scrutiny
	Member training and development			Member training and development	
		Partnership and collaborative working	Community responsiveness	Vision and leadership	
			Fairness and equality		
 Value for Money		Performance outcomes and improvement		Performance outcomes and improvement	
		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](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	<p>The Council's Business plan: "A Programme for the Capital: The City of Edinburgh Council Business plan 2017/22" was approved in August 2017.</p> <p>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.</p> <p>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.</p> <p>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.</p>
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 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 (LCPs) 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
<p>accountability to citizens and communities, helping them contribute better to the delivery of improved outcomes.</p>	<p>The Council also measures and reports performance against other local authorities as part of the Local Government Benchmarking Framework.</p> <p>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.</p>





## 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
<b>Critical</b>	<p>A finding that could have a:</p> <ul style="list-style-type: none"> <li>• <b>Critical</b> impact on operational performance; or</li> <li>• <b>Critical</b> monetary or financial statement impact; or</li> <li>• <b>Critical</b> breach in laws and regulations that could result in material fines or consequences; or</li> <li>• <b>Critical</b> impact on the reputation or brand of the organisation which could threaten its future viability.</li> </ul>
<b>High</b>	<p>A finding that could have a:</p> <ul style="list-style-type: none"> <li>• <b>Significant</b> impact on operational performance; or</li> <li>• <b>Significant</b> monetary or financial statement impact; or</li> <li>• <b>Significant</b> breach in laws and regulations resulting in significant fines and consequences; or</li> <li>• <b>Significant</b> impact on the reputation or brand of the organisation.</li> </ul>
<b>Medium</b>	<p>A finding that could have a:</p> <ul style="list-style-type: none"> <li>• <b>Moderate</b> impact on operational performance; or</li> <li>• <b>Moderate</b> monetary or financial statement impact; or</li> <li>• <b>Moderate</b> breach in laws and regulations resulting in fines and consequences; or</li> <li>• <b>Moderate</b> impact on the reputation or brand of the organisation.</li> </ul>
<b>Low</b>	<p>A finding that could have a:</p> <ul style="list-style-type: none"> <li>• <b>Minor</b> impact on the organisation's operational performance ; or</li> <li>• <b>Minor</b> monetary or financial statement impact; or</li> <li>• <b>Minor</b> breach in laws and regulations with limited consequences; or</li> <li>• <b>Minor</b> impact on the reputation of the organisation.</li> </ul>
<b>Advisory</b>	<ul style="list-style-type: none"> <li>• A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.</li> </ul>



## Current year action plan

Action plan point	Issue & recommendation	Management comments
<p>1. Property, plant and equipment</p> <p>Rating</p> <p><b>High</b></p> <p>Paragraph Ref</p> <p>25-29</p>	<p>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.</p> <p>Key assumptions and estimates noted included;</p> <ul style="list-style-type: none"> <li>The selection and valuation of beacon properties used to value Council dwellings</li> <li>The adjustment factor applied to valuation of Council dwellings</li> </ul> <p><b>Recommendation</b> 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.</p>	<p>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.</p> <p>We will also carry out check valuations on a small representative sample of the beacon properties.</p> <p><b>Responsible officer:</b> Operational Estate Manager, Resources</p> <p><b>Implementation date:</b> March 2020</p>
<p>2. Public inspection notice</p> <p>Rating</p> <p><b>Medium</b></p> <p>Paragraph Ref</p> <p>79</p>	<p>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.</p> <p><b>Recommendation</b> 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.</p>	<p>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.</p> <p><b>Responsible officer:</b> Principal Accountant, Corporate Accounts</p> <p><b>Implementation date:</b> June 2020 (for 2019/20 inspection process)</p>



Action plan point	Issue & recommendation	Management comments
3. Committee reporting	The Council's political management arrangements have been modified from 1 August 2019.	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.
Rating	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.	<b>Responsible officer:</b> Democracy, Governance and Resilience Senior Manager
Medium		<b>Implementation date:</b> January 2020
Paragraph Ref		
153		

Action plan point	Issue & recommendation	Management comments
4. Elected member and officer protocols	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.	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.
Rating		<b>Responsible officer:</b> Democracy, Governance and Resilience Senior Manager
Medium		<b>Implementation date:</b> January 2020
Paragraph Ref		
154		
	<b>Recommendation</b> 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	Issue & recommendation	Management comments
5. Risk management	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.	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.
Rating	<b>Recommendation</b>	
Medium	We recommend that is re-introduced to ensure it is properly considered in decision-making.	<b>Responsible officer:</b> Democracy, Governance and Resilience Senior Manager
Paragraph Ref		<b>Implementation date:</b> n/a
190		

Action plan point	Issue & recommendation	Management comments
6. Implementation of audit recommendations	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.	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.
Rating		<b>Responsible officer:</b> Chief Executive and all Executive Directors
High	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.	<b>Implementation date:</b> On-going
Paragraph Ref		
194		



Action plan point	Issue & recommendation	Management comments
7. CGI contract management	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.	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.
Rating		
High	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.	<b>Responsible Officer:</b> Chief Officer, Customer and Digital Services
Paragraph Ref		<b>Implementation date:</b> December 2019
201	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.	



Action plan point	Issue & recommendation	Management comments
8. Service performance	In terms of the Council's performance in 2018/19 against previous years, whilst there has been some improvement in some of the Council's 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.	<p><b>Adult Social Care Services</b> 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.</p> <p><b>Responsible officer:</b> Chief Officer, Health and Social Care Partnership <b>Implementation date:</b> On-going</p> <p><b>Environmental Services</b> A number of improvement actions have been identified and are planned for implementation as follows:</p> <p>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);</p> <p>Finalise the design of the new communal waste and recycling collection service (Head of Place Management, March 2020)</p> <p>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).</p> <p><b>Homelessness</b> 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.</p> <p>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.</p> <p><b>Responsible officer:</b> Homelessness and Housing Support Senior Manager <b>Implementation date:</b> On-going</p>
Rating		
High		
Paragraph Ref	Significant improvements are required, including the pace of change in implementing such improvements.	
231		



## 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
<b>Low</b>	<p><b>Issue</b></p> <p>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.</p> <p><b>Risk</b></p> <p>There is a risk that incorrect or fraudulent postings could be made to those organisations' financial ledgers.</p> <p><b>Recommendation</b></p> <p>We recommend that the Council reviews user access controls to the financial ledger.</p>	<p>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.</p> <p>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.</p> <p><b>Responsible officer:</b> Business Partnering Senior Manager, Finance</p> <p><b>Implementation date:</b> October 2018</p>
Current status	Audit update	Management response
<b>Complete</b>	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
<b>High</b>	<p><b>Issue</b></p> <p><b>Valuation</b></p> <p>We noted the following through our review of the valuation process:</p> <ul style="list-style-type: none"> <li>The instructions from the Council to the internal valuer are not disseminated to individual valuers who carry out the valuations;</li> <li>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</li> <li>The results of the valuation exercise are not formally communicated to the Council.</li> </ul> <p><b>Impairment</b></p> <p>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.</p> <p><b>Risk</b></p> <p>There is a risk that the valuations carried out are not consistently prepared, in line with the instructions issued by the Council.</p> <p>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.</p> <p><b>Recommendation</b></p> <p>We recommend:</p> <ul style="list-style-type: none"> <li>The instructions are circulated to all those responsible for carrying out the valuations;</li> <li>Reconciliations are performed between the records held by the valuers and the Council's asset register;</li> <li>An overarching valuation report is prepared; the content of which is in accordance with the RICS Red Book; and</li> <li>The Council to formalise its procedures for assessing whether there has been an impairment of its estates portfolio.</li> </ul>	<p>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.</p> <p>The year-end instructions have been incorporated within the handbook and are being issued to all staff involved in the valuation process.</p> <p>A reconciliation between Logotech and AIS will be carried out to ensure the respective systems are in balance, with any differences investigated.</p> <p>An overarching valuation report, consistent with the requirements of the RICS Red Book, will be produced for 2018/19.</p> <p>A formal procedure will be put in place with regard to assessing whether an impairment has occurred and included within the handbook.</p> <p><b>Responsible officer:</b> Operational Estate Manager, Resources</p> <p><b>Implementation date:</b> April 2019</p>





Current status	Audit update	Management response
<b>In progress</b>	<p>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</p> <p>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</p> <p>An overarching valuation report was prepared, in accordance with the requirements of the RICS Red Book. Action complete.</p> <p>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.</p>	<p>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.</p> <p>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.</p> <p><b>Responsible officer:</b> Operational Estate Manager, Resources</p> <p><b>Implementation date:</b> TBC</p>



### 3. Common good income and expenditure transactions

Initial rating	Issue & recommendation	Management comments
<b>Medium</b>	<p><b>Issue</b></p> <p>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.</p> <p><b>Risk</b></p> <p>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.</p> <p><b>Recommendation</b></p> <p>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.</p>	<p>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.</p> <p>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.</p> <p><b>Responsible officer:</b> Principal Accountant (Corporate Accounts), Finance (working with relevant colleagues as appropriate)</p> <p><b>Implementation date:</b> February 2019</p>
Current status	Audit update	Management response
<b>Complete</b>	<p>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.</p>	N/A



## 4. Common good – asset register

Initial rating	Issue & recommendation	Management comments
High	<p><b>Issue</b></p> <p>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.</p> <p><b>Risk</b></p> <p>There is a risk that the common good accounts are misstated.</p> <p><b>Recommendation</b></p> <p>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:</p> <ul style="list-style-type: none"> <li>• The assets are classified correctly;</li> <li>• The appropriate valuation basis has been applied; and</li> <li>• Depreciation is applied dependent on the accounting policy and classification of the asset.</li> </ul>	<p>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.</p> <p>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.</p> <p><b>Responsible officer:</b> Principal Accountant (Corporate Accounts), Finance</p> <p><b>Implementation date:</b> May 2019</p>
Current status	Audit update	Management response
In progress	<p>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.</p>	<p>The first version of the Common Good Register was published on the Council's <a href="#">Common Good webpage</a> on 28 June 2019, complying with Scottish Government guidance.</p> <p>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.</p> <p>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.</p>



Initial rating	Issue & recommendation	Management comments
		<p>Annexing a list of “property still under investigation” complies with Scottish Government Guidance.</p> <p>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.</p> <p>Those categorised as assets of the Common Good will be added to the register which is live on the Council’s webpage.</p> <p><b>Responsible officer:</b> Principal Accountant (Corporate Accounts), Finance</p> <p><b>Implementation date:</b> March 2020</p>

## 5. Options appraisal – tram extension project

Initial rating	Issue & recommendation	Management comments
High	<p><b>Issue</b></p> <p>Reliance has been placed on the original options appraisal for transport modes which took place in support of the Parliamentary bill.</p> <p>The Council has not validated this original appraisal.</p> <p><b>Risk</b></p> <p>There is a risk that findings of the original option appraisal are diluted given the passage of time.</p> <p><b>Recommendation</b></p> <p>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.</p>	<p>A high-level options assessment will be carried out and presented as part of the Final Business Case.</p> <p><b>Responsible officer:</b> Project Senior Responsible Officer</p> <p><b>Implementation date:</b> December 2018</p>
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
<b>High</b>	<p><b>Issue</b></p> <p>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.</p> <p>The Council has allocated an additional non-recurring contribution of £4million in 2018-19 to help support capacity challenges.</p> <p><b>Risk</b></p> <p>There is a risk that the budget for adult social care is insufficient to deliver the level of improvement required.</p> <p><b>Recommendation</b></p> <p>The Council should work with the Edinburgh IJB and other partners to ensure that funding is sufficient to support transformation change.</p>	<p>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.</p> <p><b>Responsible officer:</b> Chief Officer, Edinburgh Health and Social Care Partnership</p> <p><b>Implementation date:</b> March 2019</p>
Current status	Audit update	Management response
<b>Outstanding</b>	<p>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.</p>	<p>The EIJB Medium Term Financial Plan will be presented to the Board in December 2019 following the approval of the Strategic Plan 2019-2022.</p> <p><b>Responsible officer:</b> EIJB Chief Finance Officer</p> <p><b>Implementation date:</b> December 2019</p>



## 7. Performance reporting

Initial rating	Issue & recommendation	Management comments
<b>Medium</b>	<p><b>Issue</b></p> <p>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.</p> <p><b>Risk</b></p> <p>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.</p> <p><b>Recommendation</b></p> <p>The Council should ensure that arrangements are in place to regularly report to the Edinburgh Partnership on the delivery of outcomes.</p>	<p>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.</p> <p>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.</p> <p>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.</p> <p><b>Responsible officer:</b> Policy and Insight Senior Manager</p> <p><b>Implementation date:</b> December 2018</p>
Current status	Audit update	Management response
<b>In progress</b>	<p>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.</p> <p>A further report on the performance framework for the new plan was presented to the meeting in June 2019.</p>	<p>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.</p> <p>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.</p> <p><b>Responsible officer:</b> Policy and Insight Senior Manager</p> <p><b>Implementation date:</b> December 2019</p>



## 8. Health and Social Care performance

Initial rating	Issue & recommendation	Management comments
High	<p><b>Issue</b></p> <p>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.</p> <p><b>Risk</b></p> <p>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.</p> <p><b>Recommendation</b></p> <p>The Council must ensure that effective scrutiny arrangements are in place to monitor and assess improvement.</p>	<p>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.</p> <p><b>Responsible officer:</b> Chief Officer, Edinburgh Health and Social Care Partnership</p> <p><b>Implementation date:</b> March 2019</p>
Current status	Audit update	Management response
Outstanding	<p>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.</p>	<p>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.</p> <p><b>Responsible officer:</b> Chief Officer, Edinburgh Health and Social Care Partnership</p> <p><b>Implementation date:</b> On-going</p>



## 2016/17 recommendations which were outstanding in 2018/19

### 9. Register of interests

Initial rating	Issue & recommendation	Management comments
<b>Medium</b>	<p>The Council discloses within its annual accounts material transactions with related parties. These can be defined as bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council.</p> <p>The Councillors' register of interests is one way that the Council can identify its related parties. On review of the Councillors' register of interests we identified four additional interests which had not been declared. There is a risk, should the registers not be updated, that the Council does not identify and report all related party transactions in its annual accounts.</p> <p>It is the responsibility of a Councillor to make sure that he/she is familiar with, and their actions comply with, the provisions of the Code of Conduct. The Ethical Standards in Public Life, etc. (Scotland) Act 2000 does impose on Councils a duty to help their members to comply with the relevant code. Councillors should be reminded of the importance of ensuring the register of interests is updated regularly and completely</p> <p><b>2017/18 Audit update</b></p> <p>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.</p> <p>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:</p> <ul style="list-style-type: none"> <li>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</li> </ul>	<p><b>2016/17 management comments</b></p> <p>The Council has robust arrangements to remind Councillors of their duties under the Act.</p> <ul style="list-style-type: none"> <li>We regularly review Elected Member Register of Interests;</li> <li>Remind Elected Members of their responsibilities in registering any changes/updates within a month of the change occurring;</li> <li>Check individual registers for anomalies that we can identify and highlight these to relevant elected members to prompt updates;</li> <li>Regularly review our process;</li> <li>Provide appropriate guidance and prompts to Elected Members to support compliance.</li> </ul> <p>For the new Council in May 2017:</p> <ul style="list-style-type: none"> <li>We explained the requirement for Elected Members to make their first Register of Interest within one month of election in their introduction letter/pack issued at the count, with a copy of the Code of Conduct and the relevant form;</li> <li>We emphasised the importance of this requirement in the Code of Conduct training sessions that formed part of the Induction and Training Programme for Elected Members (May/June 2017).</li> <li>We reminded Elected Members ahead of the deadline (31 May 2017)</li> <li>We engaged with political Group Business Managers to secure their support in reminding their members ahead of the deadline;</li> <li>We issued additional guidance on declaring property income under remuneration following a couple of queries on this topic and after seeking clarification from the Standards Commission;</li> <li>We reminded all Elected Members that they would need to update their Register of Interests to reflect appointments made at Council in June 2017;</li> <li>We reminded Elected Members of their responsibilities for updating their Register of Interests following further appointments at Council in August and to remind about registering gifts and hospitality.</li> </ul>





Initial rating	Issue & recommendation	Management comments
	<p>2018. Confirmation of no changes should also be obtained.</p> <p>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.</p>	<p>We will continue to remind regularly Councillors of their duties under the Act.</p> <p><b>2017/18 management comments</b></p> <p>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.</p> <p>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.</p> <p><b>Responsible officer:</b> Democracy, Governance and Resilience Senior Manager</p> <p><b>Implementation date:</b> On-going</p>
Current status	Audit update	Management response
<b>In progress</b>	<p>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</p>	<p>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.</p> <p><b>Responsible officer:</b> Democracy, Governance and Resilience Senior Manager</p> <p><b>Implementation date:</b> on-going</p>



## 10. Publication of the Council's Corporate Governance framework self-assessment

Initial rating	Issue & recommendation	Management comments
Medium	<p>In April 2016, CIPFA published a revised Delivering Good Governance in Local Government: Framework (2016 Edition). The Council has a Local Code of Corporate Governance in place, but the annual self-assessment against the Code had not been undertaken at the time of our report.</p> <p>We also noted that the Annual Governance Statement was not subject to separate scrutiny by a committee as part of the preparations for the annual accounts process.</p> <p><b>2017/18 Audit update</b> 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.</p>	<p><b>2016/17 management comments</b> The Council revised its Corporate Governance Framework self-assessment template to reflect the revised CIPFA/SOLACE framework. The 2016/17 self-assessment exercise commenced on 4 September 2017 and is scheduled for scrutiny by the Governance, Risk and Best Value Committee on 28 November 2017.</p> <p>As in previous years, the Annual Governance Statement was considered by Council on 29 June 2017. Given the local government election in May 2017 and the introduction of revised political management arrangements it would have been difficult to provide for separate scrutiny ahead of Council consideration.</p> <p><b>Responsible Officer:</b> Governance and Democratic Services Manager</p> <p><b>Completion Date:</b> November 2017</p> <p><b>2017/18 management comments</b> 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.</p> <p><b>Responsible officer:</b> Democracy, Governance and Resilience Senior Manager</p>
Current status	Audit update	Management response
Outstanding	<p>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.</p>	<p>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.</p> <p><b>Responsible officer:</b> Democracy, Governance and Resilience Senior Manager</p> <p><b>Implementation date:</b> December 2019</p>



## 11. Delayed discharges

Initial rating	Issue & recommendation	Management comments
High	<p>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.</p> <p>Edinburgh has regularly had the highest number of delayed discharges of any Integration Authority in Scotland.</p> <p>We recommend that improving performance in this area remains a priority.</p> <p><b>2017/18 Audit update</b></p> <p>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.</p>	<p>Performance is closely monitored at:</p> <ul style="list-style-type: none"> <li>A weekly Star Chamber meeting of key managers from the four localities and hospital sites – progress, challenges being faced (e.g. reductions in provider capacity) and improvement actions are identified and discussed.</li> <li>The IJB, which receives a “Whole System Delays” report at each of its meetings. The report includes progress with key improvement workstreams, including reviewing the contract with care at home providers.</li> </ul> <p><b>Responsible Officer:</b> Interim Chief Officer, Edinburgh Health and Social Care Partnership NHS Director</p> <p><b>Completion Date:</b> December 2017</p> <p><b>2017/18 management comments</b></p> <p>There is a large-scale remedy programme being undertaken across the entire Discharge Pathway, including:</p> <ul style="list-style-type: none"> <li>Whole-systems Delayed Discharge Oversight Group established and chaired by CO</li> <li>New dedicated Delayed Discharge Lead appointed</li> <li>Whole-system analysis and impact undertaken and Action Plan formulated with stretch timescales</li> <li>Realignment of delivery platform – including interface with acute services via the Hub – is in the process of being implemented</li> </ul> <p><b>Responsible Officer:</b> Chief Officer, Edinburgh Health and Social Care Partnership</p> <p><b>Completion Date:</b> August 2019</p>
Current status	Audit update	Management response
Outstanding	<p>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.</p>	<p>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.</p> <p><b>Responsible officer:</b> Chief Officer, Edinburgh Health and Social Care Partnership</p> <p><b>Implementation date:</b> On-going</p>



# **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.

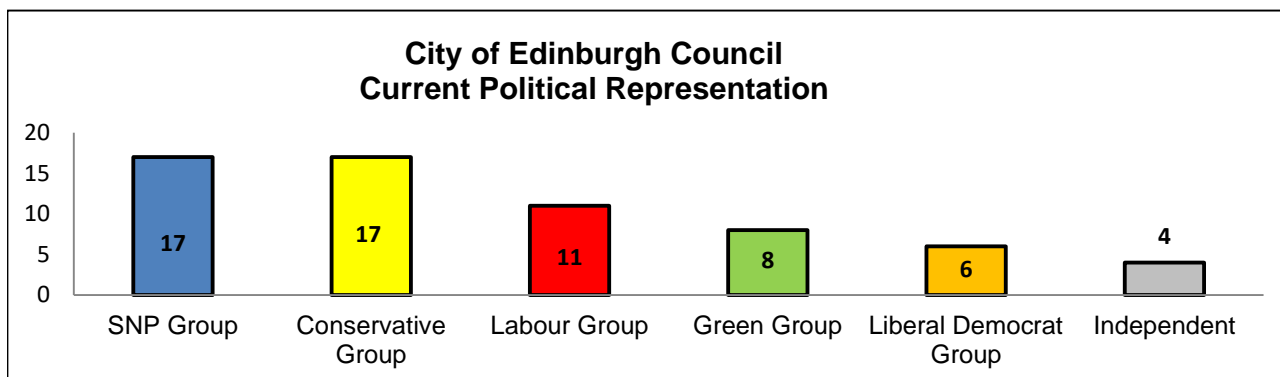
The structure of the Council continues to evolve but the tables below indicate the latest position, with the services with an Executive Director or Chief Officer in bold. In the prior year covered in these accounts, Safer and Stronger Communities was a separate service (constituent parts of which are marked with an asterisk) but since the beginning of the 2018/19 financial year it has been part of Communities and Families.

<b>Communities and Families</b>	<b>Place</b>	<b>Health and Social Care</b>
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*	<b>Resources</b>	<b>Services reporting to the Chief Executive</b>
Homelessness services*	Customer Services and Digital Services	Strategy and Communications
Family and Household Support*	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.

# MANAGEMENT COMMENTARY

## 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.

# MANAGEMENT COMMENTARY

## Financial Performance

### Comparative Performance

Under Section (1) (1) (a) of the Local Government Act 1992, the Accounts Commission has a statutory power to define the performance information that councils must publish locally in the following financial year with a view to facilitating comparison over time within, and across, authorities.

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.

	<b>Budget 2018/19 £000</b>	<b>Actual 2018/19 £000</b>	<b>(Under) / Over Spend £000</b>
<b>General Fund services</b>	<b>833,321</b>	<b>845,652</b>	<b>12,331</b>
<b>Non-service specific areas</b>			
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)
<b>Non-service specific areas total</b>	<b>158,566</b>	<b>142,229</b>	<b>(16,337)</b>
<b>Movements in Reserves</b>			
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
<b>Movements in Reserves total</b>	<b>(4,596)</b>	<b>(1,504)</b>	<b>3,092</b>
<b>Sources of funding</b>			
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)
<b>Sources of funding total</b>	<b>(987,291)</b>	<b>(987,959)</b>	<b>(668)</b>
<b>Transfer (to) / from Council Priorities Fund</b>	<b>0</b>	<b>(1,582)</b>	<b>(1,582)</b>

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

\*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:

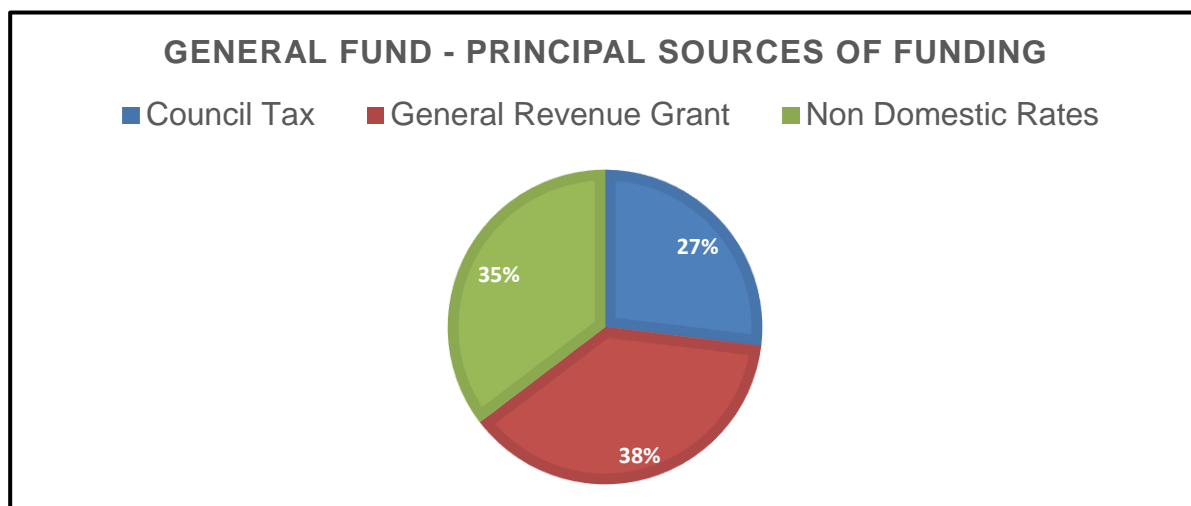
- Throughout the financial year it was reported to the Finance and Resources Committee that there were underlying pressures within, in particular, the Health and Social Care Partnership/EIJB and rising pupil rolls, home-to-school transport, temporary accommodation and community access to schools affecting 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	<u>963,666</u>



# MANAGEMENT COMMENTARY

## Financial Performance - continued

### Reserves

#### General Fund

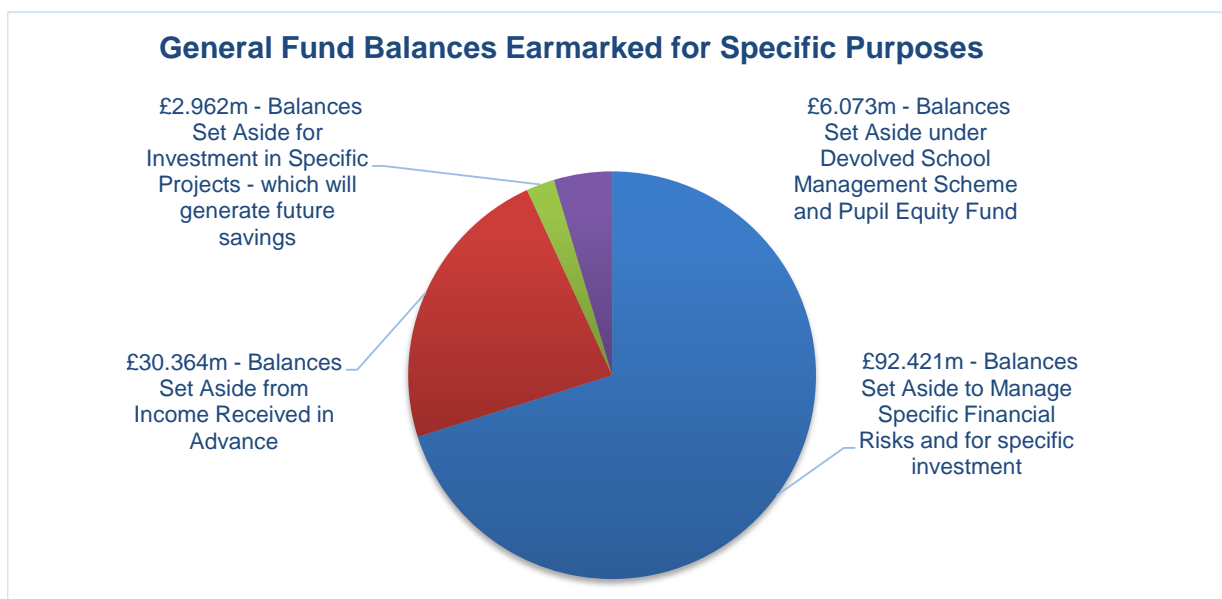
The Council's General Fund reserves comprise two elements:

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

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

The **latest review** was in 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%	

# MANAGEMENT COMMENTARY

## 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:

	<b>Revised Budget 2018/19 £000</b>	<b>Actual 2018/19 £000</b>	<b>(Slippage) / Acceleration £000</b>
Capital expenditure			
General Fund services	246,364	185,812	(60,552)
Housing Revenue Account	80,934	80,963	29
Total capital expenditure	<u>327,298</u>	<u>266,775</u>	<u>(60,523)</u>
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	<u>(244,748)</u>	<u>(241,301)</u>	<u>3,447</u>
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	<u>15,996</u>	<u>28,376</u>	<u>12,380</u>
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	<u>98,546</u>	<u>53,850</u>	<u>(44,696)</u>

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 (EESH) 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.

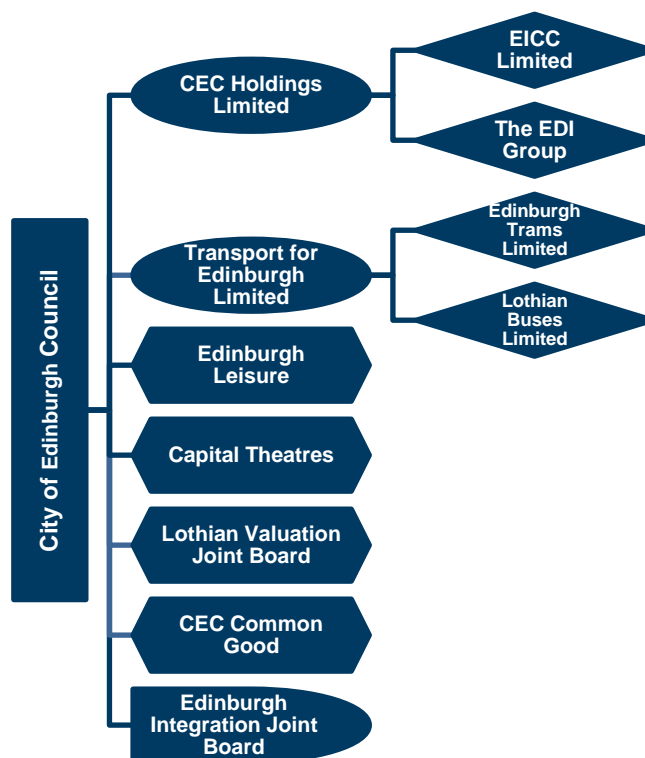
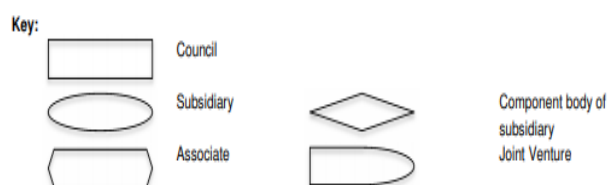


# MANAGEMENT COMMENTARY

## 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.

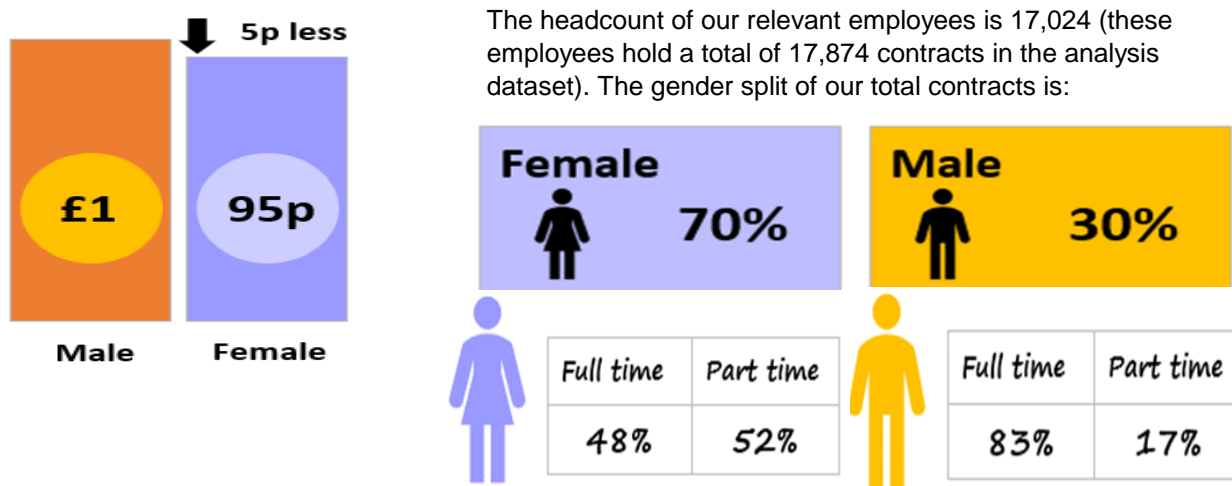
## Equality and Rights

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.



## 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

ELEANOR BIRD  
Leader of the SNP Group

27 September 2019

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.

<b>Council 2018/19</b>	<b>General Fund Balance £000</b>	<b>Housing Revenue Account Balance £000</b>	<b>Renewal and Repairs Fund £000</b>	<b>Capital Grants Unapplied Account £000</b>	<b>Capital Fund £000</b>	<b>Total Usable Reserves £000</b>	<b>Total Unusable Reserves £000</b>	<b>Total Reserves £000</b>
<b>2018/19</b>								
Balance at 31 March 2018	151,285	0	58,123	4,796	63,558	277,762	2,240,857	2,518,619
<b>Movement during 2018/19</b>								
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
<b>Net increase / (decrease) before transfers to statutory reserves</b>	(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
<b>Balance at 31 March 2019</b>	<b>144,845</b>	<b>0</b>	<b>26,346</b>	<b>15,784</b>	<b>55,908</b>	<b>242,883</b>	<b>2,386,886</b>	<b>2,629,769</b>

<b>Group - 2018/19</b>	<b>Total Usable Reserves £000</b>	<b>Total Unusable Reserves £000</b>	<b>Council Total Reserves £000</b>	<b>Group Reserves £000</b>	<b>Total Reserves £000</b>
<b>2018/19</b>					
Balance at 31 March 2018	277,762	2,240,857	2,518,619	202,196	2,720,815
<b>Movement during 2018/19</b>					
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
<b>Net increase / (decrease) before transfers to statutory reserves</b>	(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
<b>Balance at 31 March 2019</b>	<b>242,883</b>	<b>2,386,886</b>	<b>2,629,769</b>	<b>197,522</b>	<b>2,827,291</b>

## MOVEMENT IN RESERVES STATEMENT

<b>Council Re-stated 2017/18 Comparative Data</b>	<b>General Fund Balance £000</b>	<b>Housing Revenue Account Balance £000</b>	<b>Renewal and Repairs Fund £000</b>	<b>Capital Grants Unapplied Account £000</b>	<b>Capital Fund £000</b>	<b>Total Usable Reserves £000</b>	<b>(re-stated) Total Unusable Reserves £000</b>	<b>Total Reserves £000</b>
Balance at 31 March 2017	142,611	0	64,149	766	61,178	268,704	1,511,573	1,780,277
<b>Movement during 2017/18</b>								
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
<b>Net increase / (decrease) before transfers to statutory reserves</b>	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
<b>Balance at 31 March 2018</b>	<b>151,285</b>	<b>0</b>	<b>58,123</b>	<b>4,796</b>	<b>63,558</b>	<b>277,762</b>	<b>2,240,857</b>	<b>2,518,619</b>

<b>Group - 2017/18 Re-stated</b>	<b>Total Usable Reserves £000</b>	<b>Total Unusable Reserves £000</b>	<b>Total Reserves £000</b>	<b>Group Reserves £000</b>	<b>Total Reserves £000</b>
Balance at 31 March 2017	268,704	1,511,573	1,780,277	141,194	1,921,471
<b>Movement during 2017/18</b>					
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
<b>Net increase / (decrease) before transfers to statutory reserves</b>	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
<b>Balance at 31 March 2018</b>	<b>277,762</b>	<b>2,240,857</b>	<b>2,518,619</b>	<b>202,196</b>	<b>2,720,815</b>

## GROUP COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

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

for the year ended 31 March 2019

2017/18			Gross	Income	Net
£000	Notes	£000	£000	£000	£000
	<b>SERVICES</b>				
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	<b>COST OF SERVICES</b>	<u>2,228,584</u>	<u>(1,112,769)</u>	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	<b>(SURPLUS) / DEFICIT ON PROVISION OF SERVICES</b>			131,462	
3,339	Associates and Joint Ventures Accounted for on an Equity Basis			(377)	
2,106	Taxation of Group entities 14.			(275)	
<u>57,734</u>	<b>GROUP (SURPLUS) / DEFICIT</b>			<u>130,810</u>	
(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)	
<u>(799,343)</u>	<b>TOTAL COMPREHENSIVE (INCOME) / EXPENDITURE</b>			<u>(106,476)</u>	



# COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

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

for the year ended 31 March 2019

2017/18			Gross	Income	Net
£000	SERVICES	Notes	Expend.	£000	Expend.
			£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	<b>COST OF SERVICES</b>		<u>2,030,548</u>	<u>(922,439)</u>	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	<b>(SURPLUS) / DEFICIT ON PROVISION OF SERVICES</b>				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)	<b>TOTAL COMPREHENSIVE (INCOME) / EXPENDITURE</b>				<u>(111,149)</u>

## 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	<u>(106,476)</u>

## 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
<b>4,568,044</b>	<b>4,372,409</b>	<b>Long-Term Assets</b>		<b>4,894,209</b>	<b>4,696,468</b>
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
<b>349,898</b>	<b>297,524</b>	<b>Current Assets</b>		<b>334,279</b>	<b>276,622</b>
(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)
<b>(277,014)</b>	<b>(246,127)</b>	<b>Current Liabilities</b>		<b>(328,279)</b>	<b>(282,802)</b>
(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)
<b>(1,920,113)</b>	<b>(1,905,187)</b>	<b>Long-Term Liabilities</b>		<b>(2,072,918)</b>	<b>(2,060,519)</b>
<b>2,720,815</b>	<b>2,518,619</b>	<b>Net Assets</b>		<b>2,827,291</b>	<b>2,629,769</b>
2,360,288	2,240,857	<b>Unusable Reserves</b>	27.	2,505,652	2,386,886
360,527	277,762	<b>Usable Reserves</b>	12.	321,639	242,883
<b>2,720,815</b>	<b>2,518,619</b>	<b>Total Reserves</b>		<b>2,827,291</b>	<b>2,629,769</b>

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	Council		Notes	Group	Council
£000	£000			£000	£000
		<b>Operating Activities</b>			
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
<hr/>	<hr/>			<hr/>	<hr/>
(244,548)	(225,722)	Net cash flows from operating activities	28.	(278,441)	(252,450)
		<b>Investing Activities</b>			
202,805	179,919	Net cash flows from investing activities	30.	204,420	187,703
		<b>Financing Activities</b>			
64,552	65,540	Net cash flows from financing activities	31.	75,199	71,473
<hr/>	<hr/>			<hr/>	<hr/>
22,809	19,737	<b>Net decrease in cash and cash equivalents</b>		1,178	6,726
<hr/>	<hr/>			<hr/>	<hr/>
(159,831)	(133,142)	Cash and cash equivalents at 1 April		(137,022)	(113,405)
<hr/>	<hr/>			<hr/>	<hr/>
(137,022)	(113,405)	Cash and cash equivalents at 31 March	21.	(135,844)	(106,679)
<hr/>	<hr/>			<hr/>	<hr/>
22,809	19,737	<b>Net decrease in cash and cash equivalents</b>		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 £000	Adjustments £000	Net Expenditure in the CIES £000
Communities and Families Place	397,307	17,096	414,403
Housing Revenue Account	54,295	85,759	140,054
Health and Social Care Resources	0	(22,130)	(22,130)
Chief Executive	208,237	7,440	215,677
Lothian Valuation Joint Board	172,582	110,728	283,310
	9,656	813	10,469
	3,575	0	3,575
<b>Cost of Services</b>	<b>845,652</b>	<b>199,706</b>	<b>1,045,358</b>
<b>Other income and expenditure</b>			
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 ( <i>loan charges in management reporting</i> )	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)
<b>(Surplus) / Deficit on the provision of services</b>	<b>(1,582)</b>	<b>126,282</b>	<b>124,700</b>
Opening General Fund and HRA Balance	151,285		
Contributions to / (from) reserves, including those within services ( <i>see notes 12.1 and 12.3 for detail</i> )	(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		Net Expenditure in the CIES
	Balances £000	Adjustments £000	£000
Communities and Families Place	342,940 70,449	13,829 86,109	356,769 156,558
Housing Revenue Account	0	(26,172)	(26,172)
Health and Social Care Resources	193,273 170,304	9,120 52,172	202,393 222,476
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
<b>Cost of Services</b>	<b>822,084</b>	<b>137,064</b>	<b>959,148</b>
<b>Other income and expenditure</b>			
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 ( <i>loan charges in management reporting</i> )	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)
<b>Surplus on the provision of services</b>	<b>(2,416)</b>	<b>63,005</b>	<b>60,589</b>
Opening General Fund and HRA Balance	142,611		
Contributions to / (from) reserves, including those within services ( <i>see notes 12.1 and 12.3 for detail</i> )	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

	Adjusts. For Capital Purposes £000	Net Change for Pensions Adjusts. £000	Other Differences £000	Total Statutory Adjusts. £000
<b>2018/19</b>				
Communities and Families Place	409	13,891	1,112	15,412
Housing Revenue Account	73,122	8,787	146	82,055
Health and Social Care	(49,685)	2,035	(523)	(48,173)
Resources	192	8,179	(59)	8,312
Chief Executive	110,913	7,415	60	118,388
	9	779	(4)	784
<b>Cost of Services</b>	<b>134,960</b>	<b>41,086</b>	<b>732</b>	<b>176,778</b>
<b>Other income and expenditure</b>				
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)
<b>Total Adjustments</b>	<b>(9,962)</b>	<b>96,985</b>	<b>(1,630)</b>	<b>85,393</b>

Notes -

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

Net changes for pensions adjustment 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 Place	15,412	(783)	2,467	17,096
Housing Revenue Account	82,055	422	3,282	85,759
Health and Social Care	(48,173)	0	26,043	(22,130)
Resources	8,312	(880)	8	7,440
Chief Executive	118,388	(16,081)	8,421	110,728
	784	0	29	813
<b>Cost of Services</b>	<b>176,778</b>	<b>(17,322)</b>	<b>40,250</b>	<b>199,706</b>
<b>Other income and expenditure</b>				
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)
<b>Total Adjustments</b>	<b>85,393</b>	<b>0</b>	<b>40,889</b>	<b>126,282</b>

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 Place	4,600 72,078	10,058 7,874	578 (84)	15,236 79,868
Housing Revenue Account	(35,443)	768	(539)	(35,214)
Health and Social Care Resources	233 65,091	7,490 7,408	41 221	7,764 72,720
Chief Executive	9	236	(91)	154
Safer and Stronger Communities	0	1,910	(27)	1,883
<b>Cost of Services</b>	<b>106,568</b>	<b>35,744</b>	<b>99</b>	<b>142,411</b>
<b>Other income and expenditure</b>				
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)
<b>Total Adjustments</b>	<b>12,837</b>	<b>50,519</b>	<b>(2,710)</b>	<b>60,646</b>

Notes -

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS

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

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

2017/18 Comparative Data	Total Statutory Adjusts. b/fwd £000	Presentation Adjusts. £000	Use of Reserves £000	Total Adjusts. £000
Communities and Families Place	15,236	962	(2,369)	13,829
Housing Revenue Account	79,868	328	5,913	86,109
Health and Social Care Resources	(35,214)	0	9,042	(26,172)
Chief Executive	7,764	(527)	1,883	9,120
Safer and Stronger Communities	72,720	(16,632)	(3,916)	52,172
	154	39	(79)	114
	1,883	75	(66)	1,892
<b>Cost of Services</b>	<b>142,411</b>	<b>(15,755)</b>	<b>10,408</b>	<b>137,064</b>
<b>Other income and expenditure</b>				
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)
<b>Total Adjustments</b>	<b>60,646</b>	<b>0</b>	<b>2,359</b>	<b>63,005</b>

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

	Communities and Families	Place	Housing Revenue Account	Health and Social Care
2018/19				
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 ( <i>HRA only</i> )	0	0	52,916	0
<b>Total Expenditure</b>	<b>492,416</b>	<b>271,614</b>	<b>133,809</b>	<b>303,687</b>
<b>Income</b>				
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
<b>Total Income</b>	<b>(95,109)</b>	<b>(217,319)</b>	<b>(133,809)</b>	<b>(95,450)</b>
<b>Cost of Services</b>	<b>397,307</b>	<b>54,295</b>	<b>0</b>	<b>208,237</b>

	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 ( <i>HRA only</i> )	0	0	0	52,916
<b>Total Expenditure</b>	<b>224,615</b>	<b>11,157</b>	<b>3,575</b>	<b>1,440,873</b>
<b>Income</b>				
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)
<b>Total Income</b>	<b>(52,033)</b>	<b>(1,501)</b>	<b>0</b>	<b>(595,221)</b>
<b>Cost of Services</b>	<b>172,582</b>	<b>9,656</b>	<b>3,575</b>	<b>845,652</b>

	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 ( <i>HRA only</i> )	0	0	52,916
Net expend from Associates and Joint Ventures	0	984	984
<b>Total Expenditure</b>	<b>198,036</b>	<b>984</b>	<b>1,639,893</b>
<b>Income</b>			
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)
<b>Total Income</b>	<b>(190,330)</b>	<b>(1,361)</b>	<b>(786,912)</b>
<b>Cost of Services</b>	<b>7,706</b>	<b>(377)</b>	<b>852,981</b>

## NOTES TO THE FINANCIAL STATEMENTS

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

#### 2.2 Segmental Analysis of Expenditure and Income included in Expenditure and Funding Analysis

	Communities and Families	Place	Housing Revenue Account	Health and Social Care
2017/18 Comparative Data				
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 ( <i>HRA only</i> )	0	0	37,764	0
<b>Total Expenditure</b>	<b>376,973</b>	<b>254,621</b>	<b>111,912</b>	<b>281,121</b>
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
<b>Total Income</b>	<b>(34,033)</b>	<b>(184,172)</b>	<b>(111,912)</b>	<b>(87,848)</b>
<b>Cost of Services</b>	<b>342,940</b>	<b>70,449</b>	<b>0</b>	<b>193,273</b>

	Resources	Chief Executive	Safer and Stronger Communities	Lothian Valuation Joint Board
2017/18 Comparative Data				
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
<b>Total Expenditure</b>	<b>219,686</b>	<b>13,310</b>	<b>81,919</b>	<b>3,741</b>
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
<b>Total Income</b>	<b>(49,382)</b>	<b>(2,291)</b>	<b>(51,449)</b>	<b>(112)</b>
<b>Cost of Services</b>	<b>170,304</b>	<b>11,019</b>	<b>30,470</b>	<b>3,629</b>

	Council Total	Subsidiaries	Associates and Joint Ventures	Group Total
2017/18 Comparative Data				
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 ( <i>HRA only</i> )	37,764	0	0	37,764
Net expend from Associates and Joint Ventures	0	0	5,790	5,790
<b>Total Expenditure</b>	<b>1,343,283</b>	<b>169,592</b>	<b>5,790</b>	<b>1,518,665</b>
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)
<b>Total Income</b>	<b>(521,199)</b>	<b>(177,437)</b>	<b>(2,451)</b>	<b>(701,087)</b>
<b>Cost of Services</b>	<b>822,084</b>	<b>(7,845)</b>	<b>3,339</b>	<b>817,578</b>



## NOTES TO THE FINANCIAL STATEMENTS

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

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

	2018/19	2017/18
	£000	£000
<b>Expenditure</b>		
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
<b>Total Expenditure</b>	<b>2,409,631</b>	<b>2,228,586</b>
<b>Income</b>		
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)
<b>Total Income</b>	<b>(2,278,821)</b>	<b>(2,170,852)</b>
<b>Group (Surplus) / Deficit</b>	<b>130,810</b>	<b>57,734</b>

#### 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
	£000	£000
<b>Expenditure</b>		
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
<b>Total Expenditure</b>	<b>2,200,466</b>	<b>2,040,495</b>
<b>Income</b>		
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)
<b>Total Income</b>	<b>(2,075,766)</b>	<b>(1,979,906)</b>
<b>(Surplus) / Deficit on the Provision of Services</b>	<b>124,700</b>	<b>60,589</b>

## NOTES TO THE FINANCIAL STATEMENTS

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

The Code requires the disclosure of information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. This applies to the adoption of the following new or amended standards within the 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
- IFRIC 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 provision 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	<p>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.</p> <p>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.</p> <p>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 arrangements 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).</p>	<p>The effects on the net pensions liability of changes in individual assumptions can be measured.</p> <p>Note 42.6 provides further information on the Council's pension liability.</p> <p>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.</p> <p>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 outcome of the judgement becomes clearer in line with the upcoming valuation.</p>

## 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 commitment 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:

	31.12.18 £000	31.12.17 £000
<b>Transport for Edinburgh Limited (Consolidated Group)</b>		
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:	<b>31.03.19</b>	<b>31.03.18</b>
	<b>£000</b>	<b>£000</b>
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:	<b>31.03.19</b>	<b>31.03.18</b>
	<b>£000</b>	<b>£000</b>
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.

	<b>31.03.19</b>	<b>31.03.18</b>
	<b>£000</b>	<b>£000</b>
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	<u>(7,709)</u>	<u>(4,769)</u>

## 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:	<b>31.03.19</b>	<b>31.03.18</b>
	<b>£000</b>	<b>£000</b>
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		
	General Fund Balance £000	Housing Revenue Account Balance £000	Capital Receipts Reserve £000
<b>2018/19</b>			
<b>Adjustments primarily involving the Capital Adjustment Account</b>			
<b>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement (CIES)</b>			
Charges for depreciation and impairment of non-current assets	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
<b>Insertion of items not debited or credited to the CIES</b>			
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
<b>Adjustments primarily involving the Capital Grant Unapplied Account</b>			
Application of grants to capital financing transferred to the Capital Adjustment Account	0	0	0
<b>Adjustments primarily involving the Capital Receipts Reserve</b>			
Net (gain) / loss on sale of property, plant and equipment and assets held for sale	(3,619)	(2,382)	25,953
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	(25,953)
<b>Adjustments primarily involving the Financial Instruments Adjustment Account</b>			
Amount by which finance costs charged are different from finance costs chargeable in the year in accordance with statutory requirements	(1,334)	(567)	0
<b>Adjustments primarily involving the Pensions Reserve</b>			
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
<b>Adjustments primarily involving the Employee Statutory Adjustment Account</b>			
Amount by which officer remuneration charges to the CIES are different from remuneration chargeable in the year in accordance with statutory requirements	1,253	44	0
<b>Total Adjustments</b>	<b>143,298</b>	<b>(56,815)</b>	<b>0</b>



# NOTES TO THE FINANCIAL STATEMENTS

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

	Usable Reserves		
	Capital Grants Unapplied Account £000	Capital Fund £000	Movement in Unusable Reserves £000
2018/19			
<b>Adjustments primarily involving the Capital Adjustment Account</b>			
<b>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement (CIES)</b>			
Charges for depreciation and impairment of non-current assets	0	0	(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)
<b>Insertion of items not debited or credited to the CIES</b>	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
<b>Adjustments primarily involving the Capital Grant Unapplied Account</b>			
Application of grants to capital financing transferred to the Capital Adjustment Account	(1,351)	0	1,351
<b>Adjustments primarily involving the Capital Receipts Reserve</b>			
Net gain / (loss) on sale of property, plant and equipment and assets held for sale	0	0	(19,952)
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	25,953
<b>Adjustments primarily involving the Financial Instruments Adjustment Account</b>			
Amount by which finance costs charged are different from finance costs chargeable in the year in accordance with statutory requirements	0	0	1,901
<b>Adjustments primarily involving the Pensions Reserve</b>			
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
<b>Adjustments primarily involving the Employee Statutory Adjustment Account</b>			
Amount by which officer remuneration charges to the CIES are different from remuneration chargeable in the year in accordance with statutory requirements	0	0	(1,297)
<b>Total Adjustments</b>	<b>10,988</b>	<b>(7,650)</b>	<b>(89,821)</b>

# NOTES TO THE FINANCIAL STATEMENTS

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

2017/18 Comparative Data	Usable Reserves		
	General Fund Balance £000	Housing Revenue Account Balance £000	Capital Receipts Reserve £000
<b>Adjustments primarily involving the Capital Adjustment Account</b>			
<b>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement (CIES)</b>			
Charges for depreciation and impairment of non-current assets	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
<b>Insertion of items not debited or credited to the CIES</b>			
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
<b>Adjustments primarily involving the Capital Grant Unapplied Account</b>			
Application of grants to capital financing transferred to the Capital Adjustment Account	0	0	0
<b>Adjustments primarily involving the Capital Receipts Reserve</b>			
Net loss / (gain) on sale of property, plant and equipment and assets held for sale	1,825	3,467	21,879
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	(21,879)
<b>Adjustments primarily involving the Financial Instruments Adjustment Account</b>			
Amount by which finance costs charged are different from finance costs chargeable in the year in accordance with statutory requirements	(1,393)	(536)	0
<b>Adjustments primarily involving the Pensions Reserve</b>			
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
<b>Adjustments primarily involving the Employee Statutory Adjustment Account</b>			
Amount by which officer remuneration charges to the CIES are different from remuneration chargeable in the year in accordance with statutory requirements	643	(3)	0
<b>Total Adjustments</b>	<b>89,588</b>	<b>(23,511)</b>	<b>0</b>

## NOTES TO THE FINANCIAL STATEMENTS

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

	Usable Reserves		
	Capital Grants Unapplied Account £000	Capital Fund £000	Movement in Unusable Reserves £000
2017/18 Comparative Data			
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.

	Balance at 01.04.18 £000	Net Transfers Out 2018/19 £000	Net Transfers In 2018/19 £000	Balance at 31.03.19 £000
<b>Group Reserves</b>				
<b>Subsidiaries</b>				
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
<b>Total Usable Reserves - Subsidiaries</b>	<b>74,317</b>	<b>(5,137)</b>	<b>0</b>	<b>69,180</b>
<b>Associates and Joint Ventures</b>				
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
<b>Total Usable Reserves - Associates and Joint Ventures</b>	<b>8,448</b>	<b>(56)</b>	<b>1,184</b>	<b>9,576</b>
<b>Total Usable Reserves - Subsidiaries, Associates and Joint Ventures</b>	<b>82,765</b>	<b>(5,193)</b>	<b>1,184</b>	<b>78,756</b>

## 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
<b>Group Reserves</b>				
<b>Subsidiaries</b>				
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
<b>Total Usable Reserves - Subsidiaries</b>	<b>20,560</b>	<b>(459)</b>	<b>54,216</b>	<b>74,317</b>
<b>Associates and Joint Ventures</b>				
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
<b>Total Usable Reserves - Associates and Joint Ventures</b>	<b>7,956</b>	<b>(5,007)</b>	<b>5,499</b>	<b>8,448</b>
<b>Total Usable Reserves - Subsidiaries, Associates and Joint Ventures</b>	<b>28,516</b>	<b>(5,466)</b>	<b>59,715</b>	<b>82,765</b>

## 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
<b>Council's Usable Reserves</b>				
<b>General Fund</b>				
<b>Balances Set Aside to Manage Financial Risks and for Specific Investment</b>				
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
	<u>87,435</u>	<u>(16,438)</u>	<u>21,424</u>	<u>92,421</u>
<b>Balances Set Aside from Income Received in Advance</b>				
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
	<u>41,718</u>	<u>(17,588)</u>	<u>6,234</u>	<u>30,364</u>
<b>Balances Set Aside for Investment in Specific Projects which will Generate Future Savings</b>				
Energy Efficiency Fund	178	0	66	244
Spend to Save Fund and similar projects	3,171	(716)	263	2,718
	<u>3,349</u>	<u>(716)</u>	<u>329</u>	<u>2,962</u>
<b>Balances Set Aside under Devolved School Management Scheme and Pupil Equity Fund</b>				
Balances held by schools under Devolved School Management (DSM) and Pupil Equity Fund (PEF)	5,758	(5,758)	6,073	6,073
<b>Surplus on Housing Revenue Account transferred to Renewal and Repairs Fund</b>	0	0	0	0
<b>Unallocated General Fund</b>	<u>13,025</u>	<u>0</u>	<u>0</u>	<u>13,025</u>
<b>Total General Fund</b>	<u>151,285</u>	<u>(40,500)</u>	<u>34,060</u>	<u>144,845</u>
<b>Housing Revenue Account Balance</b>	0	0	0	0
<b>Renewal and Repairs Fund</b>	58,123	(35,273)	3,496	26,346
<b>Capital Fund</b>	63,558	(8,892)	1,242	55,908
<b>Capital Receipts Reserve</b>	0	(25,953)	25,953	0
<b>Capital Grants Unapplied Account</b>	4,796	(1,351)	12,339	15,784
<b>Total Usable Reserves - Council</b>	<u>277,762</u>	<u>(111,969)</u>	<u>77,090</u>	<u>242,883</u>
<b>Total Usable Reserves - Group</b>	<u>360,527</u>	<u>(117,162)</u>	<u>78,274</u>	<u>321,639</u>

## 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
<b>General Fund</b>				
<b>Balances Set Aside to Manage Financial Risks and for Specific Investment</b>				
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
	<u>75,649</u>	<u>(19,409)</u>	<u>31,195</u>	<u>87,435</u>
<b>Balances Set Aside from Income Received in Advance</b>				
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
	<u>43,789</u>	<u>(7,831)</u>	<u>5,760</u>	<u>41,718</u>
<b>Balances Set Aside for Investment in Specific Projects which will Generate Future Savings</b>				
Energy Efficiency Fund	98	0	80	178
Spend to Save Fund and similar projects	7,362	(4,418)	227	3,171
	<u>7,460</u>	<u>(4,418)</u>	<u>307</u>	<u>3,349</u>
<b>Balances Set Aside under Devolved School Management Scheme</b>				
Balances held by schools under Devolved School Management (DSM) and Pupil Equity Fund (PEF)	2,688	(2,688)	5,758	5,758
	<u>2,688</u>	<u>(2,688)</u>	<u>5,758</u>	<u>5,758</u>
<b>Surplus on Housing Revenue Account transferred to Renewal and Repairs Fund</b>	0	(432)	432	0
<b>Unallocated General Fund</b>	<u>13,025</u>	<u>0</u>	<u>0</u>	<u>13,025</u>
<b>Total General Fund</b>	<u>142,611</u>	<u>(34,778)</u>	<u>43,452</u>	<u>151,285</u>
<b>Housing Revenue Account Balance</b>	0	(432)	432	0
<b>Renewal and Repairs Fund</b>	64,149	(9,474)	3,448	58,123
<b>Capital Fund</b>	61,178	(2,513)	4,893	63,558
<b>Capital Receipts Reserve</b>	0	(21,879)	21,879	0
<b>Capital Grants Unapplied Account</b>	766	(21)	4,051	4,796
<b>Total Usable Reserves - Council</b>	<u>268,704</u>	<u>(69,097)</u>	<u>78,155</u>	<u>277,762</u>
<b>Total Usable Reserves - Group</b>	<u>297,220</u>	<u>(74,563)</u>	<u>137,870</u>	<u>360,527</u>

## 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

	<b>General Fund £000</b>	<b>HRA Balance £000</b>	<b>Renewal / Repairs Fund £000</b>	<b>Capital Receipts Reserve £000</b>
Transfers out	(40,500)	0	(35,273)	(25,953)
Transfers in	34,060	0	3,496	25,953
Total movements in fund	<u>(6,440)</u>	<u>0</u>	<u>(31,777)</u>	<u>0</u>
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	<u>(6,440)</u>	<u>0</u>	<u>(31,777)</u>	<u>0</u>

	<b>Capital Grants Unapplied £000</b>	<b>Capital Fund £000</b>	<b>Group Usable Reserves £000</b>	<b>Total £000</b>
Transfers out	(1,351)	(8,892)	(5,193)	(117,162)
Transfers in	12,339	1,242	1,184	78,274
Total movements in fund	<u>10,988</u>	<u>(7,650)</u>	<u>(4,009)</u>	<u>(38,888)</u>
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	<u>10,988</u>	<u>(7,650)</u>	<u>(4,009)</u>	<u>(38,888)</u>

##### 2017/18 Comparative Data

	<b>General Fund £000</b>	<b>HRA Balance £000</b>	<b>Renewal / Repairs Fund £000</b>	<b>Capital Receipts Reserve £000</b>
Transfers out	(34,778)	(432)	(9,474)	(21,879)
Transfers in	43,452	432	3,448	21,879
Total movements in fund	<u>8,674</u>	<u>0</u>	<u>(6,026)</u>	<u>0</u>
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	<u>8,674</u>	<u>0</u>	<u>(6,026)</u>	<u>0</u>



## NOTES TO THE FINANCIAL STATEMENTS

### 12. Usable Reserves - continued

#### 12.3 Reconciliation of transfers to and from earmarked reserves in Movement of Reserves Statement to Transfers to and from Usable Reserves - continued

2017/18 Comparative Data	Capital Grants Unapplied £000	Capital Fund £000	Group Usable Reserves £000	Total £000
Transfers out	(21)	(2,513)	(5,466)	<b>(74,563)</b>
Transfers in	4,051	4,893	59,715	<b>137,870</b>
Total movements in fund	<u>4,030</u>	<u>2,380</u>	<u>54,249</u>	<u><b>63,307</b></u>
Recognised in Comprehensive Income and Expenditure Statement	4,030	2,380	57,280	<b>69,178</b>
Transfers to other earmarked reserves	0	0	(3,031)	<b>(5,871)</b>
Total movements in fund	<u>4,030</u>	<u>2,380</u>	<u>54,249</u>	<u><b>63,307</b></u>

### 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	<u>36</u>	<u>36</u>	<u>36</u>	<u>42</u>
	<u>80,214</u>	<u>81,271</u>	<u>93,901</u>	<u>94,327</u>

### 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	<u>(275)</u>	<u>0</u>	<u>2,106</u>	<u>0</u>
	<u>(1,058,954)</u>	<u>(1,058,679)</u>	<u>(1,024,560)</u>	<u>(1,026,666)</u>

## 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
	<u>295,064</u>	

## 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
<b>Cost or Valuation</b>				
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	<u>1,484,507</u>	<u>2,155,479</u>	<u>335,351</u>	<u>1,465,451</u>
<b>Accumulated Depreciation and Impairment</b>				
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	<u>(141)</u>	<u>(97,601)</u>	<u>(160,194)</u>	<u>(701,660)</u>
<b>Net book value</b>				
At 31 March 2019	<u>1,484,366</u>	<u>2,057,878</u>	<u>175,157</u>	<u>763,791</u>
At 31 March 2018	<u>1,298,703</u>	<u>1,966,912</u>	<u>181,168</u>	<u>798,235</u>

## 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
<b>Cost or Valuation</b>				
At 1 April 2018	14,050	1,421	56,299	<b>5,272,799</b>
Additions	5,087	0	87,742	<b>223,832</b>
Revaluation increases / (decreases) recognised in the Revaluation Reserve	(238)	0	0	<b>155,864</b>
Revaluation decreases recognised in the Surplus on the Provision of Services	(8,318)	0	0	<b>(66,605)</b>
Derecognition - disposals	(1,594)	0	(2,809)	<b>(17,135)</b>
Derecognition - other	0	0	0	<b>(2,384)</b>
Assets reclassified (to) / from held for sale	0	0	0	<b>(6,016)</b>
Other movements in cost or valuation	0	0	(32,071)	<b>2</b>
At 31 March 2019	<u>8,987</u>	<u>1,421</u>	<u>109,161</u>	<u><b>5,560,357</b></u>
<b>Accumulated Depreciation and Impairment</b>				
At 1 April 2018	0	0	0	<b>(956,011)</b>
Depreciation charge	0	0	0	<b>(179,454)</b>
Depreciation charge written out to Revaluation Reserve	0	0	0	<b>160,161</b>
Depreciation written out to the Surplus on the Provision of Services	0	0	0	<b>3,832</b>
Derecognition - disposals	0	0	0	<b>9,437</b>
Derecognition - other	0	0	0	<b>2,384</b>
Depreciation on assets transferred to Held for Sale	0	0	0	<b>55</b>
At 31 March 2019	<u>0</u>	<u>0</u>	<u>0</u>	<u><b>(959,596)</b></u>
<b>Net book value</b>				
At 31 March 2019	<u>8,987</u>	<u>1,421</u>	<u>109,161</u>	<u><b>4,600,761</b></u>
At 31 March 2018	<u>14,050</u>	<u>1,421</u>	<u>56,299</u>	<u><b>4,316,788</b></u>

## NOTES TO THE FINANCIAL STATEMENTS

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

#### 15.4 Movements on Balances - Group Accounts 2017/18 Comparative Data

	Council Dwellings £000	Other Land and Buildings £000	Vehicles, Plant, Furniture and Equipment £000	Infrastructure Assets £000
<b>Re-Styled Cost or Valuation</b>				
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	<u>1,370,303</u>	<u>2,075,364</u>	<u>323,984</u>	<u>1,431,378</u>
<b>Accumulated Depreciation and Impairment</b>				
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	<u>(71,600)</u>	<u>(108,452)</u>	<u>(142,816)</u>	<u>(633,143)</u>
<b>Net book value</b>				
At 31 March 2018	<u>1,298,703</u>	<u>1,966,912</u>	<u>181,168</u>	<u>798,235</u>
At 31 March 2017	<u>1,024,223</u>	<u>1,715,608</u>	<u>171,153</u>	<u>835,684</u>

## NOTES TO THE FINANCIAL STATEMENTS

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

#### 15.4 Movements on Balances - Group 2017/18 Comparative Data

	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	Total Property Plant and Equipment £000
<b>Re-stated Cost or Valuation</b>				
At 1 April 2017	14,562	2,421	53,096	<b>4,706,727</b>
Additions	5,168	362	46,224	<b>181,379</b>
Revaluation increases / (decreases) recognised in the Revaluation Reserve	(8)	0	0	<b>461,696</b>
Revaluation decreases recognised in the Surplus on the Provision of Services	(5,672)	0	0	<b>(58,711)</b>
Derecognition - disposals	0	0	0	<b>(19,926)</b>
Derecognition - other	0	0	0	<b>(4,829)</b>
Assets reclassified (to) / from held for sale	0	0	0	<b>6,463</b>
Other movements in cost or valuation	0	(1,362)	(43,021)	<b>0</b>
At 31 March 2018	<u>14,050</u>	<u>1,421</u>	<u>56,299</u>	<u><b>5,272,799</b></u>
<b>Accumulated Depreciation and Impairment</b>				
At 1 April 2017	0	0	0	<b>(889,980)</b>
Depreciation charge	0	0	0	<b>(151,198)</b>
Depreciation charge written out to Revaluation Reserve	0	0	0	<b>63,432</b>
Depreciation written out to the Surplus on the Provision of Services	0	0	0	<b>11,102</b>
Derecognition - disposals	0	0	0	<b>6,493</b>
Derecognition - other	0	0	0	<b>130</b>
Impairment losses recognised in the Surplus on the Provision of Services	0	0	0	<b>4,010</b>
At 31 March 2018	<u>0</u>	<u>0</u>	<u>0</u>	<u><b>(956,011)</b></u>
<b>Net book value</b>				
At 31 March 2018	<u>14,050</u>	<u>1,421</u>	<u>56,299</u>	<u><b>4,316,788</b></u>
At 31 March 2017	<u>14,562</u>	<u>2,421</u>	<u>53,096</u>	<u><b>3,816,747</b></u>

## 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
<b>Cost or Valuation</b>				
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	<u>1,484,507</u>	<u>2,093,576</u>	<u>163,562</u>	<u>1,458,781</u>
<b>Accumulated Depreciation and Impairment</b>				
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	<u>(141)</u>	<u>(66,106)</u>	<u>(72,866)</u>	<u>(695,177)</u>
<b>Net book value</b>				
At 31 March 2019	<u>1,484,366</u>	<u>2,027,470</u>	<u>90,696</u>	<u>763,604</u>
At 31 March 2018	<u>1,298,703</u>	<u>1,936,311</u>	<u>88,502</u>	<u>797,768</u>

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.

## NOTES TO THE FINANCIAL STATEMENTS

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

#### 15.5 Movements on Balances - Council

##### Movements in 2018/19

<b>Cost or Valuation</b>	<b>Community Assets £000</b>	<b>Surplus Assets £000</b>	<b>Assets Under Construction £000</b>	<b>Total Property Plant and Equipment £000</b>	<b>PPP and similar Assets £000</b>
At 1 April 2018	14,050	1,421	56,299	<b>5,036,780</b>	593,418
Additions	5,087	0	87,742	<b>211,736</b>	21,355
Revaluation increases / (decreases) recognised in the Revaluation Reserve	(238)	0	0	<b>155,864</b>	(46,769)
Revaluation decreases recognised in the Surplus on the Provision of Services	(8,318)	0	0	<b>(66,605)</b>	(31,991)
Derecognition - disposals	(1,594)	0	(2,809)	<b>(9,382)</b>	0
Derecognition - other	0	0	0	<b>(2,384)</b>	0
Assets reclassified (to) / from held for sale	0	0	0	<b>(6,016)</b>	0
Other movements in cost or valuation	0	0	(32,071)	<b>2</b>	(15,843)
At 31 March 2019	<u>8,987</u>	<u>1,421</u>	<u>109,161</u>	<u><b>5,319,995</b></u>	<u>520,170</u>
<b>Accumulated Depreciation and Impairment</b>					
At 1 April 2018	0	0	0	<b>(843,726)</b>	(43,603)
Depreciation charge	0	0	0	<b>(159,504)</b>	(14,258)
Depreciation charge written out to Revaluation Reserve	0	0	0	<b>160,161</b>	47,424
Depreciation written out to the Surplus on the Provision of Services	0	0	0	<b>3,832</b>	1,895
Derecognition - disposals	0	0	0	<b>2,508</b>	0
Derecognition - other	0	0	0	<b>2,384</b>	0
Other movements in cost or valuation	0	0	0	<b>55</b>	0
At 31 March 2019	<u>0</u>	<u>0</u>	<u>0</u>	<u><b>(834,290)</b></u>	<u>(8,542)</u>
<b>Net book value</b>					
At 31 March 2019	<u>8,987</u>	<u>1,421</u>	<u>109,161</u>	<u><b>4,485,705</b></u>	<u>511,628</u>
At 31 March 2018	<u>14,050</u>	<u>1,421</u>	<u>56,299</u>	<u><b>4,193,054</b></u>	<u>549,815</u>

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

<b>Re-stated Cost or Valuation</b>	<b>Council Dwellings £000</b>	<b>Other Land and Buildings £000</b>	<b>Vehicles, Plant, Furniture and Equipment £000</b>	<b>Infrastructure Assets £000</b>
At 1 April 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	<u>1,370,303</u>	<u>2,013,461</u>	<u>156,538</u>	<u>1,424,708</u>
<b>Accumulated Depreciation and Impairment</b>				
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	<u>(71,600)</u>	<u>(77,150)</u>	<u>(68,036)</u>	<u>(626,940)</u>
<b>Net book value</b>				
At 31 March 2018	<u>1,298,703</u>	<u>1,936,311</u>	<u>88,502</u>	<u>797,768</u>
At 31 March 2017	<u>1,024,223</u>	<u>1,684,809</u>	<u>94,981</u>	<u>834,928</u>

## NOTES TO THE FINANCIAL STATEMENTS

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

#### 15.6 Movements on Balances - Council

##### 2017/18 Comparative Data

	Community Assets £000	Surplus Assets £000	Total Assets Under Construction £000	Total Property Plant and Equipment £000	PPP and similar Assets £000
<b>Re-stated Cost or Valuation</b>					
At 1 April 2017	14,562	2,421	53,096	<b>4,493,321</b>	594,858
Additions	5,168	362	46,224	<b>154,669</b>	40
Revaluation increases / (decreases) recognised in the Revaluation Reserve	(8)	0	0	<b>461,696</b>	(1,480)
Revaluation decreases recognised in the Surplus on the Provision of Services	(5,672)	0	0	<b>(58,711)</b>	0
Derecognition - disposals	0	0	0	<b>(15,829)</b>	0
Derecognition - other	0	0	0	<b>(4,829)</b>	0
Assets reclassified (to) / from held for sale	0	0	0	<b>6,463</b>	0
Other movements in cost or valuation	0	(1,362)	(43,021)	<b>0</b>	0
At 31 March 2018	<u>14,050</u>	<u>1,421</u>	<u>56,299</u>	<u><b>5,036,780</b></u>	<u>593,418</u>
<b>Accumulated Depreciation and Impairment</b>					
At 1 April 2017	0	0	0	<b>(784,301)</b>	(32,687)
Depreciation charge	0	0	0	<b>(141,055)</b>	(14,106)
Depreciation charge written out to Revaluation Reserve	0	0	0	<b>63,432</b>	3,190
Depreciation written out to the Surplus on the Provision of Services	0	0	0	<b>11,102</b>	0
Derecognition - disposals	0	0	0	<b>2,956</b>	0
Derecognition - other	0	0	0	<b>130</b>	0
Impairment losses recognised in the Surplus on the Provision of Services	0	0	0	<b>4,010</b>	0
At 31 March 2018	<u>0</u>	<u>0</u>	<u>0</u>	<u><b>(843,726)</b></u>	<u>(43,603)</u>
<b>Net book value</b>					
At 31 March 2018	<u>14,050</u>	<u>1,421</u>	<u>56,299</u>	<u><b>4,193,054</b></u>	<u>549,815</u>
At 31 March 2017	<u>14,562</u>	<u>2,421</u>	<u>53,096</u>	<u><b>3,709,020</b></u>	<u>562,171</u>

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.

<b>Council assets</b>	<b>Council Dwellings £000</b>	<b>Other Land and Buildings £000</b>	<b>Vehicles, Plant, Furniture and Equipment £000</b>	<b>Infrastructure Assets £000</b>
Carried at historical cost	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
<b>Total cost or valuation</b>	<b>1,484,507</b>	<b>2,093,576</b>	<b>163,562</b>	<b>1,458,781</b>

<b>Council assets</b>	<b>Community Assets £000</b>	<b>Surplus Assets £000</b>	<b>Assets Under Construction £000</b>	<b>Total £000</b>
Carried at historical cost	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
<b>Total cost or valuation</b>	<b>8,987</b>	<b>1,421</b>	<b>109,161</b>	<b>5,319,995</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 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
<b>Total cost or valuation</b>	<b>0</b>	<b>20,337</b>	<b>0</b>	<b>20,337</b>

- There were no transfers between levels during the year.
- The fair value for surplus assets has been based on the market approach using current market conditions and recent sales prices and other relevant information for similar assets in similar locations. Market conditions are such that similar properties are actively purchased and sold and the level of observable inputs is significant, leading to the properties being categorised at level 2 in the fair value hierarchy. In estimating the fair value of the Council's surplus assets, the assumption has been made that these would be disposed 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.

## NOTES TO THE FINANCIAL STATEMENTS

### 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.

## NOTES TO THE FINANCIAL STATEMENTS

### 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

	<b>Monuments and Statues £000</b>	<b>Civic Regalia and Artefacts £000</b>	<b>Archival Collections £000</b>
<b>Cost or Valuation</b>			
At 1 April 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	<u>842</u>	<u>2,047</u>	<u>6,797</u>
<b>Net book value</b>			
At 31 March 2019	<u>842</u>	<u>2,047</u>	<u>6,797</u>
At 31 March 2018	<u>423</u>	<u>2,047</u>	<u>6,797</u>

	<b>Libraries' Special Collections £000</b>	<b>Museum and Gallery Collections £000</b>	<b>Total Heritage Assets £000</b>
<b>Cost or Valuation</b>			
At 1 April 2018	1,975	19,643	30,885
Additions	0	0	155
Revaluation increases / (decreases) recognised in the Revaluation Reserve	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	<u>1,975</u>	<u>19,643</u>	<u>31,304</u>
<b>Net book value</b>			
At 31 March 2019	<u>1,975</u>	<u>19,643</u>	<u>31,304</u>
At 31 March 2018	<u>1,975</u>	<u>19,643</u>	<u>30,885</u>

## NOTES TO THE FINANCIAL STATEMENTS

### 18. Heritage Assets - continued

#### 18.1 Reconciliation of the Carrying Value of Heritage Assets - continued 2017/18 Comparative Data

<b>Cost or Valuation</b>	<b>Monuments and Statues £000</b>	<b>Civic Regalia and Artefacts £000</b>	<b>Archival Collections £000</b>
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	<u>423</u>	<u>2,047</u>	<u>6,797</u>
<b>Net book value</b>			
At 31 March 2018	<u>423</u>	<u>2,047</u>	<u>6,797</u>
At 31 March 2017	<u>665</u>	<u>2,047</u>	<u>6,797</u>

<b>Cost or Valuation</b>	<b>Libraries' Special Collections £000</b>	<b>Museum and Gallery Collections £000</b>	<b>Total Heritage Assets £000</b>
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	<u>1,975</u>	<u>19,643</u>	<u>30,885</u>
<b>Net book value</b>			
At 31 March 2018	<u>1,975</u>	<u>19,643</u>	<u>30,885</u>
At 31 March 2017	<u>1,975</u>	<u>19,643</u>	<u>31,127</u>

# NOTES TO THE FINANCIAL STATEMENTS

## 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	Council	Group	Council
	£000	£000	£000	£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	Council	Group	Council
	£000	£000	£000	£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
	£000	£000	£000	£000
<b>Long-term provision for impairment</b>				
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)
<b>Current provision for impairment</b>				
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	Council	Group	Council
	£000	£000	£000	£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		2017/18	
	Group £000	Council £000	Group £000	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
	<u>11,698</u>	<u>23,690</u>	<u>8,288</u>	<u>20,280</u>

#### 22.2 Short-Term Investments

	2018/19		2017/18	
	Group £000	Council £000	Group £000	Council £000
Local Authority Loans	17,100	17,100	20,722	20,722
Transport for Edinburgh Financial Assets	0	0	1,034	0
	<u>17,100</u>	<u>17,100</u>	<u>21,756</u>	<u>20,722</u>

### 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

	2018/19		2017/18	
	Group £000	Council £000	Group £000	Council £000
<b>23.1 Non-Current Assets - Held for Sale</b>				
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	<u>(1,000)</u>	<u>(1,000)</u>	<u>(7,397)</u>	<u>(7,397)</u>
Balance at 31 March	<u>1,586</u>	<u>1,586</u>	<u>2,580</u>	<u>2,580</u>

#### 23.2 Current Assets - Held for Sale

	2018/19		2017/18	
	Group £000	Council £000	Group £000	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	<u>1,000</u>	<u>1,000</u>	<u>7,397</u>	<u>7,397</u>
Balance at 31 March	<u>17,606</u>	<u>17,606</u>	<u>20,126</u>	<u>20,126</u>

## NOTES TO THE FINANCIAL STATEMENTS

### 24. Creditors

	2018/19		2017/18	
	Group £000	Council £000	Group £000	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
	<u>(216,567)</u>	<u>(175,270)</u>	<u>(176,797)</u>	<u>(149,750)</u>

### 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	<u>(36,710)</u>	<u>(33,810)</u>

### 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
<u>Reversal of items relating to capital expenditure debited or credited to the CIES</u>		
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)
	<u>(260,511)</u>	<u>(239,717)</u>
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)
<u>Capital financing applied in the year:</u>		
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
	<u>266,046</u>	<u>217,880</u>
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	<u><u>1,437,923</u></u>	<u><u>1,403,298</u></u>

## 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.

	<b>2018/19</b>	<b>2017/18</b>
	<b>£000</b>	<b>£000</b>
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	<u>(41,548)</u>	<u>(43,467)</u>

The Council operates a loans pool on behalf of the General Fund and Housing Revenue Account. With the transfer of responsibility for Police and Fire services to the new national bodies, all movements are now reflected on the Council's Balance Sheet. An element of the cost, however, is recovered through the pooled interest rate and therefore there is no financial impact on the Council.

#### 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.

	<b>2018/19 £000</b>	<b>2017/18 £000</b>
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	<u>(659,468)</u>	<u>(482,493)</u>

#### 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.

	<b>2018/19 £000</b>	<b>2017/18 £000</b>
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	<u>(16,058)</u>	<u>(14,761)</u>
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(1,297)	(640)
Balance at 31 March	<u>(16,058)</u>	<u>(14,761)</u>

## 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
<b>Subsidiaries</b>		
CEC Holdings Limited	76,292	75,696
Transport for Edinburgh	24,226	25,275
<b>Associates and Joint Ventures</b>		
Common Good	23,510	21,864
Lothian Valuation Joint Board	(5,262)	(3,404)
<b>Total Unusable Reserves - Subsidiaries, Associates and Joint Ventures</b>	<u>118,766</u>	<u>119,431</u>

### 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
<b>Net cash flows from operating activities</b>	<u>(275,089)</u>	<u>(249,061)</u>	<u>(244,548)</u>	<u>(225,722)</u>

### 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)
<b>Net cash flows from investing activities</b>	<b>204,420</b>	<b>187,703</b>	<b>202,805</b>	<b>179,919</b>

### 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
<b>Net cash flows from financing activities</b>	<b>75,199</b>	<b>71,473</b>	<b>64,552</b>	<b>65,540</b>

### 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	2017/18 £000	2018/19 £000	2017/18 £000
	Transport for Edinburgh Ltd.	Transport for Edinburgh Ltd.	Spartans Community Football Academy	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	<u>0</u>	<u>939</u>	<u>57</u>	<u>55</u>
Nominal Value Carried Forward	<u>0</u>	<u>1,000</u>	<u>99</u>	<u>102</u>

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

The Transport for Edinburgh loan 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
			<b>746</b>	<b>20,418</b>	<b>66,726</b>	<b>87,144</b>

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
<b>Credited to taxation and non-specific grant income</b>				
General revenue funding	(363,757)		(345,757)	
Non-domestic rates	(340,474)		(355,063)	
Capital grants and contributions	<u>(95,013)</u>		<u>(76,598)</u>	
		(799,244)		(777,418)
<b>Credited to services</b>				
Central Government Bodies	(202,802)		(210,879)	
Other Local Authorities	(3,288)		(2,895)	
NHS bodies	(70,336)		(62,588)	
Other entities and individuals	<u>(10,469)</u>		<u>(3,867)</u>	
		<u>(286,895)</u>		<u>(280,229)</u>
<b>Total</b>		<u><u>(1,086,139)</u></u>		<u><u>(1,057,647)</u></u>

## 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
<u>Other</u>					
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
<b>Total</b>	<b>293,408</b>	<b>(268,175)</b>	<b>30,714</b>	<b>6,837</b>	<b>32,191</b>

## 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.

	<b>2018/19</b>		<b>2017/18</b>	
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Opening capital financing requirement		1,575,864		1,610,256
<b>Capital Investment</b>				
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	<u>0</u>		<u>0</u>	
		299,462		210,654
<b>Sources of Finance</b>				
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	<u>(89,734)</u>		<u>(83,987)</u>	
		<u>(325,860)</u>		<u>(245,046)</u>
<b>Closing capital financing requirement</b>		<u><u>1,549,466</u></u>		<u><u>1,575,864</u></u>
<b>Explanation of movements in year</b>				
(Decrease) / increase in underlying need to borrow or fund from credit arrangements		(35,886)		(34,392)
Assets acquired under finance leases		9,488		
<b>(Decrease) / Increase in capital financing requirement</b>		<u><u>(26,398)</u></u>		<u><u>(34,392)</u></u>

## 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
<b>Finance Lease Liabilities</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
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



## NOTES TO THE FINANCIAL STATEMENTS

### 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
	<b>125,250</b>	<b>6,472</b>	<b>9,632</b>	<b>7,015</b>
<b>Value at 31 March</b>				
Other land and buildings	7,992	6,454	8,922	6,989
Vehicles, plant, equipment and furniture	117,258	18	710	26
	<b>125,250</b>	<b>6,472</b>	<b>9,632</b>	<b>7,015</b>
<b>Recognised as an expense during the year</b>	<b>10,511</b>	<b>1,508</b>	<b>2,043</b>	<b>1,508</b>

#### 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	2017/18
	£000	£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
	<b>418,393</b>	<b>202,580</b>

The Council has a number of leases that are agreed for a period of over 100 years, the majority of which relate to land.

## NOTES TO THE FINANCIAL STATEMENTS

### 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:

	<b>Payment for Services £000</b>	<b>Reimburse. of Capital Expenditure £000</b>	<b>Interest £000</b>	<b>Total £000</b>
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
	<u>456,445</u>	<u>196,065</u>	<u>265,996</u>	<u>918,506</u>

Payments due under the following schemes have been inflated by: 1.11% per annum for the PPP1 scheme, 1.67% per annum for the PPP2 scheme and 2.5% per annum for the James Gillespie's High School scheme, reflecting the terms of the separate contracts and assumed inflation of 2.5% per annum.

The 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:

	<b>2018/19 £000</b>	<b>2017/18 £000</b>
Balance at 1 April	204,089	211,977
PPP unitary charge restatement adjustment	(1)	4
Repayments during the year	<u>(8,023)</u>	<u>(7,892)</u>
Balance at 31 March	<u>196,065</u>	<u>204,089</u>

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
	<u>226,254</u>	<u>85,091</u>	<u>87,327</u>	<u>(1,994)</u>	<u>396,678</u>

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	<u>66,773</u>	2.5%
	<u>99,214</u>	

#### 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	<u>3,327</u>
	<u>3,327</u>

# NOTES TO THE FINANCIAL STATEMENTS

## 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
<i>Cost of services:</i>				
Service cost, comprising:				
Current service costs	103,040		93,031	
Past service costs	45,205		287	
Effect of Settlements	<u>0</u>		<u>(1,569)</u>	
		148,245		91,749
<i>Financing and investment income:</i>				
Net interest expense		<u>14,129</u>		<u>18,762</u>
<b>Total post employee benefit charged to the surplus on the provision of services</b>		162,374		110,511
<i>Other post-employment benefits charges to the Comprehensive Income / Expenditure Statement</i>				
Re-measurement of the net defined liability, comprising:				
Return on plan assets, excluding the amount incl. in the net interest expense above.	(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	<u>4,375</u>		<u>(250,278)</u>	
		79,989		(273,812)
<b>Total post-employment benefits charged to the Comprehensive Income / Expenditure Statement</b>		<u>242,363</u>		<u>(163,301)</u>
<b>Movement in Reserves Statement</b>				
Reversal of net charges made to the surplus on the provision of services for post-employment benefits in accordance with the Code.		<u>(162,374)</u>		<u>(110,511)</u>
<b>Actual amount charged against the General Fund Balance for pensions in the year:</b>				
Employer's contributions payable to the scheme		59,815		54,403
Contributions in respect of unfunded benefits		<u>5,573</u>		<u>5,589</u>
		<u>65,388</u>		<u>59,992</u>

## 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	<u>(81,132)</u>	<u>(79,041)</u>
Net liability arising from defined benefit obligation	<u>(659,468)</u>	<u>(482,493)</u>

#### 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	<u>(5,573)</u>	<u>(5,589)</u>
Closing fair value of scheme assets	<u>2,970,647</u>	<u>2,720,975</u>

#### 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	<u>(79,041)</u>	<u>(85,611)</u>
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	<u>5,573</u>	<u>5,589</u>
Closing balance at 31 March	<u>(3,630,115)</u>	<u>(3,203,468)</u>

## 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.**

## NOTES TO THE FINANCIAL STATEMENTS

### 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.

	<b>2018/19 Pension Reserve £000</b>	<b>2017/18 Pension Reserve £000</b>
<b>Unusable Reserves</b>		
Council	(659,468)	(482,493)
Lothian Valuation Joint Board	(5,432)	(3,628)
	<u>(664,900)</u>	<u>(486,121)</u>
	<b>2018/19 £000</b>	<b>2017/18 £000</b>
<b>Usable Reserves</b>		
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
	<u>63,921</u>	<u>57,876</u>
<b>Net Pension Reserves</b>	<u>(600,979)</u>	<u>(428,245)</u>

#### 42.10 Analysis of projected amount to be charged to profit or loss for the period to 31 March 2020

	<b>Assets £000</b>	<b>Obligations £000</b>	<b>Net (liability) / asset £000</b>	<b>% of pay</b>
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.

# NOTES TO THE FINANCIAL STATEMENTS

## 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:

- o cash in hand,
- o current, call and notice accounts with banks
- o fixed term deposits with banks and building societies,
- o loans to other local authorities,
- o certificates of deposit and covered bonds issued by banks and building societies,
- o treasury bills and gilts issued by the UK Government,
- o 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:

- o 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.

## NOTES TO THE FINANCIAL STATEMENTS

### 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:

<b>Financial Assets</b>	<b>IAS 39 31.3.18 £000</b>	<b>Reclassi - fication £000</b>	<b>Remeas - urement £000</b>	<b>IFRS 9 1.4.18 £000</b>
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 financial 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

	<b>31.03.19</b>		<b>31.03.18</b>	
	<b>Long-Term £000</b>	<b>Current £000</b>	<b>Long-Term £000</b>	<b>Current £000</b>
<b>Assets</b>				
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
		<u>123,268</u>		<u>149,097</u>
At fair value through profit and loss				
- Money Market Funds	0	25,959	0	26,836
	<u>0</u>	<u>25,959</u>	<u>0</u>	<u>26,836</u>
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.

#### Debtors

At amortised cost	<u>118,708</u>	<u>68,471</u>	<u>105,549</u>	<u>60,375</u>
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	<u>(285,692)</u>	<u>(3,465)</u>	<u>(285,763)</u>	<u>(3,432)</u>
Total borrowings	<u>(1,150,591)</u>	<u>(73,722)</u>	<u>(1,201,404)</u>	<u>(70,946)</u>

#### 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	<u>(37,201)</u>	<u>0</u>	<u>(25,223)</u>	<u>0</u>
Total other long-term liabilities	<u>(250,460)</u>	<u>(36,292)</u>	<u>(221,290)</u>	<u>(28,350)</u>

## 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 Value 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.

## NOTES TO THE FINANCIAL STATEMENTS

### 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:

		31.03.19		31.03.18	
	Fair Value Level	Principal Outstanding £000	Carrying Amount £000	Fair Value £000	Carrying Amount £000
Public Works Loans Board	2	(922,192)	(933,843)	(1,221,824)	(981,692)
Salix	2	(1,368)	(1,313)	(1,290)	(1,462)
Market debt	2	(274,900)	(289,157)	(523,985)	(289,195)
Borrowings		(1,198,460)	(1,224,313)	(1,747,099)	(1,272,349)
Other long-term liabilities	n/a	(37,201)	(37,201)	(37,201)	(25,223)
Trade creditors	n/a	(26,901)	(26,901)	(26,901)	(20,328)
PPP and Finance Leases	3	(222,650)	(222,650)	(308,033)	(204,089)
Financial liabilities		<u>(1,485,212)</u>	<u>(1,511,065)</u>	<u>(2,119,234)</u>	<u>(1,521,989)</u>
				<u>(2,142,681)</u>	

The fair value is higher than the carrying amount because the authority's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the rates available for similar loans at the Balance Sheet date.

		31.03.19		31.03.18	
	Fair Value Level	Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000
<b>Investments held at Fair Value through Profit and Loss</b>					
Money Market Funds	1	25,959	25,959	26,836	26,836
		<u>25,959</u>	<u>25,959</u>	<u>26,836</u>	<u>26,836</u>
<b>Investment held at Amortised Cost</b>					
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
		<u>123,268</u>	<u>123,203</u>	<u>149,098</u>	<u>149,138</u>
<b>Debtors</b>					
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
		<u>70,865</u>	<u>70,865</u>	<u>67,812</u>	<u>67,812</u>
<b>Total Investments</b>		<u>220,092</u>	<u>220,027</u>	<u>243,746</u>	<u>243,786</u>

## NOTES TO THE FINANCIAL STATEMENTS

### 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 financial instruments.

	Fair Value Level	31.03.19		31.03.18	
		Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000
<b>Investments held at Fair Value through Profit and Loss</b>					
Money Market Funds	1	25,959	25,959	26,836	26,836
		<u>25,959</u>	<u>25,959</u>	<u>26,836</u>	<u>26,836</u>

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.

## NOTES TO THE FINANCIAL STATEMENTS

### 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:

	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
<b>Summary</b>					
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
<b>Total</b>		<b>149,099</b>	<b>149,229</b>	<b>149,151</b>	<b>175,933</b>

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	<u>23,795</u>	<u>26,359</u>

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	
		Gross	Loss
	Range	Receivable	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		<u>277,236</u>	<u>(232,725)</u>

#### 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.



## NOTES TO THE FINANCIAL STATEMENTS

### 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 repayment 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 £000	2017/18 £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	<u>(1,403,208)</u>	<u>(1,449,636)</u>

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.

## NOTES TO THE FINANCIAL STATEMENTS

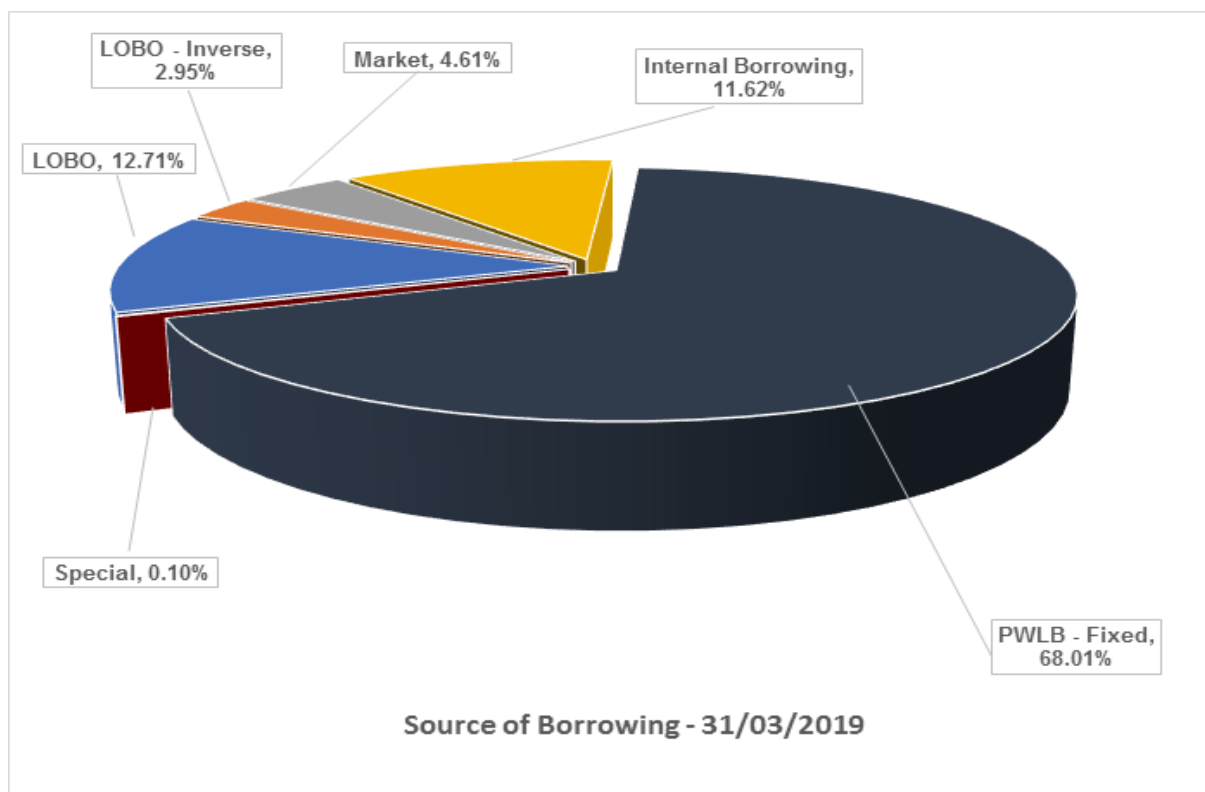
### 44. Nature and Extent of Risks Arising from Financial Instruments - continued

#### 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.

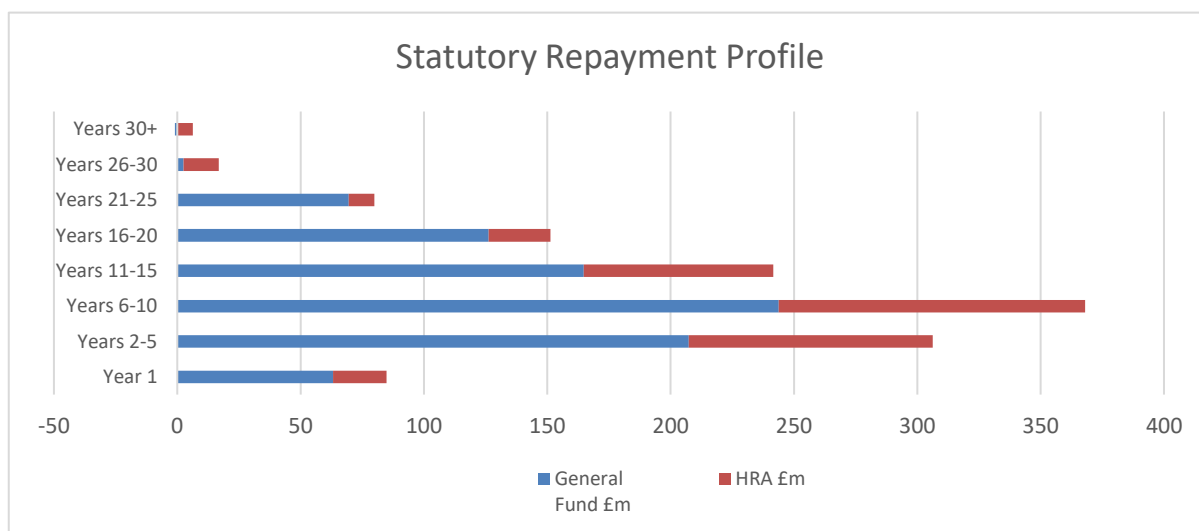
#### Foreign exchange risk

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 Charity Registration Number	Market Value 31.03.19 £000	Market Value 31.03.18 £000
<b>Scottish Registered Charities</b>			
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		<u>14,868</u>	<u>14,669</u>

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

<b>2017/18 Income and Expenditure Account</b>		<b>2018/19</b>
<b>£000</b>		<b>£000</b>
<b>Income</b>		
89	Investment income	79
0	Other non-investment income	26
<u>89</u>		<u>105</u>
<b>Expenditure</b>		
(87)	Prizes, awards and other expenses	(22)
(13)	Governance Costs	(16)
<u>(100)</u>		<u>(38)</u>
<u>(11)</u>	Surplus / (Deficit) for the year	<u>67</u>
<b>2017/18 Balance Sheet</b>		<b>2018/19</b>
<b>£000</b>		<b>£000</b>
<b>Long-Term Assets</b>		
2,075	Investments	2,207
5,275	Artworks - Jean F Watson Trust	5,317
7,020	Heritable property	7,020
<u>14,370</u>	<b>Total Long-Term Assets</b>	<u>14,544</u>
<b>Current Assets</b>		
313	Cash and bank	331
16	Debtors	20
<u>329</u>		<u>351</u>
<b>Current Liabilities</b>		
(30)	Creditors	(27)
<u>(30)</u>		<u>(27)</u>
<u>14,669</u>	<b>Total Assets less Liabilities</b>	<u>14,868</u>
<b>Funds</b>		
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
<u>3,291</u>		<u>3,490</u>
11,378	Revaluation reserve	11,378
<u>14,669</u>	<b>Funds at 31 March</b>	<u>14,868</u>

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:

	<b>2017/18 Statements £000</b>	<b>Council Dwellings £000</b>	<b>2017/18 Re-stated £000</b>
<b>Movement in Reserves Statement</b>			
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
<b>Group Comprehensive Income and Expenditure Statement</b>			
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)
<b>Council Comprehensive Income and Expenditure Statement</b>			
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)
<b>Group Balance Sheet</b>			
Property, Plant and Equipment	4,047,483	269,305	4,316,788
Unusable Reserves	2,090,983	269,305	2,360,288
<b>Council Balance Sheet</b>			
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	
<u>74,039</u>			80,467
	<b>INCOME</b>		
(96,050)	Dwelling rents	(97,455)	
(47)	Non-Dwelling rents (gross)	(41)	
(5,343)	Other income	(7,539)	
<u>(101,440)</u>			<u>(105,035)</u>
(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
<u>(26,172)</u>			<u>(22,130)</u>
	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 ( <i>pension-related</i> )	2,306	
(57)	Interest and investment income	(114)	
(1,825)	Interest income on plan assets ( <i>pension-related</i> )	(1,934)	
<u>(11,280)</u>		<u>(24,788)</u>	
11,703	Capital grants and contributions		(8,641)
<u>(14,469)</u>			<u>(30,771)</u>
	Surplus for the year on HRA services		

# 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)	<b>Net increase before transfers to reserves</b>	(26,043)
9,042	Contribution (to) / from renewal and repairs fund, via the General Fund	26,043
0	<b>Balance on the HRA at the end of the current year</b>	0

## Adjustments Between Accounting Basis and Funding Basis Under Regulations

£000		£000
	<b>Adjustments primarily involving the Capital Adjustment Account</b>	
	<b>Reversal of items debited or credited to the Income and Expenditure Statement</b>	
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)
	<b>Insertion of items not debited or credited to the Income and Expenditure Statement</b>	
(18,290)	Statutory provision for the financing of capital investment	(20,115)
(19,474)	Capital funded from revenue	(32,800)
	<b>Adjustments primarily involving the Capital Receipts Reserve</b>	
3,467	Transfer of cash sale proceeds credited as part of the gain / loss on disposal of assets	(2,382)
	<b>Adjustments primarily involving the Financial Instruments Adjustment Account</b>	
(536)	Amount by which finance costs charged are different from finance costs chargeable in the year in accordance with statutory requirements	(567)
	<b>Adjustments primarily involving the Pensions Reserve</b>	
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)
	<b>Adjustments primarily involving the Employee Statutory Adjustment Account</b>	
(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:

Types of Houses	2019		2018	
	Number	Annual Average Rent (£)	Number	Annual Average Rent (£)
<b>Main provision Council dwellings</b>				
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
<b>Mid-market rent dwellings</b>				
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
	<u>20,004</u>		<u>19,285</u>	

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      £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	
<u>90,289</u>			<u>93,832</u>
(247,124)			(257,931)
<u>(2,123)</u>	Previous years' adjustments		<u>(1,504)</u>
<u><b>(249,247)</b></u>	<b>Total transferred to General Fund</b>		<u><b>(259,435)</b></u>

### 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							<u>(7,062)</u>	
<b>Council Tax Base</b>							<u><b>228,347</b></u>	

## 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**

<b>2017/18</b>		<b>2018/19</b>	
<b>£000</b>		<b>£000</b>	<b>£000</b>
(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	
<u>104,792</u>			<u>108,363</u>
(356,319)			(367,718)
<u>7,305</u>	Previous years' adjustments		<u>7,867</u>
<b><u>(349,014)</u></b>	<b>Net Non-Domestic Rates Income</b>		<b><u>(359,851)</u></b>
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
<b><u>(349,014)</u></b>			<b><u>(359,851)</u></b>

### Notes to the Non-Domestic Rates Income Account

<b>Rateable Values as at 1 April 2018</b>		<b>Rateable Value</b>
	<b>Number</b>	<b>£000</b>
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
	<u>23,009</u>	<u>962,412</u>

### 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	£000
<b>Income</b>		
(9) Interest and investment income	(16)	
(1,591) Rent Income	(1,684)	
(1,455) Capital Funding	(1,189)	
(2,812) Recharges Income	(1,680)	
<b>(5,867) Total Income</b>	<b>(4,569)</b>	
<b>Expenditure</b>		
24 Common Good Fund	51	
5,858 Common Good Property Costs	4,553	
<b>5,882 Total Expenditure</b>		<b>4,604</b>
<b>15 (Surplus) / Deficit for the Year</b>		<b>35</b>

## COMMON GOOD FUND - BALANCE SHEET

Re-stated

31 March 2018 £000		31 March 2019 £000      £000	
965	Community Assets	2,558	
965	<b>Property, Plant and Equipment</b>		2,558
20,819	Long-Term Debtors	20,828	
103	Heritage Assets	147	
20,922	<b>Long-Term Assets</b>		20,975
503	Short-Term Investments	449	
1,861	Cash and Cash Equivalents	1,880	
2,364	<b>Current Assets</b>		2,329
<b>24,251</b>	<b>Net Assets</b>		<b>25,862</b>
21,886	Capital Contribution	23,523	
(22)	Capital Adjustment Account	(13)	
21,864	<b>Unusable Reserves</b>		23,510
500	Common Good Fund	496	
1,887	Earmarked Reserve	1,856	
2,387	<b>Usable Reserves</b>		2,352
<b>24,251</b>	<b>Total Reserves</b>		<b>25,862</b>

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 £000	Total Property, Plant and Equipment £000	Heritage Assets £000
<b>Cost or Valuation</b>			
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
<b>Net Book Value</b>			
At 31 March 2019	2,558	2,558	147
At 31 March 2018	965	965	103
<b>Cost or Valuation</b>			
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
<b>Net Book Value</b>			
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		<u>23,523</u>		<u>21,886</u>

#### 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	<u>(13)</u>	<u>(22)</u>

# ANNUAL GOVERNANCE STATEMENT

## Scope of Responsibility

The City of Edinburgh Council is responsible for ensuring that its business is conducted in accordance with the law and appropriate standards, and that public money is safeguarded, properly accounted for, and used economically, efficiently, effectively and ethically. The Council also has a statutory duty under the Local Government in Scotland Act 2003, to make arrangements to secure best value, which is defined as continuous improvement in the way its functions are carried out.

In discharging these responsibilities, Elected Members and senior officers are responsible for implementing effective arrangements for governing the Council's affairs, and facilitating the effective exercise of its functions, including arrangements for the management of risk.

To this end, the Council has adopted a Local Code of Corporate Governance that is consistent with the principles of the Chartered Institute of Public Finance and Accountancy (CIPFA) and Society of Local Authority Chief Executives (SOLACE) framework 'Delivering Good Governance in Local Government'. This statement outlines how The City of Edinburgh Council delivers good governance and reviews the effectiveness of those arrangements.

This statement 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.



## ANNUAL GOVERNANCE STATEMENT

- 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.

# ANNUAL GOVERNANCE STATEMENT

## Review of Effectiveness

The Local Code of Governance details the Council's arrangements for monitoring each element of the framework and providing evidence of compliance. The Council's 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 (Section 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.

# ANNUAL GOVERNANCE STATEMENT

## 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.

# ANNUAL GOVERNANCE STATEMENT

## 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 reflects that significant enhancements are required to the Council's control environment, governance and risk management arrangements.
- 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	Partially 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	Partially 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.

	<b>No. of Posts</b>	<b>% of amount payable to Leader of the Council</b>
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.

<b>Council's Leader, Civic Head and Senior Councillors</b>	<b>Salary, Fees and Allowances £</b>	<b>Taxable Expenses £</b>	<b>Non-Cash Expenses / Benefits-in-kind £</b>	<b>Total Remun. 2018/19 £</b>	<b>Total Remun. 2017/18 £</b>
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
<b>Conveners</b>					
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
<b>Vice-Conveners</b>					
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) (full year equivalent)	21,107 25,493	0	113	21,221	23,596
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
<b>Locality Committee Conveners</b>					
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

	Salary, Fees and Allowances £	Taxable Expenses £	Non-Cash Expenses / Benefits- -in-kind £	Total Remun. 2018/19 £	Total Remun. 2017/18 £
<b>Council's Leader, Civic Head and Senior Councillors</b>					
<u>Opposition Group Leaders</u>					
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
<u>Councillors</u>					
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 £
<b>Salaries</b>	1,380,111	1,330,242
<b>Expenses</b>		
<i>Claimed by councillors</i>	742	950
<i>Paid directly by the Council</i>	46,733	40,371

# REMUNERATION REPORT

## Remuneration Paid - continued

### Remuneration paid to Senior Officers

	Salary, Fees and Allowances £	Compensation for Loss of Office £	Total Remun. 2018/19 £	Total Remun. 2017/18 £
<b>Council's Senior Officers</b>				
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 ( <i>from 01.05.18</i> ) ( <i>full year equivalent</i> )	68,929	0	68,929 75,995	n/a
R. McCulloch-Graham, Integration Joint Board Chief Officer ( <i>to 05.09.17</i> )	n/a	n/a	0	68,667
M. Miller, Interim Integration Joint Board Chief Officer ( <i>to 30.06.18</i> ) ( <i>full year equivalent</i> )	37,977	0	37,977 150,390	87,086
P. Lawrence, Executive Director of Place	150,390	0	150,390	150,390
J. Irvine, Chief Social Work Officer ( <i>from 30.07.18</i> ) ( <i>full year equivalent</i> )	69,407	0	69,407 103,278	n/a
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
<b>Total</b>	<b>903,671</b>	<b>0</b>	<b>903,671</b>	<b>855,123</b>

#### 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.

	Salary, Fees and Allowances £	Bonus £	Other Benefits £	Total Remun. 2018/19 £	Total Remun. 2017/18 £
<b>Council's Subsidiary Companies</b>					
E. Adair, Operations and Finance Director, EDI Group (to 30.06.18) (full year equivalent)	55,546	0	84,050	139,596	106,659
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
<u>Transport for Edinburgh</u>					
G. Lowder, Chief Executive	144,281	0	0	144,281	141,800
<u>Lothian Buses Ltd.</u>					
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
<u>Edinburgh Trams Ltd.</u>					
L. Harrison, General Manager	109,962	18,000	0	127,962	111,229
	<u>815,191</u>	<u>93,815</u>	<u>84,571</u>	<u>993,577</u>	<u>952,756</u>

### Notes:

- 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
			<b>Total No. of Employees</b>	<b>483</b>	<b>472</b>

#### Exit Packages

The number of exit packages provided for by the Council and the Group during the year, together with the total cost of those packages is shown in the table below. The total cost shown includes pension strain costs and the capitalised value of compensatory added years payments.

Exit package cost band	Number of Compulsory Redundancies		Number of Other Departures Agreed		Total Number of Exit Packages by Cost Band		Total Cost of Exit Packages in Each Band	
	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
	<u>0</u>	<u>0</u>	<u>60</u>	<u>109</u>	<u>60</u>	<u>109</u>	<u>2,437</u>	<u>3,256</u>

# 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:

<b>Whole Time Pay</b>	<b>Contribution rate</b>
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
<u>Council's Leader and Civic Head</u>					
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
<u>Conveners</u>					
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
<u>Vice-Conveners</u>					
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

# REMUNERATION REPORT

## Pension Benefits - continued

## Pension Rights - continued

## Council's Leader, Civic Head and Senior Councillors

	In-year pension contribs.		Accrued Pension Benefits		
	For year to 31.03.2019 £	For year to 31.03.2018 £		As at 31.03.2019 £000	Difference from 31.03.2018 £000
<u>Locality Committee Conveners</u>					
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 <i>(to 09.02.18)</i>	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
<u>Opposition Group Leaders</u>					
I. Whyte, Conservative Group Leader	5,280	4,792	Pension	6	1
			Lump Sum	2	0
S. Burgess, Green Group Leader <i>(to 23.11.2017)</i>	n/a	4,533	Pension	n/a	n/a
			Lump Sum	n/a	n/a
M. Campbell, Green Group Leader <i>(from 29.06.18 to 29.12.18)</i>	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
<u>Councillors</u>					
D. Key <i>(including role as Convener of Lothian Valuation Joint Board)</i>	4,631	4,304	Pension	3	1
			Lump Sum	0	0
<u>Former Conveners/Vice Conveners</u>					
G. Barrie, Convener Housing and Economy <i>(to 15.03.2018)</i>	n/a	6,362	Pension	n/a	n/a
			Lump Sum	n/a	n/a
R. Lewis, Convener of Culture and Communities <i>(to 04.05.2017)</i>	n/a	651	Pension	n/a	n/a
			Lump Sum	n/a	n/a
M. Bridgman, Convener Regulatory <i>(to 04.05.2017)</i>	n/a	641	Pension	n/a	n/a
			Lump Sum	n/a	n/a
L. Hinds, Convener Transport and Environment <i>(to 04.05.2017)</i>	n/a	641	Pension	n/a	n/a
			Lump Sum	n/a	n/a
E. Milligan, Convener Licensing Board <i>(to 04.05.17)</i>	n/a	592	Pension	n/a	n/a
			Lump Sum	n/a	n/a
W. Henderson, Convener Police and Fire Scrutiny <i>(to 04.05.2017)</i>	n/a	395	Pension	n/a	n/a
			Lump Sum	n/a	n/a
G. Munro, Vice Convener Housing and Economy <i>(to 04.05.17)</i>	n/a	3,720	Pension	n/a	n/a
			Lump Sum	n/a	n/a
I. Campbell, Vice Convener of Culture and Communities <i>(to 15.03.18)</i>	n/a	4,673	Pension	n/a	n/a
			Lump Sum	n/a	n/a
N. Austin-Hart, Vice Convener of Culture and Communities <i>(to 04.05.17)</i>	n/a	444	Pension	n/a	n/a
			Lump Sum	n/a	n/a
A. Blacklock, Vice Convener Regulatory <i>(to 04.05.17)</i>	n/a	444	Pension	n/a	n/a
			Lump Sum	n/a	n/a
A. Lunn, A. Lunn, Vice Convener Planning <i>(to 04.05.17)</i>	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.

# REMUNERATION REPORT

## 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 ( <i>from 01.05.18</i> )	30,053	n/a	Pension	n/a	n/a
			Lump Sum	n/a	n/a
R. McCulloch-Graham, Integration Joint Board Chief Officer ( <i>to 05.09.17</i> )	n/a	6,545	Pension	n/a	n/a
			Lump Sum	n/a	n/a
M. Miller, Interim Integration Joint Board Chief Officer ( <i>to 30.06.18</i> )	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 ( <i>from 30.07.18</i> )	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	<u>175,436</u>	<u>183,371</u>			

### 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.



# REMUNERATION REPORT

## 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 ( <i>until 31.01.17</i> )	n/a	3,109	Pension	n/a	n/a
			Lump Sum	n/a	n/a
N. Strachan, Finance Director ( <i>until 31.01.17</i> )	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	<u>87,914</u>	<u>82,072</u>			

EDI Group and EICC are subsidiary companies of CEC Holdings Limited. Figures shown for these companies, Edinburgh Trams Ltd. and Lothian Buses Ltd. are for the year ended 31 December 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

27 September 2019

CAMMY DAY  
Depute Council Leader

27 September 2019

ELEANOR BIRD  
Leader of the SNP Group

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](http://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

## Governance, Risk and Best Value Committee

10.00am, Tuesday, 17 September 2019

### External audit review of internal financial controls, 2018/19

Executive/routine  
Wards  
Council Commitments

#### 1. Recommendations

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- 1.1 Members of the Governance, Risk and Best Value Committee are requested to note:
  - 1.1.1 the findings of the 2018/19 external review on the effectiveness of the Council's internal controls; and
  - 1.1.2 that a further update on progress in implementation of the improvement actions contained within the report will be provided to the Committee in January 2020.

**Stephen S Moir**

Executive Director of Resources

Contact: Hugh Dunn, Head of Finance

E-mail: [hugh.dunn@edinburgh.gov.uk](mailto:hugh.dunn@edinburgh.gov.uk) | Tel: 0131 469 3150

# Report

## External audit review of internal financial controls, 2018/19

### 2. Executive Summary

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- 2.1 As an integral part of the annual audit cycle, the external auditor requires to assess the effectiveness of the Council's internal control framework in preventing material misstatement within its financial statements. This process involves documentation of the Council's key financial systems and the principal controls within these and then sample-testing their effectiveness.
- 2.2 This report presents the main findings of the 2018/19 review, concluding that, while opportunities for further improvement exist and that there is a need, in some cases, to embed previous recommendations, the controls assessed are considered to be well-designed.

### 3. Background

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- 3.1 Section 95 of the Local Government (Scotland) Act 1973 requires local authorities to make arrangements for the proper administration of their financial affairs and to designate an officer to have responsibility for these arrangements. The Head of Finance is the appointed Section 95 Officer for the Council and therefore has overarching responsibility to maintain a sound system of internal control.
- 3.2 As an integral part of the annual audit cycle, the external auditor requires to assess the effectiveness of the Council's internal control framework in preventing material misstatement within its financial statements. This involves documentation of the Council's key financial systems and the principal controls within these and then sample-testing their effectiveness.

### 4. Main report

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- 4.1 The majority of the fieldwork and financial systems testing was undertaken between March and June 2019. The key areas examined are set out on page 4 of the report.

- 4.2 For those systems falling within the scope of testing, Scott-Moncrieff's conclusion is that these controls form part of a key control framework that is well-designed, with no significant deficiencies in their design, implementation or operation.
- 4.3 One new opportunity for improvement with regard to developing procedural documentation for sundry income invoice-raising processes has nonetheless been identified as shown on page 7 of the report, alongside the Council's response and an indication of the corresponding timescale within which actions to address the finding will be undertaken.
- 4.4 There is also, however, a need to embed and evidence effectively implementation of some previous audit recommendations and this will be a focus of particular attention and monitored alongside the complementary action plan developed in respect of the newly-identified recommendation.
- 4.5 A progress update will be provided to the Committee in January 2020, by which time it is anticipated that the majority of recommendations will have been fully implemented.
- 4.6 Members of the Committee will be aware of other on-going, complementary work focused upon further strengthening aspects of the Council's internal framework. Internal audit and risk management arrangements continue to identify areas for improvement and arrangements are in place to monitor implementation of identified actions and lessons learned Council-wide.

## **5. Next Steps**

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- 5.1 As noted above, an action plan has been developed to address the recommendations outlined in the report and a progress update will be reported to the Governance, Risk and Best Value Committee in January 2020.

## **6. Financial impact**

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- 6.1 While there is no specific direct financial impact resulting from the report's contents, enhancements to the effectiveness of the Council's systems of internal control form an essential part of improved governance arrangements.

## **7. Stakeholder/Community Impact**

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- 7.1 Improvements to the internal control framework form an integral part of strengthening the wider governance arrangements within the Council.

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

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- 8.1 [External Audit Plan 2018/19](#), Governance, Risk and Best Value Committee, 19 March 2019

## **9. Appendices**

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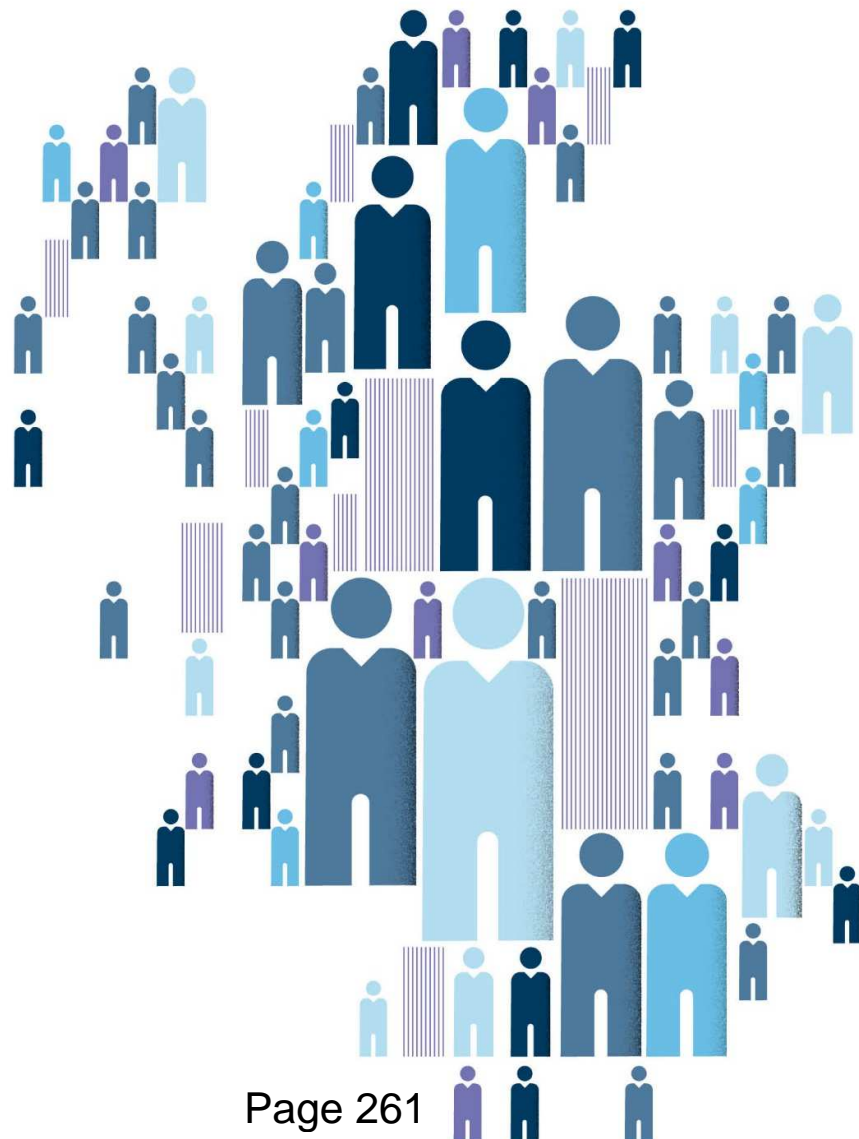
Appendix 1 – City of Edinburgh Council Review of Internal Controls, 2018/19



# City of Edinburgh Council

Review of internal financial  
controls for the year ended 31  
March 2019

September 2019





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# 1. Introduction

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## Introduction

1. This report concludes our 2018/19 audit of the council's key financial systems and internal financial controls.

9. As required under the Code of Audit Practice, this report will be published on Audit Scotland's website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

## Scope of our audit

2. Auditors are required to carry out the audit of financial statements in accordance with International Standards on Auditing (UK) (ISAs (UK)). To comply with the requirements of the ISAs (UK) we consider the council's key accounting systems and internal financial controls and determine whether these are designed and operate in such a way as to prevent material misstatements in the financial statements.
3. 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.

## Feedback

10. We always welcome feedback on the quality of our audit work and associated outputs. Please access the following link to provide comments:  
<https://www.surveymonkey.co.uk/r/S2SPZBX>
11. We would like to thank management and staff who have been involved in our work for their co-operation and assistance during our audit visits

## Reporting to those charged with governance

4. Audited bodies are responsible for developing and implementing effective systems of internal control as well as financial, operational and compliance controls.
5. ISAs (UK) require us to report promptly any material weaknesses in the design or operation of internal financial controls which have come to our attention.
6. A material weakness in internal control is a deficiency which could adversely affect the council's ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.
7. This report has been prepared to communicate the findings of our audit to those charged with governance. We have agreed with the council that these communications will be through the Governance Risk and Best Value Committee.
8. Any weaknesses or risks identified are only those that have come to our attention during our normal audit work and may not be all that exist. Communication in this report of matters arising from the audit or of risks or weaknesses does not absolve the council of its responsibility to address the issues raised and to maintain an adequate system of control.



## 2. Summary of findings

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## Summary of findings

12. We are pleased to report that our audit work did not identify any significant deficiencies in the design, implementation or operation of internal financial controls over the council's key financial systems. We consider these systems to be well designed. However, we identified areas with scope for improvement which, if addressed, would further strengthen the system of internal financial control. Our findings and recommendations are included in section 3 (Action plan).

13. As part of our audit we have considered progress made by the council in implementing the recommendations raised in our 2017/18 and 2016/17 reports on: "Review of the council's internal financial controls". We found four

recommendations are not fully implemented or remain outstanding.

### Key financial systems

14. Through the course of our audit we identify what we consider to be the council's key financial systems. For each key financial system our approach includes documenting the processes and key internal financial controls and performing walkthrough testing to confirm our understanding.

15. The table below provides an overview of the key financial systems which we have considered during the course of our 2018/19 audit of the financial statements.

Key financial area	Audit work completed	Audit conclusion <sup>1</sup>
<b>Council tax</b>	✓	We did not identify any significant deficiencies in the design, implementation or operation of internal financial controls.
<b>Cash receipting and banking</b>	✓	We did not identify any significant deficiencies in the design, implementation or operation of internal financial controls.
<b>Financial ledger</b>	✓	We did not identify any significant deficiencies in the design, implementation or operation of internal financial controls.
<b>Housing rents</b>	✓	We did not identify any significant deficiencies in the design, implementation or operation of internal financial controls.
<b>Non domestic rates</b>	✓	We did not identify any significant deficiencies in the design, implementation or operation of internal financial controls.
<b>Payroll</b>	✓	We did not identify any significant deficiencies in the design, implementation or operation of internal financial controls.
<b>PPE</b>	✓	We did not identify any significant deficiencies in the design, implementation or operation of internal financial controls.
<b>Revenue expenditure</b>	✓	We did not identify any significant deficiencies in the design, implementation or operation of internal financial controls.
<b>Sundry Income</b>	✓	We did not identify any significant deficiencies in the design, implementation or operation of internal financial controls. We did however identify one area for improvement.
<b>Action plan point 1</b>		
<b>Treasury management</b>	✓	We did not identify any significant deficiencies in the design, implementation or operation of internal financial controls.

<sup>1</sup> Our conclusions over the adequacy of the design, implementation and operation of key financial controls are based on the understanding that the system of wider complementary controls in place throughout the council is well designed and operating effectively. We have not assessed the adequacy of these controls.



# 3. Action plan

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## Action plan

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

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

### Action plan grading structure

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

The rating structure is summarised as follows:

Rating	Assessment rationale
<b>Critical</b>	<p>A finding that could have a:</p> <ul style="list-style-type: none"> <li>• <b>Critical</b> impact on operational performance; or</li> <li>• <b>Critical</b> monetary or financial statement impact; or</li> <li>• <b>Critical</b> breach in laws and regulations that could result in material fines or consequences; or</li> <li>• <b>Critical</b> impact on the reputation or brand of the organisation which could threaten its future viability.</li> </ul>
<b>High</b>	<p>A finding that could have a:</p> <ul style="list-style-type: none"> <li>• <b>Significant</b> impact on operational performance; or</li> <li>• <b>Significant</b> monetary or financial statement impact; or</li> <li>• <b>Significant</b> breach in laws and regulations resulting in significant fines and consequences; or</li> <li>• <b>Significant</b> impact on the reputation or brand of the organisation.</li> </ul>
<b>Medium</b>	<p>A finding that could have a:</p> <ul style="list-style-type: none"> <li>• <b>Moderate</b> impact on operational performance; or</li> <li>• <b>Moderate</b> monetary or financial statement impact; or</li> <li>• <b>Moderate</b> breach in laws and regulations resulting in fines and consequences; or</li> <li>• <b>Moderate</b> impact on the reputation or brand of the organisation.</li> </ul>
<b>Low</b>	<p>A finding that could have a:</p> <ul style="list-style-type: none"> <li>• <b>Minor</b> impact on the organisation's operational performance; or</li> <li>• <b>Minor</b> monetary or financial statement impact; or</li> <li>• <b>Minor</b> breach in laws and regulations with limited consequences; or</li> <li>• <b>Minor</b> impact on the reputation of the organisation.</li> </ul>
<b>Advisory</b>	<ul style="list-style-type: none"> <li>• A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.</li> </ul>





## Review of internal financial controls 2018/19

During our 2018/19 review of internal financial controls we identified one area in which improvement could be made. Details of the issue identified, the associated risk to the council and our audit recommendation are given below.

Action plan point	Issue & recommendation	Management comments
<p>1. Sundry income – policies and procedures</p> <p>Rating</p> <p><b>Medium</b></p>	<p>The council has standing orders and financial regulations in place which cover income, and there is the Corporate Debt Policy which covers sundry debt. We have not however been able to identify any policies or procedures which cover the specific processes in place around revenue from other areas such as sales to external customers or grant income.</p> <p>At the council, responsibility for raising and processing invoices and grant claims has been delegated to individual departments and service areas. As there is no central billing team, the process in place over sundry income varies between departments. In gaining understanding of the system, we have identified that controls which are in place in one department may not be in place in others. For example, invoices raised at the council are not consistently reviewed and authorised prior to being raised on the PPSL system.</p> <p>There is a risk that there is not a consistent process in place for raising invoices or grant claims due to a lack of policy or procedure over sundry income. This could result in financial or reputational harm to the council.</p> <p><b>Recommendation</b></p> <p>The council should develop and circulate policies or procedures which cover the processes in place over raising invoices and grant claims. These policies and procedures should include an appropriate review and authorisation process.</p>	<p>As an interim measure, a user note will be sent to all PPSL users. The content of this note will be reviewed by the Customer Manager on an at-least annual basis.</p> <p>As part of the Customer and Digital Services' improvement programme, which includes a replacement for the current system, there are plans for a centralised billing team to be in place in 2020/21. This will support consistent and efficient practice.</p> <p><b>Responsible Officer:</b> Customer Manager – Transactions</p> <p><b>Implementation Date:</b> September 2019 (note), June 2020 (centralised billing team)</p>



## Follow up of prior year recommendations

As part of our audit we have followed up on the recommendation raised through our 2016/17 review of internal financial controls in 2016/17 and 2017/18. As noted below, six recommendations have been implemented in 2018/19 and four recommendations are in progress of being implemented or remain outstanding.

### 1. Payroll starter file review

Initial rating	Issue & recommendation	Management comments
Medium	<p>Following internal audit recommendations on the new starters' process, management committed to performing spot checks on new starter files.</p> <p>During our interim review carried out between March and April 2018, we were unable to evidence that this control was operational. Further testing was carried out in August 2018 which confirmed that these checks are now being performed on a monthly basis.</p> <p>There is a risk that errors in the creation of a new starter file are not being identified and acted upon accordingly.</p> <p><b>Recommendation</b></p> <p>Spot checks on new starter files should continue to be performed and documented.</p>	<p>Post payroll running we can evidence that new start onboarding files are sample-checked against iTrent to ensure data quality is maintained. Errors are logged, feedback is given and additional training/advice carried out as a result of findings. A pre-payroll running check was also introduced on specific input that generates payment to employees to reduce error rates that contributed to manual payments or overpayments.</p> <p>Different processes exist for supply and probationer starters. These employees can start in various ways and as such they may not have a nominated candidate form from source.</p> <p>Since the audit in March/April 2018, we have improved system processes and also our internal checks are stricter.</p> <p><b>Responsible Officer:</b> People Support Manager</p> <p><b>Completion Date:</b> Completed</p>
Current status	Audit update	Management response
In progress	<p>We understand from our current year audit that monthly sample reviews are undertaken on new start files. However, we were unable to review documentation to confirm that this control is being performed.</p> <p>We recommend that spot checks on new start files should be formally documented.</p>	<p>Since the audit in 2018, HR/Payroll processes have changed significantly from paper-based transactions to on-line CRM (paperless) transactions. There is greater visibility of all our transactions including on-boarding (new starts). We are examining our reporting requirements for payroll with a new audit pack available from Midland HR (i-Trent).</p> <p>A review of our current audit checks is now underway and in development and the final controls will include new starter validation and control checks.</p> <p><b>Responsible Officer:</b> Employee Life Cycle Lead Consultant, Human Resources</p> <p><b>Completion Date:</b> December 2019</p>



## 2. Property plant and equipment procedures

Initial rating	Issue & recommendation	Management comments
Medium	<p>During our review we noted that there were no documented procedures in place over the following;</p> <ul style="list-style-type: none"> <li>• Processing of additions and disposals;</li> <li>• Posting of year end capital journals;</li> <li>• Preparing and posting monthly depreciation charges;</li> <li>• Revaluations;</li> <li>• Review of capitalised refurbishment costs</li> </ul> <p>There is a risk that procedures followed for each of these processes are not in line with requirements or fit for purpose.</p> <p>In particular we noted through discussion with a number of teams within the Council that the procedures followed for the processing and recording of disposals are inconsistent in a number of cases. There is therefore the additional risk that the Council is unaware of assets which have been disposed of in the year. This could lead to inaccurate year end validation returns and potential overstatement of property, plant and equipment within the annual accounts.</p> <p>The Council should ensure that procedures are documented for areas noted above. Sufficient oversight should also be put in place to ensure that these are consistently applied by all staff.</p>	<p>Formal procedure notes in each of the areas identified will be produced as part of a wider refresh of all relevant documentation. These notes will be developed in consultation with the services affected, with training provided where required, and their on-going applicability regularly reviewed.</p> <p><b>Responsible Officer:</b> Senior Accountant, Capital and Major Projects Team, Finance</p> <p><b>Completion Date:</b> February 2019</p>
Current status	Audit update	Management response
In progress	<p>We understand that work continues to implement this recommendation. A detailed handbook for the valuation of property assets has been developed. However, there is no formal procedure notes for the financial accounting for fixed assets.</p>	<p>While, as noted, significant progress has been made in this general area, formal procedure notes in each of the specific areas identified remain to be produced. These notes will be developed in consultation with the services affected, with training provided where required, and their on-going applicability regularly reviewed.</p> <p><b>Responsible Officer:</b> Senior Accountant, Capital and Major Projects Team, Finance</p> <p><b>Completion Date:</b> February 2020</p>



### 3. Property plant and equipment – access rights to fixed asset register

Initial rating	Issue & recommendation	Management comments
Medium	<p>Fixed Asset Registers (FARs) are stored on the Council network; however the FARs and/or folders in which they are saved are not password protected. There is a risk that FARs are exposed to potentially unauthorised and/or inappropriate manipulation of asset data.</p> <p><b>Recommendation</b></p> <p>We recommend that FARs are password protected to mitigate the risk of unauthorised and/or inappropriate manipulation of data.</p>	<p>The majority of registers (by value) are already password-protected but those that are not will have these applied going forward.</p> <p><b>Responsible Officer:</b> Senior Accountant, Capital and Major Projects Team, Finance</p> <p><b>Completion Date:</b> September 2018</p>
Current status	Audit update	Management response
Complete	<p>A password protocol has been implemented for the Fixed Asset Registers which were held on spreadsheet:</p> <ul style="list-style-type: none"> <li>• HRA dwellings;</li> <li>• Vehicles, plant and equipment</li> <li>• Infrastructure; and</li> <li>• Intangible assets.</li> </ul> <p>The security settings on the files are read only access with a password required to make any changes. This protocol has been shared appropriately.</p>	N/A



#### 4. Revenue expenditure – Swift system health and social care expenditure

Initial rating	Issue & recommendation	Management comments
<b>Medium</b>	<p>The Swift system is used to make payments to care homes and foster carers. Through our review of this system, we noted that there is no formal scheme of delegation in place for the authorisation of payment requests made to the Swift (H&amp;SC) system.</p> <p>There is a risk that suppliers are added to the system who are not authorised for payment.</p> <p><b>Recommendation</b></p> <p>A scheme of delegation or similar should be put in place that allows finance to be able to confirm the identity of the social worker and payment values which they are able to authorise.</p>	<p>The Social Care Finance (SCF) team rejects payment requests which are not authorised.</p> <p>A list of recognised approvers/values will be confirmed with sector teams (Customer to progress).</p> <p>The Business Support Team will maintain changes to the list (leavers and movers) and the SCF team (Customer) will support a yearly review.</p> <p><b>Responsible Officer:</b> SCF Team Manager</p> <p><b>Completion Date:</b> October 2018</p>
Current status	Audit update	Management response
<b>Complete</b>	<p>From our current year audit we understand that the Financial Assessments and Payments team are aware of the officers who can authorise and approve payments, which is supported by schemes of delegation.</p>	N/A



## 5. Revenue expenditure – Swift system health and social care expenditure

Initial rating	Issue & recommendation	Management comments
Medium	<p>There is no secondary review performed over client service and payment details that are manually entered into the Swift system.</p> <p>There is a risk that there is an error in the client commitment details entered onto Swift and that this leads to an inaccurate or invalid payment being made.</p> <p><b>Recommendation</b></p> <p>Periodic spot checks should be performed over all manually input data and prices.</p>	<p>Business Support staff process the invoices and another Business Support staff member will validate before completing.</p> <p>A sample checking regime will be implemented by the SCF team to give further assurance.</p> <p><b>Responsible Officer:</b> SCF Team Manager</p> <p><b>Completion Date:</b> October 2018</p>
Current status	Audit update	Management response
Complete	<p>The payments process has changed during 2018/19 and has moved away from the Business Support team. The payments are now made by the Banking and Payments team which provides the segregation of duties required by the recommendation. The invoices are processed following the payments team timescale and authorisation process and therefore this recommendation has been closed.</p>	N/A



## 6. Revenue expenditure – Swift system health and social care expenditure

Initial rating	Issue & recommendation	Management comments
Medium	<p>Invoices entered into Swift for payment are reconciled with the commitment details held in the system for each client and a variance report is produced. Following investigation of variances, the reason for amendments are entered into the system.</p> <p>No secondary review of variance reports is performed and therefore there is an increased risk of inappropriate or unauthorised payments being made.</p> <p><b>Recommendation</b></p> <p>We recommend that secondary review of variance reports is performed.</p>	<p>Liaison with the service takes place prior to release of payment - where there has been no appropriate verification, the invoice is rejected from the payment run until this is resolved. These payments remain on a suspended file until corrected and released by the Payments Team.</p> <p>Secondary review of the variance report was previously ceased but will be re-started via the Business Support team.</p> <p><b>Responsible Officer:</b> SCF Team Manager</p> <p><b>Completion Date:</b> October 2018</p>
Current status	Audit update	Management response
Complete	<p>The payments process has changed during 2018/19 and has moved away from the Business Support team. Within the Banking and Payments team, any invoices which do not match the amount on the contract are not processed by the team. They are placed in a query box for follow up with Business Support to confirm the amount which should be paid. Therefore, as there is an escalation process in place, this recommendation has been closed.</p>	N/A



## 7. Implementation of audit recommendations

Initial rating	Issue & recommendation	Management comments
<b>Medium</b>	<p>In order for our audit outputs to be of most benefit to the Council it is essential that audit recommendations agreed with management are implemented in accordance with set timescales. It is equally important that the implementation of the recommendations is sustained throughout the organisation and that all members of staff affected by any change in processes are made aware of the changes.</p> <p>Throughout our follow up of audit recommendations we have identified that in some cases actions are not continuing to be implemented or communicated with staff.</p> <p>There is an opportunity for the council to derive greater added value from the audit process through more robust implementation of actions.</p> <p>The Council should ensure that audit recommendations are implemented and continue to be applied throughout the service area/s to which they relate.</p>	<p>The importance of implementing, effectively embedding and sustaining all control improvements resulting from internal and external audit reviews is acknowledged.</p> <p>Given related recommendations with regard to internal audit actions, opportunities will be considered to consolidate monitoring of each set of actions through the recently-introduced "Team Central" system.</p> <p><b>Responsible Officer:</b> Head of Finance</p> <p><b>Completion Date:</b> December 2018</p>
Current status	Audit update	Management response
<b>In progress</b>	<p>From our follow-up of prior year recommendations, we have found: four recommendations remain outstanding and six have been completed.</p>	<p>While noting the extent of progress made since last year's review, further steps will be put in place to ensure that control improvements are implemented and able to be evidenced as such.</p> <p><b>Responsible Officer:</b> Head of Finance</p> <p><b>Completion Date:</b> December 2019</p>





## 8. Revenue expenditure – Tranman system

Initial rating	Issue & recommendation	Management comments
Medium	<p>During our review of the Tranman system, we noted that procedures for the ordering and receipting of goods and services have not been reviewed since 2009. On discussion with management this review has subsequently been undertaken and procedures updated.</p> <p>If relevant procedures are not in place or are not reviewed and updated on a timely basis there is a risk that some key controls are not observed.</p> <p><b>Recommendation</b></p> <p>The Council should ensure procedures cover all key aspects of the system. Documented procedures should be approved by the appropriate level, made accessible to all relevant staff and subject to regular review.</p>	<p><b>2016/17 Management Comment</b></p> <p>Tranman procedures for the ordering and receipting of goods and services have now been updated and will be reviewed annually.</p> <p><b>2017/18 Management Comment</b></p> <p>While the relevant procedures have been regularly reviewed to ensure their on-going appropriateness, this check has not been formally documented. Evidence of this annual review will therefore be maintained going forward.</p> <p><b>Responsible Officer:</b> Contracts Manager, Fleet and Workshops</p> <p><b>Completion Date:</b> October 2018</p>
Current status	Audit update	Management response
Outstanding	<p>We have been unable to confirm that policies and procedures are regularly reviewed to ensure they remain relevant and fit for purpose. We recommend that policies and procedures are subject to regular review and this review is formally documented.</p>	<p>While a review of policies and procedures in this area has been undertaken, the need to evidence this check has been noted and will be implemented with immediate effect.</p> <p><b>Responsible Officer:</b> Contracts Manager, Fleet and Workshops</p> <p><b>Completion Date:</b> December 2019</p>



## 9. Revenue expenditure – Oracle system

Initial rating	Issue & recommendation	Management comments
Medium	<p>During review of both the Oracle system we were unable to evidence that the following key control was in operation: review of the daily amendments report which details all amendments made including addition of new suppliers.</p> <p>As this control is not documented there is no audit trail in place to enable us, or any other interested party, to evidence their operation. There is a risk that these controls are not being adhered to.</p> <p><b>Recommendation</b></p> <p>The Council should ensure evidence is retained for all key controls in operation.</p>	<p><b>2016/17 Management Comment</b></p> <p>Controls will be documented as part of the development of the procedural documentation.</p> <p><b>2017/18 Management Comment</b></p> <p>Since the original audit was undertaken, a number of further control improvements have been introduced within the Oracle system. These controls enforce strict segregation of duties across the vendor set-up and amendment process and, alongside three-way matching, are considered to mitigate the original risk being highlighted.</p> <p>This said, in order to strengthen these controls further, evidence of the independent random check will be maintained within a password-protected file going forward.</p> <p><b>Responsible Officer:</b> Commercial Operations Team Manager, Finance</p> <p><b>Completion Date (for additional action):</b> September 2018</p>
Current status	Audit update	Management response
Complete	Control improvements to Oracle have been introduced since the initial audit recommendation. These controls include strict segregation of duties across the vendor set-up and amendment process and, alongside three-way matching. Independent random sampling of changes and creations of bank accounts in Oracle is also undertaken. These introduced controls mitigate against the original risk identified.	N/A



## 10. Non domestic rates

Initial rating	Issue & recommendation	Management comments
Low	<p>The Quality Assurance team performs spot checks on the reliefs/exemptions.</p> <p>NDR spot checks were scheduled to take place in January 2017. However, due to resource constraints, this work was not able to be performed. We understand spot checks will resume in 2017/18.</p> <p><b>Recommendation</b></p> <p>We recommend that the Council make arrangements for the spot checks to resume.</p>	<p><b>2016/17 Management Comment</b></p> <p>Spot checks are underway and will be concluded by November 2017. Activities are being scheduled within the business as usual plans for future years.</p> <p><b>2017/18 Management Comment</b></p> <p>Spot checks scheduled by Quality Assurance Team October 2018. Additional 25% sample for Mandatory Charitable Relief completed August 2018.</p> <p>Resource pressures prevented scheduled spot checking however as an interim measure random control checks were undertaken by the Fraud and Visiting Team for Reliefs and Exemptions during 2017/18. This ensured that reliefs were reviewed during this period.</p> <p><b>Responsible Officer:</b> Rating Manager</p> <p><b>Completion Date:</b> October 2018</p>
Current status	Audit update	Management response
Complete	<p>Spot checks have been carried out in the year by the quality assurance team. The checks have been carried out to the minimum required level for each staff member. Whilst the team is still short staffed, they have created a RAG system for the quality assurance process to ensure key processes are reviewed which have a monetary impact on the accounts. This has been completed in 2018/19 and continued into 2019/20.</p>	N/A



## Governance, Risk and Best Value Committee

10am, Tuesday 17 September 2019

### Capital Investment Programme – Outturn 2018/19 and Revised Budget 2019-24 (incorporating slippage)– referral from the Finance and Resources Committee

Executive/routine  
Wards  
Council Commitments

#### 1. For Decision/Action

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

**Andrew Kerr**

Chief Executive

Contact: Martin Scott, Committee Services

Email: [martin.scott@edinburgh.gov.uk](mailto:martin.scott@edinburgh.gov.uk) | Tel: 0131 529 4237

# Referral Report

## Capital Investment Programme – Outturn 2018/19 and Revised Budget 2019-24 (incorporating slippage)– referral from the Finance and Resources Committee

### 2. Terms of Referral

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- 2.1 On 15 August 2019 the Finance and Resources Committee considered a report by the Executive Director of Resources. This report presented the final outturn for the Council's capital programme for 2018/19, including details of capital receipts and slippage/acceleration experienced in projects within the programme. The report also set out a revised capital budget for the period 2019-24.
- 2.2 The Finance and Resources Committee agreed:
- 2.2.1 To note the 2018/19 unaudited capital outturn for the Council's general fund and housing revenue account (HRA).
  - 2.2.2 To approve the revised capital investment programme for the period 2019-24
  - 2.2.3 To refer the report to the Governance Risk and Best Value Committee as part of its work programme.

### 3. Background Reading/ External References

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Minute of the Finance and Resources Committee of 15 August 2019.

### 4. Appendices

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Appendix 1 – report by the Executive Director of Resources

# Finance and Resources Committee

10.00am, Thursday, 15 August 2019

## Capital Investment Programme – Outturn 2018/19 and Revised Budget 2019-24 (incorporating slippage)

Executive/routine Wards Council Commitments	All
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### 1. Recommendations

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- 1.1 To note the 2018/19 unaudited capital outturn for the Council's general fund and housing revenue account (HRA).
- 1.2 To approve the revised capital investment programme for the period 2019-24, as set out in Appendix 6.
- 1.3 To refer the report to the Governance Risk and Best Value Committee as part of its work programme.

**Stephen Moir**

Executive Director of Resources

Contact: Rebecca Andrew, Principal Accountant,

Finance Division, Resources Directorate

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## Capital Investment Programme – Outturn 2018/19 and Revised Budget 2019-24 (incorporating slippage)

### 2. Executive Summary

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- 2.1 In 2018/19 Council capital expenditure totalled £266.7m between its general fund and housing revenue account. It provided significant investment including £28.4m in the Council's learning estate, £27.7m in roads, pavements and transport infrastructure and over £100m in new and existing affordable housing. This expenditure was funded by capital receipts and contributions of £90.5m, government grant of £122.4m and loans fund advances of £53.9m.
- 2.2 This position represents slippage in expenditure of £60.7m against the revised budget for the year, which relates to general fund services. Slippage was experienced in the Early Years programme, lending to the NHT and Edinburgh Living LLPs and major bridge works. This was partially offset by acceleration in the programme of asset management works to improve the condition of Council properties.
- 2.3 Slippage from 2018/19 is rolled forward and added to the capital investment programme for the period 2019-24 to create the revised capital budget. In creating the revised budget, realignments have been made between financial years to reflect the most up to date cash flow projections available. The budget has also been adjusted to reflect new projects approved since the Council set its budget in February.

### 3. Background

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- 3.1 This report presents the final outturn for the Council's capital programme for 2018/19, including details of capital receipts and slippage/acceleration experienced in projects within the programme. It compares the final position with the revised capital budget and the forecast position at month 9. The analysis is based on the Council's unaudited accounts for the year.
- 3.2 The report also sets out a revised capital budget for the period 2019-24. This is based on the Council's capital investment programme approved by Council on 21



February 2019, adjusted for slippage from 2018/19, updated cash flow projections and projects approved since the budget meeting.

## 4. Main report

### Capital Outturn Summary 2018/19

- 4.1 In 2018/19 Council capital expenditure totalled £266.7m. This expenditure was funded by capital receipts and contributions of £90.5m, government grant of £122.4m and loans fund advances of £53.9m. A breakdown of this position is shown in Table 1 (below) with more detail provided in Appendices 1 and 2.

**Table 1: Capital Expenditure and Funding 2018-19**

	General fund £000	HRA £000	Total £000
Total Capital Expenditure	185,741	80,962	266,703
<i>Funded by</i>			
Capital Receipts and Contributions	35,079	55,393	90,472
Capital Grants	113,306	9,070	122,376
Loans Fund Advances	37,356	16,499	53,855
Total Funding	185,741	80,962	266,703

- 4.2 This level of capital expenditure represents significant investment in Council assets. Major investment included £28.4m in the Council's learning estate, £27.7m in roads, pavements and transport infrastructure and over £100m in new and existing affordable housing.

### Programme Slippage and Acceleration

- 4.3 The outturn position for the general fund, as set in Appendix 1, was £60.7m lower than budgeted. This slippage amounts to 24.6% of capital expenditure budget, compared to 9.4% experienced in 2017/18. Slippage in the delivery of capital projects can be because of various factors. In previous years, where slippage was identified prior to period 9, budgets were realigned to future years and slippage reported in the outturn report was reduced. In the interests of greater transparency, budgets have not been realigned for 2018/19 following the approval of the revised budget in August 2018.
- 4.4 Projects contributing to 2018/19 slippage include
- Early Years - £15.0m
  - National Housing Trust - £11.8m
  - Edinburgh Living - £10.1m

- North Bridge Refurbishment - £8.5m

- 4.5 The slippage in the Early Years programme is mainly due to a timing difference between Scottish Government grant income and the Council's programme for the delivery of the additional capital infrastructure. In addition, delays have arisen following procurement of new facilities as bidders' costs have been higher than anticipated, requiring the Council to reprioritise expenditure. While the Council is still on target to deliver additional hours before the statutory deadline, the delay in the completion of capital works is likely to lead to additional revenue costs for the Council and reduced flexibility for parents in the short-term.
- 4.6 In 2018/19 a record number of new affordable homes were approved for construction (1,626) and completed (1,271). During the year the Scottish Government increased funding for the Affordable Housing Supply Programme by £11.899 million (29%). HRA funding for the housebuilding programme increased by £8.682 million.
- 4.7 The slippage in the capital programme relates to short delays to the completion of 83 mid-market homes for National Housing Trust projects at Shrubhill and Western Harbour. These homes had been programmed to be delivered by the end of 2018/19. 48 of these homes were completed in May 2019 and the remaining 35 will be completed by August. A further 89 mid-market rent homes were due to be completed for Edinburgh Living by the end of 2018/19. 33 of these homes are now complete with the remaining 56 due to be completed by August 2019. As borrowing is not incurred until it is required on these projects there is no adverse financial impact from these short delays.
- 4.8 The original budget phasing for North Bridge was derived in the early stages of the project from high level programming. Following contract award in May 2018, a revised programme was agreed with the contractor allowing a more realistic estimate to be produced, but this was after the budget had been set. By period 9 the forecast was reduced to £5.6m, compared to a budget of £12.5m. Following this forecast, problems were experienced with the access scaffolding, which further reduced spend in 2018/19. The project management team are actively seeking implementation of mitigation measures to reduce the overall impact of this ongoing delay.
- 4.9 A detailed analysis of the slippage position for the general fund is set out in Appendix 3.
- 4.10 In March 2019, it was reported to Housing and Economy committee that the 2018/19 HRA Capital Programme was projecting slippage of around £4 million at year end. This was due to a major contractor going into administration in the final quarter of the year, as well as delays in some contract starts and gaining necessary agreement to progress improvement works in mixed tenure blocks. However, this slippage was offset by acceleration in the HRA house building programme and the overall HRA outturn was in line with budget. Further analysis of this position is provided in Appendix 4.

## **Capital receipts**

- 4.11 A total of £26.5m was generated from asset sales in 2018/19. The general fund total of £19.7m was in line with level budgeted. However, the level of HRA receipts was lower than anticipated due to delays in the transfer of completed homes to Edinburgh Living LLP.
- 4.12 A detailed list of capital receipts is shown in Appendix 5.

## **Revised Capital Budget 2019-24**

- 4.13 The Capital Investment Programme (CIP) for the general fund approved by Council in February 2019 was based on an interim budget which estimates for slippage and acceleration. The revised CIP for 2019-2024 has been adjusted to reflect actual levels of slippage and acceleration and is shown in Appendix 6.
- 4.14 The CIP has also been realigned and re-phased to ensure that individual project cash flows reflect the most up to date projections. Project managers have considered risks such as adverse weather or other uncontrollable factors that can impact on delivery and to build this into budgeted cash flows.
- 4.15 The revised CIP also reflects projects where funding has been approved following the Council's budget meeting. The most significant project being the Tram to Newhaven business case, which was approved by Council on 14 March 2019.
- 4.16 Members should note that where funding has not been approved or is uncertain, then projects are not included in the CIP. This includes the funding required to deliver the Council's Wave 4 schools programme as well as projects funded by capital receipts, grants or contributions which are yet to be secured.
- 4.17 As there was negligible net overspend in the HRA position, there have been no revisions to the HRA budget approved by Council in February 2019.

## **5. Next Steps**

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- 5.1 This report will be referred to Governance, Risk and Best Value committee to consider as part of its programme of work.
- 5.2 Further reports will be presented to Finance and Resource committee at months 5, 9 and 12 monitoring financial performance against the revised capital budget.

## **6. Financial impact**

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- 6.1 In 2018/19 general fund capital expenditure amounted to £185.7m. This was offset by income of £148.3m, leaving £37.4m to be funded from loans fund advances. This level of borrowing was £38.8m less than budgeted.
- 6.2 Over the same period HRA capital expenditure amounted to £81.0m. This was offset by income of £64.5m, leaving £16.5m to be funded from loans fund advances. This level of borrowing was £5.9m less than budgeted.

## **7. Stakeholder/Community Impact**

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- 7.1 Consultation on the capital budget was undertaken as part of the Council's budget setting process.
- 7.2 The stakeholder and community impact of individual projects within the Council's capital programme is considered as part of the business cases for those projects.

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

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- 8.1 [Capital Monitoring 2017/18 – Outturn and Receipts](#) (Details revised Capital Investment Programme for 2018/23)
- 8.2 [Capital Monitoring 2018/19 – Month Nine](#)
- 8.3 [Capital Investment Programme 2019-20 to 2023-24](#)
- 8.4 [Housing Revenue Account Budget Strategy 2019-24](#)
- 8.5 [Coalition Budget Motion](#)
- 8.6 [Housing Revenue Account Capital Programme 19/20](#)
- 8.7 [Edinburgh Tram – York Place to Newhaven Final Business Case](#)

## **9. Appendices**

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- Appendix 1 – General Fund Summary – Outturn Position – Unaudited
- Appendix 2 – Housing Revenue Account Summary – Outturn Position – Unaudited
- Appendix 3 – Slippage and Acceleration on General Fund Projects
- Appendix 4 – Slippage and Acceleration on HRA Projects
- Appendix 5 – Asset Sales 2018/19
- Appendix 6 – Revised Capital Investment Programme (General Fund)

## Appendix 1 - Capital Monitoring 2018/19

## General Fund Summary

## Outturn Position - Unaudited

Expenditure	Revised Budget at Period 9	Adjustments	Revised Budget	Outturn 2018/19	Variance	
	£000	£000	£000	£000	£000	%
Communities and Families	51,662	(2,747)	48,915	28,431	(20,484)	-42%
Edinburgh IJB	16	0	16	138	122	758%
Place	116,440	9,566	126,006	109,572	(16,434)	-13%
Resources - Asset Management Works	17,579	444	18,023	21,770	3,747	21%
Resources - Other	8,018	394	8,412	2,652	(5,760)	-68%
Other Operations	-	-	-	26	26	n/a
Lending	45,078	-	45,078	23,152	(21,926)	-49%
<b>Total Expenditure</b>	<b>238,793</b>	<b>7,657</b>	<b>246,450</b>	<b>185,741</b>	<b>(60,709)</b>	<b>-25%</b>

## Income

<i>Capital Receipts</i>						
General Services	11,715	2,224	13,939	14,278	339	2%
Ringfenced Asset Sales	6,661	39	6,700	6,227	(473)	-7%
Less fees relating to receipts		85	85	(71)	(156)	-184%
Less: additional receipt income to capital fund	(809)	-	(809)	(775)	34	-4%
<i>Available Capital Receipts from Asset Sales</i>	<i>17,567</i>	<i>2,348</i>	<i>19,915</i>	<i>19,659</i>	<i>(256)</i>	<i>-1%</i>
Add: drawdown from Capital Fund	14,782	-	14,782	7,482	(7,300)	-49%
Developer and other Contributions	7,007	17,467	24,474	23,975	(499)	-2%
Less: set aside in temporary investments	-	(15,996)	(15,996)	(16,037)	(41)	0%
<b>Total Capital Receipts and Contributions</b>	<b>39,356</b>	<b>3,819</b>	<b>43,175</b>	<b>35,079</b>	<b>(8,096)</b>	<b>-19%</b>
<i>Capital Grants</i>						
Scottish Government General Capital Grant	49,405	-	49,405	49,405	-	0%
Cycling, Walking and Safer Streets	691	-	691	691	-	0%
Management Development Funding	49,269	3,895	53,164	52,874	(290)	-1%
Early Years and Childcare - Expansion	12,400	-	12,400	12,400	-	0%
Other Capital Grants	765	6,933	7,698	8,924	1,226	16%
Capital Grants Unapplied Account drawdown	3,542	-	3,785	1,351	(2,434)	-64%
Less: Capital Grants Unapplied carried forward	-	-	-	(12,339)	(12,339)	n/a
<b>Total Grants</b>	<b>116,072</b>	<b>10,828</b>	<b>127,143</b>	<b>113,306</b>	<b>(13,837)</b>	<b>-11%</b>
<b>Total Income</b>	<b>155,428</b>	<b>14,647</b>	<b>170,318</b>	<b>148,385</b>	<b>(21,933)</b>	<b>-13%</b>

<b>Balance to be funded through Loans Fund Advance</b>	<b>83,365</b>	<b>(6,990)</b>	<b>76,132</b>	<b>37,356</b>	<b>(38,777)</b>	<b>-51%</b>
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**Appendix 2 - CAPITAL MONITORING 2018/19****Housing Revenue Account Summary****Outturn Position - Unaudited**

	Revised Budget £000	Outturn £000	Variance	
			£000	%
Gross Expenditure	80,934	80,962	28	0%
Total Gross Expenditure	80,934	80,962	28	0%

<b>Income</b>				
Capital Receipts	19,431	6,875	-12,556	-65%
Developers and Other Contributions	27,740	48,518	15,718	100%
Specific Capital Grant	11,349	9,070	-2,279	-20%
Total Income	58,520	64,463	883	2%

<b>Loans Fund Advances</b>				
Loans Fund Advances	22,414	16,499	-5,915	-26%
Total	22,414	16,499	-5,915	-26%

**Appendix 3****Slippage and Acceleration on General Fund Projects**

Slippage on projects is shown as a negative value, while acceleration, overspends and reprofiles to future years are shown as positive values.

**Key to variance category**

Type	Explanation
1. Slippage due to unforeseen delays	Slippage that has occurred due to unforeseen circumstances or delays that for the most part, are out with the Council's control.
2. Slippage due to optimistic budget	Slippage that has occurred due to optimism bias when budget was set. Issues include projecting spend on block budgets when a programme of works has not been considered or designed, not applying a discount factor for adverse weather / risk issues, providing for too much contingency and predicting an optimistic works timetable.
3. Slippage due to timing of payments	Slippage that has occurred where a project is on time and schedule but is as a result of the timing of cash flows.
4. Acceleration on a project	Represents accelerated spend on a project i.e. due to better than anticipated progress.
5. Projected Underspend on a project	Projects where the final outturn is expected to be below budget.
6. Budget reprofiled into future years	Budget reprofiled to future years post period 9

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

	Outturn £000	Period 9 £000	Movement between periods £000	Explanations for Significant Slippage / Acceleration	Variance Category
<b><u>Communities and Families</u></b>					
Early years 2020	-14,978	-11,297	-3,681	Delays resulting from the late announcement of complete funding package as well as procurement issues	3
Wave 3 Schools	-3,323	-3,222	-101	Slippage relates to delays due to flood risk assessment at St Crispins and unused contingency	1
Boroughmuir High School	-1,316	0	-1,316	School complete, slippage relates to timing of payments	3
Portobello Park	-997		-997	Expected completion autumn 2019	1
Hunters Hall	-947	-955	8	Full scope and funding package for the project is under development	2
Meadowbank Sports Centre	-642	-1,000	358	Tender profile different from original budget phasing	1
New Queensferry High School	877	-1,848	2,725	Timing differences, budget available in 19/20	4
Net (slippage) / acceleration on various projects	842	-1,562	2,404	Various movements over a number of projects	4
<b>Total Communities and Families</b>	<b>-20,484</b>	<b>-19,884</b>	<b>-600</b>		
<b><u>Edinburgh Integrated Joint Board</u></b>					
Net (slippage) / acceleration on various projects	122	166	-44	Acceleration	4
<b>Total Edinburgh Integrated Joint Board</b>	<b>122</b>	<b>166</b>	<b>-44</b>		

	Outturn £000	Period 9 £000	Movement between periods £000	Explanations for Significant Slippage / Acceleration	Variance Category
<b>Place</b>					
Northbridge major refurbishment	-8,530	-6,932	-1,598	Original profile figure based on an early high level programme, later spend affected by problems with access scaffolding	6
Energy Efficient Street Lighting	-1,752	-660	-1,092	Delays in receipt of new lanterns	1
Burnshot Bridge	-1,314	-467	-847	Tender delayed	2
Water of Leith Phase 2	-723	-1,044	321	Project complete - slippage reflects the remainder of project budget	5
Walking project block	-610	-475	-135	Programme realigned mid-year	2
	-604	-599	-5	Projects uncovered issues so caused delays/ Emergency revenue works	1
Bridge Strengthening/Replacement				diverted staff off capital projects	
	-515	-512	-3	Delay due to route assessment works. Construction not likely until summer 2020	1
Salvesen Steps					
Cycle projects	-511	1,035	-1,546	Programme realigned mid-year	2
Kings Theatre Contribution	-500	0	-500	Delay in project funding package	2
Leith Theatre	-500	0	-500	Delay in project	2
Impact/Dunard Centre	-500	0	-500	Delay in project	2
LDP Roads Obligation (excluding WETA)	-482	-500	18	Programme not fully defined when budget was set	2
Rose Street Public Realm	-478	0	-478	Programme realigned mid-year	2
St Andrews Square Public Realm	-426	-435	9	Programme realigned mid-year	2
Road Safety	-384	0	-384	Additional grant income received	1
A71 Dalmahoy Junction Upgrade	-366	0	-366	Issues with land purchases	1
Waterfront Greenspace	-230	0	-230	Project needs to be defined before expenditure can commence	2
Home Owners Adaptations Grant	-596	-229	-367	Demand-led project	1
Localities	-1,844	0	-1,844	Insufficient projects identified and agreed at a local level	2
Saughton Park	-106	4,430	-4,536	Change from month 9 forecast relates to receipt of government grants	3
Seaford Depot Waste Transfer Station	202	203	-1	Programme realigned mid-year	4
Carriageway and Footway Works	2,611	0	2,611	Planned acceleration to offset slippage elsewhere in the programme	4
Bankhead Depot	3,119	3,135	-16	Programme realigned mid-year	4
Net (slippage) / acceleration on various projects	-1,396	-346	-1,050	Various movements over a number of projects	2
<b>Total Place</b>	<b>-16,434</b>	<b>-3,396</b>	<b>-13,038</b>		
<b>Resources - Asset Management Works</b>					
Acceleration across the Asset Management Works programme	3,747	-1,498	5,245	Acceleration of projects within the overall programme	4
<b>Total Resources - Asset Management Works</b>	<b>3,747</b>	<b>-1,498</b>	<b>5,245</b>		
<b>Resources - Other</b>					
ICT	-4,685	-4,206	-479	Reset of contract	2
CRM Solution	-509	0	-509	Balance of transformational ICT budget, approval required for alternative use	2
South Gyle Crescent Car Park	-303	0	-303	Capital receipt settled in March 2019	1
Net (slippage) / acceleration on various projects	-263	153	-416	Various movements over a number of projects	4
<b>Total Resources - Other</b>	<b>-5,760</b>	<b>-4,053</b>	<b>-1,707</b>		



	Outturn £000	Period 9 £000	Movement between periods £000	Explanations for Significant Slippage / Acceleration	Variance Category
<b><u>Lending</u></b>					
National Housing Trust	-11,790	0	-11,790	Slippage was due to delays with construction at Shrubhill Phases 2 and 3, predominantly due to labouring shortages and complexities with the wider development. Homes were expected to complete in March 2019 and are now expected to complete in July 2019.	2
Edinburgh Living	-10,135	-3,713	-6,422	Slippage is due to a short delay in completion of homes across three sites. These homes are now due to be delivered within the first six months of 2019/20. The slippage has no impact on the delivery of the overall programme.	2
<b>Total Lending</b>	<b>-21,926</b>	<b>-3,713</b>	<b>-18,213</b>		
<b><u>Council Wide / Corporate Projects</u></b>					
Net (slippage) / acceleration on various projects	26	0	26		2
General Slippage across the programme (2.5%)		-5,789	5,789	General allowance, which reduces as slippage arises in specific projects	2
<b>Total Council Wide / Corporate Projects</b>	<b>26</b>	<b>-5,789</b>	<b>5,815</b>		
<b>Total for all Services</b>	<b>-60,709</b>	<b>-38,167</b>	<b>-22,542</b>		
<b>Summary of Variance Category</b>					
1	Slippage due to unforeseen delays	-9,481	-6,222	-3,259	
2	Slippage due to optimistic budget	-36,833	-15,851	-20,982	
3	Slippage due to timing of payments	-16,400	-6,867	-9,533	
4	Acceleration on a project	11,258	-1,251	12,509	
5	Projected final underspend	-723	-1,044	321	
6	Reprofiled into future years	-8,530	-6,932	-1,598	
		<b>-60,709</b>	<b>-38,167</b>	<b>-22,542</b>	

**Appendix 4****Slippage and Acceleration on Housing Revenue Account (HRA) Projects**

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

**Key to variance category**

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

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

	Outturn £000	Period 9 £000	Movement between periods £000	Explanations for Significant Slippage / Acceleration	Variance Category
<b><u>Housing Revenue Account</u></b>					
Core Housing Improvement Projects	-8,248	-3,654	-4,594	Contractor Insolvency/ Engagement with owners in mixed tenure developments	1
Other Housing Improvement Projects	3,748	1,846	1,902	Planned acceleration to offset slippage in core programme	4
House Building Programme	5,250	-3,432	8,682	House building programme is broadly on schedule, with acceleration relating to timing of payments	4
Net (slippage) / acceleration on various projects	-722	0	-722		1
<b>Total Housing Revenue Account</b>	<b>28</b>	<b>-5,240</b>	<b>5,268</b>		

**Summary of Variance Category**

1	Slippage due to unforeseen delays	-8,970	-3,654	-5,316
2	Slippage due to optimistic budget	0	0	0
3	Slippage due to timing of payments	0	0	0
4	Acceleration on a project	8,998	-1,586	10,584
		<b>28</b>	<b>-5,240</b>	<b>5,268</b>

**Appendix 5 - Asset Sales 2018/19**

	£000s	£000s
<b><i>General Fund</i></b>		
Plot E1 - Fountainbridge	5,520	
Boroughmuir High School, 26 Viewforth	5,466	
Former Hunters Tryst PS, 4 Oxfords Green	1,705	
Plot 3 The Wisp	1,463	
Springwell House, 1/27-28 Armillan Terrace	1,238	
7 Canaan Lane - public convenience	953	
33-35 Lochend Road South, Lochend House	678	
Land transfers to HRA	658	
21 Braid Hills - residential use	400	
Princes Street, Rose Street Lane - air space	288	
Baird House, 12 Newtoft Street	202	
257 Colinton Road, Firrhill Day Centre	166	
79-89 Broomhouse Crescent, Broomhouse Centre	108	
5 West Tollcross - public toilet	105	
Various minor land transactions	174	
Various equipment sales	354	
Various vehicle sales	181	
	<hr/>	19,659
<b><i>Housing Revenue Account</i></b>		
Dwellings	5,293	
North Sighthill Development Agreement	1,480	
Other HRA land sales	102	
	<hr/>	6,875
Total Asset Sales		<hr/> <hr/>
		26,534

Note: the above figures are net of cost of sales

## **Appendix 6**

### **REVISED GENERAL FUND CAPITAL INVESTMENT PROGRAMME 2019-2024 (Incorporating slippage from 2018/19)**

**REVISED CAPITAL INVESTMENT PROGRAMME 2019-2024 (General Fund)**

<b>SUMMARY</b>	<b>Revised Budget 2019-20 £000</b>	<b>Revised Budget 2020-21 £000</b>	<b>Revised Budget 2021-22 £000</b>	<b>Revised Budget 2022-23 £000</b>	<b>Revised Budget 2023-24 £000</b>	<b>Total Budget 2019-2024 £000</b>
Communities and Families	62,138	96,617	1,707	165	165	<b>160,792</b>
Meadowbank Stadium - Contingency	-	-	-	-	7,000	<b>7,000</b>
Edinburgh Integration Joint Board	117	5,000	5,000	-	-	<b>10,117</b>
Place	92,952	159,302	29,963	36,785	19,835	<b>338,837</b>
Place - Lending	40,674	71,080	55,104	76,692	22,266	<b>265,816</b>
Place - Tram York Place to Newhaven	37,480	74,318	58,004	29,731	-	<b>199,533</b>
Resources - Asset Management Works	27,039	30,000	25,516	20,450	14,000	<b>117,005</b>
Resources - Other	8,260	5,000	-	-	-	<b>13,260</b>
<b>Total Expenditure</b>	<b>268,660</b>	<b>441,317</b>	<b>175,294</b>	<b>163,823</b>	<b>63,266</b>	<b>1,112,360</b>
<b>Funding</b>						
<b>Capital receipts</b>						
General asset sales	6,318	3,000	3,000	3,000	3,000	<b>18,318</b>
Ring-fenced asset sales	10,000	-	-	-	-	<b>10,000</b>
Capital Fund drawdown	6,311	-	-	-	-	<b>6,311</b>
Developers and other contributions	4,919	750	380	380	380	<b>6,809</b>
Capital Grants Unapplied account	13,607	-	-	-	-	<b>13,607</b>
<b>Total receipts</b>	<b>41,155</b>	<b>3,750</b>	<b>3,380</b>	<b>3,380</b>	<b>3,380</b>	<b>55,045</b>
<b>Capital Grants</b>						
General Capital Grant	58,746	38,000	38,000	38,000	38,000	<b>210,746</b>
Specific Capital Grants	51,824	10,000	-	-	-	<b>61,824</b>
<b>Total Grants</b>	<b>110,570</b>	<b>48,000</b>	<b>38,000</b>	<b>38,000</b>	<b>38,000</b>	<b>272,570</b>
<b>Loans Fund Advances</b>	116,935	389,567	133,914	122,443	21,886	<b>784,745</b>
<b>Total Funding</b>	<b>268,660</b>	<b>441,317</b>	<b>175,294</b>	<b>163,823</b>	<b>63,266</b>	<b>1,112,360</b>

**REVISED CAPITAL INVESTMENT PROGRAMME 2019-2024 (General Fund)**

<b>COMMUNITIES AND FAMILIES</b>	<b>Revised Budget 2019-20 £000</b>	<b>Revised Budget 2020-21 £000</b>	<b>Revised Budget 2021-22 £000</b>	<b>Revised Budget 2022-23 £000</b>	<b>Revised Budget 2023-24 £000</b>	<b>Total Budget 2019-2024 £000</b>
<b>Early Years 1140 Hours - 2020 Projects</b>						
Early years projects	14,304	25,000	-	-	-	39,304
<b>Early years 1140 Hours - 2020 Projects total</b>	<b>14,304</b>	<b>25,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>39,304</b>
<b>Local Development Plan - New Schools</b>						
LDP Primary Schools - design	4,025	-	-	-	-	4,025
Victoria Primary School replacement	3,058	5,382	-	-	-	8,440
Broomhill Primary School	4,374	1,848	-	-	-	6,222
<b>Local Development Plan - New Schools</b>	<b>11,457</b>	<b>7,230</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>18,687</b>
<b>Primary Schools General</b>						
Upgrade kitchens - free school meals initiative	92	-	-	-	-	92
New South Edinburgh Primary	3,343	8,410	1,542	-	-	13,295
St Catherine's Primary School replacement	802	12,000	-	-	-	12,802
<b>Primary Schools General total</b>	<b>4,237</b>	<b>20,410</b>	<b>1,542</b>	<b>-</b>	<b>-</b>	<b>26,189</b>
<b>Secondary Schools</b>						
Liberton High School replacement gym	4	-	-	-	-	4
Replacement Queensferry High School	3,280	3,000	-	-	-	6,280
<b>Secondary Schools total</b>	<b>3,284</b>	<b>3,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>6,284</b>
<b>Children's Services</b>						
Oxgangs New YPC	677	-	-	-	-	677
<b>Children's Services Total</b>	<b>677</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>677</b>
<b>Other Projects</b>						
Esgoil in JGHigh School and Bun-Sgoil Taobh	29	-	-	-	-	29
Gaelic Primary School Playground	25	-	-	-	-	25
<b>Other projects total</b>	<b>54</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>54</b>
<b>Rising School Rolls</b>						
Bun-Sgoil Taobh Na Pairce	100	-	-	-	-	100
James Gillespies High School	8	-	-	-	-	8
Temporary Units - Primary	982	-	-	-	-	982
Boroughmuir High School - Additional Places	2,286	1,862	-	-	-	4,148
Darroch Refurbishment	90	5,900	-	-	-	5,990
Rising School Rolls General	8,373	-	-	-	-	8,373
<b>Rising School Rolls Total</b>	<b>11,839</b>	<b>7,762</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>19,601</b>
<b>Wave Three School Projects</b>						
Boroughmuir High School replacement	1,316	-	-	-	-	1,316
St Crispin's Special School replacement	1,610	10,000	-	-	-	11,610
St John's new wave 3 School	7	-	-	-	-	7
New park former Portobello High School	997	-	-	-	-	997
Wave Three inflation contingency	1,015	1,500	-	-	-	2,515
<b>Wave Three School Projects Total</b>	<b>4,945</b>	<b>11,500</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>16,445</b>
<b>Wave Four School Projects</b>						
New High School for Craigmillar	5,326	10,000	-	-	-	15,326
Trinity High School - Phase 1	971	9,000	-	-	-	9,971
<b>Wave Four School Projects Total</b>	<b>6,297</b>	<b>19,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>25,297</b>
<b>Libraries</b>						
Library Open Solutions	-	350	-	-	-	350
Peoples Network	40	-	-	-	-	40
Self service terminals	16	-	-	-	-	16
Drum Brae Library	6	-	-	-	-	6
George IV Bridge Library-enhancement works	65	300	-	-	-	365
<b>Libraries Total</b>	<b>127</b>	<b>650</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>777</b>
<b>Sports</b>						
Edinburgh Leisure	165	165	165	165	165	825
New Meadowbank Sports Centre	4,566	-	-	-	-	4,566
Hunter Hall cycle hub and pitch	47	900	-	-	-	947
<b>Sports Total</b>	<b>4,778</b>	<b>1,065</b>	<b>165</b>	<b>165</b>	<b>165</b>	<b>6,338</b>

**REVISED CAPITAL INVESTMENT PROGRAMME 2019-2024 (General Fund)**

<b><u>COMMUNITIES AND FAMILIES</u></b>	<b>Revised Budget 2019-20 £000</b>	<b>Revised Budget 2020-21 £000</b>	<b>Revised Budget 2021-22 £000</b>	<b>Revised Budget 2022-23 £000</b>	<b>Revised Budget 2023-24 £000</b>	<b>Total Budget 2019-2024 £000</b>
<b>Safer and Stronger Communities</b>						
CCTV Capital	165	1,000	-	-	-	1,165
<b>Safer and Stronger Communities Total</b>	<b>165</b>	<b>1,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,165</b>
<b>Cost of Sale of Assets</b>	<b>(26)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(26)</b>
<b>Total Communities and Families</b>	<b>62,138</b>	<b>96,617</b>	<b>1,707</b>	<b>165</b>	<b>165</b>	<b>160,792</b>

<b><u>COMMUNITIES AND FAMILIES</u></b>	<b>Revised Budget 2019-20 £000</b>	<b>Revised Budget 2020-21 £000</b>	<b>Revised Budget 2021-22 £000</b>	<b>Revised Budget 2022-23 £000</b>	<b>Revised Budget 2023-24 £000</b>	<b>Total Budget 2019-2024 £000</b>
<b><u>MEADOWBANK CONTINGENCY</u></b>						
Contingency				-	7,000	7,000
<b>Meadowbank Contingency Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>7,000</b>	<b>7,000</b>

<b><u>EDINBURGH INTEGRATION JOINT BOARD</u></b>	<b>Revised Budget 2019-20 £000</b>	<b>Revised Budget 2020-21 £000</b>	<b>Revised Budget 2021-22 £000</b>	<b>Revised Budget 2022-23 £000</b>	<b>Revised Budget 2023-24 £000</b>	<b>Total Budget 2019-2024 £000</b>
<b>Care homes</b>						
New care home	220	5,000	5,000	-	-	10,220
Royston care Home	1	-	-	-	-	1
<b>Care homes total</b>	<b>221</b>	<b>5,000</b>	<b>5,000</b>	<b>-</b>	<b>-</b>	<b>10,221</b>
<b>Other projects</b>						
Oxgangs day centre	10	-	-	-	-	10
Developer Contributions	5	-	-	-	-	5
<b>Other projects total</b>	<b>15</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>15</b>
<b>Cost of Sale of Assets</b>	<b>(119)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(119)</b>
<b>Total Edinburgh Integration Joint Board</b>	<b>117</b>	<b>5,000</b>	<b>5,000</b>	<b>-</b>	<b>-</b>	<b>10,117</b>

**REVISED CAPITAL INVESTMENT PROGRAMME 2019-2024 (General Fund)**

<b>PLACE</b>	<b>Revised Budget 2019-20 £000</b>	<b>Revised Budget 2020-21 £000</b>	<b>Revised Budget 2021-22 £000</b>	<b>Revised Budget 2022-23 £000</b>	<b>Revised Budget 2023-24 £000</b>	<b>Total Budget 2019-2024 £000</b>
<b>Environment</b>						
<u>Waste services</u>						
Zero Waste: Millerhill - Capital contribution	-	29,520	-	-	-	29,520
<b>Waste Total</b>	-	29,520	-	-	-	29,520
<u>Parks and Green Spaces</u>						
HLF - Saughton Park	88	-	-	-	-	88
Queensferry Dundas Park	25	-	-	-	-	25
Saughton Micro-Hydro	43	-	-	-	-	43
Cammo Settlement	100	544	-	-	-	644
Meadows / Brunsfield Links	18	-	-	-	-	18
Play Park Replacement Equipment	44	200	200	200	-	644
Waterfront Green Space	-	230	-	-	-	230
Salvesen Steps	70	445	-	-	-	515
Fair A Far Weir	2	-	-	-	-	2
Niddrieburn Footbridge	158	-	-	-	-	158
	548	1,419	200	200	-	2,367
<u>Depot Review</u>						
Bankhead depot	1,183	6,297	-	-	-	7,480
Russell road depot	-	1,322	-	-	-	1,322
Seafeld depot - Phase 2	1,181	-	-	-	-	1,181
	2,364	7,619	-	-	-	9,983
<u>Fleet</u>						
Vehicle Purchase	25	-	-	-	-	25
	25	-	-	-	-	25
<u>Cemeteries and Crematorium</u>						
Mortonhall Memorialisation	5	-	-	-	-	5
	5	-	-	-	-	5
<b>Environment Total</b>	2,942	38,558	200	200	-	41,900
<b>Housing and Regeneration</b>						
Town Centre Fund	2,613	-	-	-	-	2,613
Travelling People's site	14	-	-	-	-	14
Home owners adaptation grants	1,091	1,000	1,000	1,000	1,000	5,091
Development Funding Grant	33,877	-	-	-	-	33,877
<b>Housing and Regeneration Total</b>	37,595	1,000	1,000	1,000	1,000	41,595
<b>Transport and Other Infrastructure</b>						
<u>Roads, Structures and Flood Prevention</u>						
Flood prevention [block]	149	-	-	-	-	149
North Bridge Major Refurbishment	6,470	10,932	-	-	-	17,402
Burnshot Bridge	3,511	-	-	-	-	3,511
Market St Bridge strengthening	200	-	-	-	-	200
Water of Leith - phase 1	162	-	-	-	-	162
Water of Leith - phase 2	623	-	-	-	-	623
Bridge strengthening	2,726	-	-	-	-	2,726
	13,841	10,932	-	-	-	24,773
<u>Roads Asset Management Plan</u>						
Bus Stop Investment	481	-	-	-	-	481
Right first time carriageway and footway works	1,088	-	-	-	-	1,088
LDP Roads Obligations (exc WETA)	1,482	1,000	2,000	2,000	-	6,482
Capital Gullies	217	-	-	-	-	217
West Edinburgh Transport Appraisal (WETA)	(12)	4,000	5,000	7,000	-	15,988
Roads, Pavements and Public Realm	-	1,500	1,500	1,750	-	4,750
Roads In-Year Priorities	1,000	-	-	-	-	1,000
Carriageway / footway works [block]	13,453	10,727	12,227	12,227	12,227	60,861
	17,709	17,227	20,727	22,977	12,227	90,861
<u>Street Lighting and Traffic Signals</u>						
Traffic signals (renewal)	444	-	-	-	-	444
Street lighting	1,973	1,449	1,350	1,350	1,350	7,472
Street lighting - City wide LED replacement project	9,772	9,140	428	-	-	19,340
	12,189	10,589	1,778	1,350	1,350	27,256



**REVISED CAPITAL INVESTMENT PROGRAMME 2019-2024 (General Fund)**

<b>PLACE</b>	<b>Revised Budget 2019-20 £000</b>	<b>Revised Budget 2020-21 £000</b>	<b>Revised Budget 2021-22 £000</b>	<b>Revised Budget 2022-23 £000</b>	<b>Revised Budget 2023-24 £000</b>	<b>Total Budget 2019-2024 £000</b>
<b><u>Roads and Network</u></b>						
UTMC and parking guidance	362	-	-	-	-	362
St Andrew Square public realm	40	386	-	-	-	426
CPZ Extension	30	-	-	-	-	30
Transport Asset Management	-	900	900	900	900	3,600
	<b>432</b>	<b>1,286</b>	<b>900</b>	<b>900</b>	<b>900</b>	<b>4,418</b>
<b><u>Policy and planning</u></b>						
Road safety	993	-	-	-	-	993
20mph speed limiting [block]	12	-	-	-	-	12
Walking projects [block]	130	780	-	-	-	910
A71 Dalmahey Junction Upgrade	366	-	-	-	-	366
Frederick Street - Hanover Street	5	-	-	-	-	5
Tram Development	212	-	-	-	-	212
Cycle projects [block]	1,015	3,950	-	-	-	4,965
St Andrew Square bus station	40	-	-	-	-	40
Bus priority schemes / bus shelters	533	-	-	-	-	533
Meadows to George St Cycleway	41	-	-	-	-	41
West Edinburgh Active Travel Network	8	-	-	-	-	8
Bustracker- RTI extension	294	-	-	-	-	294
P-R Improvements	22	-	-	-	-	22
Bus Lane Camera Enforcement	12	-	-	-	-	12
Cycling 10% Block	-	1,783	1,783	1,783	1,783	7,132
Road safety, cycling and public transport	-	1,575	1,575	1,575	1,575	6,300
	<b>3,683</b>	<b>8,088</b>	<b>3,358</b>	<b>3,358</b>	<b>3,358</b>	<b>21,845</b>
<b><u>Transport - City Centre</u></b>						
Rose Street - public realm	478	-	-	-	-	478
Leith Walk Constitution Street	-	174	-	-	-	174
	<b>478</b>	<b>174</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>652</b>
<b><u>Transport - Localities</u></b>						
South East Locality	300	258	-	-	-	558
North East Locality	309	451	-	-	-	760
North West Locality	301	224	-	-	-	525
South West Locality	200	115	-	-	-	315
	<b>1,110</b>	<b>1,048</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,158</b>
<b><u>Transport Other</u></b>						
Tram Lifecycle Replacement	1,000	1,000	1,000	1,000	1,000	5,000
<b>Transport and other infrastructure total</b>	<b>50,442</b>	<b>50,344</b>	<b>27,763</b>	<b>29,585</b>	<b>18,835</b>	<b>176,969</b>
<b>Museums and Arts</b>						
Calton Hill redevelopment	188	-	-	-	-	188
Kings Theatre Contribution	-	2,000	1,000	1,000	-	4,000
Kings Theatre Contribution (PB)	-	-	-	5,000	-	5,000
Leith Theatre	1,000	-	-	-	-	1,000
IMPACT	500	4,500	-	-	-	5,000
Usher Hall - PA System	25	-	-	-	-	25
Scott Monument	60	-	-	-	-	60
Museum of Edinburgh	10	-	-	-	-	10
City Arts Centre - Fifth Floor	8	-	-	-	-	8
City Arts Centre - Frontage	57	-	-	-	-	57
<b>Museums and Arts Total</b>	<b>1,848</b>	<b>6,500</b>	<b>1,000</b>	<b>6,000</b>	<b>-</b>	<b>15,348</b>
<b>Strategic support</b>						
City dressing programme	92	-	-	-	-	92
The Causey Project	33	-	-	-	-	33
St James GAM - Public Realm	-	61,400	-	-	-	61,400
Picardy Place	-	1,500	-	-	-	1,500
<b>Strategic support total</b>	<b>125</b>	<b>62,900</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>63,025</b>
Place - contingency	-	-	-	-	-	-
<b>Total Place</b>	<b>92,952</b>	<b>159,302</b>	<b>29,963</b>	<b>36,785</b>	<b>19,835</b>	<b>338,837</b>

**REVISED CAPITAL INVESTMENT PROGRAMME 2019-2024 (General Fund)**

<b><u>PLACE - LENDING</u></b>	<b>Revised Budget 2019-20 £000</b>	<b>Revised Budget 2020-21 £000</b>	<b>Revised Budget 2021-22 £000</b>	<b>Revised Budget 2022-23 £000</b>	<b>Revised Budget 2023-24 £000</b>	<b>Total Budget 2019-2024 £000</b>
National Housing Trust 3	16,508	4,042	-	-	-	20,550
Edinburgh Living LLP	24,166	67,038	55,104	76,692	22,266	245,266
<b>Total Lending</b>	<b>40,674</b>	<b>71,080</b>	<b>55,104</b>	<b>76,692</b>	<b>22,266</b>	<b>265,816</b>

<b><u>PLACE</u></b>	<b>Revised Budget 2019-20 £000</b>	<b>Revised Budget 2020-21 £000</b>	<b>Revised Budget 2021-22 £000</b>	<b>Revised Budget 2022-23 £000</b>	<b>Revised Budget 2023-24 £000</b>	<b>Total Budget 2019-2024 £000</b>
<b><u>TRAM - YORK PLACE TO NEWHAVEN</u></b>						
Tram - York Place to Newhaven	37,480	74,318	58,004	29,731	-	199,533
<b>Total Tram - York Place to Newhaven</b>	<b>37,480</b>	<b>74,318</b>	<b>58,004</b>	<b>29,731</b>	<b>-</b>	<b>199,533</b>

**REVISED CAPITAL INVESTMENT PROGRAMME 2019-2024 (General Fund)**

<b>RESOURCES - ASSET MANAGEMENT WORKS</b>	<b>Revised Budget 2019-20 £000</b>	<b>Revised Budget 2020-21 £000</b>	<b>Revised Budget 2021-22 £000</b>	<b>Revised Budget 2022-23 £000</b>	<b>Revised Budget 2023-24 £000</b>	<b>Total Budget 2019-2024 £000</b>
<b>Communities and Families</b>						
Major Refurbishment	16,729	23,822	10,522	670	85	51,828
Boilers	85	99	5	-	-	189
Doors and Windows	1,309	315	-	-	-	1,624
Internal Fabric Improvements	2,142	2,341	50	-	-	4,533
External Fabric Improvements	1,528	525	-	-	-	2,053
Fire Safety	573	600	600	600	-	2,373
Heating Control Systems	393	400	300	300	-	1,393
Mechanical and Engineering Upgrades	1,481	115	-	-	-	1,596
Roof and Rainwater	121	5	-	-	-	126
Structural Improvements	66	-	-	-	-	66
Water Quality	156	400	400	400	-	1,356
<b>Total for Communities and Families</b>	<b>24,583</b>	<b>28,622</b>	<b>11,877</b>	<b>1,970</b>	<b>85</b>	<b>67,137</b>
<b>Edinburgh Integration Joint Board</b>						
Fire Safety	25	-	-	-	-	25
Internal Fabric Improvements	3	-	-	-	-	3
Mechanical and Engineering Upgrades	3	-	-	-	-	3
Boilers	215	4	-	-	-	219
<b>Total for Edinburgh Integration Joint Board</b>	<b>246</b>	<b>4</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>250</b>
<b>Place</b>						
Major Refurbishment	300	10	-	-	-	310
Boilers	632	450	-	-	-	1,082
Internal Fabric Improvements	199	5	-	-	-	204
External Fabric Improvements	161	5	-	-	-	166
Mechanical and Engineering Upgrades	213	5	-	-	-	218
Fire Safety	25	-	-	-	-	25
Infrastructure Improvements	8	-	-	-	-	8
Water Quality	2	-	-	-	-	2
<b>Total for Place</b>	<b>1,540</b>	<b>475</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,015</b>
<b>Resources - Property and FM</b>						
Major Refurbishment	295	575	580	35	-	1,485
Boilers	121	120	130	10	-	381
Doors and Windows	8	-	-	-	-	8
Fire Safety	75	-	-	-	-	75
Mechanical and Engineering Upgrades	171	200	-	-	-	371
<b>Total for Resources - Corp. Property</b>	<b>670</b>	<b>895</b>	<b>710</b>	<b>45</b>	<b>-</b>	<b>2,320</b>
<b>Funding not yet allocated to projects</b>	<b>-</b>	<b>4</b>	<b>12,929</b>	<b>18,435</b>	<b>13,915</b>	<b>45,283</b>
<b>Total Asset Management Works</b>	<b>27,039</b>	<b>30,000</b>	<b>25,516</b>	<b>20,450</b>	<b>14,000</b>	<b>117,005</b>

**REVISED CAPITAL INVESTMENT PROGRAMME 2019-2024 (General Fund)**

<b>RESOURCES - OTHER</b>	<b>Revised Budget 2019-20 £000</b>	<b>Revised Budget 2020-21 £000</b>	<b>Revised Budget 2021-22 £000</b>	<b>Revised Budget 2022-23 £000</b>	<b>Revised Budget 2023-24 £000</b>	<b>Total Budget 2019-2024 £000</b>
<b>Digital Services</b>						
ICT contract asset purchase	7,185	5,000	-	-	-	12,185
CRM Solution	509	-	-	-	-	509
<b>Digital Services total</b>	<b>7,694</b>	<b>5,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>12,694</b>
<b>Property and FM</b>						
249 High Street Reconfiguration	146	-	-	-	-	146
South Gyle Cres Car Park	303	-	-	-	-	303
Leith Walk Community Hub	6	-	-	-	-	6
<b>Property and FM Total</b>	<b>455</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>455</b>
<b>General</b>						
Print Unit Equipment	10	-	-	-	-	10
Wi-fi Vouchers Programme	101	-	-	-	-	101
<b>Resources General Total</b>	<b>111</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>111</b>
<b>Total Resources - Other</b>	<b>8,260</b>	<b>5,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>13,260</b>

## Governance, Risk and Best Value Committee

10am, Tuesday 17 September 2019

### Capital Monitoring 2019/20 – Month Three Position– referral from the Finance and Resources Committee

Executive/routine  
Wards  
Council Commitments

#### 1. For Decision/Action

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- 1.1 The Governance, Risk and Best Value Committee is asked to consider this report as part of its workplan.

**Andrew Kerr**

Chief Executive

Contact: Martin Scott, Committee Services

Email: [martin.scott@edinburgh.gov.uk](mailto:martin.scott@edinburgh.gov.uk) | Tel: 0131 529 4237

# Referral Report

## Capital Monitoring 2019/20 – Month Three Position– referral from the Finance and Resources Committee

### 2. Terms of Referral

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- 2.1 On 15 August 2019 the Finance and Resources Committee considered a report by the Executive Director of Resources. The report set out forecast capital expenditure and income for the current financial year at month 3 and compared this with the revised capital budget.
- 2.2 At month three, slippage of £9.7m is forecast against the general fund capital expenditure budget of £268.7m. Capital income is projected to be £149.0m, resulting in a net requirement of £109.9m in loans fund advances.
- 2.3 The Housing Revenue Account (HRA) is reporting a balanced position at month 3
- 2.4 The Finance and Resources Committee agreed:
  - 2.4.1 To note the projected capital outturn position for the general fund and Housing Revenue Account (HRA) at month three.
  - 2.4.2 To note the Council's prudential indicators at month 3.
  - 2.4.3 To note that updated forecasts will be provided at months 5 and 8.
  - 2.4.4 To refer the report to the Governance, Risk and Best Value Committee as part of its workplan.

### 3. Background Reading/ External References

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Minute of the Finance and Resources Committee of 15 August 2019.

### 4. Appendices

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Appendix 1 – report by the Executive Director of Resources

# Finance and Resources Committee

10am, Thursday, 15 August 2019

## Capital Monitoring 2019/20 – Month Three Position

Executive/routine Wards Council Commitments	All
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### 1. Recommendations

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- 1.1 To note the projected capital outturn position for the general fund and Housing Revenue Account (HRA) at month three;
- 1.2 To note the Council's prudential indicators at month 3;
- 1.3 To note that updated forecasts will be provided at months 5 and 8; and
- 1.4 To refer the report to the Governance, Risk and Best Value Committee as part of its workplan.

**Stephen Moir**

Executive Director of Resources

Contact: Rebecca Andrew, Principal Accountant

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## Capital Monitoring 2019/20 – Month Three Position

### 2. Executive Summary

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- 2.1 The report provides capital expenditure and income forecasts for 2019/20, providing explanations for any variances.
- 2.2 At month three, slippage of £9.7m is forecast against the general fund capital expenditure budget of £268.7m. Capital income is projected to be £149.0m, resulting in a net requirement of £109.9m in loans fund advances.
- 2.3 The Housing Revenue Account (HRA) is reporting a balanced position at month 3.

### 3. Background

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- 3.1 The Council set its capital investment programme for the period 2019-24 at its budget meeting of 21 February 2019. This budget has subsequently been revised to reflect slippage from 2018/19 and up to date project cashflows, as reported elsewhere on this agenda.
- 3.2 This report sets out forecast capital expenditure and income for the current financial year at month 3 and compares this with the revised capital budget.

### 4. Main report

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#### General Fund

- 4.1 At month three, general fund expenditure is projected to be £259.0m, compared with a budget of £268.7m, resulting in projected slippage of £9.7m. Grants and other capital income are forecast to be £149.0m, with the remaining expenditure being funded by loans fund advances of £110.0m. A detailed position is provided in Appendix 1.
- 4.2 The slippage forecast at month 3 is a general provision of 5% of the total capital budget, in recognition of the fact that variances against budgets are likely to occur due to delays or unforeseen circumstances out with the Council's control. As the revised budget has been recently realigned to reflect current cash flow assumptions, there are currently no variances against individual project budgets.



However, project budgets and the general provision will be kept under review throughout the year and forecasts will be amended as appropriate.

- 4.3 The forecast includes estimated costs for the Tram to Newhaven project, based on the Final Business Case approved by Council on 14 March 2019. Work currently being undertaken as part of the Early Contractor Involvement will result in more refined cost and programme estimates, which will be reflected in future reports.
- 4.4 Members should also be aware that the value and timing of capital receipts can be impacted by a number of factors including abnormal costs arising from survey results and offers contingent on planning approvals. Any further revisions to the receipts programme will be reported within future capital monitoring reports.

#### **HRA**

- 4.5 The HRA capital investment budget position is shown in Appendix 2 and is forecasting a balanced position at month three. The forecasted gross expenditure at month three is £109.0m, which represents a 35% (£28m) increase on last year's programme, funded by capital receipts and grant income of £49.5m and loans fund advances of £59.5m.
- 4.6 Securing control of sites for new housebuilding and other owners' agreement for mixed tenure improvement work remain as the biggest challenges for programme delivery. Around a quarter of the total capital investment budget (£28.2m) is for strategic sites acquisition for Council's led new housing developments. The Council will continue to monitor and explore opportunities to purchase private sector sites and work with public sector partners to secure more land for development. Almost half of the budget for existing homes and estates (£14.7m) are related to improvement which depends on getting the agreement of owners within blocks. This will be progressed in parallel with the implementation of the Mixed tenure Improvement Strategy.

#### **Prudential Indicators**

- 4.7 The above forecasts are reflected in the Council's prudential indicators, which are set out in Appendix 3.

### **5. Next Steps**

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- 5.1 Finance staff will continue work with project and programme managers to monitor capital budgets. Further capital monitoring reports will be provided to Finance and Resources committee at months five and eight.

### **6. Financial impact**

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- 6.1 The projected 2019/20 general fund outturn outlines loans fund advances of £109.9m. The overall loan charges associated with this over a 20-year period would be a principal amount of £109.9m, interest of £64.2m, resulting in a total cost of £174.1m based on a loans fund interest rate of 4.6%. The loan charges will be

interest only in the first year, at a cost of £2.6m, followed by an annual cost of £8.6m for 20 years.

- 6.2 The projected 2019/20 HRA outturn outlines loans fund advances of £59.5m. The overall loans charges associated with this over a 20-year period would be a principal amount of £59.5m, interest of £34.8m, resulting in a total cost of £94.3m based on a loans fund rate of 4.6%. The loan charges will be interest only in the first year, at a cost of £1.4m followed by an annual cost of £4.6m for 20 years.
- 6.3 Borrowing required is carried out in line with the Council's approved Treasury Management Strategy.
- 6.4 The loan charge costs outlined above will be met from this year's general fund and HRA revenue budgets for loan charges.

## **7. Stakeholder/Community Impact**

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- 7.1 Consultation on the capital budget was undertaken as part of the Council's budget setting process.
- 7.2 The stakeholder and community impact of individual projects within the Council's capital programme is considered as part of the business cases for those projects.

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

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- 8.1 [Capital Investment Programme 2019-20 to 2023-24](#)
- 8.2 [Housing Revenue Account Budget Strategy 2019-24](#)
- 8.3 [Coalition Budget Motion](#)
- 8.4 [Edinburgh Tram – York Place to Newhaven Final Business Case](#)

## **9. Appendices**

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Appendix 1 – Capital Monitoring 2019/20 – General Fund

Appendix 2 – Capital Monitoring 2019/20 – HRA

Appendix 3 – Prudential Indicators 2019/20

## Appendix 1 Capital Monitoring 2019/20

## General Fund Summary

## Period 3

Expenditure	Approved Budget £000	Adjusts £000	Revised Budget £000	Actual to Date £000	Projected Outturn £000	Projected Variance £000 %	
Communities and Families	110,193	-48,055	62,138	4,713	62,138	0	0.00%
Edinburgh IJB	239	-122	117	0	117	0	0.00%
Place	141,766	-48,814	92,952	11,360	92,952	0	0.00%
Resources - Asset Management Works	31,498	-4,459	27,039	8,189	27,039	0	0.00%
Resources - Other	11,706	-3,446	8,260	35	8,260	0	0.00%
Tram York Place to Newhaven	0	37,480	37,480	594	37,480	0	0.00%
Lending	18,118	22,556	40,674	6,005	40,674	0	0.00%
Local Development Plan (Unallocated)	6,000	-6,000	0	0	0	0	0.00%
General slippage in programme 5%	0	0	0	0	-9,705	-9,705	n/a
<b>Total Gross Expenditure</b>	<b>319,520</b>	<b>-50,860</b>	<b>268,660</b>	<b>30,896</b>	<b>258,955</b>	<b>-9,705</b>	<b>-3.61%</b>

## Income

<i>Capital Receipts</i>							
General Asset Sales	6,318	0	6,318	170	6,318	0	0.00%
Ringfenced Asset Sales	10,000	0	10,000	0	10,000	0	0.00%
Less Fees Relating to General Receipts	0	0	0	-135	0	0	#DIV/0!
<i>Total Capital Receipts from Asset Sales</i>	<i>16,318</i>	<i>0</i>	<i>16,318</i>	<i>35</i>	<i>16,318</i>	<i>0</i>	<i>0.00%</i>
Drawdown from Capital Fund	6,311	0	6,311	0	6,311	0	0.00%
Developer and other Contributions	585	3,794	4,379	4,179	4,379	0	0.00%
Developers Contributions Transferred to Investments				-2,708	-2,708	-2,708	#DIV/0!
<i>Total Capital Receipts</i>	<i>23,214</i>	<i>3,794</i>	<i>27,008</i>	<i>1,506</i>	<i>24,300</i>	<i>-2,708</i>	<i>-10.03%</i>
<i>Grants</i>							
Scottish Government General Capital Grant	58,675	71	58,746	14,687	58,746	0	0.00%
Cycling, Walking and Safer Streets	834	0	834	16	834	0	0.00%
Management Development Funding	33,877	0	33,877	290	33,877	0	0.00%
Early Years and Childcare - Expansion	14,500	0	14,500	0	14,500	0	0.00%
Other Specific Government Grants	0	3,151	3,151	0	3,151	0	0.00%
Capital Grants Unapplied Account drawdown	11,297	2,310	13,607	0	13,607	0	0.00%
<i>Total Grants</i>	<i>119,183</i>	<i>5,532</i>	<i>124,715</i>	<i>14,993</i>	<i>124,715</i>	<i>0</i>	<i>0.00%</i>
<b>Total Income</b>	<b>142,397</b>	<b>9,326</b>	<b>151,723</b>	<b>16,499</b>	<b>149,015</b>	<b>-2,708</b>	<b>-1.78%</b>

<b>Balance to be funded through Loans Fund Advance</b>	<b>177,123</b>	<b>-60,186</b>	<b>116,937</b>		<b>109,940</b>	<b>-6,997</b>	<b>-5.98%</b>
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## Appendix 2 Capital Monitoring 2019/20

### Housing Revenue Account

#### Period 3

	Revised Budget £000	Actual to Date £000	Projected Outturn £000	Projected Variance	
				£000	%
Core Programme	35,632	3,232	35,632	0	0.0%
House Building	73,322	8,937	73,322	0	0.0%
Total Gross Expenditure	108,954	12,169	108,954	0	0.0%

<b>Income</b>					
Capital Receipts	17,917	0	17,917	0	0.0%
Developers and Other Contributions	23,000	17	23,000	0	0.0%
Specific Capital Grant	8,526	436	8,526	0	0.0%
Total Income	49,443	453	49,443	0	0.0%

<b>Loans Fund Advances</b>					
Loans Fund Advances	59,511		59,511	0	0.0%
Total	59,511		59,511	0	0.0%

### Appendix 3 Capital Monitoring 2019/20

#### Prudential Indicators 2019/20 - Period 3

##### Indicator 1 - Estimate of Capital Expenditure

	2018/19 Actual £000	2019/20 Estimate £000	2019/20 Forecast £000	2020/21 Estimate £000	2020/21 Forecast £000	2021/22 Estimate £000	2021/22 Forecast £000	2022/23 Estimate £000	2022/23 Forecast £000	2023/24 Estimate £000	2023/24 Forecast £000
Council Wide / Corporate Projects	26	0	0	0	0	0	0	0	0	0	0
Contingency - Meadowbank Stadium	0	0	0	0	0	0	0	0	0	7,000	7,000
Lending	23,152	40,674	40,674	71,080	71,080	55,104	55,104	76,692	76,692	22,266	22,266
Communities and Families	28,431	62,138	62,138	96,617	96,617	1,707	1,707	165	165	165	165
Edinburgh Integration Joint Board	138	117	117	5,000	5,000	5,000	5,000	0	0	0	0
Place	109,572	92,562	92,562	159,302	159,302	29,963	29,963	36,785	36,785	19,835	19,835
Resources	2,652	8,260	8,260	5,000	5,000	0	0	0	0	0	0
Resources - Asset Management Works	21,770	27,039	27,039	30,000	30,000	25,516	25,516	20,450	20,450	14,000	14,000
Trams	0	37,870	37,870	74,318	74,318	58,004	58,004	29,731	29,731	0	0
General slippage / acceleration across programme (5%)	0		-9,705		-8,570		12,266		1,653		2,657
Total General Services	185,741	268,660	258,955	441,317	432,747	175,294	187,560	163,823	165,476	63,266	65,923
Housing Revenue Account		108,954	108,954	142,251	142,251	177,531	177,531	171,392	171,392	273,984	273,984
Total	185,741	377,614	367,909	583,568	574,998	352,825	365,091	335,215	336,868	337,250	339,907

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

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

##### Indicator 2 - Ratio of Financing Costs to Net Revenue Stream

	2018/19 Actual %	2019/20 Estimate %	2019/20 Forecast %	2020/21 Estimate %	2021/22 Estimate %	2022/23 Estimate %	2023/24 Estimate %
General Services	11.38	10.58	10.44	10.72	10.44	10.39	n/a
Housing Revenue Account	39.98	41.64	42.08	44.64	46.96	49.41	50.89

Figures for 2019/20 onwards are indicative as neither the Council nor HRA has set a budget for these years. The figures for General Services are based on the current long term financial plan that ends in 2022/23. HRA figures are based on the current business plan.

**Indicator 3 - Capital Financing Requirement**

	2018/19 Actual £000	2019/20 Estimate £000	2019/20 Forecast £000	2020/21 Estimate £000	2020/21 Forecast £000	2021/22 Estimate £000	2021/22 Forecast £000	2022/23 Estimate £000	2022/23 Forecast £000	2023/24 Estimate £000	2023/24 Forecast £000
General Services (including finance leases)	1,079,328	1,204,762	1,195,057	1,427,511	1,409,236	1,435,184	1,429,175	1,407,995	1,403,639	1,330,486	1,328,786
Edinburgh Living LLP	2,734	26,862	26,741	89,178	89,009	143,004	142,835	217,650	217,481	236,784	236,615
NHT LLPs	87,143	103,651	103,651	107,693	107,693	107,693	107,693	107,693	107,693	107,693	107,693
Housing Revenue Account	377,454	415,351	415,351	415,678	415,678	479,677	479,677	526,588	526,588	675,321	675,321
Total	<u>1,546,659</u>	<u>1,750,626</u>	<u>1,740,800</u>	<u>2,040,060</u>	<u>2,021,616</u>	<u>2,165,558</u>	<u>2,159,380</u>	<u>2,259,926</u>	<u>2,255,400</u>	<u>2,350,283</u>	<u>2,348,414</u>

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

**Indicator 4 - Authorised Limit for External Debt**

	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m
Borrowing	1,877,414	2,042,775	2,144,136	2,161,368	2,229,864
Credit Arrangements	<u>362,049</u>	<u>348,696</u>	<u>334,889</u>	<u>321,642</u>	<u>308,395</u>
Total	<u>2,239,463</u>	<u>2,391,471</u>	<u>2,479,025</u>	<u>2,483,010</u>	<u>2,538,259</u>

Other Long-Term Liabilities includes finance lease repayments for PPP assets

**Indicator 5 - Operational Boundary for External Debt**

	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m
Borrowing	1,590,928	1,810,979	1,945,178	2,039,102	2,129,863
Other Long-Term Liabilities	<u>362,049</u>	<u>348,696</u>	<u>334,889</u>	<u>321,642</u>	<u>308,395</u>
Total	<u>1,952,977</u>	<u>2,159,675</u>	<u>2,280,067</u>	<u>2,360,744</u>	<u>2,438,258</u>

Other Long-Term Liabilities includes finance lease repayments for PPP assets

**Indicator 6 - Loans Charges Associated with net Capital Investment expenditure plans**

	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>
	<b>Forecast</b>	<b>Forecast</b>	<b>Forecast</b>	<b>Forecast</b>	<b>Forecast</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Loans Fund Pooled Interest Rate 4.6251%					
General Fund Services (excluding Lending)					
Loans Fund Advances in year					
Year 1 - interest only					
Year 2 - principal and interest					
Housing Revenue Account (HRA)					
Loans Fund Advances in year (excluding borrowing for LLP programme **)					
Year 1 - interest only					
Year 2 - Core Programme - principal and interest					
Year 2 - House Building Programme - principal and interest					

Figures to follow

The cost of servicing capital advances shown in this Indicator excludes those attributable to the advances to NHT and Edinburgh Livings LLPs as these are fully recoverable from those bodies.

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## Governance, Risk and Best Value Committee

10am, Tuesday 17 September 2019

### Revenue Monitoring 2018/19 – Outturn Report – referral from the Finance and Resources Committee

Executive/routine  
Wards  
Council Commitments

#### 1. For Decision/Action

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- 1.1 The Governance, Risk and Best Value Committee is asked to consider this report as part of its workplan.

**Andrew Kerr**

Chief Executive

Contact: Veronica MacMillan, Committee Services

Email: [veronica.macmillan@edinburgh.gov.uk](mailto:veronica.macmillan@edinburgh.gov.uk) | Tel: 0131 529 4283

# Referral Report

## Revenue Monitoring 2018/19 – Outturn Report – referral from the Finance and Resources Committee

### 2. Terms of Referral

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- 2.1 On 15 August 2019 the Finance and Resource Committee considered a report by the Executive Director of Resources. The report set out the provisional 2018/19 revenue outturn position for the Council based on the unaudited annual accounts. This position showed an overall underspend of £1.582m, representing the twelfth successive year in which net expenditure has been maintained within approved levels.
- 2.2 The Finance and Resources Committee agreed:
- 2.2.1 To note the contents of the report and the provisional revenue underspend of £1.582m for the year ended 31 March 2019.
  - 2.2.2 To note that this sum has been set aside within the Council Priorities Fund.
  - 2.2.3 To note the contributions in 2018/19 to and from the General Fund as detailed in the report.
  - 2.2.4 To note the progress during the year on the initiatives supported through the Spend to Save Fund.
  - 2.2.5 To note that the Housing Revenue Account was balanced after making a contribution of £6.757m towards in-year capital investment.
  - 2.2.6 To note that the Common Good Annual Performance Report will be considered at the Committee's meeting on 26 September.
  - 2.2.7 To refer this report to the Governance, Risk and Best Value Committee as part of its workplan.

### **3. Background Reading/ External References**

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Minute of the Finance and Resources Committee of 15 August 2019.

### **4. Appendices**

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Appendix 1 – report by the Executive Director of Resources

# Finance and Resources Committee

10.00am, Thursday, 15 August 2019

## Revenue Monitoring 2018/19 – outturn report

Executive/routine  
Wards  
Council Commitments

### 1. Recommendations

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- 1.1 Members of the Finance and Resources Committee are asked to:
  - 1.1.1 note the contents of this report and the provisional revenue underspend of £1.582m for the year ended 31 March 2019;
  - 1.1.2 note that this sum has been set aside within the Council Priorities Fund;
  - 1.1.3 note the contributions in 2018/19 to and from the General Fund as detailed in the report;
  - 1.1.4 note the progress during the year on the initiatives supported through the Spend to Save Fund;
  - 1.1.5 note that the Housing Revenue Account was balanced after making a contribution of £6.757m towards in-year capital investment;
  - 1.1.6 note that the Common Good Annual Performance Report will be considered at the Committee's meeting on 26 September; and
  - 1.1.7 refer this report to the Governance, Risk and Best Value Committee as part of its workplan.

**Stephen S. Moir**

Executive Director of Resources

Contact: Hugh Dunn, Head of Finance

E-mail: [hugh.dunn@edinburgh.gov.uk](mailto:hugh.dunn@edinburgh.gov.uk) | Tel: 0131 469 3150

## Revenue Monitoring 2018/19 – outturn report

### 2. Executive Summary

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- 2.1 The report sets out the provisional 2018/19 revenue outturn position for the Council based on the unaudited annual accounts. This position shows an overall underspend of £1.582m, representing the twelfth successive year in which net expenditure has been maintained within approved levels.

### 3. Background

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- 3.1 The Council's statement of accounts for 2018/19 was passed to the external auditor by the statutory deadline of 30 June. This report sets out the provisional outturn position for the revenue budget as detailed within the unaudited statement.
- 3.2 The unaudited annual accounts were published on the Council website by 30 June 2019 and made available for public inspection from 1 July 2019 for a period of 15 working days, in accordance with relevant regulations. Correspondence was received from two individuals during this period, the outcome of which will be reported at the conclusion of the audit process in September 2019.
- 3.3 As in previous years, the audited annual accounts and the auditor's report will be submitted initially to the Governance, Risk and Best Value Committee on 17 September 2019 and be presented for approval thereafter by the Finance and Resources Committee on 26 September, thereby meeting the statutory requirement for the audited statements to be approved by members by 30 September.

### 4. Main report

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#### Overall position

- 4.1 The unaudited outturn position for 2018/19 shows an overall underspend of £1.582m, equating to 0.16% of the Council's total net expenditure. Table 1 below summarises the outturn, with further details provided in Appendix 1. Achievement of a balanced outturn in 2018/19 represents the twelfth successive year in which expenditure has been maintained within budgeted levels.

**Table 1 – Summarised Unaudited Outturn Statement, 2018/19**

	<b>Revised Budget</b>	<b>Outturn</b>	<b>Outturn Variance (favourable)/ unfavourable</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
Directorate-specific	833,321	845,652	12,331
Non-directorate specific budgets	157,852	142,229	(15,624)
Movement in reserves	(3,882)	(1,504)	2,378
Sources of funding	(987,291)	(987,959)	(668)
<b>In-year (surplus) / deficit</b>		<b>(1,582)</b>	<b>(1,582)</b>

- 4.2 The third quarter's revenue monitoring report considered by the Finance and Resources Committee on 1 February 2019 set out significant service pressures, particularly in demand-led areas, totalling £12.1m, with partial mitigation achieved through savings in loan charges, additional Council Tax income and assumed application of the unallocated element of the 2017/18 in-year underspend and welfare reform contingency.
- 4.3 The actual service outturn position is therefore consistent with this in-year forecast, albeit with a combination of additional savings in loan charges (£1.1m), interest and investment income (£1.4m), reductions in the net cost of benefits (£0.5m) and a number of inflation-linked contingencies not ultimately required contributing to an overall favourable movement of £3.55m (and thus an overall underspend of £1.582m) over the final months of the year.
- 4.4 While the improvement in the year-end outturn position is to be welcomed, as was highlighted in the budget update report to the Committee's previous meeting on 23 May, the approved budget for 2019/20 is predicated on the delivery of significant non-service specific savings totalling £8m including those across the areas of loan charges and Council Tax income. The revenue budget update to the Committee's meeting on 23 May noted that, as a maximum, a further £3m contribution could be made available from these or other non-service specific areas. This reinforces the urgent need to identify recurring savings, or additional income, that can be applied as part of ensuring the underlying stability of the budget framework.

#### **Directorate variances**

- 4.5 As noted in the table above, the Council's main Directorates showed an overall overspend of £12.331m (1.5%) during the year. Commentaries on the main factors comprising these variances are included in Appendix 2. Additional detail will, where appropriate, be reported to relevant Executive Committees.

## **Other areas**

- 4.6 In view of the significant pressures experienced within Directorates, savings across non-directorate specific areas were crucial in delivering a balanced overall position for the year. The elements comprising this outturn position were:

(i) **Loans charge expenditure (£5.914m underspend)**

The favourable variance was largely attributable to a combination of the Council's ongoing strategy of using available cash balances in lieu of undertaking external borrowing and the impact of in-year loan redemption, actual capital spend profiles (reflecting in-year slippage in 2018/19) and a reduced loans fund pool rate.

(ii) **Council Tax (£0.668m additional income)**

Increased property numbers and lower-than-budgeted levels of exemptions and discounts, linked to an on-going focused programme of Single Person Discount entitlement review, contributed to a small overall favourable variance. The in-year collection rate of 97.0% was also the highest achieved since the Council's formation in 1996.

(iii) **Council Tax Reduction Scheme (£2.378m underspend but offset by a corresponding transfer to the welfare reform earmarked reserve)**

While the entirely demand-led nature of the scheme exposes the Council to risks, sums paid out in 2018/19 were lower than the equivalent level of budgetary provision. As in 2017/18, this underspend has been set aside within the Council's allocated reserves to address potential welfare reform-related pressures in future years, including the impacts of the full roll-out of Universal Credit with effect from November 2018.

(iv) **Other non-directorate specific costs (£5.409m underspend)**

The overall variance reflects a number of elements, including in-year savings in Carbon Tax expenditure payable under the CRC energy efficiency scheme, reductions in past service pension costs and a number of inflation-linked contingencies not ultimately required either in part or in full.

(v) **Interest and investment income (£1.402m additional income)**

The additional income reflected, in part, continuing outperformance against the Treasury comparator cash fund benchmark during the year.

## **Approved budget savings delivery**

- 4.7 As shown in Table 2 below, the final outturn position for 2018/19 indicates that 60% of approved savings by value were delivered, with those not achieved primarily attributable to slippage in transformation and demand management linked savings within Health and Social Care and savings linked to the Asset Management Strategy. A number of in-year shortfalls affecting both anticipated income streams particularly parking, roundabout and verge advertising and expenditure reductions

linked to changes to working patterns occurred within the Place Directorate but with partial or full delivery anticipated in 2019/20.

**Table 2 – Delivery of approved budget savings, 2018/19**



- 4.8 Given the extent of demand-led pressures being experienced across directorates, the ability to contain these shortfalls was markedly lower than in previous years (although, in the case of the Resources Directorate, a slight underspend was still achieved) and, in the majority of cases, these substitute measures were of a non-recurring nature. This reinforces the need for robust savings proposal development and scrutiny at the inception, development and delivery stages.

#### **Transfer to Council Priorities Fund**

- 4.9 At the meeting of Council on 27 June 2019, members noted that the provisional in-year underspend of £1.582m had been set aside within the Council Priorities Fund pending completion of the external audit process. As set out in that report, £1.427m of this sum is available to fund future delivery of services and £0.155m is separately earmarked in accordance with Local Authority (Scotland) Accounts Advisory Committee (LASAAC) guidance, given that it relates to gains arising from the increases in the fair value of a financial asset under newly-adopted International Reporting Standard 9 in 2018/19.



- 4.10 Members additionally approved, subject to the outcome of the audit process, an increase of £7.483m in the level of the Council's 2018/19 offer to the Edinburgh Integration Joint Board (EIJB). Approval of a revised offer at this level is implicit in the set-aside noted above.

#### **Staff release costs**

- 4.11 Given the advanced stage of the Council's previous Transformation Programme, the level of expenditure associated with staff early release was, at £2.448m, considerably lower than in prior years.
- 4.12 Expressed on a cumulative basis, as of 31 May 2019, staff equivalent to 1,035 FTE had left, or had confirmed leaving dates, through Voluntary Early Release or Voluntary Redundancy Arrangements. The total release cost of these arrangements is £44.0m, with the associated payback period of 13.4 months consistent with the original planning assumptions.

#### **Spend to Save Fund**

- 4.13 At the Committee's meeting on 4 December 2018, members considered an update on a number of projects previously supported through the Spend to Save scheme. In noting the extent of progress that had been made on these schemes, members further agreed to introduce a short year-end report as part of consideration of the wider revenue budget outturn. This is included as Appendix 3 to this report.

#### **Housing Revenue Account (HRA)**

- 4.14 In line with the HRA Business Plan, at the end of 2018/19 the HRA was balanced after making a contribution of £6.757m 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.

#### **Reserves**

- 4.15 As at 31 March 2019, General Fund reserves stood at £144.845m, a fall of £6.440m relative to the preceding year. Details of the opening and closing amounts in the General Fund, including earmarked balances, are shown in Appendix 4. The adequacy and appropriateness of the level of reserves continues to be reviewed annually by Council as part of the revenue budget-setting process.
- 4.16 The overall decrease in the level of earmarked reserves during the year mainly represents the net effect of three factors as noted below:
- (i) **net reduction in sums held within the Council Tax Discount Fund (£8.801m)**, in turn mainly reflecting a drawdown of £12.346m to support planned development of affordable housing in line with the Housing Revenue Account (HRA) Business Plan. This was offset, in part, by an in-year addition to the fund of £3.430m from Council Tax second home discount income earmarked under statute;

- (ii) **net reduction in sums held within the City Strategic Investment Fund (£1.909m)**, primarily reflecting the drawdown of funding to support the design of the tram extension up to Royal Institute of British Architects (RIBA) Stage 2 as approved by the Transport and Environment Committee on 4 September 2017; and
- (iii) **net increase in sums held within the Insurance Fund (£3.710m)**, reflecting the impact of both the Council's policy of self-insurance and its potential future claims exposure.

4.17 The in-year movement on the Council's Priorities Fund reflects, in the main, the net impact of the drawdown in full of the 2017/18 audited underspend of £2.416m and the transfer to the Fund of the provisional 2018/19 underspend of £1.582m.

4.18 The unallocated General Fund balance remained unchanged at £13.025m, in line with the Council's medium-term strategy, and alongside the level of reserves held for specific purposes, is considered by officers to be consistent with the range and nature of risks to which it is exposed.

### **Common Good**

4.19 During 2018/19, the Common Good Fund incurred an overall deficit of £0.035m, primarily due to essentially-fixed levels of associated governance costs and limited investment income. A more detailed commentary on the outturn and related current financial and other issues will be included within the Common Good Annual Performance Report to be considered at the Committee's following meeting on 26 September 2019.

## **5. Next Steps**

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5.1 The Unaudited Accounts are currently the subject of consideration by the Council's external auditor. The key findings of this review, alongside those related to the wider scope audit, will be scrutinised initially by members of the Governance, Risk and Best Value Committee on 17 September 2019 prior to consideration and approval by the Finance and Resources Committee on 26 September 2019.

## **6. Financial impact**

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6.1 The report identifies a provisional surplus for the year ending 31 March 2019 of £1.582m and the requirements to set a number of funds aside for future risks.

## **7. Stakeholder/Community Impact**

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7.1 There is no direct relevance of the report's contents, although the Council's wider approach to community engagement and empowerment will be specifically considered as part of the wider scope aspects of this year's external audit process.

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

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- 8.1 [Revenue Monitoring 2018/19 – month three position](#), Finance and Resources Committee, 16 August 2018
- 8.2 [Revenue Monitoring 2018/19 – progress update](#), Finance and Resources Committee, 11 October 2018 (referred to Council on 25 October 2018 for ratification of additional project management support to Change Strategy)
- 8.3 [Revenue Monitoring 2018/19 – month six position](#), Finance and Resources Committee, 4 December 2018
- 8.4 [Revenue Monitoring 2018/19 – Month Nine Position](#), Finance and Resources Committee, 1 February 2019
- 8.5 [Unaudited Accounts 2018/19](#), City of Edinburgh Council, 27 June 2019

## **9. Appendices**

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- Appendix 1 - Unaudited Revenue Budget Outturn Statement, 2018/19
- Appendix 2 - Service Outturn Commentaries, 2018/19
- Appendix 3 - Spend to Save Fund Annual Review, 2018/19
- Appendix 4 - Transfers to and from usable reserves, 2018/19

## Unaudited Revenue Budget Outturn Statement, 2018/19

	Revised Budget	Outturn	Outturn Variance (favourable)/ unfavourable
<b>Directorates</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Chief Executive's	9,853	9,656	(197)
Communities and Families	394,862	397,307	2,445
Health and Social Care	200,754	208,237	7,483
Place	51,559	54,295	2,736
Resources	172,718	172,582	(136)
Lothian Valuation Joint Board	3,575	3,575	-
<b>Directorate totals</b>	<b>833,321</b>	<b>845,652</b>	<b>12,331</b>
<b>Non-directorate specific areas</b>			
Loan Charges	113,280	107,366	(5,914)
Other non-service specific costs	28,809	23,401	(5,409)
Council Tax Reduction Scheme (Note 1)	26,672	24,294	(2,378)
Net Cost of Benefits	(291)	(812)	(521)
Interest and investment income	(10,618)	(12,020)	(1,402)
<b>Non-directorate specific areas total</b>	<b>157,852</b>	<b>142,229</b>	<b>(15,624)</b>
<b>Movements in reserves</b>			
Net contribution to / (from) earmarked funds (Note 1)	(3,075)	(697)	2,378
Contribution to / (from) Repair and Renewals Fund	173	173	-
Contribution to / (from) Capital Fund	(980)	(980)	-
<b>Movements in reserves total</b>	<b>(3,882)</b>	<b>(1,504)</b>	<b>2,378</b>
<b>Sources of funding</b>			
General Revenue Grant	(363,757)	(363,757)	-
Non-Domestic Rates	(340,474)	(340,474)	-
Council Tax	(283,060)	(283,728)	(668)
<b>Sources of funding total</b>	<b>(987,291)</b>	<b>(987,959)</b>	<b>(668)</b>
<b>In-year (surplus) / deficit</b>	<b>-</b>	<b>(1,582)</b>	<b>(1,582)</b>

Note 1 – uncommitted funds linked to the in-year underspend in respect of the Council Tax Reduction Scheme of £2.378m were transferred to an earmarked reserve. This transfer is reflected prior to any transfer to the Council Priorities Fund.

### Directorate outturn commentaries

#### **Chief Executive's Service** (£0.197m underspend, representing 2.0% of net budget)

Overall expenditure was maintained within budgeted levels primarily through delivery of approved savings (100% delivery achieved) and management of vacant posts.

#### **Communities and Families** (£2.445m overspend, representing 0.6% of net service budget)

As reported throughout the year, the main pressures affecting the Directorate were in the areas of homelessness and housing support, home-to-school transport, rising school rolls and community access to schools.

In view of these pressures, a range of management actions was identified, including savings within Early Years, vacancy control and one-off savings within disability services, the effect of which was to mitigate the overall level of overspend.

#### **Health and Social Care** (£7.483m overspend, representing 3.7% of net budget)

The provisional outturn for budgets delegated by the IJB to the Council is an overspend of £7.483m, an increase of £0.442m from that reported to the Finance and Resources Committee at Period 9. The reasons for the overall movement since that time are an improvement in income recovery offset by an increase in purchasing expenditure and the requirement to make a provision pending decision by the Scottish Government on Ordinary Residency.

The provisional outturn reflects significant demand-led pressures. These contributed to additional third-party expenditure relative to budgeted levels of £6.3m, in turn attributable to growth in demand for care at home services and increases in Direct Payments and Individual Service Funds. This level of pressure was consistent with in-year monitoring projections and has been factored in to financial planning assumptions for 2019/20.

The budget set for 2018/2019 included savings plans totalling £9.050m, £1.450m of which were met as per the original plan and £2.5m via one-off mitigation actions, leaving £5.1m of planned savings undelivered.

The Council had previously agreed to an additional one-off contribution to the EIJB of £7.041m in 2018/19 which, based on the provisional outturn position, has now been revised to £7.483m.

#### **Place** (£2.736m overspend, representing 5.3% of net budget)

The Directorate's activities continued to be subject to significant pressures during the year. These were addressed, in part, by a budget management strategy including a material realignment of budgets across the Directorate in line with operational requirements. Whilst this increased accountability and transparency in developing and implementing remedial actions, the Directorate was unable to deliver fully the approved net level of 2018/19 savings and mitigate fully other service pressures.

Full-year savings of £1.863m were not realised due, in part, to the timing of implementation in relation to roundabout and verge advertising and garden waste collection. A further £0.400m was not realised due to changed parking behaviours. A subsequent budget realignment

exercise has been undertaken in 2019/20 which assumes full delivery of the majority of 2018/19's approved savings. Over the short- to medium-term, concerted action is required to address underlying structural deficits and emerging cost pressures in a sustainable way whilst delivering approved budget savings. This need is reflected in the Place Budget Management Strategy.

**Resources** (£0.136m underspend, representing 0.1% of net budget)

The Directorate saw an outturn underspend of £1.401m, prior to central support cost recoveries from the Housing Revenue Account (HRA), primarily reflecting the combined impact of enhanced workforce controls relating to recruitment, the enhancement of other workforce controls, such as agency and overtime expenditure and a review of discretionary expenditure. As a consequence of both reduced provider expenditure and changes in the proportion of the Directorate's activity rechargeable to the HRA, however, associated income dropped by £1.266m, resulting in a net overall underspend of £0.135m.

**Spend to Save Fund Annual Review, 2018/19**

At the Committee's meeting on 4 December 2018, members considered an update on a number of projects previously supported through the Spend to Save scheme. In noting the extent of progress that had been made on these schemes, members further agreed to introduce a short year-end report as part of consideration of the wider revenue budget outturn.

While, given the timing of their approval, the projects concerned are at varying stages of completion, progress on supported initiatives in the period to 31 March 2019 was as follows:

**RE:FIT** (up to £0.975m of Spend to Save funding approved in April 2016)

The Council initiated a £2.654m energy retrofit programme in ten of its key buildings (eight schools, the City Chambers and the Usher Hall) under the London RE:FIT Framework. The RE:FIT scheme has been designed to help public sector organisations achieve substantial financial savings, improve the energy performance of their buildings and reduce their carbon footprint. Spend to Save funding of up to £0.975m was approved to supplement available investment from SALIX and the former Central Energy Efficiency Fund (CEEF). The project is now delivering annual financial savings in excess of £0.300m and is anticipated to reduce CO<sub>2</sub> emissions by over 1,100 tonnes a year. These savings will be used to repay the final Spend to Save-supported element (some £0.6m) within the approved timescales.

**Edinburgh International Climbing Arena – sewer connection** (£0.437m of funding approved in November 2017)

The sewerage connection was made in mid-July 2018. The construction took a little longer than planned, primarily due to issues with the part-closure of the road where the connection was made to the main sewer. The final investment cost, however, came in slightly under budget at £0.435m.

The expected benefits have been realised, with savings coming from not having to pay for the effluent tank being emptied and disposed of multiple times a day.

**Streetlight LED conversion** (£0.768m approved in February 2018. This short-term funding is required to reflect timing differences between the incurring of capital expenditure and the delivery of resultant revenue savings)

The project involves conversion of some 54,000 street lights across Edinburgh to energy-efficient lanterns, along with the associated fitting of telecells (wireless controls). The programme will deliver a sustained reduction in electricity consumption, energy costs and carbon use, as well as reducing lantern maintenance, replacement and waste disposal costs.

The retro-fitting of telecells on existing LEDs is almost complete, with the lantern conversion programme also well underway. The completion timescale (anticipated in 2021/22) and associated budget remain as reported to the Finance and Resources Committee on 23 January 2018.

**Craiglockhart Outdoor Tennis** (£0.285m approved in March 2018)

The courts opened in early September, with the finalised scheme outturn of £0.252m within the level of expenditure underpinning the original approval. The resulting income continues to perform well against business case estimates.

**LED in public spaces** (£0.300m approved in June 2018)

To date, a number of projects have been commissioned, with cost estimates awaited for several further schemes. Taking into account the respective payback periods, additional projects will be taken forward either through SALIX or Spend to Save funding.

Given the state of scheme implementation, it is relatively early to assess resulting financial and environmental benefits. In view of the use of proven technology, however, subject to the appropriateness of detailed assumptions on lamp ratings and run times, savings are anticipated to be delivered in line with relevant business cases.

**Usher Hall Public Address System** (£0.080m approved in June 2018)

On-site testing of systems was provided by suppliers during Spring 2019. The preferred supplier will be appointed shortly with no change to associated costs and installation anticipated by December 2019.

**Usher Hall Marketing Poster Boards** (£0.120m approved in June 2018)

The scheme requires planning approval, which is being sought, and this has delayed implementation somewhat. There is, however, no change to the anticipated cost or resulting benefits at this stage.

**Lagganlia Snow Sports** (£0.040m approved in August 2018)

A building warrant has been submitted and the design team is working on collating responses to the Building Control report. Work is also continuing to finalise the tender specification and associated documentation, with a target of going to tender at the end of August/beginning of September, starting on site at the beginning of November and completing construction in February 2020.

A value engineering exercise is also underway to reduce construction costs, informed by the outcome of market testing on the existing specification. Overall project costs are being met from the remaining Boyd Anderson fund balance of £107,000 and the above Spend to Save allocation, with the balance being met from the Outdoor Learning earmarked reserve.

**Projects approved in 2019/20**

At the Committee's last meeting on 23 May 2019, members agreed to make available up to £0.153m of Spend to Save funding to take forward 3G pitch improvements at Leith Academy. Updates on this and the other projects noted above will be provided as the year progresses.



**TRANSFERS TO AND FROM USABLE RESERVES, 2018/19**

	<b>Balance at 31-Mar-18 £000</b>	<b>Transfers Out 2018/19 £000</b>	<b>Transfers In 2018/19 £000</b>	<b>Balance at 31-Mar-19 £000</b>
<b>Balances Set Aside to Manage Financial Risks and for Specific Investment</b>				
Balances set aside for specific inv.	40,649	(13,147)	14,794	42,296
Workforce management	18,143	0	51	18,194
Council Priorities Fund	7,691	(2,852)	1,786	6,625
Dilapidations fund	5,077	(356)	1,000	5,721
Insurance funds	15,875	(83)	3,793	19,585
	<u>87,435</u>	<u>(16,438)</u>	<u>21,424</u>	<u>92,421</u>
<b>Balances Set Aside from Income Received in Advance</b>				
Licensing and Registration income	3,080	(855)	359	2,584
Lothian Buses	388	116	0	504
Other minor funds	218	(16)	1	203
Pre-paid PPP monies	2,568	0	385	2,953
Recycling monies	697	(697)	0	0
Council Tax Discount Fund	27,432	(12,346)	3,545	18,631
Unspent grants	1,874	(1,736)	1,799	1,937
City Strategic Investment Fund	5,461	(2,054)	145	3,552
	<u>41,718</u>	<u>(17,588)</u>	<u>6,234</u>	<u>30,364</u>
<b>Balances Set Aside for Investment in Specific Projects which will Generate Future Savings</b>				
Energy efficiency	178	0	66	244
Salix / CEEF	196	(141)	197	252
Spend to save	2,975	(575)	66	2,466
	<u>3,349</u>	<u>(716)</u>	<u>329</u>	<u>2,962</u>
<b>Balances Set Aside under Devolved School Management Scheme and Pupil Equity Fund</b>				
Devolved School Management	<u>5,758</u>	<u>(5,758)</u>	<u>6,073</u>	<u>6,073</u>
<b>Unallocated General Reserve</b>				
	<u>13,025</u>	<u>0</u>	<u>0</u>	<u>13,025</u>
<b>Total General Reserve</b>	<u><b>151,285</b></u>	<u><b>(40,500)</b></u>	<u><b>34,060</b></u>	<u><b>144,845</b></u>

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# Governance, Risk and Best Value Committee

10am, Tuesday, 17 September 2019

## Revenue Monitoring 2019/20 – Period three report

Executive/routine  
Wards  
Council Commitments

### 1. Recommendations

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- 1.1 Members of the Governance, Risk and Best Value Committee are asked to:
  - 1.1.1 consider the period three-based revenue monitoring report for 2019/20 as part of the Committee's work programme.

**Stephen S Moir**

Executive Director of Resources

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## Revenue Monitoring 2019/20 – Period three report

### 2. Main report

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- 2.1 On 15 August 2019, members of the Finance and Resources Committee considered the appended report setting out the main conclusions of the first quarterly revenue monitoring report for 2019/20. Members of the Committee agreed to:
  - 2.1.1 note the current implementation status for those savings measures approved as part of the 2019/20 revenue budget;
  - 2.1.2 note progress in developing specific actions to address residual directorate pressures;
  - 2.1.3 note the proposed measures set out in Appendix 3, by which it is planned the in-year efficiencies requirement approved by Council in February 2019 will be met;
  - 2.1.4 agree, subject to confirmation of the 2018/19 outturn and ratification by Council on 22 August 2019, earmarking a further £1m from the Council Priorities Fund as an additional contribution to the 2019/20 budget, pending development of sustainable measures to address the associated savings requirement on a recurring basis;
  - 2.1.5 note the continuing assumption that the Edinburgh Integration Joint Board (EIJB) will maintain overall expenditure within the levels of funding delegated to it by the Council and NHS Lothian;
  - 2.1.6 note the requirement to identify and implement further mitigating measures such that a balanced year-end position may be achieved and, in due course, to re-establish the stability of the budget framework; and
  - 2.1.7 note the balanced projected position on the Housing Revenue Account (HRA) after making a £2.228m planned contribution towards housing investment.
- 2.2 Following the report's referral to Council on 22 August 2019, members additionally agreed to earmark, subject to confirmation of the 2018/19 outturn and ratification by Council on 22 August 2019, a further £1m from the Council Priorities Fund as an additional contribution to the 2019/20 budget, pending development of further sustainable measures to address the associated savings requirement on a recurring basis.

- 2.3 Scrutiny of the Council's financial performance, including control, monitoring and review of revenue expenditure, forms part of the delegated functions and associated workplan of the Governance, Risk and Best Value Committee. Members are therefore asked to consider the period three-based revenue monitoring report within this context.

### **3. Recommendation**

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- 3.1 Members of the Governance, Risk and Best Value Committee are asked to consider this report as part of its work programme.

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

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Finance and Resources Committee, 15 August 2019

# Finance and Resources Committee

10.00am, Thursday, 15 August 2019

## Revenue Monitoring 2019/20 – Period three report

Executive/routine  
Wards  
Council Commitments

### 1. Recommendations

---

- 1.1 Members of the Finance and Resources Committee are asked to:
  - 1.1.1 note the current implementation status for those savings measures approved as part of the 2019/20 revenue budget;
  - 1.1.2 note progress in developing specific actions to address residual directorate pressures;
  - 1.1.3 note the proposed measures set out in Appendix 3, by which it is planned the in-year efficiencies requirement approved by Council in February 2019 will be met;
  - 1.1.4 agree, subject to confirmation of the 2018/19 outturn and ratification by Council on 22 August 2019, earmarking a further £1m from the Council Priorities Fund as an additional contribution to the 2019/20 budget, pending development of sustainable measures to address the associated savings requirement on a recurring basis;
  - 1.1.5 note the continuing assumption that the Edinburgh Integration Joint Board (EIJB) will maintain overall expenditure within the levels of funding delegated to it by the Council and NHS Lothian;
  - 1.1.6 note the requirement to identify and implement further mitigating measures such that a balanced year-end position may be achieved and, in due course, to re-establish the stability of the budget framework; and
  - 1.1.7 note the balanced projected position on the Housing Revenue Account (HRA) after making a £2.228m planned contribution towards housing investment.

**Stephen S. Moir**  
Executive Director of Resources

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## Revenue Monitoring 2019/20 – Period three report

### 2. Executive Summary

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- 2.1 Following consideration of an initial progress report on 23 May 2019, this report provides an update on the period three revenue monitoring position for the Council and progress with the identification and implementation of required savings measures sufficient to achieve a balanced year-end position in 2019/20 and, in due course, to re-establish the stability of the budget framework.

### 3. Background

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- 3.1 On 23 May 2019, members of the Committee considered an update on the Council's revenue budget framework, with a specific emphasis on the projected position for 2019/20. The report noted the significant progress made in developing implementation plans for the directorate-specific savings approved as part of the current year's budget, as well as identification of a range of measures to contribute towards both the 1.55% cross-Council efficiencies target and addressing residual pressures identified by service areas. An update was also provided on steps undertaken towards balancing the EIJB's budget for 2019/20.
- 3.2 In view of the trend of reducing savings delivery apparent in recent years, however, a risk contingency was applied in estimating the actual level of savings that will subsequently be delivered during the year. When combined with residual unmitigated service pressures and additional efficiency-related measures requiring to be identified, the report pointed to a residual gap of some £13.7m. This position assumed approval and subsequent delivery by the EIJB of measures sufficient to result in a balanced position for 2019/20.
- 3.3 Given the recommendations contained within the report to ratify use of sums from the Spend to Save and Council Priorities Funds, as part of the report's onward consideration by Council on 30 May, members agreed that options to address the residual gap highlighted would be brought to the Finance and Resources Committee's meeting on 15 August 2019.
- 3.4 At the meeting of Council on 27 June 2019, in considering a motion from Cllr Whyte on implementation of a Council-wide 1.55% efficiencies requirement in 2019/20,

members additionally agreed that a specific list of proposals addressing the requirement in full would be brought back to this meeting.

## **4. Main report**

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- 4.1 Since the Committee's last meeting, Executive Directors and the Chief Officer of the Edinburgh Integration Joint Board (EIJB), along with their management teams, have continued to work towards delivery of the four main objectives set out in the report to the Finance and Resources Committee on 7 March, namely:
- (i) Development of robust implementation plans for the specific savings actions totalling £29.2m<sup>1</sup> which were approved for delivery in 2019/20;
  - (ii) Development of detailed and specific proposals to address the £9.5m efficiency savings target which was also approved as part of the 2019/20 budget;
  - (iii) Identification of mitigating actions to address estimated combined residual pressures of £8.8m across the Communities and Families, Place and Resources Directorates; and
  - (iv) Agreement, through the EIJB, of specific plans to address its estimated budget gap in 2019/20.
- 4.2 Addressing each of the above areas in full is required to allow the Council to plan, with reasonable confidence, to maintain expenditure within approved levels in 2019/20. In acknowledging that there is a degree of delivery risk for each aspect, however, elected members, the Chief Executive and Executive Directors, including the Chief Officer of the EIJB, will need to consider a range of measures to bring the current year's position back into balance. Further difficult choices will therefore be required in both this and subsequent years to secure financial sustainability.

### **Development of savings implementation plans – specific savings**

- 4.3 Progress in developing implementation plans for all specific savings approved for delivery in 2019/20 continues to be regularly reviewed by the Corporate Leadership Team (CLT) Change Board. Additional project management support has also been allocated from the non-recurring £1m approved by Council in October 2018 to assist delivery of the more challenging approved savings measures. A progress update with regard to recruitment, associated costs and key milestones and deliverables for each of the workstreams supported by this additional investment is provided in Appendix 1.
- 4.4 Review of these implementation plans continues to show positive progress, with 93% of savings by value currently assessed, on the basis of confirmed or planned actions, as green or amber as set out in Appendix 2. This assessment shows, in

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<sup>1</sup> Of the £29.8m of specific savings approved for delivery in 2019/20, £0.6m relates to areas that form part of wider savings plans or actions to mitigate pressures. As such, these savings are incorporated in determining the updated net residual pressures position considered as part of (iii) above.



particular, strong progress against those savings measures expected to be delivered, or relevant actions put in place, during the first three months of the year. Work is continuing both to explore the specific actions required to allow amber savings to be assessed as green and prioritise development of detailed plans for those approved measures currently assessed as red.

- 4.5 After successive years' efficiencies, the measures required to deliver the 2019/20 savings programme are correspondingly more challenging and there will almost inevitably be a degree of slippage in the year.
- 4.6 Although the financial risk is to an extent mitigated by the explicit incorporation of a specific contingency (discussed later in this report), effective deployment of the £1m additional project management resource and on-going review of wider savings delivery (and specifically the need for any remedial action) will be crucial to maintaining expenditure within budgeted levels.

### **Council-wide efficiencies target**

- 4.7 The update to the Committee's meeting on 23 May 2019 noted that gross actions totalling £8.578m had, as of that time, been identified. This total includes the approved drawdown of £0.786m from the Council Priorities Fund which recognised the challenging nature of the 1.55% efficiency savings target.
- 4.8 Work within directorates has continued to identify potential measures to address the balance of this requirement. Appendix 3 provides an updated list of proposed measures totalling £9.5m, with the additional measures primarily identified within the Place Directorate. This revised list therefore addresses, in full, the motion agreed by Council on 27 June by setting out the measures by which it is planned that the 1.55% cross-Council efficiencies target be met. Members of the Committee are asked to note this updated list.
- 4.9 Finance has undertaken a readiness assessment of the delivery of the efficiency measures listed in Appendix 3. While some 64% of the measures concerned are currently assessed as green or amber, the analysis highlights a particular need for implementation across a number of cross-Council workstreams. As with the specific savings above, the implications of this assessment for the overall risk contingency are considered in Paragraph 4.23 below.

### **Residual pressures**

- 4.10 Reporting during 2018/19 highlighted the need to address residual Directorate pressures on a sustainable basis through the identification and implementation of appropriate mitigating actions. The update to the Committee's previous meeting on 23 May 2019 intimated gross pressures across the Communities and Families, Place and Resources Directorates of £18.247m.
- 4.11 The report to that meeting also indicated that financial planning would be further informed by in-depth analysis of the 2018/19 outturn. This analysis has highlighted an increase in gross pressures of £1.3m, mainly comprising additional school-related required demographic provision outlined in the following paragraphs.

### **Communities and Families**

- 4.12 In-year monitoring reports have consistently highlighted the impact of rising rolls upon required staffing levels within schools. Actual pupil roll numbers for 2018/19 and projected rolls for 2019/20 indicate a combined overall requirement for 25 additional primary classes since the 2017/18 academic year. Over the same period, the secondary school pupil roll has increased by over 1,000.
- 4.13 The Council's long-term financial plan has, for many years, recognised the cost impacts of these additional pupil numbers on teaching and other staffing requirements. In view of both wider corporate affordability and a desire to incentivise innovative means of meeting this demand, however, a 70% weighting has been applied to the level of corresponding corporate provision included within the budget framework. It has not, however, in recent years been possible to deliver savings in the way, or to the extent, envisaged, with the result that the year-on-year pressure in this area is increasing.
- 4.14 Given this, a review has been undertaken across the wider financial framework of inflation-linked provisions and monies received for education-related commitments and cost pressures relative to planning assumptions to determine whether capacity exists to acknowledge the full estimated cost of the pupil number increase. Following this review, it is proposed to reallocate £2m of these sums to Communities and Families in 2019/20, broadly addressing the current level of demographic pressure.

#### **Further actions**

- 4.15 As with the other workstreams noted in Paragraph 4.1, work is continuing to identify further actions to reduce this level of residual pressure. Appendix 4 sets out the composition of both the gross pressures and associated mitigating actions totalling £19.0m. This analysis assumes that the proposal in respect of demographic funding noted above is agreed.
- 4.16 As noted in the Committee's May update, £8m of corporate savings measures were included in the approved 2019/20 budget and, as a result, in contrast to previous years, the ability to mitigate residual service pressures through this route is more limited. A maximum further £3m of such corporate savings has therefore been reflected within the £19.0m of actions available to offset some of these residual pressures included in Appendix 4, resulting in a requirement to identify and deliver a further £0.540m of savings to address the requirement in full. It should be noted that use of savings from loan charges to offset pressures will result in the loss of opportunity to use this money to fund infrastructure.
- 4.17 As with the other savings measures, Finance has undertaken an updated readiness assessment based on plans in place and risks and dependencies to delivery. This analysis indicates that 87% of savings by value are assessed as either green or amber.
- 4.18 The report to the Committee's previous meeting noted that discussions were continuing with regard to mitigating the impact of an increase in employer's superannuation contribution rates following a review of actuarial assumptions for teaching staff by the UK Treasury. While it was anticipated, at the time of budget-

setting, that these changes would be largely offset by the receipt of Barnett Consequentials that would, in turn, be passed to Local Government by the Scottish Government, the approved budget nonetheless includes provision of £1.5m, being the estimated full-year effect of the unfunded element of around 21%.

- 4.19 Since the Committee's last meeting, confirmation has been received from the Scottish Government that offsetting funding, albeit at this stage only a one-off basis, will be provided in line with the assumed funded proportion above. Following the HM Treasury confirmation that implementation of this increase will be delayed until September 2019, however, a one-off saving of £0.5m is available in the current year to offset pressures and is included in the figures above.

#### **Edinburgh Integration Joint Board (EIJB)**

- 4.20 The report to the Committee's meeting on 23 May noted that, assuming both subsequent release of the £2.5m additional contribution held within the Council Priorities Fund and the proposed use of EIJB reserves, the residual EIJB budget gap for 2019/20 was £7.15m.
- 4.21 A further financial update was considered by the EIJB on 21 June 2019. Taking into account the Board's decision at that time not to make a one-off contribution from carried-forward investment monies received in respect of nationally-funded initiatives, the in-year gap remains at £7.15m. Discussions on the use of reserves and other mitigating measures between the partners are continuing.
- 4.22 This gap, in turn, assumes full delivery in 2019/20 of the Partnership's approved savings programme of £11.941m. The RAG status of these measures was reported to the EIJB's Savings Governance Board on 19 July. This analysis indicates that some 71% of savings by value are currently assessed as green or amber. Delivery of the savings programme, identification of measures to meet the gap and management of demand/budget pressures will therefore be critical in ensuring a balanced outturn position in 2019/20. It is proposed that management of the EIJB budget in 2019/20 and future years is based fully on the arrangements set out within the Integration Scheme i.e. that expenditure will be maintained within the levels of funding delegated to it by the Council and NHS Lothian.

## Overall projected position for 2019/20

- 4.23 While, as noted in earlier sections of the report, the current assessment is for the majority of savings to be delivered in full, given the trends observed in recent years, it is prudent to incorporate delivery risk contingencies based both on past years' experience and the specific Finance assessments. At this stage, assuming implementation of all the actions included in Appendices 3 and 4, there is therefore a residual gap, after applying this risk contingency, of £11.416m, representing only a modest improvement relative to the position reported to the Committee's meeting on 23 May 2019. This position also continues to assume approval and subsequent delivery by the EIJB of measures sufficient to result in a balanced position in 2019/20.

Savings Category	Target	Identified	"Weighted" savings identified after application of risk contingency	Gap
	£m	£m	£m	£m
Approved Savings – specific measures	29.173	29.173	24.797 <sup>2</sup>	4.376
Approved Savings - 1.55% Efficiencies	9.500	9.500	6.000	3.500
Residual pressures	19.574	19.034	16.034	3.540
<b>Total</b>	<b>58.247</b>	<b>57.707</b>	<b>46.831</b>	<b>11.416</b>

- 4.24 The net reduction of £2.3m in the residual gap since that reported to the Committee's meeting on 23 May 2019 primarily reflects a combination of:
- (i) upward revisions to the delivery risk contingencies for the efficiencies (particularly the Council-wide lean and income maximisation) workstreams and residual pressure mitigation measures, together totalling £2m;
  - (ii) further demographic-related pressures of £1.4m within Communities and Families, based on updated analysis of the 2018 and anticipated 2019 pupil intakes, offset by the provision of £2m of additional funding (i.e. a net *reduction* of £0.6m);
  - (iii) reduction in residual pressures and/or additional mitigations identified within the Communities and Families (£1m) and Place (£2.3m) Directorates; and
  - (iv) a £0.5m one-off saving relative to the level of 2019/20 budget framework provision following confirmation of the Scottish Government funding

<sup>2</sup> Assumes actual level of delivery of 85% based on a weighted assessment of currently-assessed green, amber and red savings.

allocation in respect of the increase in employer teachers' superannuation contributions effective from September 2019.

### **Further measures required to achieve financial balance**

- 4.25 In view of both the level of assumed corporate savings (£8m within the approved budget and a further £3m identified in respect of service pressures mitigation) and available timescales for implementation of further measures, focussed action is required to address this residual gap. While discussions around flexibilities in loans fund advances are continuing, these will not provide sustainable savings approaching the level required over the medium-term and any such rescheduling will additionally require to form part of a wider strategy agreed with the Council's external auditor.

### **Council Priorities Fund**

- 4.26 At the meeting of Council on 30 May 2019, members approved the release of up to £5m from the Council Priorities Fund pending development of sustainable measures to address the wider savings requirement on a recurring basis.
- 4.27 The revenue budget outturn report elsewhere on today's agenda indicates a provisional 2018/19 in-year underspend of £1.582m, with this sum set aside in the Council Priorities Fund. Subject to the outcome of the audit process, it is proposed that £1m of this sum be made available to supplement the £5m noted above.
- 4.28 If subsequently applied in full, as shown in Appendix 5, this would reduce the remaining savings requirement in 2019/20 to £5.416m. More fundamentally, however, it does not obviate the need for more difficult choices and prioritisation if financial sustainability is to be maintained during the period of the framework. In addition, use of one-off savings measures to balance the current budget will only increase future funding gaps and the level of savings required.

### **Development of additional actions**

- 4.29 Given the currently unbalanced nature of the budget framework, Executive Directors and the Chief Officer of the EIJB are required to continue to examine all opportunities to control and contain expenditure within budgeted levels in 2019/20. A progress update on both this and any available flexibilities around loans fund rescheduling will be provided as part of a further report to be considered by the Committee on 10 October 2019.

### **Housing Revenue Account (HRA)**

- 4.30 At month three, the HRA is forecasting a balanced position. As set out in the approved budget, it is expected that a £2.228m contribution to housing investment will be able to be made from in-year rentals received. This contribution is, however, dependent on the mitigation of key risks.
- 4.31 There remain significant budget pressures relating to housing repairs and maintenance. Work is underway through the Housing Service Improvement Plan to increase productivity and reduce sub-contractor spend through the introduction of the Total Mobile technology solution. There is also a risk to rental income with the

continued roll-out of Universal Credit; a contingency has therefore been put in place to manage this and will be regularly assessed throughout the year. These key risk areas will continue to be monitored closely and reported to the Housing, Homelessness and Fair Work Committee and Policy and Sustainability Committee as appropriate.

### **Trends in expenditure**

- 4.32 At the Committee's meeting on 23 May 2019, members asked that further details be provided of in-year expenditure trends to consider whether instances of higher-than-average procurement-related expenditure in the early months of the financial year might influence initial full-year spend projections.
- 4.33 At a high level, the outturn report for 2018/19 elsewhere on today's agenda shows little variation between in-year service area projections and actual full-year expenditure, attesting to the broad accuracy of the monitoring process. In addition, however, a detailed analysis has been undertaken of relevant spend over the period from January to June 2019 inclusive to determine if any discernible trends are apparent. The results of this analysis are shown in Appendix 6.
- 4.34 Procurement-related expenditure has been analysed based on the payment date and, due to most payments being made in arrears, mainly relates to the previous month. As a result, for example, April data relates to March expenditure. Due to the requirement to complete the financial statements on an accruals basis, material amounts will have been accrued back to the 2018/19 financial year.
- 4.35 Within the data recorded for April, there are a number of one-off or significant payments, including £6.7m of funding for Edinburgh Leisure, the £7.3m Committee approved for the advance payment against the Council's ICT contract and £1.5m to the Scottish Qualifications Authority for examination fees.
- 4.36 Within the data recorded for May, there are £4m of grant payments for mainly cultural organisations, where 70% of the funding is made available to these organisations at the beginning of the year. Additionally, the payments section was managing a backlog of Health and Social Care invoices in April and May.
- 4.37 Based on a high-level analysis of the data, there is therefore no evidence of a spike in departmental revenue expenditure at the start of the financial year.
- 4.38 Capital expenditure shows a significant increase in expenditure at year end, which is in line with previous financial years. This is due to the requirement to ensure that capital expenditure on projects is certified towards the end of March for asset recording purposes.

## **5. Next Steps**

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- 5.1 As noted above, consideration of further measures to bring expenditure back within approved levels is continuing and a further update will be provided to the Committee on 10 October 2019.

## **6. Financial impact**

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- 6.1 The report acutely emphasises the importance of proactive management of pressures and delivery of approved savings. In view of the continuing significant projected in-year savings shortfall, however, urgent measures will require to be implemented during the year if the integrity of the framework is to be maintained.

## **7. Stakeholder/Community Impact**

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

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

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- 8.1 [Finance Update](#), Edinburgh Integration Joint Board, 24 May 2019
- 8.2 [2019/20 Financial Plan](#), Edinburgh Integration Joint Board, 29 March 2019
- 8.3 [Performance Report](#), Edinburgh Integration Joint Board, 29 March 2019
- 8.4 [Revenue Budget Framework 2019/23 – Progress Update](#), Finance and Resources Committee, 7 March 2019
- 8.5 [Coalition Budget Motion](#), City of Edinburgh Council, 21 February 2019
- 8.6 [Feedback on the Change Strategy and Budget Proposals, 2018 and 2019](#), The City of Edinburgh Council, 21 February 2019
- 8.7 [Council Change Strategy: Planning for Change and Delivering Services 2019-2023](#), Finance and Resources Committee, 1 February 2019
- 8.8 [Council Change Strategy – Risks and Reserves 2019-2023](#), Finance and Resources Committee, 1 February 2019
- 8.9 [Revenue Budget Framework 2019/24 – progress update](#), Finance and Resources Committee, 23 May 2019
- 8.10 [Finance Update](#), Edinburgh Integration Joint Board, 21 June 2019

## 9. Appendices

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Appendix 1 – Additional programme management support progress update

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

Appendix 3 – Efficiencies workstream, 2019/20 – actions identified to date and associated RAG assessment

Appendix 4 – Gross pressures and associated mitigations (with RAG assessments), 2019/20

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

Appendix 6 – Procurement-related spend, January to June 2019



Project	FTE Allocated	FTE Recruited	Business Case Opportunity	Next Milestone
<p>"Your Total Reward"</p> <p>Page 349</p>	3 FTE	3 FTE in place	<p>Your Total Reward will review current Local Government Employee pay, terms and conditions and benefits. The project will meet our commitment to consolidate the Living Wage into base pay by 2021 and will seek to progress positively base pay and financial wellbeing for our lowest-paid employees. The project will also restore the pay differential for Grades 1, 2 and 3.</p> <p>The change proposals will remove complexity around pay/terms and conditions and drive a better organisational culture by introducing a simplified reward framework that promotes the right behaviours and supports effective service design/delivery. If approved in totality, the proposals will further reduce our gender pay gap by 1%, improve our Employee Value Proposition and align our pay and benefit terms and conditions to the wider market.</p>	<p>Initial senior stakeholder meetings have commenced with service area-specific data.</p> <p>Senior management feedback will be reviewed and considered in next CLT update.</p> <p>Consultation to commence Autumn 2019.</p>
Operational Efficiencies Programme	1 FTE	1 FTE in place	<p>CLT are reviewing opportunities for £9.5m efficiencies. The Project Manager is in place and developing the framework and tools to support the Programme.</p> <p>To date £6.5m of opportunities are underpinned by a detailed Implementation Plans, with further planning and controls being implemented in the other areas.</p>	<p>Regular reporting to CLT in place.</p> <p>Work ongoing to establish implementation plans for the remaining savings.</p>
Lean and Automation	9 FTE	Team of four internal staff have been recruited, all with Lean experience within CEC	<p>Part of the Efficiencies Programme.</p> <p>The Business Case approved in March 2019 outlined an opportunity for £1.25m in 2019/20.</p>	<p>The board is in place, with Heads of Service now meeting fortnightly to confirm opportunities and agree savings.</p> <p>9 FTE consists of 4 x Lean Experts (all recruited internally); 2 x digital analysts to develop online forms; 2 x new intelligent automation officers and 1 x business change officer to ensure changes delivered are sustainable.</p> <p>The initial pipeline of opportunities has been developed for CLT review.</p>

## £1m additional programme management support update (continued)

Project	FTE Allocated	FTE Recruited	Business Case Opportunity	Next Milestone
Depots and Yards	2 FTE	1 FTE in place Additional PM to start on 15 July	The Business Case approved in March 2019 outlined an opportunity for £0.5m savings in 2020/21.	Business Case on Cultural Storage is currently undergoing financial scrutiny. This is an enabler to the Depot Strategy and Cultural Venue Review.
Asset Management: Service Design	3 FTE	1 FTE in place Offers issued for the remaining 2 FTE	The Business Case approved in March 2019 outlined an opportunity to deliver savings of £0.25m in 2019/20, with a total target of £2.45m through to 2021/22.	To date £0.093m has been secured towards the £0.250m target in 2019/20 Service Design Community engagement exercises in Gracemount and Trinity. A progress report is included elsewhere on today's agenda.
Fleet Review	1 FTE	1 FTE in place	The Business Case approved in March 2019 identified £1.5m of potential savings.	Full Business Case and Project Initiation Document to be produced for Change Board review Autumn 2019.

Change Strategy: Approved Budget Proposals 2019/20 - delivery assessment

		Department	2019/20 approved saving	Green	Amber	Red
Ref	Proposal					
CP.17	Enabling Educational Efficiencies – Third Party Grants (2018/19 additional spend)	C&F	0.250	0.250		
CP.45	Invest in Revenue Collection Officers	C&F	0.175	0.175		
CP.46	Invest to reduce temporary accommodation voids rates	C&F	0.090		0.090	
CP.47	Adoption of Scottish Government Framework for electricity and gas	C&F	0.030		0.030	
CP.56	NHS commissioned services	C&F	0.100	0.100		
CP.59	Carers' Act Funding	C&F	0.075	0.075		
CP.65	Efficiencies in the delivery of accommodated children’s services	C&F	0.510	0.405	0.105	
CP.68	Library service - reduce book fund	C&F	0.200	0.200		
CP.69	ASN adaptations to mainstream schools	C&F	0.100	0.100		
CP.72	Heritage language	C&F	0.042	0.042		
CP.83	Support for Learning Management	C&F	0.200	0.200		
CP.90	Police funding	C&F	0.522	0.522		
		Total C&F	2.294	2.069	0.225	0.000
CP.04 (i)	Edinburgh Leisure (Year 1 - Pay uplift)	C&F	0.350	0.350		
		Total CE - Ed L	0.350	0.350	0.000	0.000
CP.33	Funding the Edinburgh Partnership and Third Sector Interface	CE	0.040	0.040		
CP.89	Reduce capacity in Strategy and Communications	CE	0.200	0.200		
		Total CE	0.240	0.240	0.000	0.000
CP.08	Asset Management Strategy and Service Reprovisioning	Resources	0.250	0.091		0.159
CP.21	ICT Solutions Organisational Review	Resources	0.450	0.450		
CP.27	ICT/CGI Partnership Arrangements	Resources	0.050	0.050		
CP.28	Print and Mail Strategy	Resources	0.090		0.090	
CP.38	Emergency Service Provision for Edinburgh Shared Repairs Service	Resources	0.218	0.218		
CP.39	Investment portfolio rationalisation	Resources	0.415		0.415	
CP.40	Non Domestic Rates Appeals	Resources	0.800		0.800	
CP.42	Additional advertising income	Resources	0.470	0.070	0.400	
CP.44	Increasing Income from Castle Terrace Car Park	Resources	0.500	0.500		
CP.61	Business support services review	Resources	1.000	1.000		
CP.62	Property and FM: Management and Investment Estate Savings	Resources	0.515	0.515		
CP.63	Reduction in Executive Director of Resources budget	Resources	0.126	0.126		
CP.77	Upfront Payments	Resources	0.200		0.200	
CP.79	Property Maintenance Programme (2018/19 additional spend)	Resources	0.850	0.850		
CP.87	Corporate Learning and Development – Budget Reduction	Resources	0.250	0.250		
CP.88	Monitoring Officer (MO) – Budget Reduction	Resources	0.107	0.107		
CP.91	ICT Partnership – Contract Optimisation	Resources	1.200	1.200		
		Total Resources	7.491	5.427	1.905	0.159
CP.01(ii)	Improved Approach to Street and Environmental Enforcement	Place	0.750		0.500	0.250
CP.05	Tourism and Marketing Reform	Place	0.300	0.300		
CP.06	Localities Phase Two	Place	0.300		0.150	0.150
CP.14	Area-Based Regeneration	Place	0.250		0.125	0.125
CP.13	Parking Action Plan Phase 2	Place	0.369		0.070	0.300
CP.23	Fleet Review	Place	0.500		0.500	
CP.25 (2)	Commercialism and Income Maximisation - Full Cost Recovery	Place	0.200		0.180	0.020
CP.25 (3)	Commercialism and Income Maximisation - Statutory Consents	Place	0.825	0.577	0.127	0.122
CP.25 (4)	Commercialism and Income Maximisation - Pre-planning Applications	Place	0.100	0.100		
CP.25 (5i)	Commercialism and Income Maximisation - Culture	Place	0.150	0.150		
CP.25 (5ii)	Commercialism and Income Maximisation - Parks and Greenspaces	Place	0.150	0.020		0.130
CP.32	Joint Procurement of Waste Contracts	Place	0.325		0.163	0.163
CP.49	Re-provision of public conveniences	Place	0.250		0.250	
CP.50	Clean and Green (2018/19 additional spend)	Place	0.250	0.250		
CP.51	Roads (Additional funding) (2018/19 additional spend)	Place	0.250	0.250		
CP.78	Capitalisation of Road Maintenance Budget	Place	0.500	0.500		
CP.81	Transport Reform	Place	0.500		0.500	
CP.82	Economic Development	Place	1.200		1.200	
CP.85	New Ways of Working - Public Safety and Business Continuity	Place	0.130		0.130	
		Total Place	7.299	2.147	3.894	1.259
CP.15	Council Tax	Corporate	3.000	3.000		
CP.15	Loans charges	Corporate	5.000	5.000		
CP.19	Workforce Modernisation and Change Management	Corporate	0.500			0.500
CP.26	Contract Optimisation	Corporate	0.100	0.100		
CP.84	EDI	Corporate	1.047	1.047		
		Total	9.647	9.147	0.000	0.500
Total newly-approved saving (excluding efficiencies)			27.321	19.380	6.024	1.918
Previously-approved savings for delivery in 2019/20:						
Parking - increase charges by average of 4.5% per annum over four years		Place	0.800	0.400	0.400	
Cultural grants		Place	0.052	0.052		
Discretionary income		C&F	0.096	0.096		
Discretionary income		HSC	0.013	0.013		
Discretionary income		Place	0.824	0.618	0.100	0.106
Discretionary income		Resources	0.067	0.067		
		Council-wide total	1.000	0.794	0.100	0.106
Total approved savings for delivery in 2019/20 (excluding efficiencies)			29.173	20.626	6.524	2.024

## Efficiencies workstream, 2019/20 - identified savings measures

Action	Description of Action	2019/20 £000	Green	Amber	Red
	<b>Approved Budget Savings 2019-20: Operational Efficiencies at 1.55% of Net Expenditure</b>	<b>9,500</b>			
Management Savings (C&F)	Communities and Families will review managerial structures and will produce a revised senior management structure. The part year savings for 2019/20 are estimated at £0.64m.	640	406	234	
Workforce Control (C&F)	Communities and Families will apply targeted vacancy control taking account of service needs and priorities. Essential child protection services and schools budgets will be exempt from additional vacancy controls.	700		700	
Workforce Control (C&F)	Family & Household Support and Quality Assurance have a number of existing vacancies. These vacancies will be frozen pending a wider review of the service which will also re-structure management posts.	350	350		
Workforce Control - Reduction in Agency and Overtime (Place)	Enhanced workforce controls will be implemented in Place to reduce overtime and agency spend. Recognising instances where permanent staff are not used for operational and economic reasons due to seasonal or irregular service patterns, an overall 5% reduction has been assumed. For illustration, this represents the equivalent of 16 FTE at grade 5.	900		450	450
Reduction in Discretionary Expenditure (Place)	Development and implementation of proposals to reduce further discretionary expenditure across the Place directorate, including staff travel.	650	180	235	235
Place Development - Efficiencies	Development and implementation of a range of measures to manage identified pressures and risks. It is anticipated that the material aspects of this workstream will come from process improvements and through a review of third party contract arrangements.	730	250	250	230
Place Management - Efficiencies	Development and implementation of a range of efficiency measures.	530		265	265
Workforce Control (Resources)	A 1.55% efficiencies savings target has been allocated to Finance (£78,000), HR (£59,000) and Legal and Risk (£25,000). The saving is anticipated to be achieved as follows: Finance-employee turnover; HR-full year effect of 2018/19 Organisational Review; Legal and Risk-review of recharge rates and time recording processes.	162	162		
Workforce Control (Chief Executive)	Proportionate share of Council-wide workforce control target	46	46		
Customer and Digital Services - Efficiencies	Implementation of a range of savings measures across Business Support, Customer and Digital Services, including employee turnover savings; employee savings achieved through changes in service delivery; review of existing contracts; channel shift savings; and review of income from external customers.	656	389	100	167
Operational Efficiencies - Lean Business Processes	Development and implementation of a pipeline of Lean reviews to simplify business processes, eliminate waste and develop lean and efficient processes, ensuring that we are making best use of our existing technologies; enabling development of a culture of continuous improvement and improving the quality and consistency of service.	1,250		350	900
Operational Efficiencies - Intelligent Automation	Development and implementation of a pipeline of reviews to automate high volume, low value repetitive business transactions to release savings, increase capacity, improve processing quality and accuracy, and enhance management information.	500		300	200
Operational Efficiencies - Income Generation	Development and implementation of proposals to generate additional income.	1,000			1,000
Operational Efficiencies - Reduction in Senior Management	Review and reconfiguration of senior management structures across the Council to reduce costs.	500	199	301	
Operational Efficiencies - Procurement	This workstream will develop a range of contract management efficiencies through robust grants and contract management, with a focus on the top Council suppliers, in terms of influenceable spend; and, implement a revised approach to requisitions / purchases, to enable a targeted constructive challenge of spend.	100		100	
Council Priorities Fund	This represents the drawdown of the balance set aside in the Council Priorities Fund which recognised the challenging nature of the £9.5m (1.55%) efficiencies savings target for 2019/20.	786	786		
	<b>Operational Efficiencies - Gross Actions</b>	<b>9,500</b>	<b>2,768</b>	<b>3,285</b>	<b>3,447</b>
Operational and Other Efficiencies - Savings Delivery Risk Adjustment	Interim risk adjustment applied against efficiencies workstream savings targets pending development of detailed savings implementation plans.	-3,500			
	<b>Operational Efficiencies - Net Actions</b>	<b>6,000</b>			
<b>Operational Efficiencies - Remaining Gap</b>		<b>3,500</b>			

**Gross pressures and associated mitigations, 2019/20**

<b>Pressure</b>	<b>Description of Budget Pressure</b>	<b>2019/20 £000</b>
Home to School Transport	Expenditure on home to school transport increased from £5.5m in 16/17 to £7.4m in 18/19. In addition, approved savings of £0.4m in 2018/19 have not yet been delivered. The majority of the additional expenditure relates to children with additional support needs and there has been a significant increase in children receiving individual or high cost shared transport.	2,700
Homelessness	The shortage of suitable temporary accommodation is leading to the service having to place individuals in bed and breakfast accommodation. This is the most costly provision as the proportionate level of housing benefit the Council receives for B&B is low in comparison to other accommodation types.	1,400
Community Access to Schools	The budget for community access to secondary schools assumes a net surplus of £1.3m but at present is achieving £0.25m. Additional PPP and facilities management charges introduced in recent years have affected the net surplus being delivered.	1,050
Schools - Demography	Demography funding provided in recent years has been insufficient to meet the full impact of rising school rolls on the cost of the budget allocations determined through the Scheme of Devolved School Management.	2,363
Schools - Non Devolved Costs	Non-devolved costs for maternity cover, grounds maintenance and other central costs are in excess of available budgets.	900
Residual Pressures 2018/19 - Waste and Cleansing	Waste and Cleansing services have experienced underlying pressures including additional employee costs and higher than anticipated Landfill Tax expenditure. Measures, including the implementation of Millerhill operations and additional contract management efficiencies, are in place to address these underlying deficits through the Waste Improvement Plan and wider budget realignment.	2,935
Residual Pressures 2018/19 - Deferred Delivery of Approved Savings (Place)	Management action will be required in 2019/20 to deliver the full impact of savings approved by Council in February 2018 including: Economic Development review (£0.3m); Fleet savings (£0.2m); Roundabout and Verge advertising (£0.2m); and Garden Waste collection (£0.5m).	1,200
Residual Pressures 2018/19 (Place)	There are a range of underlying net budget pressures across Place Directorate including a shortfall in Pay and Display parking income; additional expenditure in Parks and Greenspace; and increasing legal fees relating to planning appeals.	847
Staff Increments 2019/20 (Place)	The estimated impact of staff increments in 2019/20 is £1.2m. Budget management measures including vacancy control and removal of discretionary spend budgets have been applied in 2018/19 and it will be significantly more challenging for managers to meet this cost than has previously been the case.	1,200
Transport Review 2019/20	There were a number of vacancies within the Transport service during 2018/19. The proposed structure within the current Roads and Transport organisational review represents an increase on current staffing. Further work will be undertaken to ensure that the final organisational structure is affordable and sustainable.	1,200
Parking Income 2019/20	In 2018/19, there was a marked change in parking behaviours which resulted in reduced pay and display income. A further provision of £0.45m is assumed against parking income in 2019/20 and this will be closely monitored on an ongoing basis.	450
Place - One-Off Mitigations in 2018-19	This pressure represents the reversal of a range of one-off measures which were applied in 2018-19.	1,606
Property and Facilities Management	This pressure includes residual savings of £0.903m to be achieved from the Asset Management Strategy which was approved by Act of Council 2016 and Property and Facilities Management employee turnover savings of £0.539m approved by Act of Council 2018.	1,723
	<b>Gross Pressures</b>	<b>19,574</b>

Action	Description of Mitigating Action	2019/20 £000	Green	Amber	Red
Homelessness - Reduction in use of Bed and Breakfast	A range of actions to reduce the use of Bed and Breakfast including 60 additional Private Sector Leasing properties (with lease premiums payable in order to attract landlords to the scheme), and 18 additional HRA properties being made available for temporary accommodation from the end of 2018/19.	1,000			1,000
Homelessness - Additional Housing Benefit	Increased income from a reduction in Housing Benefit clawbacks, resulting from a change in the mix of temporary accommodation types and the conversion of B&B properties to Shared Accommodation with access to cooking and cleaning facilities.	600	600		
Home to School Transport	Implementation of a range of actions to seek to reduce the pressure including: A more equitable home to school transport policy; a review of individual and high cost packages to identify alternative options; a new framework agreement for external transport hire; and a Transport Allocation Panel to assess all requests for individual transport.	700	400	300	
Community Access to Schools	A number of actions are being considered to seek to reduce the pressure including: transfer of the management of primary and special school lets and non-sports lets to Edinburgh Leisure; a revised opening hours model to reduce additional PPP and facilities management costs; and harmonisation of prices with Edinburgh Leisure.	600	250	350	
Early Years	Maintenance of existing staffing vacancies pending reconfiguration of the organisational structure to realign staffing responsibilities to fulfil the requirements of Early Learning and Childcare Expansion.	750	750		
Additional Income (C&F)	Fees and charges were increased by 5% on average and it is anticipated that this will deliver additional income above the level of budgeted increase.	120	120		
Service Containment of Increment Costs (Place)	Development and implementation of a range of savings measures across service areas to offset the cost of staff increments in 2019/20.	1,200	300	400	500
Localities and Communities Investment Funding	The Council's budget for 2018/19 approved an allocation of £0.25m to support investment in Communities and Localities with decisions on investment approved through Locality Committees. Due to the timing of approval and the lead in time required to deliver projects, it is estimated that expenditure incurred in 2019/20 will be £0.12m.	130	130		
Operational Efficiencies - Senior Management Review (Place)	Review of senior management arrangements within Place Management.	100		50	50
Realise Full Year Impact of Previously Approved Savings (Place)	Not all 2018-19 savings were realised in full. Management action will be undertaken to deliver the full impact of the Economic Development review (£0.3m); Fleet savings (£0.2m); Roundabout and Verge advertising (£0.2m); and Garden Waste collection.	1,200	1,000	200	
Implement Service Reforms (Place)	Development and implementation of service reforms to be implemented in year. Potential areas for change include reforms to Council Transport Companies; and implementation of cashless parking to reduce cash handling costs.	200		100	100
Reduction in Budget Pressures (Place)	Development and implementation of proposals to challenge and reduce the impact of identified cost pressures. This will include detailed analysis of the reduction in Pay and Display parking income which emerged in 2018-19 to consider potential action to mitigate the effect.	1,000	250	750	
Value for Money Audits (Place)	The proposal will build on case studies from other Local Authorities where VFM audits have been undertaken in terms of frequency of service operations, associated costs and citizen satisfaction. Association for Public Service Excellence (APSE) reports and recommendations will be evaluated for adoption of best practice.	300		150	150
Contract Efficiencies (Place)	Further contract management efficiencies will be negotiated and implemented in Place Management. The proposal will not impact on front line service delivery.	600		200	400
Millerhill Operations (Place)	The full year benefit of Millerhill operations will be realised in 2019-20.	1,800	1,800		
Transport Review (Place)	Review has reduced pressure through refinement of structure and a review of permissible capitalisation of costs in respect of creation of Council transport assets.	1,200	700	250	250
Planning Appeals (Place)	Policy to be agreed and applied to minimise cost to Council of defending cases.	300	150	150	
Pentland Hills Operations (Place)	The proposal relates to a review of operating arrangements including consideration of the allocation of operating costs between funding partners.	100		50	50
Property and Facilities Management	Pressures within the Division are forecast to be partly mitigated by a one-off saving of £1.134m in the budget for rates for the Council's operational properties. The anticipated reduction in rates liabilities is dependent upon the outcome of property rating revaluation appeals and therefore carries risk until revised rates revaluations are confirmed. Confirmation is anticipated in early October 2019.	1,134		1,134	

Action	Description of Mitigating Action	2019/20 £000			
Re-Profile of Expenditure	Carry forward of Property and Facilities Management earmarked balance from 2018/19 to mitigate the 2019/20 budget pressure.	500	500		
Schools - Demography	In light of the pressures noted above, it is proposed that £2m of corporate funding relating to currently-uncommitted inflation-related allowances and wider education-related commitments and pressures be reallocated to address demogrpahic-related pressures within the Communities and Families Directorate.	2,000	2,000		
Corporate Budgets	Corporate budgets will be reviewed on an ongoing basis to seek to secure additional savings of up to £3m through a range of measures, including proactive treasury management to increase investment income and maximisation of Council Tax income through continuation of improvements in collection rates and ongoing review of the council tax base, discounts and exemptions.	3,000	3,000		
Teachers' pensions	While available only on a one-off basis, confirmation has now been received from the Scottish Government on the level of mitigating funding to be made available following changes to the teachers' superannuation contribution rate effective from September 2019. Given the later-than-anticipated implementation, there is expected to be an in-year saving of £0.5m relative to the level of provision contained within the budget framework.	500	500		
	Mitigation of Budget Pressures - Total Actions	19,034	12,450	4,084	2,500
Residual pressures - mitigations	Interim risk adjustment applied against mitigating actions pending development of detailed savings implementation plans.	-3,000			
Budget Pressures - Remaining Gap		3,540			



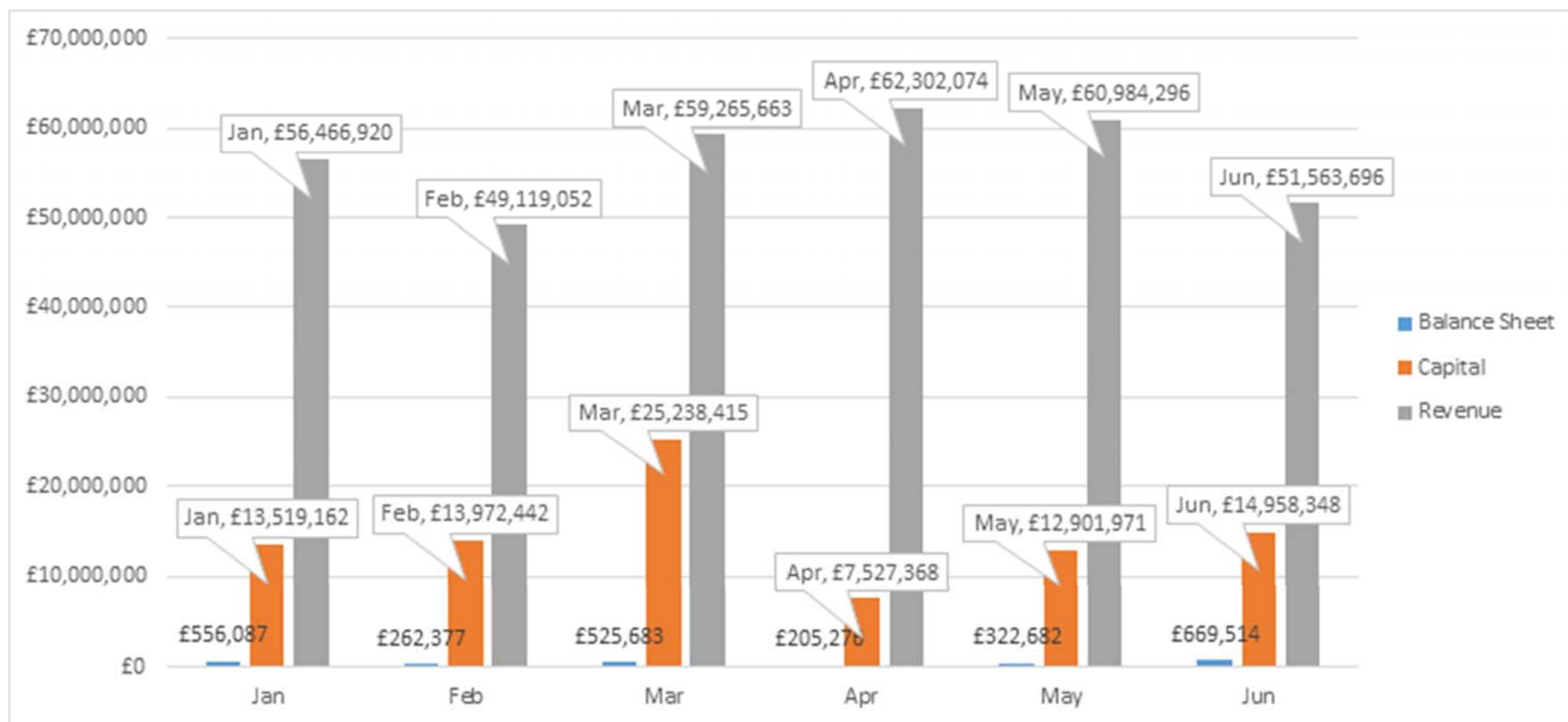
**2019/20 Revenue Budget - Projected Expenditure Analysis**  
**Period 3**

	£m	£m
<b>Projected service outturns (favourable)/unfavourable, prior to application of risk contingency</b>		<b>4.926</b>
<b>Comprising:</b>		
Chief Executive's Service	0.000	
Communities and Families	4.750	
(less proposed reallocation of inflationary provision/other education-related funding to offset school-related demographic pressures)		(2.000)
Place	1.236	
Resources	0.940	
Health and Social Care*	0.000	
<b>Non service-specific variances (favourable)/unfavourable</b>		<b>(4.286)</b>
<b>Comprising:</b>		
Other inflationary-related uplifts	(1.000)	
Teachers' pensions - in-year saving due to revised implementation date for increase in employer's superannuation rate	(0.500)	
Investment income	(1.000)	
<b>Approved contributions from reserves</b>		
Council Priorities Fund - efficiencies workstream	(0.786)	
<b>Sources of funding</b>		
Council Tax	(1.000)	
<b>Net overall projection prior to application of risk adjustments</b>		<b>0.640</b>
<b>Risk adjustments</b>		<b>10.776</b>
<b>Comprising:</b>		
Approved Savings - £29.173m at 15%		4.376
Efficiencies (including Council-wide savings)		3.400
Residual pressure mitigation		3.000
<b>Risk-adjusted projected outturn prior to reserves funding</b>		<b>11.416</b>
<b>Additional contributions from reserves:</b>		
Council Priorities Fund (including £1m in respect of provisional 2018/19 underspend)	(6.000)	
<b>Projected outturn</b>		<b>5.416</b>

\* - position shown for Health and Social Care assumes identification, and subsequent delivery, of sufficient measures to result in a balanced overall position for 2019/20.



## Procurement-related spend, January to June 2019



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## Governance, Risk and Best Value Committee

10am, Tuesday, 17 September 2019

### Treasury Management: Annual Report 2018/19 - referral from the City of Edinburgh Council

Executive/routine  
Wards  
Council Commitments

#### 1. For Decision/Action

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

**Andrew Kerr**

Chief Executive

Contact: Louise Williamson, Assistant Committee Clerk

E-mail: [louisepwilliamson@edinburgh.gov.uk](mailto:louisepwilliamson@edinburgh.gov.uk) | Tel: 0131 529 4264

# Referral Report

## Treasury Management: Annual Report 2018/19

### 2. Terms of Referral

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- 2.1 The City of Edinburgh Council on 22 August 2019 considered a report on Treasury Management activity in 2018/19.
- 2.2 The City of Edinburgh Council agreed:
  - 2.2.1 To approve the Treasury Management Annual Report 2018/19.
  - 2.2.2 To refer the report by the Executive Director of Resources to the Governance, Risk and Best Value Committee for scrutiny.

### 3. Background Reading/ External References

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Minute of the City of Edinburgh Council 22 August 2019.

Minute of Finance and Resources Committee 15 August 2019.

### 4. Appendices

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Appendix 1 - report by the Executive Director of Resources

10am, Thursday 22 August 2019

## Treasury Management: Annual Report 2018/19 – referral from the Finance and Resources Committee

Executive/routine  
Wards  
Council Commitments

### 1. For Decision/Action

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- 1.1 The Council is asked to approve the Treasury Management Annual Report 2018/19 which was noted by the Finance and Resources Committee on 15 August 2019.

**Andrew Kerr**

Chief Executive

Contact: Veronica MacMillan, Committee Services

Email: [veronica.macmillan@edinburgh.gov.uk](mailto:veronica.macmillan@edinburgh.gov.uk) | Tel: 0131 529 4283

# Referral Report

## Treasury Management: Annual Report 2018/19 – referral from the Finance and Resources Committee

### 2. Terms of Referral

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- 2.1 The Council has adopted the CIPFA Code of Practice on Treasury Management in the Public Sector, and under the code, an Annual Report on Treasury Management must be submitted to the Council after the end of each financial year. A separate mid-term report will also be produced during the financial year.
- 2.2 In line with the intended strategy reported in March 2018, the Council continued to fund its borrowing requirement from the reduction of its investment balances. The only borrowing completed during the financial year was £140k in interest free loans from SALIX and just over £2.7m from Public Works Loan Board (PWLb) to match the capital advances for the loans to the Edinburgh Living Mid-Market Rent LLP.
- 2.3 To mitigate some of the interest rate risk to which the Council was exposed, the Council also transacted a forward starting loan during 2018/19. The £60m committed market borrowing was a forward starting loan with Personal and Business Banking (PBB) which was agreed in August 2018 with the monies to be drawn down in October 2020.
- 2.4 The Finance and Resources Committee agreed:
  - 2.4.1 To note the Annual Report on Treasury Management for 2018/19.
  - 2.4.2 To agree that a report would be brought back to the Finance and Resources Committee following the conclusion of discussions with RBS and Natwest in relation to Lender Option Borrower Option Loans (LOBOS).
  - 2.4.3 To refer the report to Council for approval and subsequent referral by Council to the Governance, Risk and Best Value Committee for scrutiny.

### 3. Background Reading/ External References

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Minute of the Finance and Resources Committee of 15 August 2019.

## 4. Appendices

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Appendix 1 – report by the Executive Director of Resources

## Finance and Resources Committee

10:00am, Thursday, 15<sup>th</sup> August 2019

### Treasury Management: Annual Report 2018/19

Executive/routine  
Wards  
Council Commitments

#### 1. Recommendations

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1.1 It is recommended that the Committee:

- Notes the Annual Report on Treasury Management for 2018/19; and,
- Refers the report to Council for approval and subsequent referral by Council to the Governance, Risk and Best Value Committee for their scrutiny.

**Stephen S. Moir**

Executive Director of Resources

Contact: Innes Edwards, Principal Treasury and Banking Manager,  
Finance Division, Resources Directorate

E-mail: [innes.edwards@edinburgh.gov.uk](mailto:innes.edwards@edinburgh.gov.uk) | Tel: 0131 469 6291



## Treasury Management: Annual Report 2018/19

### 2. Executive Summary

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- 2.1 The purpose of this report is to give an update on Treasury Management activity in 2018/19. In line with the intended strategy reported in March 2018, the Council continued to fund its borrowing requirement from the reduction of its investment balances. The only borrowing completed during the financial year was £140k in interest free loans from SALIX and just over £2.7m from PWLB to match the capital advances for the loans to the Edinburgh Living Mid-Market Rent LLP. To mitigate some of the interest rate risk to which the Council is exposed, the Council also transacted a forward starting loan during 2018/19. The £60m committed market borrowing is a forward starting loan with PBB which was agreed in August 2018 with the monies to be drawn down in October 2020.

### 3. Background

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- 3.1 The Council has adopted the CIPFA Code of Practice on Treasury Management in the Public Sector, and under the code, an Annual Report on Treasury Management must be submitted to the Council after the end of each financial year. A separate mid-term report will also be produced during the financial year.

### 4. Main report

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- 4.1 The key points in this report are that:
- For the fifth year in a row, the Council's capital repayments were greater than its new capital expenditure funded by borrowing, so the Council's underlying need to borrow for a capital purpose reduced by £27.1m during the year;
  - Just under £50m PWLB matured during the year helping to reduce overall borrowing costs to the Council. There was £2.7m borrowed from the PWLB in January and £140k interest free loan from Salix at financial year end. Appendix 4 shows a list of the Council's debt;

- The Council continued its successful medium-term strategy of funding capital expenditure from a reduction in temporary investments and at the end of the financial year the Council's external borrowing was £157m under its Capital Financing Requirement; and
- the average interest rate on the Cash Fund for the year was 0.71%, continuing to outperform the benchmark, which was 0.51% for the year.

### **Prudential Indicators**

- 4.2 Treasury Management is undertaken with regard to the CIPFA Code of Practice for Treasury Management in the Public Services and CIPFA's Prudential Code. Appendix 1 contains Prudential Indicators showing a breakdown of the actual out-turn of 2018/19.

### **Borrowing Overview**

- 4.3 Appendix 2 shows details of the Council's borrowing for 2018/19 including an economic commentary for the year from the Council's treasury advisors, Arling close.
- 4.4 The Council continued to fund capital expenditure from temporary investments only borrowing £140k of interest free funds and £2.7m from the PWLB for Edinburgh Living. The Council also agreed forward borrowing of £60m from PBB to help reduce interest rate risk on a large future borrowing requirement.

### **Investment Out-turn**

- 4.5 Appendix 3 shows the Investment Out-turn for 2018/19. Investment continues to be made via the Cash Fund arrangement.
- 4.6 The Council's money is invested via the Treasury Cash Fund. The Cash Fund encompasses a number of organisations, including Lothian Pension Fund. Interest is accrued on a monthly basis and performance is evaluated against a benchmark, which is 7-day LIBID.
- 4.7 The average interest rate on the fund for the year was 0.71%. This continued to show significant outperformance against the benchmark which was 0.51% for the year. Appendix 3 shows details of investment performance alongside historical investment balances.

### **Conclusions**

- 4.8 The Strategy set in March 2018 regarding borrowing was fully implemented and achieved significant savings for the Council.
- 4.9 £60m forward borrowing was completed to manage the interest rate risk on a future project.
- 4.10 The investment return for 2018/19 continued to show out-performance against the Fund's benchmark, although low in absolute terms, while maintaining the security of the investments.

## **5. Next Steps**

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

## **6. Financial impact**

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

## **7. Stakeholder/Community Impact**

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

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

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- 8.1 None

## **9. Appendices**

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Appendix 1: Prudential Indicators

Appendix 2: Borrowing Overview

Appendix 3: Investment Out-turn 2018/19

Appendix 4: Outstanding debt 31<sup>st</sup> March 2019

## Appendix 1

### Prudential Indicators

#### (a) Prudential Indicator 1 - Estimate of Capital Expenditure

This gives a breakdown of the actual capital expenditure incurred during 2018/19.

	2017/18 Actual £'000	2018/19 Original £'000	2018/19 Revised £'000	2018/19 Actual £'000
<b>General Services</b>				
Council Wide / Corporate Projects	364	0	0	26
Lending	6,470	45,078	45,078	23,152
Communities and Families	35,989	54,597	40,572	28,431
Edinburgh Integrated Joint Board	496	2,727	2,727	138
Place	85,267	110,084	110,084	109,572
Resources	3,503	16,221	16,221	2,652
Resources - Asset Management Works	10,990	17,575	17,575	21,770
Trams	2,383	0	0	0
General Slippage across programme	0	0	-11,613	0
<b>Total General Services Capital Expenditure</b>	<b>145,462</b>	<b>242,282</b>	<b>220,644</b>	<b>185,741</b>
Housing Revenue Account	72,816	80,934	80,934	80,962
<b>Total</b>	<b>218,278</b>	<b>327,216</b>	<b>301,578</b>	<b>266,703</b>

**Table 1 – Capital Expenditure 2018/19**

The capital programme is re-phased annually once the unaudited out-turn of the previous year is known. The original estimates above reflect the budget position as reported in the Treasury Strategy in March 2018, with the revised figures representing the projected position reported to the Finance and Resources Committee in August 2018 following the re-phasing of the programme.

The following table shows how the £266.7m of capital expenditure incurred in 2018/19 was funded:

	Gen Services	HRA	CEC Total	Police	Fire	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Net Cap Adv (01/04/18)	990,703	381,070	1,371,773	12,440	319	1,384,532
Gross Cap Ex	185,741	80,962	266,713	0	0	266,713
Cap Income	-148,392	-64,462	-212,864	0	0	-212,864
Net Cap Ex	37,349	16,500	53,849	0	0	53,849
Capital Repaid	-60,790	-20,115	-80,905	-1,256	-319	-82,480
Net Cap Adv (01/04/19)	967,262	377,455	1,344,717	11,184	0	1,355,901

**Table 2 – Source of Funding for Capital Expenditure 2018/19**

The CEC Total column shows expenditure of £266.7m being partly funded by capital grants and capital receipts, leaving only £53.9m to be funded by borrowing. However, the Council repaid principal of £80.9m for previous capital advances, giving a net reduction in the need to borrow of £27.1m. In addition, previous capital advances of £1.6m were repaid on behalf of the former Police and Fire joint boards, giving a total reduction in the need to borrow of £28.7m.

**(b) Indicator 2 - Ratio of Financing Costs to Net Revenue Stream**

This gives an indication of the cost of the Council's debt relative to its income.

	2017/18 Actual %	2018/19 Estimate %	2018/19 Revised %	2018/19 Actual %
General Services	11.63	11.38	11.44	11.38
Housing Revenue Account	37.88	39.64	38.69	39.98

**Table 3 – Ratio of Financing Costs to Net Revenue Stream**

**(c) Indicator 3 - Capital Financing Requirement (CFR)**

This shows the Council underlying need to borrow / take on other forms of Capital funding.

	2017/18 Actual £'000	2018/19 Original £'000	2018/19 Revised £'000	2018/19 Actual £'000
General Services (incl. finance leases)	1,128,518	1,123,368	1,111,679	1,079,328
Edinburgh Living LLP	0	12,870	12,870	2,734
NHT LLPs	66,725	98,933	98,933	87,143
Housing Revenue Account	380,621	377,505	375,833	377,454
<b>Total</b>	<b>1,575,864</b>	<b>1,612,676</b>	<b>1,599,315</b>	<b>1,546,659</b>

**Table 4 – Capital Financing Requirement**

In preparing Tables 4 and 5, all finance lease liabilities have been included for both current and prior year figures as required by the new Borrowing Regulations in Scotland, rather than other long term liabilities as defined by CIPFA's Prudential Code.

	<b>2017/18 Actual £'000</b>	<b>2018/19 Actual £'000</b>
General Services Capital Advances	991,154	967,261
HRA Capital Advances	380,621	377,454
<b>Total CEC Borrowing CFR</b>	<b>1,371,775</b>	<b>1,344,716</b>
Other Finance Lease Liabilities	204,089	201,944
<b>Total CEC Debt CFR</b>	<b>1,575,864</b>	<b>1,546,659</b>

**Table 5 – Split of CEC Capital Financing Requirement**

The Council operated within both the Authorised Limit and the Operational Boundary at all times during the year and there were no breaches of the Council's Treasury Management Policy.

## Appendix 2

### Borrowing Overview

The Council's treasury advisor, Arlingclose, has provided the following economic review of the year:

*After spiking at over \$85/barrel in October 2018, oil prices fell back sharply by the end of the year, declining to just over \$50 in late December before steadily climbing toward \$70 in April 2019. UK Consumer Price Inflation (CPI) for February 2019 was up 1.9% year/year, just above the consensus forecast but broadly in line with the Bank of England's February Inflation Report. The most recent labour market data for the three months to January 2019 showed the unemployment rate fell to a new low 3.9% while the employment rate of 76.1% was the highest on record. The 3-month average annual growth rate for pay excluding bonuses was 3.4% as wages continue to rise steadily and provide some upward pressure on general inflation. Once adjusted for inflation, real wages were up 1.4%.*

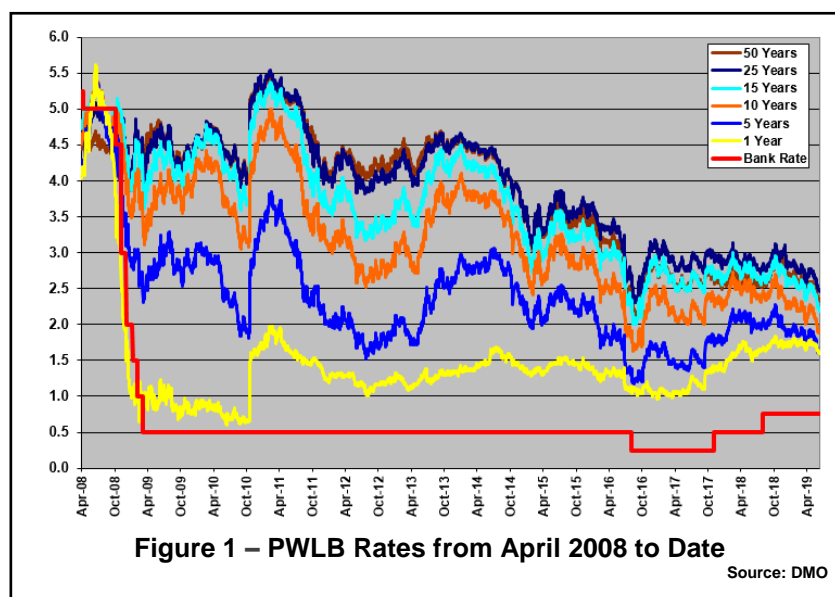
*After rising to 0.6% in the third calendar quarter from 0.4% in the second, fourth quarter economic growth slowed to 0.2% as weaker expansion in production, construction and services dragged on overall activity. Annual GDP growth at 1.4% continues to remain below trend. Following the Bank of England's decision to increase Bank Rate to 0.75% in August, no changes to monetary policy have been made since.*

*The US Federal Reserve continued its tightening bias throughout 2018, pushing rates to the 2.25%-2.50% range in December. However, a recent softening in US data caused the Fed to signal a pause in hiking interest rates at the last Federal Open Market Committee (FOMC) meeting in March.*

*With the 29<sup>th</sup> March 2019, the original EU 'exit day' now been and gone, having failed to pass a number of meaningful votes in Parliament, including the rejection of Theresa May's deal for the third time, MPs voted by a majority of one (313 to 312) to force the prime minister to ask for an extension to the Brexit process beyond 12<sup>th</sup> April in order to avoid a no-deal scenario. Recent talks between the Conservative and Labour parties to try to reach common ground on a deal which may pass a vote by MPs have yet to yield any positive results. The EU must grant any extension and its leaders have been clear that the terms of the deal are not up for further negotiation. The ongoing uncertainty continues to weigh on sterling and UK markets.*

*While the domestic focus has been on Brexit's potential impact on the UK economy, globally the first quarter of 2019 has been overshadowed by a gathering level of broader based economic uncertainty. The US continues to be set on a path of protectionist trade policies and tensions with China in particular, but with the potential for this to spill over into wider trade relationships, most notably with EU. The EU itself appeared to be show signs of a rapid slowdown in economic growth with the major engines of its economy, Germany and France, both suffering misfires from downturns in manufacturing alongside continued domestic/populist unrest in France. The International Monetary Fund downgraded its forecasts for global economic growth in 2019 and beyond as a consequence.*

Figure 1 below shows PWLB borrowing rates since 2008. This clearly shows a decrease in borrowing rates mainly due to the uncertainty surrounding Brexit.



The strategy for 2018/19 approved in March 2018 was to continue to fund capital expenditure by reducing cash deposits with the only borrowing completed a small amount interest free and from the PWLB to mitigate interest rate risk when lending to Edinburgh Living. However, as detailed in Table 5, the total underlying need to borrow fell by £27m during the year. Table 6 below summarises the outstanding debt portfolio during the year.

Type of Loan	Balance 01.04.2018 £m	Borrowing Raised £m	Borrowing Repaid £m	Balance 31.03.2019 £m
PWLB - fixed	969.114	2.734	-49.656	922.192
Salix Finance Ltd	1.532	0.140	-0.304	1.368
Market	274.900	0.000	0.000	274.900
	<u>1,245.546</u>	<u>2.874</u>	<u>-49.960</u>	<u>1,198.460</u>
Capital Advances	<u>1,384.534</u>			<u>1,355.901</u>
Under-borrowed	<u>138.988</u>	Under-borrowed		<u>157.441</u>

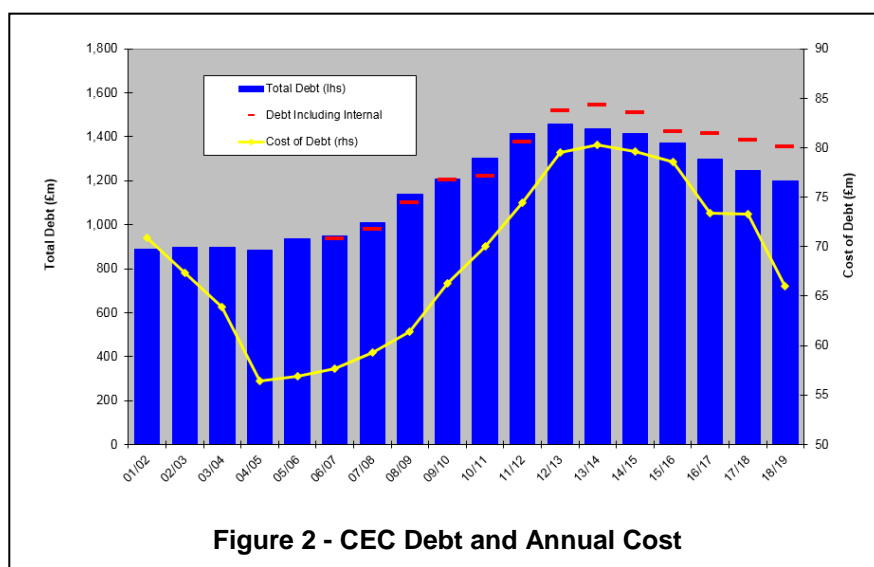
Table 6 – Outstanding Debt Portfolio 2018/19

£49.656m of PWLB debt matured during the year. However, the only replacement borrowing taken out during the year was £2.734m from the PWLB and £140k in interest free loans from SALIX. Therefore, the Council's borrowing fell by just over £47m over the year. This does not include the agreed forward borrowing of £60m due to be drawn down in October 2020.

2018/19 was the fifth year in a row that the repayment of previous capital advances were greater than new capital advances funding by borrowing, reducing the Council's underlying need to borrow. This, and the under-borrowing strategy to not replace maturing debt, has



meant that over the last five years the Council's external debt has fallen by £236m. Figure 2 below shows the Council's total borrowing and cost of the borrowing.



The total interest cost in servicing the Council's debt in 2018/19 was £63m, over £15m lower than it was 5 years ago.

For a number of reasons, in recent years it has become less attractive for banks to continue to hold local authority LOBO loans. In 2016 Barclays unilaterally waived the optionality in their loans, turning them into long term fixed rate loans. During 2018/19 one holder of loan authority LOBO loans put their entire portfolio up for sale. The Council bid to buy back the £5m loan we had from them with the intention of re-financing it with the PWLB showing a modest long term saving. However, even at that level the Council's bid was unsuccessful and the loan is now held by a pension fund.

We are also aware that a number of Councils have repaid or restructured their LOBO loans with RBS. We have been in dialogue with RBS on the options which might be available to the Council in relation to the Inverse LOBO loans for a number of months. The terms which have been offered to the Council are potentially better than in the original contract but are still onerous given current market conditions. A number of potential outcomes have been put forward with different financial and accounting implications. The discussions are on-going to evaluate which, if any, of these outcomes represent the best long-term value to the Council.

We will continue to evaluate options for restructuring the Council's market loans as and when opportunities arise.

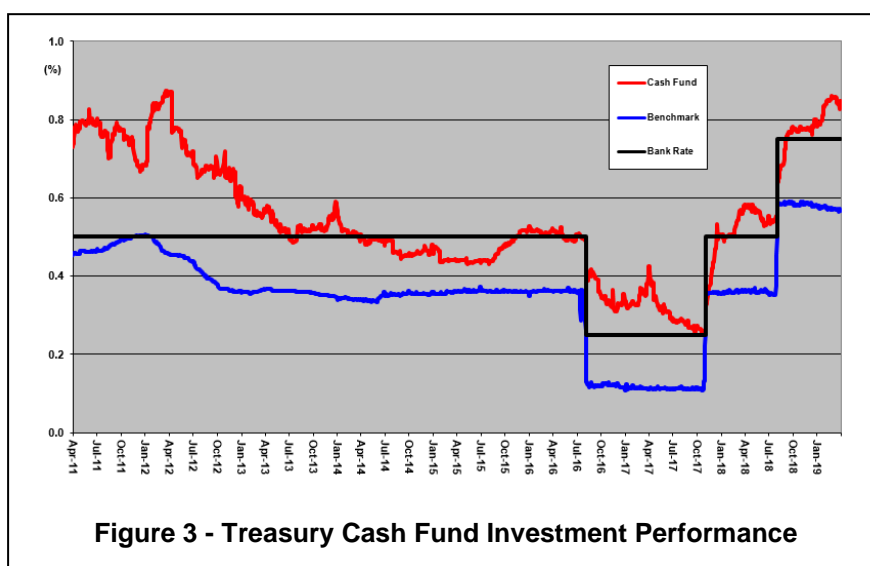
## Appendix 3

### Investment Out-turn 2018/19

The Council's money is invested via the Treasury Cash Fund. The Cash Fund encompasses a number of organisations, including Lothian Pension Fund. Interest is accrued on a monthly basis and performance is evaluated against a benchmark, which is 7-day LIBID.

The Bank of England's Monetary Policy Committee (MPC) increased Bank Rate by 0.25% in August 2018 to 0.75% with no changes being made since. The MPC had been expected to raise rates in May but held due to weak economic data. The Bank was confident that the dip was temporary and moved to increase rates in August. The move was questioned due to Brexit uncertainty however the Bank's governor, Mark Carney, said that monetary policy could be adjusted if necessary.

Figure 3 below shows the investment performance since April 2011.

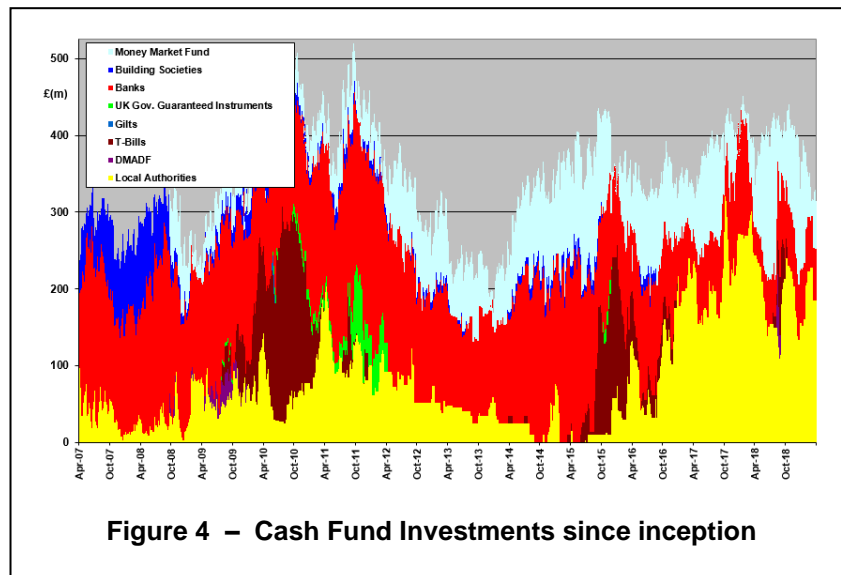


**Figure 3 - Treasury Cash Fund Investment Performance**

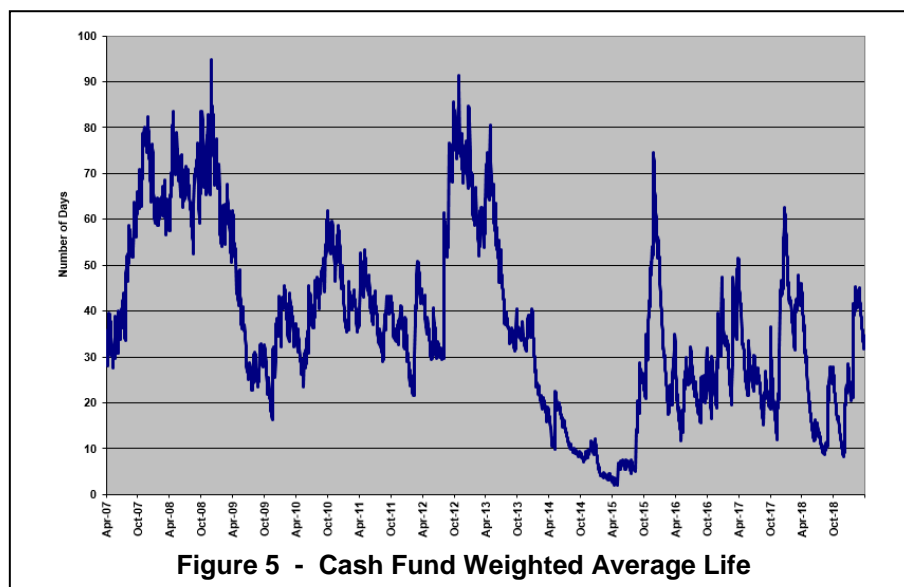
The average interest rate on the Cash Fund for the year was 0.71%, which continued to outperform the benchmark, which was 0.51% for the year. The fund generated income of just over £1.5m for the financial year to CEC.

The emphasis remained on security during the financial year with the return of the principal sum being the main concern. With the Strategy being around the security of the investments, Cash Fund money invested with banking institutions was held on instant access call and a 31 day notice account with a highly credit rated institution and a large percentage of the fund was held with other Local Authorities on short term fixed deposits

and notice accounts. Figure 4 below shows the distribution of the Cash Fund investments since April 2007.



As can be seen in Figure 5 below the weighted average life (WAL) at the end of the financial year was 32 days. The WAL at the time of the increase in UK Bank Rate in August was under 10 days which meant the fund could react quickly to take advantage of the increase in interest rates.



## Appendix 4

### Outstanding Debt 31<sup>st</sup> March 2019

PWLB PROFILE	START DATE	MATURITY DATE	PRINCIPAL OUTSTANDING £	INTEREST RATE %	ANNUAL INTEREST £
M	30/03/2009	30/03/2019	5,000,000.00	3.46	173,000.00*
M	21/04/2009	21/04/2019	10,000,000.00	3.4	340,000.00
M	23/04/2009	23/04/2019	5,000,000.00	3.38	169,000.00
A	12/11/2008	12/11/2019	548,774.19	3.96	27,006.62
M	23/03/1994	15/11/2019	5,000,000.00	8	400,000.00
M	07/12/1994	15/11/2019	10,000,000.00	8.625	862,500.00
A	01/12/2008	01/12/2019	541,108.45	3.65	24,555.73
M	01/12/2009	01/12/2019	5,000,000.00	3.77	188,500.00
M	14/12/2009	14/12/2019	10,000,000.00	3.91	391,000.00
M	15/02/1995	25/03/2020	5,000,000.00	8.625	431,250.00
M	21/04/2009	21/04/2020	10,000,000.00	3.54	354,000.00
M	12/05/2009	12/05/2020	10,000,000.00	3.96	396,000.00
M	21/10/1994	15/05/2020	5,000,000.00	8.625	431,250.00
M	07/12/1994	15/05/2020	5,000,000.00	8.625	431,250.00
M	21/11/2011	21/05/2020	15,000,000.00	2.94	441,000.00
M	16/08/1995	03/08/2020	2,997,451.21	8.375	251,036.54
M	09/12/1994	15/11/2020	5,000,000.00	8.625	431,250.00
A	10/05/2010	10/05/2021	1,288,737.50	3.09	43,624.27
M	21/10/1994	15/05/2021	10,000,000.00	8.625	862,500.00
M	10/03/1995	15/05/2021	11,900,000.00	8.75	1,041,250.00
M	12/06/1995	15/05/2021	10,000,000.00	8	800,000.00
M	02/06/2010	02/06/2021	5,000,000.00	3.89	194,500.00
M	16/08/1994	03/08/2021	2,997,451.21	8.5	254,783.35
M	28/04/1994	25/09/2021	5,000,000.00	8.125	406,250.00
M	23/04/2009	23/04/2022	5,000,000.00	3.76	188,000.00
M	12/06/1995	15/05/2022	10,200,000.00	8	816,000.00
M	14/06/2010	14/06/2022	10,000,000.00	3.95	395,000.00
M	31/03/1995	25/09/2022	6,206,000.00	8.625	535,267.50
M	16/02/1995	03/02/2023	2,997,451.21	8.625	258,530.17
M	24/04/1995	25/03/2023	10,000,000.00	8.5	850,000.00
M	05/12/1995	15/05/2023	5,200,000.00	8	416,000.00
M	20/09/1993	14/09/2023	2,997,451.21	7.875	236,049.28
M	20/09/1993	14/09/2023	584,502.98	7.875	46,029.61
M	08/05/1996	25/09/2023	10,000,000.00	8.375	837,500.00
M	13/10/2009	13/10/2023	5,000,000.00	3.87	193,500.00
M	05/12/1995	15/11/2023	10,000,000.00	8	800,000.00
M	10/05/2010	10/05/2024	10,000,000.00	4.32	432,000.00
M	28/09/1995	28/09/2024	2,895,506.10	8.25	238,879.25
M	14/05/2012	14/11/2024	10,000,000.00	3.36	336,000.00
A	14/12/2009	14/12/2024	4,660,747.41	3.66	189,384.93

M	17/10/1996	25/03/2025	10,000,000.00	7.875	787,500.00
M	10/05/2010	10/05/2025	5,000,000.00	4.37	218,500.00
M	16/11/2012	16/05/2025	20,000,000.00	2.88	576,000.00
M	13/02/1997	18/05/2025	10,000,000.00	7.375	737,500.00
M	20/02/1997	15/11/2025	20,000,000.00	7.375	1,475,000.00
A	01/12/2009	01/12/2025	7,633,241.52	3.64	286,494.83
M	21/12/1995	21/12/2025	2,397,960.97	7.875	188,839.43
M	21/05/1997	15/05/2026	10,000,000.00	7.125	712,500.00
M	28/05/1997	15/05/2026	10,000,000.00	7.25	725,000.00
M	29/08/1997	15/11/2026	5,000,000.00	7	350,000.00
M	24/06/1997	15/11/2026	5,328,077.00	7.125	379,625.49
M	07/08/1997	15/11/2026	15,000,000.00	6.875	1,031,250.00
M	13/10/1997	25/03/2027	10,000,000.00	6.375	637,500.00
M	22/10/1997	25/03/2027	5,000,000.00	6.5	325,000.00
M	13/11/1997	15/05/2027	3,649,966.00	6.5	237,247.79
M	17/11/1997	15/05/2027	5,000,000.00	6.5	325,000.00
M	13/12/2012	13/06/2027	20,000,000.00	3.18	636,000.00
M	12/03/1998	15/11/2027	8,677,693.00	5.875	509,814.46
M	06/09/2010	06/09/2028	10,000,000.00	3.85	385,000.00
M	14/07/2011	14/07/2029	10,000,000.00	4.9	490,000.00
E	14/07/1950	03/03/2030	2,780.49	3	89.10
M	14/07/2011	14/07/2030	10,000,000.00	4.93	493,000.00
E	15/06/1951	15/05/2031	2,929.45	3	89.64
M	06/09/2010	06/09/2031	20,000,000.00	3.95	790,000.00
M	15/12/2011	15/06/2032	10,000,000.00	3.98	398,000.00
M	15/09/2011	15/09/2036	10,000,000.00	4.47	447,000.00
M	22/09/2011	22/09/2036	10,000,000.00	4.49	449,000.00
M	10/12/2007	10/12/2037	10,000,000.00	4.49	449,000.00
M	08/09/2011	08/09/2038	10,000,000.00	4.67	467,000.00
M	15/09/2011	15/09/2039	10,000,000.00	4.52	452,000.00
M	06/10/2011	06/10/2043	20,000,000.00	4.35	870,000.00
M	09/08/2011	09/02/2046	20,000,000.00	4.8	960,000.00
M	23/01/2006	23/07/2046	10,000,000.00	3.7	370,000.00
M	23/01/2006	23/07/2046	10,000,000.00	3.7	370,000.00
M	19/05/2006	19/11/2046	10,000,000.00	4.25	425,000.00
M	07/01/2008	07/01/2048	5,000,000.00	4.4	220,000.00
M	27/01/2006	27/07/2051	1,250,000.00	3.7	46,250.00
M	16/01/2007	16/07/2052	40,000,000.00	4.25	1,700,000.00
M	30/01/2007	30/07/2052	10,000,000.00	4.35	435,000.00
M	13/02/2007	13/08/2052	20,000,000.00	4.35	870,000.00
M	20/02/2007	20/08/2052	70,000,000.00	4.35	3,045,000.00
M	22/02/2007	22/08/2052	50,000,000.00	4.35	2,175,000.00
M	08/03/2007	08/09/2052	5,000,000.00	4.25	212,500.00
M	30/05/2007	30/11/2052	10,000,000.00	4.6	460,000.00
M	11/06/2007	11/12/2052	15,000,000.00	4.7	705,000.00
M	12/06/2007	12/12/2052	25,000,000.00	4.75	1,187,500.00
M	05/07/2007	05/01/2053	12,000,000.00	4.8	576,000.00

M	25/07/2007	25/01/2053	5,000,000.00	4.65	232,500.00
M	10/08/2007	10/02/2053	5,000,000.00	4.55	227,500.00
M	24/08/2007	24/02/2053	7,500,000.00	4.5	337,500.00
M	13/09/2007	13/03/2053	5,000,000.00	4.5	225,000.00
M	12/10/2007	12/04/2053	5,000,000.00	4.6	230,000.00
M	05/11/2007	05/05/2057	5,000,000.00	4.6	230,000.00
M	15/08/2008	15/02/2058	5,000,000.00	4.39	219,500.00
A	25/01/2019	25/01/2059	2,734,495.00	2.65	72,464.12
M	02/12/2011	02/12/2061	5,000,000.00	3.98	199,000.00
			922,192,324.90		

\* Repaid 01/04/19 due to 30/03/19 falling on a Saturday

NON LOBO PROFILE	START DATE	MATURITY DATE	PRINCIPAL OUTSTANDING £	INTEREST RATE %	ANNUAL INTEREST £
M	30/06/2005	30/06/2065	5,000,000.00	4.4	220,000.00
M	07/07/2005	07/07/2065	5,000,000.00	4.4	220,000.00
M	21/12/2005	21/12/2065	5,000,000.00	4.99	249,500.00
M	28/12/2005	24/12/2065	12,500,000.00	4.99	623,750.00
M	14/03/2006	15/03/2066	15,000,000.00	5	750,000.00
M	18/08/2006	18/08/2066	10,000,000.00	5.25	525,000.00
M	01/02/2008	01/02/2078	10,000,000.00	3.95	395,000.00
			62,500,000.00		

LOBO PROFILE	START DATE	MATURITY DATE	PRINCIPAL OUTSTANDING £	INTEREST RATE %	ANNUAL INTEREST £
M	12/11/1998	13/11/2028	3,000,000.00	4.75	142,500.00
M	15/12/2003	15/12/2053	10,000,000.00	5.25	525,000.00
M	18/02/2004	18/02/2054	10,000,000.00	4.54	454,000.00
M	28/04/2005	28/04/2055	12,900,000.00	4.75	612,750.00
M	25/02/2011	25/02/2060	15,000,000.00	7.576	1,124,393.84
M	25/02/2011	25/02/2060	10,000,000.00	7.576	749,595.89
M	26/02/2010	26/02/2060	5,000,000.00	7.517	370,177.81
M	26/02/2010	26/02/2060	10,000,000.00	7.517	740,355.62
M	01/07/2005	01/07/2065	10,000,000.00	3.86	386,000.00
M	24/08/2005	24/08/2065	5,000,000.00	4.4	220,000.00
M	07/09/2005	07/09/2065	10,000,000.00	4.99	499,000.00
M	13/09/2005	14/09/2065	5,000,000.00	3.95	197,500.00
M	03/10/2005	05/10/2065	5,000,000.00	4.375	218,750.00
M	23/12/2005	23/12/2065	10,000,000.00	4.75	475,000.00
M	06/03/2006	04/03/2066	5,000,000.00	4.625	231,250.00
M	17/03/2006	17/03/2066	10,000,000.00	5.25	525,000.00
M	03/04/2006	01/04/2066	10,000,000.00	4.875	487,500.00
M	03/04/2006	01/04/2066	10,000,000.00	4.875	487,500.00
M	03/04/2006	01/04/2066	10,000,000.00	4.875	487,500.00
M	07/04/2006	07/04/2066	10,000,000.00	4.75	475,000.00
M	05/06/2006	07/06/2066	20,000,000.00	5.25	1,050,000.00
M	05/06/2006	07/06/2066	16,500,000.00	5.25	866,250.00
			212,400,000.00		

SPECIAL FIXED/ VAR	START DATE	MATURITY DATE	PRINCIPAL OUTSTANDING £	INTEREST RATE %	ANNUAL INTEREST £
F	07/01/2015	01/09/2021	197,392.85	0	0.00
F	31/03/2015	01/04/2023	811,303.83	0	0.00
F	22/09/2015	01/10/2023	219,799.70	0	0.00
F	29/03/2019	01/04/2029	139,978.53	0	0.00
			1,368,474.91		

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## Governance, Risk and Best Value Committee

10am, Tuesday, 17 September 2019

### Corporate Governance Framework Self-Assessment 2018/19

Executive/routine Wards Council Commitments	All
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#### 1. Recommendations

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- 1.1 To note the Corporate Governance Framework Self-Assessment 2018-19.
- 1.2 To note ongoing development of an effective framework for the Council, with a focus on continuous improvement.

**Andrew Kerr**

Chief Executive

Contact: Gavin King, Democracy, Governance and Resilience Senior Manager

E-mail: [gavin.king@edinburgh.gov.uk](mailto:gavin.king@edinburgh.gov.uk) | Tel: 0131 529 4239

## Corporate Governance Framework Self-Assessment 2018/19

### 2. Executive Summary

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- 2.1 The Council's Corporate Governance Framework (CGF) is based on the Chartered Institute of Public Finance & Accountancy and Society of Local Authority Chief Executives model framework Delivering Good Governance in Local Government.
- 2.2 The Council's self-assessment of its compliance with the framework for the financial year 1 April 2018 to 31 March 2019 is presented for scrutiny.

### 3. Background

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- 3.1 The CGF self-assessment exercise ensures good governance, an improvement agenda and demonstrates the Council's compliance with the CIPFA/SOLACE framework by providing narrative and links to key documentary evidence.
- 3.2 Officers assess the Council's compliance with each requirement on a scale out of 10.
- 3.3 Areas for improvement are identified and actions added to the improvement plan section at the end of each framework principle.
- 3.4 A CGF Self-Assessment workshop took place on Friday 9 August 2019, to populate and score the evidence submitted.
- 3.5 The document was then reviewed by the Corporate Leadership Team (CLT).

### 4. Main report

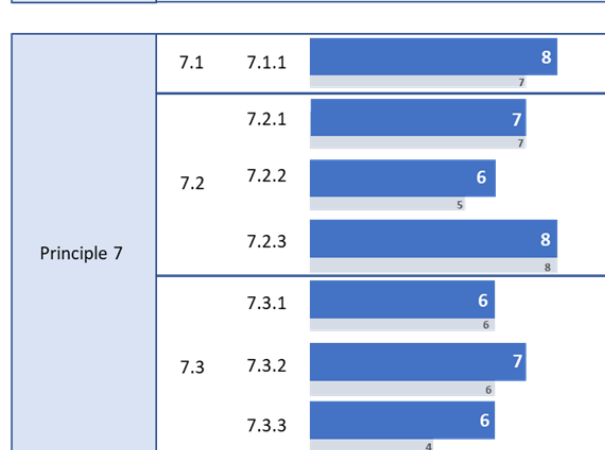
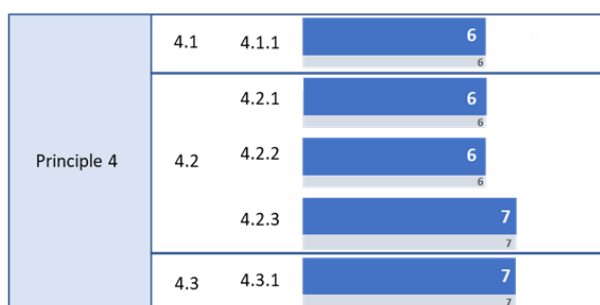
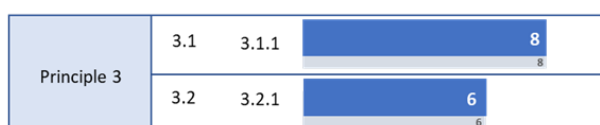
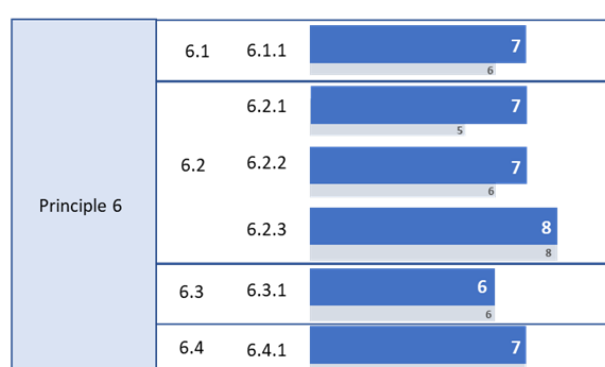
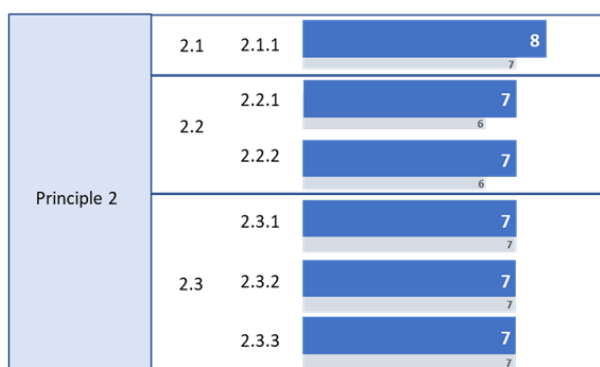
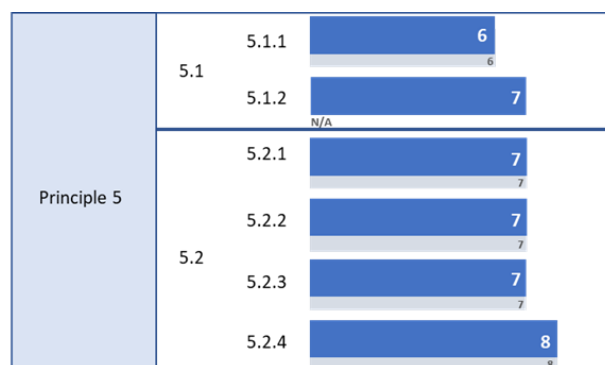
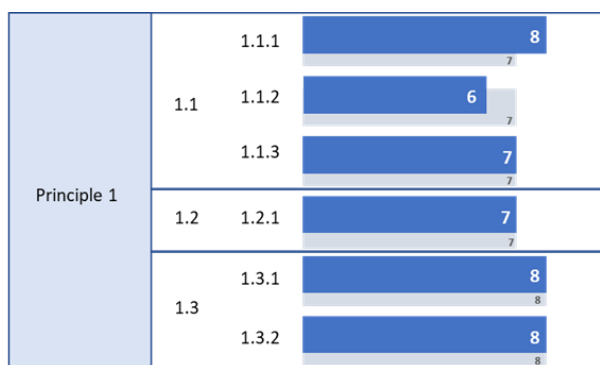
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- 4.1 The CGF self-assessment process was reviewed in early 2018 and proposals designed to improve the structure, content and population of the document were agreed. This included a revision of the framework to reduce duplication, an improvement in narrative reporting, a more nuanced scoring system, focused improvement actions and the scheduling of a workshop to coordinate population of the document.

- 4.2 The new template was used for the 2017/18 exercise however this year's process represents the first time that a full financial year has been assessed under the new framework and was able to be compared to the original CGF self-assessment (see table at 4.8).
- 4.3 Annual assurance schedules were issued to Executive Directors, Heads of Services, Joint Boards and Council companies in February 2019 for completion and return by mid-April. Assurance certificates were issued by the Governance Team following analysis of the completed schedules.
- 4.4 Updates were requested from directorates on the current status of improvement actions identified during the previous year's annual assurance exercise and CGF self-assessment. Completed improvement actions were then incorporated into the 2018/19 CGF self-assessment to evidence the improvements in controls that had been achieved.
- 4.5 As the 2019/20 assessment period progresses the directorates' assurance schedules will be individually scrutinised by the Governance, Risk and Best Value Committee, along with improvement plans that will have been developed and presented.

#### **2018/19 Self-Assessment (position at 31 March 2019)**

- 4.6 Officers considered that overall the framework was effective. There were a number of areas that were adequate but required improvement to ensure controls were more robust. There were also areas where significant improvement was required, however improvement actions were either already being implemented or were set to be put in place by April 2019.
- 4.7 Areas where we are performing well include: integrity, ethical values, rule of law; openness; engagement with citizens and service users; vision; public financial management; business planning; capability of leadership and others; audit committee (effective assurance); transparency and reporting.
- 4.8 The following areas had been identified in the 2017/18 self-assessment as requiring significant improvement: 6.2.1 alignment of risk management and internal control with achieving objectives; 7.2.2 robust arrangements for assessing compliance with CGF principles, publishing results and improvement actions; and 7.3.3 ensuring recommendations from audits, peer challenge, reviews and inspections are welcomed and acted upon. The 2018/19 self-assessment showed that progress had been achieved against each of these requirements and the scores awarded reflect this improvement.
- 4.9 Where improvement actions are still required these have been included in the improvement plan section.



## Current Position

- 4.10 Improvement actions are being progressed by services and outcomes will be included in next year's self-assessment.
- 4.11 The annual assurance and CGF self-assessment processes and their effectiveness will continue to be reviewed on an ongoing basis to ensure they remain fit for purpose and adapt to reflect best practice developments.

## 5. Next Steps

- 5.1 Work will continue to re-align the CGF self-assessment and the annual assurance exercise to ensure a continuous cycle of review and improvement.

- 5.2 The annual assurance exercise will aim to provide assurance from service areas regarding the practical application of the controls identified in the CGF self-assessment, this in turn will inform the Council's annual governance statement.
- 5.3 Timescales will be reviewed to ensure the Governance, Risk and Best Value Committee have the opportunity to consider the Annual Governance Statement before publication of the annual accounts.
- 5.4 A timetable for Governance, Risk and Best Value Committee review and scrutiny of each stage of the end to end process will be outlined at a future meeting following a review of the process.

## **6. Financial impact**

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

## **7. Stakeholder/Community Impact**

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- 7.1 The process of reporting and senior management oversight of the corporate governance framework serves to strengthen the control environment and where appropriate prompt mitigating actions.

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

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- 8.1 [Governance, Risk and Best Value Committee Tuesday, 27th November 2018, Item 4, Corporate Governance Framework Self-Assessment 2017/18](#)

## **9. Appendices**

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Appendix 1 – The City of Edinburgh Council Corporate Governance Framework Self-Assessment 2018/19

# The City of Edinburgh Council Corporate Governance Framework Self-Assessment 2018/19

Self-assessment scoring key:	
0	no evidence provided
1-2	insufficient and/or poor quality evidence provided
3-4	insufficient but some good quality evidence provided
5-6	predominantly good quality evidence provided but some gaps and improvements required
7-8	significant amounts of good quality evidence provided with minor improvements required
9-10	requirement fully met with significant amounts of strong evidence provided

Principle 1	Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law	
Supporting principle	1.1 Behaving with integrity and Demonstrating Strong Commitment to Ethical Values	
Requirement of the Council’s Framework	1.1.1 Developing a leadership culture based on values, integrity and public interest that is communicated and understood by all and forms the basis of a framework for decision making and action.	Score out of 10: 8
Evidence of compliance and links	<p>The Council is on a journey to strengthen the leadership culture and support improved decision making at officer level. This though involves cultural change with officers and is not yet embedded throughout the organisation. Decision making at committee level is strong and there is a robust framework that is supported by a suite of governance documentation, that is regularly reviewed by officers and elected members.</p> <p>There is strong and demonstrable commitment from the Corporate Leadership Team (CLT) to promote a strong organisational culture that behaves with integrity, the rule of law and that is value led. Examples of this come from the establishment of strong corporate values that underpin the culture we are trying to create. The priority of CLT to develop the leadership culture within the organisation has included creating a Wider Leadership Team (top 100 managers) and ensuring that all managers across the organisation have undertaken leadership training which was values led. CLT have regular away days where they reflect on their leadership and this has included a joint session with senior councillors. This is an ongoing process in a complex organisation and leadership development training has been reviewed by HR and updated.</p> <p>From a legal and compliance perspective we have an independent whistleblowing process to ensure any concerns raised are investigated independently working closely with the Council’s Monitoring officer.</p> <p>In addition to this there are several different facets that ensure we have a robust framework in place. These include:</p> <ul style="list-style-type: none"><li>▪ The <u>Member/Officer Protocol (2016)</u> sets out the roles and responsibilities of Elected Members and Council officers, including the Chief Executive, to ensure clarity when carrying out their respective duties.</li><li>▪ Mandatory training sessions provided for Elected Members on their obligations under the <u>Councillors’ Code of Conduct</u>.</li><li>▪ Comprehensive induction and ongoing training programme for Elected Members that includes mandatory, essential and developmental sessions on a wide range of responsibilities, skills and areas of topical interest.</li><li>▪ The <u>Scheme of Delegation</u> (June 2018) sets out the powers delegated by the City of Edinburgh Council to officers, pursuant to the <u>Local Government (Scotland) Act 1973</u>. The Scheme facilitates the efficient conduct of Council business by clearly setting out the nature and extent of the powers delegated to officers by the Council, thereby ensuring that decisions are taken at an appropriate level and ensure sufficient and appropriate scrutiny.</li><li>▪ <u>Councillors’ register of interests and expenses</u> and <u>membership of organisations</u> published in full on the Council’s website.</li><li>▪ The <u>Council’s People Strategy and People Plan for 2017-20</u> is built around a core set of values that guide everything we do. Our values define the culture we want to build within our organisation and set out our commitment to each other within our workforce as well as to our citizens and communities.</li><li>▪ Our <u>Employee Code of Conduct</u> and the Council’s <u>values</u> of Put Customers First, Honesty and Transparency, Working Together and Forward Thinking are now included as part of our performance framework and set out our expectations. New <u>employee induction</u> is focussed on our four values so all new starts understand the importance of living these values in the early days of their employment with the Council.</li><li>▪ Principles and our values are communicated regularly to staff, are on our internal intranet and inform the build and delivery of learning and development interventions. Values are a key part of our performance management system and our people’s performance framework therefore takes account of how they are living those values in service delivery.</li><li>▪ Our employees are expected to refresh their knowledge and understanding of key policies such as <u>Anti-Bribery</u>, <u>Complaints</u> etc.</li><li>▪ There is strong and demonstrable commitment from the Corporate and Wider Leadership Teams to drive cultural change and leadership development with development sessions taking</li><li>▪ The Council’s <u>Whistleblowing Policy</u> encourages a culture of disclosure of wrongdoing that is much wider than that covered by public interest disclosure legislation. Our whistleblowing arrangements are a key risk management tool and widely seen as an exemplar across the public sector.</li><li>▪ Monitoring Officer reports are independent when considered by Council or Committee.</li><li>▪ The Monitoring Officer and Chief Internal Auditor have an independent reporting line to Governance, Risk and Best Value Committee and direct access to the Chief Executive.</li></ul> <p>Whilst a strong operational framework exists to ensure that employees behave with integrity (for example established Council policies and decision making processes), it is important that is effectively applied, with employees held accountable where they do not behave with integrity or demonstrate strong commitment to ethical values. This is achieved through the Council’s performance framework with ongoing employee conversations and formal ‘looking backwards’ conversations, and the disciplinary process.</p>	
Requirement of the Council’s Framework	1.1.2 Ensuring this is reflected in policies and processes that are regularly reviewed and monitored for compliance.	Score out of 10: 6
Evidence of compliance and links	<p>The <u>Council’s Corporate Policy Framework</u> mandates the annual review of policies which must be approved by Council or the responsible Executive Committee. The Council’s <u>Policy Register</u> maintains a central public facing record of all council policies.</p> <p>A council policies toolkit has been developed and is available on the Council’s intranet site. This includes consultation and engagement strategies for new policies, a how-to guide, guide to policies and annual review, examples and a policy template for committee reporting.</p> <ul style="list-style-type: none"><li>▪ The Council consults and engages with stakeholders on policies and procedures, eg. Trade Unions, relevant service providers, legal advisers.</li><li>▪ <u>Assurance Statements</u> for <u>Council policies</u> are reviewed and are considered as being current, relevant and fit for purpose. These are <u>reported</u> to the relevant <u>Committee</u>. Working closely with the Communications Team, relevant information is cascaded to staff via Managers’ news and the internal intranet pages are updated as necessary.</li><li>▪ A programme of policy review has been agreed and <u>policy refresher</u> arrangements are in place for employees. Employment policies are subject to GRBV Committee policy assurance with a revised process having been agreed at the <u>GRBV Committee in September 2017</u> which will provide further scrutiny.</li><li>▪ Workshops have been completed in relation to core HR, Finance Procurement and Debt Recovery processes coupled with the design and build of ‘to be’ policies, procedures and guidance to automate manual processes, ensure consistency across the organisation, assist employees and managers with compliance and enable efficient monitoring/reporting at all levels.</li><li>▪ <u>Report template and guidance</u> are regularly updated and incorporate reporting of adherence to council business plan commitments and policy implications.</li></ul>	

Requirement of the Council's Framework	1.1.3 Ensuring the organisation's ethical standards permeate all aspects of the organisation's culture and operation and are reflected in its policies and procedures	Score out of 10: 7
Evidence of compliance and links	<p>Council values are an integral part of our strategic planning and performance management frameworks. The council has embedded mechanisms to ensure ethical standards are permeated across the organisation.</p> <ul style="list-style-type: none"> <li>Consideration of regular <a href="#">internal</a> and <a href="#">external</a> (September 2018) audit reports by Governance, Risk and Best Value Committee.</li> <li>The Council's <a href="#">Whistleblowing Policy</a> mandates an independent service provider with authority to decide on the categorising of disclosures and investigations, with investigation outcomes reported quarterly to the Governance, Risk and Best Value Committee.</li> <li>Consideration of The Standards Commission for Scotland Hearing results by Council.</li> <li>As a public authority, the values of public service delivery are at our core and are reflected in <a href="#">Programme for the Capital: The City of Edinburgh Council Business Plan 2017-22</a>. The principles and actions set out in this plan drive the way we work and the way we deliver services.</li> <li><a href="#">Council Framework to Advance Equality and Rights 2017-21</a> ensures that citizens are able to use Council services and join in with the life and work of the city.</li> <li>The current Council <a href="#">Performance Framework</a> was agreed in August 2017 and ensures a clear statement of vision, values and strategic objectives aligned with the Coalition agreement is embedded within the operation of the Council. The framework details performance measures and describes the monitoring of performance.</li> <li>As a public authority, the values of public service delivery are at our core, we work in partnership with communities and service partners to deliver services of benefit to our people.</li> <li><a href="#">Employee Code of Conduct</a> sets out the Council's values and describes how we carry out our business and the standards of conduct we expect from our employees.</li> <li><a href="#">Disciplinary Code</a> Provides details of the conduct, attitude and behaviours expected of employees.</li> <li><a href="#">Performance Management Framework</a> is designed to support managers and employees to have open, honest, and supportive performance conversations.</li> <li><a href="#">The Avoidance of Bullying and Harassment at Work Policy</a> covers management of complaints in relation to bullying and harassment at work. The focus is on early intervention and resolution by managers, to ensure complaints are dealt with quickly.</li> <li><a href="#">Equality and Diversity Policy</a> was updated in August 2017 with the purpose of ensuring that all our employees are treated fairly, equally and with respect in their working lives covering: pay and benefits and terms and conditions of employment; dealing with grievances and disciplinary issues, dismissal, redundancy; parental leave and flexible working; recruitment, promotion, training and development.</li> <li><a href="#">Equality, Diversity and Rights Framework 2017-21</a> is a response to legislation, including the Human Rights Act 1998, the Scotland Act 2003, and the Equality Act 2010. Co-produced with members of the Edinburgh Equality and Rights Network (EaRN) during 2016/17, it sets out a series of commitments to ensure that equality, diversity and rights are central to the Council's vision of being a fair, inspired, thriving and connected city.</li> <li>The <a href="#">Council's People Strategy and People Plan for 2017-20</a> (February 2017) provides a clear line of sight from the Council's <a href="#">Business Plan</a> and describes the people opportunities and challenges the Council faces over the short, medium and long term and sets out the key strategic people themes we need to address in order to deliver our commitments. Council values are linked to performance through a number of routes, including our <a href="#">New approach to performance</a> co-produced with employees.</li> <li>The response to Serious Organised Crime within a local authority involves coordinating a number of disparate services to ensure consistency of approach, governance and reporting, and compliance to the duties outlined in <a href="#">Scotland's Serious Organised Crime Strategy</a>. The strategy focuses on the detection and disruption of Serious Organised Crime and preventing it at source. Work is facilitated through a Council-wide group.</li> <li><a href="#">Contract Standing Orders</a> – establish the principles of transparency, equal treatment, non-discrimination and proportionality in how the Council procures its goods, services and works.</li> <li><a href="#">Grant Standing Orders</a> – provide guidance, controls and regulate the grant application and award process throughout the Council and on behalf of the Edinburgh Integration Joint Board (EIJB).</li> <li>The Council's Monitoring Officer (the Council's Head of Legal and Risk) actively investigates any significant issues coming to his attention, whether through whistleblowing, complaints or other avenues. This has on occasion resulted in reports to Full Council, demonstrating that it is taken seriously and that any issues are actively managed.</li> <li>The Council's Information Governance team manages the Council complaints systems and the relationship with the SPSO. The Council's revised complaints policy was agreed by CP&amp;S Committee in <a href="#">August 2018</a>.</li> <li>From April 2018, new leaders joining the City of Edinburgh Council and newly promoted leaders within the Council are invited to a welcome event. This takes place every 4-6 weeks, led by the Chief Executive. The aim is to welcome new leaders, help them understand their leadership role, help to develop their leadership skills and introduce them to our leadership culture. New leaders are also expected to complete relevant essential learning on key council policies as part of their induction. A dedicated space has been created on the Council's e-learning platform for new leader essential learning.</li> <li>The Pensions and Trusts Committee adopted, on behalf of Lothian Pension Funds, the United Nations Principles for Responsible Investment and a revised Statement of Investment Principles in March 2008.</li> <li>Material non-compliance with standards is reported to Committee. For example minor non-compliance with Public Sector Internal Audit Standards was reported to Governance Risk and Best Value Committee on <a href="#">31 July 2018</a>.</li> </ul>	
Supporting principle	1.2 Relationship with External Providers	
Requirement of the Council's Framework	1.2.1 Ensuring the organisation's ethical standards are understood and upheld by external providers of services.	Score out of 10: 7
Evidence of compliance and links	<p>The Council has strong controls to ensure external providers of services understand the organisation's aims and ethical standards. Improvements are necessary though to ensure a greater level of consistency and a robust control process.</p> <ul style="list-style-type: none"> <li>The Council's Annual Assurance Process, which seeks assurance on ethical standards, includes significant Council companies and the Joint Boards. This process informs the Annual Governance Statement reported to <a href="#">Full Council in June 2018</a> as part of the un-audited financial accounts.</li> <li>The Council's <a href="#">Contract Standing Orders</a> (updated in 2018) are the legal and operational rules for how the Council buys goods, services and works from external providers. The Contract Standing Orders require all contractual arrangements entered into to comply with the Council's equality and sustainability requirements and policies, to encourage fair working practices and payment of the Living Wage and, where appropriate, contractual or procurement arrangements shall include the use of community benefit clauses. The Contract Standing Orders must be read in conjunction with the <a href="#">Procurement Handbook</a> (updated in 2017) which incorporates guidance relating to ethical procurement which includes relevance of award criteria relating to fair work practices and supply or use of ethically- or fairly-traded products as applicable.</li> <li>As part of the procurement process for goods and services, the Council has set standards to manage integrity, compliance and monitoring, taking into account but not limited to, ethical and fair work practices. It is noted that should a contract be adopted from the Scottish Government Framework these standards are also included within the procurement documentation. Contract management by service areas may give a weighting to these standards (where applicable) and they are monitored throughout the duration of the contract term.</li> <li>Following a risk assessment where the Council has agreed an action which is non-compliant with Contract Standing Orders the action is recorded and noted publicly via Committee meeting transparency obligations and providing challenge to the decision</li> <li>Template procurement documentation including terms and conditions is drafted with advice from Legal Services. On larger projects and bespoke contracts, specific legal advice is obtained. Legal obligations imposed upon contractors cover the Council's ethical standards in relation to such matters as community benefits, environmental and sustainability impact and workers' rights. The Council's Fair Trade Policy, Sustainable Procurement Policy, Charter against Modern Slavery and Construction Charter Commitments and <a href="#">sustainable procurement</a> are also included in the tender submission documents where appropriate.</li> <li>The Council's <a href="#">Grant Standing Orders</a> (approved December 2018) apply (with certain exceptions) to all grants made by or on behalf of the Council including those in accordance with directions by the EIJB. The Grant Standing require the allocation and subsequent use of grant funding must reflect the priorities of the Council its subsidiaries and partners and where appropriate the EIJB. <a href="#">The Grant Standing Orders</a> provide guidance, controls and</li> </ul>	



	<p>regulate the grant application, assessment and award process to third parties to improve social, environmental and economic outcomes for Edinburgh’s citizens and communities. Grant agreements require the grant recipient to have in place proper employment, recruitment and selection practices, disclosure checks where appropriate and comply with all equal opportunities’ requirements.</p> <ul style="list-style-type: none"> <li>▪ The Council’s Standard Condition of Grant states that organisations in receipt of a grant should have policies and practices in place which should minimise any detrimental environmental impacts and complement the Council’s commitment to protecting and improving Edinburgh’s environment for future generations, that organisations must make a commitment to mainstream equalities and rights in accordance with the <a href="#">Equality Act 2010</a> and comply with a range of Council policies and aims such as the Investing in Volunteering Scheme. The Council expects grant funded organisations to adopt policies which comply with fair work practices and promote fair and equal pay, including the Living Wage and in terms of its practices employing staff and volunteers and in providing services, the organisation should be able to demonstrate that it: advances equality of opportunity; fosters good relations; and eliminates any unlawful discrimination, harassment and victimisation.</li> <li>▪ The Council’s Standard Condition of Grant determines that organisations in receipt of a grant must have a commitment to mainstream equalities and rights in accordance with the <a href="#">Equality Act 2010</a>.</li> <li>▪ <a href="#">Section 2 of the Local Government Act 1986</a> prohibits the Council from publishing any material that appears to be designed to affect public support for a political party. The same section also prohibits the Council from awarding funding to organisations for this purpose.</li> <li>▪ The Contract and Grants Management team was established in August 2017 to ensure effective ongoing management of third party contracts (once procured) by Directorates and Divisions. The team provides ongoing support to all Council service areas with management of their third party supplier risks, and contract (and sub contract) performance management by developing and implementing a contract management framework, comprising a contract management manual and toolkit to support Divisions and ensure that consistent contract management processes are applied across the Council in line with the contract management principles and Executive Director responsibilities for contract management specified within the Council’s Contract Standing Orders.</li> </ul>	
Supporting principle	1.3 Respecting the rule of law	
Requirement of the Council’s Framework	1.3.1 Demonstrating commitment to adherence to the rule of the law and regulations while ensuring individuals fulfil their responsibilities and optimise available powers to the benefit of all.	Score out of 10: 8
Evidence of compliance and links	<p>The Council is committed to adhering to the rule of law and has a strong framework to ensure effective controls are in place and respond to changes in legislation such as the introduction of GDPR.</p> <ul style="list-style-type: none"> <li>▪ The Council has appointed statutory officers as follows, <a href="#">Monitoring Officer</a>, <a href="#">Head of Paid Service</a>, <a href="#">Head of Finance</a> (section 95 officer), <a href="#">Chief Education Officer</a>, <a href="#">Chief Internal Auditor</a>, <a href="#">Chief Social Work Officer</a> and <a href="#">Data Protection Officer</a>.</li> <li>▪ Procedure is in place for the <a href="#">Head of Finance</a> (section 95 / chief financial officer) to withdraw reports that have not received the appropriate financial sign-off.</li> <li>▪ Members have the opportunity to challenge officers submitting reports and seek advice from the Head of Legal &amp; Risk and Chief Internal Auditor.</li> <li>▪ Members are encouraged to seek advice from senior officers on legislative and regulatory matters and are offered appropriate training.</li> <li>▪ <a href="#">Employee Code of Conduct</a> approved by Corporate Policy and Strategy Committee in August 2012.</li> <li>▪ The Chief Financial Officer’s responsibilities are set out in the <a href="#">Financial Regulations</a>.</li> <li>▪ The Chief Financial Officer is a standing member of the Corporate Leadership Team.</li> <li>▪ The Integration Joint Board is tasked with delivering its vision for a caring, healthier, safer Edinburgh through taking actions to transform how Council and NHS services and staff teams work together; with other partners; and those who use services and communities. A <a href="#">Strategic Plan 2016-19</a> has been agreed and published. The Council is also co-signatory to the Scheme of the Establishment of the Edinburgh Integration Joint Board (EIJB) and as such complies with the legislative requirements of the Public Bodies (Joint Working) (Scotland) Act 2014.</li> <li>▪ The Chief Social Work Officer provides an <a href="#">annual report</a> to the Corporate Policy and Strategy Committee each year.</li> <li>▪ The Council Health and Safety Manager provides an annual report on health and safety performance to the Finance and Resources Committee.</li> <li>▪ The <a href="#">Internal Audit Opinion</a>, a requirement of Public Sector Internal Audit Standards (PSIAs), includes the required details on Internal Audit independence.</li> <li>▪ Renewed focus on the internal control environment through delivery of the annual internal audit plan continues to identify areas for improvement, and is helping drive better understanding and focus on closing agreed management actions which should create more strongly controlled environment.</li> <li>▪ Team Central was implemented in July 2018. The system helps to ensure that control weaknesses identified by Internal Audit are appropriately addressed by timely implementation of agreed management actions and provision of evidence by management to confirm that the actions have been effectively implemented and sustained, and ensure that risks identified in Internal Audit reports are being appropriately managed. Where management actions have not been implemented by the agreed date, details re provided monthly to the Corporate Leadership Team and quarterly to the Council’s Governance, Risk and Best Value Committee.</li> <li>▪ <a href="#">Committee Terms of Reference and Delegated Functions</a> and <a href="#">Scheme of Delegation to Officers</a> are regularly reviewed (June 2018). These terms of reference and delegated functions set out the powers delegated by the City of Edinburgh Council to its officers, committees and sub-committees pursuant to the Local Government (Scotland) Act 1973.</li> <li>▪ Contracts of employment, job descriptions, the Employee Code of Conduct, HR policies and the Scheme of Delegation to Officers are clear on the responsibilities given to job roles and/or individuals.</li> <li>▪ Promotion of codes of conduct of regulatory bodies such as Scottish Social Services Council (SSSC) and General Teaching Council Scotland (GTCS).</li> <li>▪ Key Council policies are reviewed on request by Legal Services to ensure compliance with relevant laws and regulations. Where any proposed course of action or policy is potentially non-compliant, this is flagged by Legal Services. Legal Services will escalate concerns to senior management as appropriate.</li> <li>▪ <a href="#">The Community Empowerment (Scotland) Act</a> received Royal Assent in 2015 and sets out duties for public bodies in relation to community planning. In response, the Edinburgh Partnership carried out a review and consultation of community planning governance arrangements, together with the development of a new Local Outcome Improvement Plan and Locality Improvement Plans, to ensure the planning and partnership working arrangements in the city meet the legislative requirements set out in the Act.</li> <li>▪ The Community Empowerment (Scotland) Act additionally sets out a range of duties to allow community bodies to ask the Council, or other public bodies, to be involved in decisions and have a greater role in improving outcomes for their communities. This includes the establishment of participation requests and duties in relation to asset transfer. The Council approved in March 2018 its approach for managing participation requests and has reviewed its existing asset transfer policy to ensure it meets the new legal requirements.</li> <li>▪ HR have established Right to Work, PVG, SSSC and Driver checks for Council Officers. and have jointly developed and implemented IR35 compliance arrangements with Procurement.</li> <li>▪ <a href="#">The Council Health and Safety Strategy and Plan 2018-20</a> was approved by the Finance and Resources Committee (March 2018). This has seen the introduction of the IOSH Leading Safely course to the wider leadership team (100 senior managers); the new Water Safety Policy and the Chief Executive chairing the Health and Safety Group.</li> <li>▪ Health and Safety issues are reported on a weekly basis to the Corporate Leadership Team to ensure that any significant issues can be escalated and responded to quickly.</li> <li>▪ Internal Audit progress is reported to the Corporate Leadership Team on a monthly basis, reviewing progress with management actions and with the delivery of the internal audit plan.</li> </ul>	
Requirement of the Council’s Framework	1.3.2 Dealing with breaches, corruption and misuse of power effectively.	Score out of 10: 8
Evidence of compliance and links	<ul style="list-style-type: none"> <li>▪ The Monitoring Officer is the Head of Legal and Risk and was appointed by <a href="#">Council on 4 February 2016</a>. Allegations of corruption or misuse of power are considered by the Monitoring Officer, who acts independently of the Council. He has the power to conduct investigations and report his findings to full Council. He has done so previously (last time was May 2017).</li> </ul>	

	<ul style="list-style-type: none"><li>Legal Services will report breach of legal and regulatory provisions to senior management (primarily through Head of Legal and Risk and Monitoring Officer). Serious breaches may be dealt with by the Monitoring Officer. Other breaches will be addressed by Legal Services providing appropriate advice to service areas and monitoring implementation of that advice. Legal Services are also consulted in relation to complaints from the public which allege non-compliance with laws or regulations.</li><li>Staff at all levels will report breaches of the Council’s statutory obligations under the Data Protection Act, 2018 to the Council’s Data Protection Officer via the Information Governance Unit. This is done through an established and revised <a href="#">Personal Data Protection Procedure</a> (February 2018). High risk breaches will then be reported by the Data Protection Officer to the UK Information Commissioner.</li><li>The Council’s <a href="#">Whistleblowing Policy</a> mandates an independent service provider with authority to decide on the categorising of disclosures and manner of investigations, with investigation outcomes reported quarterly to the Governance, Risk and Best Value Committee.</li><li>Consideration of regular <a href="#">internal</a> and <a href="#">external</a> (September 2018) audit reports by Governance Risk and Best Value Committee.</li><li>The Council Health and Safety Strategy and Plan 2018-20 was approved by the Finance and Resources Committee (March 2018)</li><li>Relevant policies and procedures are in place:<ul style="list-style-type: none"><li><a href="#">Disciplinary Procedure</a></li><li><a href="#">Anti-bribery Policy – update report to CP&amp;S in Feb 2017</a> (Note:- Employee Relations (ER) related policies no longer need to be automatically reviewed every year. This was agreed as a change to our governance arrangements last year (finalised at F&amp;R in Dec 2017, following GRBV and CP&amp;S). ER related Policies will now only be reviewed where we have expressly stated in a report, e.g. performance management, or where there is a legislative change or organisational need etc. So, the Anti-Bribery Policy did not need to be formally reviewed in March 2018)</li><li><a href="#">Fraud Prevention Procedure – update report on Fraud Prevention and Detection considered by Committee in September 2017</a></li></ul></li></ul>	
<a href="#">Principle 1 - Improvement plan</a>	<p>Further action has been taken to support the aims of Principle 1. The Council has undertaken a review of some of its activities and procedures and now has in place, or has plans to have in place the following:</p> <ol style="list-style-type: none"><li>1) Policy management refresh – review arrangements and ensure controls and processes in place.</li><li>2) The Council is developing the Leadership in the Box training resource.</li><li>3) The Council is establishing a Grant Managers Forum</li><li>4) Processes are being introduced to ensure that recommendations identified through whistleblowing and Monitoring officer investigations are completed</li></ol>	<p>Responsible officer(s)</p> <p>1)Head of Strategy &amp; Communications 2)Head of HR 3) Head of Finance 4) Monitoring Officer</p>

Principle 2	Ensuring openness and comprehensive stakeholder engagement	
Supporting principle	2.1 Openness	
Requirement of the Council’s Framework	2.1.1 Demonstrating an open culture through decisions that have been subject to consultation and/or engagement, are public, evidenced, impact assessed and, where necessary, justification for confidentiality explained.	Score out of 10: 8
Evidence of compliance and links	<p>The council is committed to ensuring open and transparent decision making and that people and communities are engaged in the process of policy development ahead of decisions being taken. We always consult on all major decisions of the council – issuing 82 consultations through the council’s singular consultation hub. We have engaged extensively on the council’s budget for 2018/19 undertaking a range of engagement types. Ensuring open decision making is fundamental to ongoing trust in the democratic process. As budget pressures only increase over the coming years, trust from the public is fundamental and to that end the council intends to redouble its efforts through it’s change strategy.</p> <ul style="list-style-type: none"><li>The <a href="#">Access to Information Act 1985</a> schedule 1 requirements regarding exempt information are implemented throughout policy and procedure. Training on the act is provided for key officers and elected members as part of the Governance Framework Training Session.</li><li><a href="#">Webcasting of Council and major committees</a>, with access to archive recordings for five years.</li><li>All Council and Committee reports and decisions are recorded and are available on the CEC <a href="#">web site</a>. This allows stakeholders to subscribe to receive meeting papers.</li><li>The committee <a href="#">report template and guidance</a> includes standard sections that provides the necessary information for elected members to take decisions with clear explanation of key considerations.</li><li>Any decisions that are taken by officers under urgency provision require a report to the next committee detailing the decision taken and the reasons. See <a href="#">Committee Terms of Reference and Delegated Functions</a> (June2018).</li><li><a href="#">Council Diary</a> arrangements reported to Council annually (last reported February 2019)</li><li>The <a href="#">Scheme of Delegation</a> (June 2018) sets out the powers delegated by the City of Edinburgh Council to officers, pursuant to the <a href="#">Local Government (Scotland) Act 1973</a>. The Scheme facilitates the efficient conduct of Council business by clearly setting out the nature and extent of the powers delegated to officers by the Council, thereby ensuring that decisions are taken at an appropriate level and ensure sufficient and appropriate scrutiny.</li><li>Copies of agendas, minutes and reports for all Council and committee meetings are held by Edinburgh City Archives.</li><li>Members have the opportunity to challenge officers submitting reports at Agenda Planning Meetings and committee.</li><li><a href="#">Petitions</a> procedure streamlined as part of the review <a href="#">political management arrangements</a>. (June 2017).</li><li><a href="#">Deputations</a> (representative of a group or organisation speak at a committee meeting on a subject of their choice) are welcomed to feed into policy making at Council and Committees.</li><li>Statutory requests for information are dealt with via an established process. Council responses are routinely made publicly available through its <a href="#">FOI Disclosure Log</a>.</li><li>Complaints made to the Council are dealt with under the <a href="#">Council’s Complaints Procedure</a>, which has a clear outline of responsibilities, timescales and escalation routes to the Scottish Public Services Ombudsman. This procedure is available on our website for the public and on the Orb for staff. There is a Corporate Complaints Management Group which promotes and facilitates better complaints management throughout the organisation.</li><li><a href="#">Edinburgh People Survey – annual citizen survey</a> measures satisfaction with key universal services and highlights where further research or consultation may be necessary.</li><li>The Council’s online <a href="#">Strategy and Performance</a> hub provides an overview of all Council strategies and reports against progress and performance. This framework is developed in line with the strategic direction provided by the Accounts Commission and follows best practice guidance provided by the Improvement Service.</li><li>The Council regularly consults and engages with stakeholders and members of the public on its plans and policies. Methods to seek feedback include surveys, focus groups, public meetings, and involving relevant stakeholders in participatory budgeting and local community planning. Details on how to find out about and participate in consultations and records are available via our <a href="#">Consultation Hub</a>.</li><li>The Council’s budget engagement process explains the pressures the Council faces and the areas where it proposes to spend and save, then records what was done as a result of public feedback. This has recorded high engagement levels and garnered positive attention in local press and on social media.</li><li>Honesty and transparency is enshrined in the <a href="#">protocol for member officer relations</a> in decision-taking and advice giving.</li><li>Financial impact reporting arrangements are embedded in the <a href="#">financial regulations</a>.</li></ul>	

	<ul style="list-style-type: none"><li>▪ <u>Contract Standing Orders</u> (June 2018) ensure that proper procedures are adhered to throughout the procurement process and that there is compliance with relevant sustainable development and equality requirements required by law and co-production with key stakeholders is planned as appropriate. Contract Standing Orders demonstrate the Council’s compliance with the general principles of equal treatment, non-discrimination, transparency and proportionality.</li><li>▪ Procurements must not be designed with the intention of unduly favouring or disadvantaging any potential tenderer. Contract Standing Orders clearly demonstrate the Council’s open approach to tendering processes and details Relevant Values and Associated Tender Procedures for all potential Contracts including appropriate approval and delegation levels.</li><li>▪ <u>Grant Standing Orders</u> (December 2018) – provide guidance, controls and regulate the grant application and award process throughout the Council and on behalf of the Edinburgh Integration Joint Board (EIJB).</li><li>▪ The Council’s performance reporting takes into consideration appropriate feedback to the relevant stakeholders of any decisions taken by Council by using appropriate communication routes. The <u>annual performance report</u> which went to CP&amp;S and Council in August 2018 includes insight from the Edinburgh People Survey which is the largest local authority survey of its type in the UK.</li><li>▪ Community engagement is core for the localities and citywide community planning approaches. A wide range of activities are carried out, ensuring opportunities are provided in ways that are appropriate for communities of place, interest and identity. These inform service development and responses by Council and partners.</li><li>▪ <u>Locality Improvement Planning</u> - each locality has produced a locality improvement plan based on a significant programme of community engagement with local stakeholders and the wider community. The engagement was delivered by a range of partners involving a wide variety of methods and focussing on service users and people experiencing the greatest inequality. Through this process communities of place, interest and identity identified their priorities and will continue, through ongoing dialogue and engagement, to influence the design and delivery of services to improve outcomes in their areas.</li><li>▪ <u>Community Planning Review</u> - The new Edinburgh Partnership governance model offers the opportunity to enhance community planning arrangements at all spatial levels in the city. A programme of engagement and consultation was undertaken in 2018 which ensured a wide range of stakeholders, including communities of place, interest and identity, were involved in defining what the new arrangements should look like, and recognising the need to strengthen community participation and influence. The new model includes neighbourhood networks which build on the good practice of the former neighbourhood partnerships and aim to strengthen the role of communities in decision making. A key area of the locality-based working has been to involve communities in decision making on the use of devolved funds such as the Community Grants Fund. This role has further been strengthened with the ongoing use of participatory budgeting, such as Leith Chooses, which has increased local democratic decision making, promoted a greater understanding of public budgets and encouraged communities to develop their own solutions to issues. These arrangements will continue under the new model.</li><li>▪ <u>Service Developments</u> – the development of facilities and new services are planned and delivered in consultation with local communities with changes and improvements seeking to reflect identified local need where possible e.g. upgrades to local playparks (e.g. Leith Links Play Park Designs); library service refurbishments</li><li>▪ <u>Participatory Budgeting</u> – local communities are increasingly involved in having a say on the allocation of small grants, and neighbourhood environment improvement funds through participatory budgeting, with the development of a range of creative ways both digital and events based to engage greater numbers of local people. E.g. Feith Chooses as an example of the most developed process engaging over 1,000 people at a community voting event and attracting over 31,000 votes cast</li><li>▪ <u>Place Improvements</u> – linked to the bullets above, Locality teams are regularly engaged in significant local stakeholder consultation on wider public realm projects – eg. Regeneration of Westside Plaza, Queensferry High Street etc, as well as very localised engagement and consultation regarding locally prioritised environmental improvement projects, reported back through Neighbourhood Partnerships and Locality Committees.</li></ul>
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Supporting principle	2.2 Engaging comprehensively with institutional stakeholders	
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Requirement of the Council’s Framework	2.2.1 Ensuring effective engagement with clarity of purpose, objectives and intended outcomes.	Score out of 10: 7
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Evidence of compliance and links	<ul style="list-style-type: none"><li>▪ Engagement with institutional partners is facilitated through a number of different forums as well as more bilateral relationships. The council has strong relationships with the rest of the public sector through the Edinburgh Partnership, the business community through the Edinburgh Business forum, the NHS through the IJB and the Edinburgh Third Sector, neighbouring other local authorities through the City Region Deal governance and the Scottish Government and other Scottish local authorities through our membership of COSLA and the Scottish Cities Alliance. Engagement with institutional stakeholders can take a variety of forms and is determined by the nature of the relationship and the activity being undertaken. Further evidence of our engagement includes:</li><li>▪ Engagement with the Scottish Government through our Membership of COSLA and the Scottish Cities Alliance</li><li>▪ Development of regional partnerships through the new regional governance arrangements taken forward by the Edinburgh and South East Scotland City Region Deal which include the 6 regional authorities, both governments and their agencies and the tertiary and third sectors. A Joint Committee to take this forward has been formally established as has a Regional Enterprise Council which will provide private and third sector leadership to regional engagement.</li><li>▪ The business community through the Edinburgh Business forum as well as a number of sector-based groups such as The Edinburgh Planning Forum and the Edinburgh Tourism Action Group.</li><li>▪ Key resilience stakeholders are engaged through the Multi-Agency Scottish Resilience Structure.</li><li>▪ In reporting to Committee, all consultation and engagement activities relating to Council decisions are outlined and published within the content of reports.</li><li>▪ The work of localities and strategic partnerships are informed through ongoing dialogue with community and partner agencies, together with dedicated engagement programmes, to ensure all activity reflects the aspirations and priorities of communities.</li><li>▪ The city’s Community Planning Partnership (Edinburgh Partnership) formally endorsed and approved the EP <u>Community Plan 2018-28</u>, on 30 October 2018. The Plan sets out the partnership’s commitment to work together to reduce poverty and inequality within the city and improve the quality of life for all. The plan identified the issues that require sustained joint action to make a difference and is based on what communities have identified are issues for them and their areas. It is focused on three strategic themes: enough money to live on, access to work, learning or training opportunities and making sure people have a good place to live. The Plan was approved by the EP Board, which comprises 19 representatives drawn from public, third sector and community bodies.</li><li>▪ To better support work at a local level, the Council and its partners work to four co-terminus locality areas. In addition, the Council and its partners are establishing four locality community planning partnerships as part of the new community planning governance arrangements. These will involve community representatives in improving service coordination and partnership activity in each area.</li><li>▪ The Council and its partners are also focused on addressing citywide issues through four strategic partnerships covering community safety, children’s services, community learning and development and city outcomes to address poverty and inequality</li><li>▪ We work in partnership with communities and service partners to deliver services of benefit to people in our communities based upon our shared understanding of people’s needs in local communities.</li></ul>
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Requirement of the Council’s Framework	2.2.2 Developing partnerships based on trust, shared commitments, a challenge culture and added value.	Score out of 10: 7
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Evidence of compliance and links	<p>The Council has a robust framework for partnership working which can be seen through the Edinburgh Partnership, the Integration Joint Board and City Region Deal Framework. This partnership approach has encouraged innovation and facilitate a collaborative engagement.</p> <ul style="list-style-type: none"><li>▪ The Edinburgh Partnership (EP) is made up of a Board, four strategic partnerships, four locality partnerships and 13 neighbourhood networks. The EP Board is not an incorporated body. The partnership operates in a spirit of mutual respect and partnership working. Each member has equal standing. The EP Community Plan 2018-28 includes 3 strategic priorities that have been agreed on the basis of resourced commitments being made by community planning partners. The aim of the partnership is to work together to address common problems and to hold partners to account in terms of partnership services.</li><li>▪ During 2018 the EP Board carried out a review and consultation of its governance arrangements and developed a Local Outcome Improvement Plan (Community Plan) in response the legal requirements of the Community Empowerment (Scotland) Act 2015. The new plan states the ambitions to further strengthen approaches to change, challenge and effective partnership working in tackling poverty and inequality in the city. Locality</li></ul>
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	<p>Improvement Plans, also a legal requirement, were approved in November 2017 following a period of extensive consultation with communities and public and voluntary sector partners. Work is now ongoing with partners and the community to develop and deliver actions to address the outcomes identified.</p> <ul style="list-style-type: none"> <li>▪ To better support work at a local level, the Council and its partners work to four co-terminus locality areas. In addition, the Council and its partners are establishing four locality community planning partnerships as part of the new community planning governance arrangements. These will involve community representatives in improving service coordination and partnership activity in each area.</li> <li>▪ The Council and its partners are also focused on addressing citywide issues through four strategic partnerships covering community safety, children’s services, community learning and development and city outcomes to address poverty and inequality</li> <li>▪ The Community Safety Partnership is responsible for coordinating a multi-agency response to promote community safety, to reduce reoffending and to tackle antisocial behaviour across the city. Improving community safety and effective reduction in reoffending depends on a complex, multi-agency and multi-sector approach to the delivery of a wide range of both universal and specialist services. This multi-agency approach to community safety has strengthened the locality focus which allows for closer engagement with neighbourhoods.</li> <li>▪ The Edinburgh Integration Joint Board (EIJB) is a formally constituted decision making body as set up under the provisions of the Public Bodies (Joint Working)(Scotland) Act of 2014. It is a formal board whose membership comprises Non-Executive Directors of NHS Lothian and Elected Members of City of Edinburgh Council. It is required to act as a single body rather than the sum or ‘sides’ of its membership and its operational requirements are set out in the agreed Scheme of Establishment. The IJB is required to have in place as its accountable officers a Chief Officer and Chief Finance Officer and it sets out its aspirations in its Strategic Plan.</li> <li>▪ The operational element which delivers the IJB’s strategic intention is the Edinburgh Health and Social Care Partnership (EHSCP). Led by the Chief Officer and Executive team the partnership brings together the operational, planning and delivery oversight of a range of adult social care services with a number of community health and hospital-based services in Edinburgh. The aim is to improve the health and wellbeing of citizens by joining up the planning and delivery of health and social care services previously delivered separately by The City of Edinburgh Council and NHS Lothian.</li> <li>▪ The IJB also includes, as non-voting members, professional, carer and service user members to ensure that all views are incorporated in planning and instructing strategic objectives.</li> <li>▪ Council Health and Safety Forum with Trades Unions meets quarterly to ensure appropriate level of consultation and engagement on health and safety matters.</li> <li>▪ Partnership meetings with trade unions take place on a regular basis at a council wide and service area level. We consult trade union colleagues on people related/cultural change developments, e.g. new and revised HR policies, learning at work and our new approach to performance etc. The Council recognises eight trades unions for the purposes of collective bargaining. To help the consultation and negotiation process, the trades unions have appointed a staff side secretary covering all non-teaching staff and another covering teaching staff. The Council has a Working Together Protocol, which sets out the way that management and the trades unions should work together to achieve their shared goals and common interests and the behaviours expected from both sides.</li> <li>▪ The full City Region Deal was agreed in July 2018 by the City Region and both National governments. It consists of a range of partners, including six councils, four universities and the involvement of the business and third sector.</li> <li>▪ The Council is participating in key national activities as an active member of COSLA and SOLACE, along with engaging in local activities.</li> <li>▪ The Council is currently reviewing its arrangements with the business community through the Edinburgh Business Forum.</li> </ul>	
<b>Supporting principle</b>	<b>2.3 Engaging with individual citizens and service users effectively</b>	
<b>Requirement of the Council’s Framework</b>	2.3.1 Ensuring effective engagement with clarity of purpose, objectives and intended outcomes.	<b>Score out of 10: 7</b>
Evidence of compliance and links	<p>The Council has made significant efforts over recent years to improve the way we engage and consult with citizens and communities moving to a significantly more digitally enabled approach. There is however more work to do to sustain and broaden our approach in this regard to ensure we are improving outcomes.</p> <ul style="list-style-type: none"> <li>▪ The Council developed a Consultation Framework which provides guidance to officers on deciding whether the appropriate approach to an issue is communication, engagement or consultation.</li> <li>▪ <u>The Edinburgh People Survey</u> measures satisfaction with key universal services and highlights where further research or consultation may be necessary.</li> <li>▪ Meaningful engagement is the primary aim of the neighbourhood network approach, which provides opportunities for all members of the community to participate, influence and shape activity on an ongoing basis.</li> <li>▪ Communities are encouraged and supported to be involved in a wide variety of ways for example a series of workshops have taken place across localities leading to the development of the Locality Improvement Plans.</li> <li>▪ Guidance on community engagement policies and approaches is produced and cascaded to staff and members as appropriate. This includes the formal adoption of the National Standards for Community Engagement by Council in March 2017.</li> <li>▪ The Edinburgh People Survey has a boosted sample of minority ethnic communities and a representative sample of people in Council housing, and people of all age groups.</li> <li>▪ The Council communicates on its budget proposals with direct mailings to community organisations who represent and provide services to different stakeholder groups. This has recorded high engagement levels and positive attention in local press and social media.</li> <li>▪ Where appropriate, the Council gathers monitoring information on various demographic characteristics through surveys.</li> <li>▪ New <u>Complaints Policy</u> to be approved by Corporate Policy &amp; Strategy Committee in August 2018.</li> <li>▪ A wide range of engagement activities are carried out, ensuring opportunities are provided in ways that are appropriate for communities of place, interest and identity to express their needs and views on services and future provision to inform service development and delivery. This included an extensive exercise to engage the community to inform the development of the Locality Improvement Plans required under the <u>Community Empowerment (Scotland) Act 2015</u>.</li> <li>▪ The work to develop the Integration Joint Board’s understanding of the local population is done through ongoing dialogue with service user and partner agency representation at regular JSNA (Joint Strategic Needs Assessment) stakeholder group meetings.</li> </ul>	
<b>Requirement of the Council’s Framework</b>	2.3.2 Developing effective communication methods that encourage, collect and evaluate views and experiences while ensuring inclusivity.	<b>Score out of 10: 7</b>
Evidence of compliance and links	<p>The Council has made significant efforts over recent years to improve the way we engage and consult with citizens and communities. There is however more work to do to sustain and broaden our approach in this regard to ensure we are improving outcomes.</p> <ul style="list-style-type: none"> <li>▪ The Council regularly consults and engages with stakeholders and members of the public on its plans and policies. Methods to seek feedback include surveys, focus groups, public meetings, and involving relevant stakeholders in participatory budgeting and local community planning. Details on how to find out about and participate in consultations and are available via our <u>Consultation Hub</u>.</li> <li>▪ The Council has established corporate accounts on the following social media platforms Twitter, Facebook, Instagram, Flickr ,YouTube and LinkedIn. A specialist account have been established to enable officers in Customer Services to address specific concerns raised by members of the public.</li> <li>▪ <u>Budget engagement</u> decisions are reported through ‘You Said, We Did’ in the form of a web page update and press release.</li> <li>▪ The locality improvement plans sets out effective mechanisms for providing feedback on how stakeholder views have informed service development and delivery as well as ongoing performance monitoring. This is a core element of the National Standards for Community Engagement which has been adopted by the Council.</li> <li>▪ Engagement activity is designed to address the involvement of all stakeholders, with mapping and demographic data informing the approaches.</li> <li>▪ Annual survey of communities and other stakeholders about impact of community payback work within their area is included in annual community payback report.</li> </ul>	

	<ul style="list-style-type: none"> <li>Engagement in feedback activities through public performance reports or local engagement events forms a critical element of the partnerships work, with this informing the development of plans and strategies including LIPs and LOIPs. The EP focuses on co production approaches to ensure views of citizens are taken into account. The establishment of the neighbourhood networks is designed to strengthen the partnership's approach to ensuring communities influence and shape community planning in the city.</li> <li>EP supports the Edinburgh Equality and Rights network (EaRN) to ensure communities of interest are engaged with and supported in community planning activity.</li> </ul>	
<b>Requirement of the Council's Framework</b>	2.3.3 Ensuring consideration of future needs and the impact of decisions on future generations.	<b>Score out of 10: 7</b>
Evidence of compliance and links	<p>The council is currently developing a 2050 City Vision with the express intention of ensuring we have a city that meets the needs of future generations. This goes alongside a clear strategic framework for this council period and equality impact assessments.</p> <ul style="list-style-type: none"> <li>Partners including the Council is currently developing an Edinburgh 2050 city vision which will provide long term direction for the future of the city.</li> <li>The Council uses population projections to anticipate future need at below city-level, enabling us to project overall demand for services and anticipate long-term need.</li> <li>The Change Strategy project was launched in 2017 to develop transformative proposals, including prevention strategy elements, to be presented to Elected Members and the public in late 2018.</li> <li>The Integration Joint Board is tasked with delivering its vision for a caring, healthier, safer Edinburgh through taking actions to transform how Council and NHS services and staff teams work together; with other partners; and those who use services and communities. A <a href="#">Strategic Plan 2016-19</a> has been agreed and published.</li> <li>The Council's <a href="#">Financial Regulations</a> and accompanying Finance Rules set out the requirement for Executive Directors to consider on an ongoing basis their respective budgets, including active management of risks and service pressures, delivery of approved savings and appropriate application of service investment. Taken together, these actions contribute to ensuring that the Council's overall expenditure is maintained within budgeted levels and that financial sustainability is secured in accordance with the financial strategy.</li> <li>The Council has maintained revenue expenditure within budgeted levels for ten successive years and attained its target level of unallocated reserves one year early in March 2011 and, despite severe financial pressures, has kept them at this level since that time. The Council's overall level of unallocated and earmarked reserves was assessed as appropriate as part of the <a href="#">2017/18 Annual Audit Report</a>, with the annual <a href="#">Risks and Reserves</a> report considered as part of the budget process also identified as an area of good practice.</li> <li>All new budget proposals are subject to detailed officer and political scrutiny at the development, implementation and subsequent delivery stages. In addition, all Committee and Council reports require authoring officers to consider, liaising as appropriate with Finance staff, the financial implications of planned actions, including the adequacy of budget provision, timing of costs and savings and any specific risks around implementation, informed by specific <a href="#">report writing guidance</a> in this area. The Head of Finance additionally requires to sign off the financial implications sections of all relevant reports, with the right to withdraw reports from Committee agendas where this is not undertaken enshrined in the <a href="#">Financial Regulations</a>.</li> <li>The Council maintains a detailed <a href="#">five-year financial framework</a> within the context of a ten-year financial plan. In addition to capturing changes in the Council's key income and expenditure drivers, the plan incorporates the current and future financial impacts of all material approved plans and actions, allowing decisions to be taken in the knowledge of their anticipated impact on delivery of the Council's key priorities.</li> <li>Decisions on any new borrowing are rooted in consideration of their prudence, affordability and sustainability, with levels of external borrowing assessed against a suite of prudential indicators as part of the annual budget motion and corresponding loans charge provision made within the budget framework.</li> <li>The Council has approved its approach to participation requests as required by the Community Empowerment (Scotland) Act and reviewed its existing asset transfer policy to ensure compliance with the new legal duties.</li> </ul>	
<b>Principle 2 - Improvement</b>	<ol style="list-style-type: none"> <li>2050 City Vision is to be published in 2019.</li> <li>Plans are currently being developed to undertake long term engagement work with the public and Council officer on some of the challenges faces by the council to try and ensure there is as much buy-in as possible on the decisions taken by the council.</li> <li>The Council is establishing what opportunities there can be in the introduction of CONSUL, an online citizen participation tool. It includes components which support features including debates, proposals, participatory budgeting, voting, and collaborative legislation.</li> <li>Community planning review currently underway to improve community engagement</li> <li>Embed new ways of engaging and collaborating with citizens as part of the change strategy</li> <li>A new IJB Strategic Plan to be agreed and published in August 2019.</li> </ol>	Responsible officer(s)  1-5) Head of Strategy & Communications 6) IJB Chief Officer

<b>Principle 3</b>	<b>Defining outcomes in terms of sustainable economic, social, and environmental benefits</b>	
<b>Supporting principle</b>	<b>3.1 Defining outcomes</b>	
<b>Requirement of the Council's Framework</b>	3.1.1 Having a sustainable vision for the organisation which sets out strategy, forward planning and impact on stakeholders.	<b>Score out of 10: 8</b>
Evidence of compliance and links	<p>The Council has a business plan and performance framework in place to drive clear strategic planning and performance management. There are opportunities to further strengthen this approach and further embed a culture of performance management.</p> <ul style="list-style-type: none"> <li><a href="#">The Programme for the Capital: The City of Edinburgh Council Business Plan 2017-22</a> was agreed in August 2017. The plan forms a central part of the Council's strategic planning and performance framework. The plan describes our Commitments to the city, our strategic aims and outcomes, our challenges, how we'll measure success and the future of our organisation. To deliver Council vision and strategic aims, 20 associated outcomes have been set out. These outcomes link to our 52 commitments to the city which will be prioritised over the duration of this plan and into the future. The plan clearly articulates our intended outcomes and expected impacts on citizens.</li> <li>The Council's strategic aims of "A forward looking Council" and "An empowering Council" are underpinned by the organisation's culture and values. These are the principles that drive how services are delivered and how people work with citizens and communities.</li> <li>An independent audit of council activity on sustainability and climate change was conducted by the Edinburgh Centre for Carbon Innovation. Its report went to the Corporate Policy and Strategy Committee on the 4 December 2018.</li> <li>Locality improvement plans have been developed to meet the requirements of the Community Empowerment (Scotland) Act 2015. Development has been informed by extensive engagement in each of the four localities to ensure the views of the community are taken into account and the plans are tailored to fit the individual needs and aspirations of each area. The development process for the plans has been subject to an Integrated Impact Assessment and the plans screened under Schedule 2 of the Environmental (Scotland) Act 2005.</li> </ul>	

	<ul style="list-style-type: none"> <li>The Council’s <a href="#">People strategy</a> is built around a core set of values that guide everything we do. Our values define the culture we want to build within our organisation and the strategy sets out our commitment to each other within our workforce as well as to our citizens and communities.</li> <li>The Council’s budget process is founded upon priority-based principles, with additional demographic-related investment provided on an annual basis and proportionately lower savings requirements applied to the priority areas of education, children’s services and health and social care.</li> <li>The Council was one of the first in Scotland to introduce a long-term financial plan, doing so <a href="#">in 2009</a>. The expenditure and income assumptions underpinning the plan are subject to at-least six-monthly review, with the results of <a href="#">the most recent such assessment</a> considered by the Finance and Resources Committee on 1 February 2019. The Council’s arrangements in these areas were assessed as effective in the recently-published 2017/18 <a href="#">Annual Audit Report</a>.</li> <li>The Council’s budget strategy has sustainability at its core, with, for example, no capital or other investment approved without assurance over its longer-term affordability.</li> <li>In acknowledging the potential for closer integration of financial and non-financial information to inform decision-making, however, work is underway between Finance and Strategy &amp; Communication colleagues to develop service profiles for all main areas of Council activity.</li> <li>The mainstreaming of participatory budgeting forms a key action to achieve the Council’s strategic aim of being “An Empowering Council”. The Council has continued to support participatory budgeting in the city in the last year as a key approach to improving local democracy and strengthening the role of communities in the decision-making process. A number of initiatives were delivered including Choose Youth Work and Leith Chooses, which was a joint initiative between the Council and the community councils in Leith. Funding was also secured from the Scottish Government’s Community Choices programme to support the delivery of the Joined Up for Integration Project and a Participatory Budgeting Champions Programme. Through this programme 38 people from public, voluntary and community sectors were trained and now form a core group of practitioners to assist in the development of the approach in the city.</li> </ul>	
<b>Supporting principle</b>	<b>3.2 Sustainable economic, social and environmental benefits</b>	
<b>Requirement of the Council’s Framework</b>	3.2.1 Ensuring that policies and plans are sustainable and balance the needs of all economic, social and environmental stakeholders.	<b>Score out of 10: 6</b>
Evidence of compliance and links	<p>The Council’s Integrated Impact Assessment incorporates the following areas: Equality, Human Rights, Sustainability, Environment and Economy. It has been developed to support us to meet our legal duties, including those arising from the Environmental Impact Assessment (Scotland) Act and the Climate Change (Scotland) Act, and will be used as evidence for the Fairer Scotland Duty. It is carried out for any plan, strategy or proposed service change that may have an impact on equalities, the environment or the economy. Further, each report to Committee must include an assessment of the impact on sustainability.</p> <ul style="list-style-type: none"> <li><a href="#">The Council’s Equality, Diversity and Rights Framework</a> ensures that citizens have a fair access to services and are able to use these services and join in with the life and work of the city.</li> <li>Economic and social benefits are not specified requirements when policy and planning decisions are taken however they are fundamental in the Council’s Business Plan and are therefore implicit in the decision making for the Council.</li> <li>The Committee <a href="#">Report writing template and guidance</a> includes a requirement for authors to detail all relevant information to ensure that the decisions being taken are open and transparent where benefits and impacts are in conflict.</li> <li>The Council has a robust approach to risk and this is incorporated explicitly in all reports to Committee on decisions to be taken. The report template also requires officers to explicitly consider the financial impacts of any decisions taken.</li> <li><a href="#">The Programme for the Capital: The City of Edinburgh Council Business Plan 2017-22</a> forms a part of a robust strategic framework that connects the strategic vision of the Council and its partners to the detailed plans that guide the delivery of our frontline services. This framework ensures that all Council plans and strategies are driven by and focused towards the delivery of a single shared vision for the city and our services. This framework will comprise the 2050 City Vision, Community Plan and Local Development Plan, Locality Improvement Plans, Council Strategies and Directorate Business Plans.</li> <li>In the development of policies and procedures, the Council takes account of the public interest associated with decisions to be taken.</li> <li><a href="#">Petitions</a> procedure redesigned as part of most recent review of <a href="#">political management arrangements</a>. (June 2017).</li> <li>Deputations (representative of a group or organisation speak at a committee meeting on a subject of their choice) are welcomed to feed into policy making at Council and Committees.</li> <li>The Council’s Strategy and Communications gathers extensive information about the social and demographic attributes of residents and analyses this to provide input into policy decisions.</li> <li>The Council explicitly offers choices about service prioritisation and policy to residents through its budget engagement activity.</li> <li>The new community plan (<a href="#">LOIP</a>) was established in October 2018.</li> </ul>	
<a href="#">Principle 3 - Improvement plan</a>	<ol style="list-style-type: none"> <li>1) Work is currently underway to develop Transformation and Sustainability programmes. The Council’s Sustainability Approach is to be agreed by the Corporate Policy and Strategy Committee meeting on the 14 May 2019</li> <li>2) The Community Planning Delivery group are developing an implementation plan and performance monitoring framework</li> <li>3) A programme of activities has been set out including aiming to have developed a 2030 strategy by June 2020</li> <li>4) Develop greater connectivity from the 2050 Vision throughout the Council’s Strategies and Policies.</li> </ol>	<p>Responsible officer(s)</p> <p>1-4)Head of Strategy &amp; Communications</p>

<b>Principle 4</b>	<b>Determining the interventions necessary to optimise the achievement of the intended outcomes</b>	
<b>Supporting principle</b>	<b>4.1 Determining interventions</b>	
<b>Requirement of the Council’s Framework</b>	4.1.1 Supporting decision makers to take decisions based on objective information and rigorous analysis, whilst considering best value, risk, stakeholder views and future impacts.	<b>Score out of 10: 6</b>
Evidence of compliance and links	<p>The Council has a strong framework to support decision makers, in particular elected members. This is even more important in a changing environment with the Council having a minority administration. How elected members are supported, and the information provided to enable strong scrutiny and decision making, has to be flexible as those needs crystallise. The Council needs to continually adapt to ensure it is agile enough to maintain this strong framework. Officer decision making also has its strengths but further improvement is needed to ensure sufficient clarity on accountability and process, as well as linking it with committee decision making.</p> <p>Enhanced and earlier scrutiny of approved budget proposals has contributed positively to the proportion subsequently delivered. There is still a need in some cases however for financial decisions taken by individual service areas to take greater account of monetary and other impacts elsewhere within the Council, such that best overall use is made of scarce resources.</p>	



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	<p><b>Elected Members – Strategic Decision Making</b></p> <ul style="list-style-type: none"><li>Committee report template and guidance is regularly reviewed and includes standard sections requiring authors to detail consultation and engagement, sustainability impact, equalities impact, financial impact, measures of success and risk, policy, compliance and governance impact most recently in Jan/Feb 2019.</li><li>The Council has recently implemented a Committee Management System (mod.gov). This provides additional searches and functionality in the decision making process.</li><li>Workshops and briefing notes are regularly used to support Committee reports.</li><li>Members have the opportunity to challenge officers submitting reports and ask questions at both agenda planning meetings or committee.</li><li>All Council and Committee reports and decisions are recorded and are available on the CEC web site via <a href="#">Council papers online</a> (since May 2003).</li><li>Regular email, face-to-face and one-to-one briefings take place with elected members.</li><li>Deputations (representative of a group or organisation speak at a committee meeting on a subject of their choice) are welcomed at Council and Committees.</li><li>Petitions process, established in 2012, engages and involves citizens in the democratic process. To date over 18,000 signatures have been submitted. The process was reviewed in <a href="#">June 2017</a>, to ensure a speedier resolution for petitioners.</li><li>The Council is developing a 4-year Change Strategy to ensure it is improving performance and is managing its budgets. The budget engagement process is currently out to consultation and was approved by Finance and Resources Committee.</li><li>A wide range of engagement activities are carried out, ensuring opportunities are provided in ways that are appropriate for communities of place, interest and identity to express their needs and views on services and future provision to inform service development and delivery.</li><li>The Council’s Locality Improvement Plan development sought the views of communities on the use of assets and the delivery of services in a local context, across organisational silos.</li></ul> <p><b>Corporate – Operational Decision Making</b></p> <ul style="list-style-type: none"><li>Building on recognised weaknesses in the management and delivery of major change a CLT led Monthly Change Board has been established. This board has agreed a project management tool kit that will ensure all significant projects have full business cases developed prior to committee approval and that benefits are tracked and measured. This approach is beginning to embed although it will take time to mature.</li><li>The Council is currently consulting on a 4-year strategic change strategy to ensure that council is improving services and ensuring it continues to balance its budget in the context of significant financial pressures.</li><li>The Council’s Business Plan was agreed in August 2017 and will be reviewed in February 2019 to make sure its aligned with the Council’s developing change strategy. The Council’s Business Plan is part of a broader Performance Framework which is currently under review to ensure the council is consistently improving and focusing on its performance. The Commercial and Procurement Service have three Commercial Partners, each with responsibility to liaise and work with different service areas across the Council. The Commercial Partners report to senior management within their service area on procurement activity and compliance. This ensures that good practice and areas of concern can be identified and feed into operational decisions.</li><li>The Council Contract Standing Orders provide the ‘rule-book’ for procurement and purchasing of supplies, services and works from which a framework of controls is implemented. Commercial and Procurement Services has continued to improve compliance using our Purchase to Pay (P2P) processes to maximise controls available, in parallel implementing new controls for compliance.</li><li>Regular engagement with service areas continues across all Directorates, providing ‘dashboard’ type reporting and enabling review, analysis and adherence in relation to contractual spend, purchase to pay process, CSOs etc. This ensures the Council is continuously reviewing its performance in relation to best value for procurement of goods and services, offering opportunity for intervention where necessary, to enable achievement of the defined needs.</li><li>CLT review audit action follow up, HR performance and Health and Safety data monthly to ensure appropriate scrutiny.</li><li>The scope of contract purchases continues to be reported to Finance and Resource Committee on a 6-monthly basis, whilst the Council’s Annual Report (the first being this year) is both reported to Committee and subsequently submitted to the Scottish Government in order to comply with our obligations under the Procurement Reform (Scotland) Act 2014. This offers transparency in detailing both the scope of procurement activity (both backward and forward looking) and a review of compliance against the Council’s Procurement Strategy, with a view to self-evaluation and continuous improvement.</li><li>Reflecting increased scrutiny at the savings inception, development and delivery stages, there has been a marked increase in recent years in the proportion of approved savings subsequently delivered.</li><li>Against a backdrop of restricted overall resource availability, additional emphasis has been placed on Executive Directors recognising, and wherever possible containing, associated revenue implications of the decisions being recommended. In recognising that there may be cases where this is not possible, however, some additional provision has been included in the budget framework.</li></ul>	
Supporting principle	4.2 Planning interventions	
Requirement of the Council’s Framework	4.2.1 Establishing and implementing robust planning and control cycles that take into account stakeholder input, risks and are adaptable to changing circumstance.	Score out of 10: 6
Evidence of compliance and links	<p>The Council is building on its existing performance framework with a proposed 4-year strategic change strategy that will ensure we are taking at a long-term approach to improving services and balancing budgets within the context of financial pressures.</p> <ul style="list-style-type: none"><li><a href="#">The City of Edinburgh Council Business Plan 2017-22</a> (August 2017) forms a central part of the Council’s strategic planning and performance framework and is reviewed and revised regularly taking into account changes to the strategy and policy environment within which the Council operates. The Business Plan ensures that Council strategy, the City Vision, the Community Plan, the budget plan, the people plan and Directorate Business Plans reflect the priorities of the public, elected members, partners and our people.</li><li>A monthly Change Board with representatives from the Corporate Leadership Team and project leads provides oversight of key projects.</li><li>A Risk Committee meets regularly with representatives from key risk stakeholders.</li><li>A new Strategy and Communications division with enhanced capacity for strategic change to drive service improvements was established in August 2018</li><li>A data warehouse and dynamic dashboard reporting toolkit is being developed through Cognos to provide a single repository for all data in the Council and facilitate data profiling to identify and action data quality issues. Cognos dashboards allow data to be blended from multiple sources (internal and external) and use a wide range of analytical tools to enable a single view of information across the Council. The dashboard will provide deeper insight into performance and service provision and support effective decision making, service planning and improvement.</li><li>Targeted service improvements and enhanced monitoring of performance by CLT form a core part of the Council’s Business Planning process.</li><li>Urgent decision provision is included within the <a href="#">Committee Terms of Reference and Delegated Functions</a>.</li><li>The <a href="#">Scheme of Delegation</a> (June 2018) sets out the powers delegated by the City of Edinburgh Council to officers, pursuant to the <a href="#">Local Government (Scotland) Act 1973</a>. The Scheme facilitates the efficient conduct of Council business by clearly setting out the nature and extent of the powers delegated to officers by the Council, thereby ensuring that decisions are taken at an appropriate level and ensure sufficient and appropriate scrutiny.</li><li>As part of the Terms and Conditions (T&amp;C’s) issued in a tender process, the T&amp;C’s detail that the delivery of goods and services may be varied (adaptable) if they follow the conditions, to allow for changing circumstance. In some cases, there is a detailed Change Control Notice. This notice is submitted to the Council, signed by the Service Provider. The Council agrees to respond to the Change Control Notice within three weeks of receipt. (Services agreement for use by public sector bodies).</li></ul>	

	<ul style="list-style-type: none"> <li>The Contract Management Manual (June 2018) sets out the detailed requirements for the conduct of contract management activity within the Council. A suite of operational documents to support the monitoring and delivery of successful contract outcomes and central support team to provide guidance and continuity of process and procedure is also in place. An effective Contract Management Framework that is consistently applied by all Council contract owners and managers should ensure that this risk is effectively managed; that procured services achieve Best Value for the duration of the contract; and also support efficient service delivery.</li> <li>Resilience is a statutory, cross-council activity involving internal and external consultation and engagement with a range of partner organisations and stakeholder interests including planning, risk assessment, warning and informing and exercising, as set out in <a href="#">The Civil Contingencies Act 2004</a>, <a href="#">Contingency Planning (Scotland) Regulations 2005</a> and <a href="#">Preparing Scotland: Scottish Guidance on Preparing for Emergencies</a>.</li> <li>Public Sector Internal Audit Standards requires Internal Audit to develop a risk based annual plan that determines the priority of Internal Activity in order to provide assurance on the design and effectiveness of the controls established across the Council to manage its most significant risks. This plan should also be aligned with the Council's strategies and goals.</li> <li>HR provision of assurance on an annual basis An Annual Workforce Controls Report and Quarterly Workforce Dashboards are presented to CLT and to Finance &amp; Resources Committee covering the following: <ul style="list-style-type: none"> <li>the number of Full Time Equivalent (FTE) employees, the type of contract they are employed through and the turnover of new starts and leavers;</li> <li>trends on absence rates, including the top five reasons for short and long-term absence;</li> <li>the cost of the pay bill, including the cost associated with new starters and leavers;</li> <li>insight relating to our performance framework (launched April 2017) including the percentage of annual conversations carried out, the number of Conversation Spotlight workshops carried out and feedback received from our employees who have attended the course;</li> <li>the number of VERA/VR leavers and associated cumulative budget savings; and the number of redeployees and associated costs.</li> </ul> </li> </ul>	
<b>Requirement of the Council's Framework</b>	4.2.2 Establishing effective KPIs and capacity to generate performance information that allows for the quality of services and projects to be assessed/measured regularly.	<b>Score out of 10: 6</b>
Evidence of compliance and links	<p>The Council's performance framework was agreed in November 2018 and is designed to drive a performance culture. This framework is currently being reviewed to ensure all aspects of performance are integrated and enabled with first class systems. This approach builds on:</p> <ul style="list-style-type: none"> <li>Progress against the delivery of our strategic plans is tracked by a Council-wide performance management framework. A key component of the framework is a well-defined suite of performance indicators which are used to measure success at each level of the strategic framework. Key performance indicators are being established through engagement with service area senior managers as part of the planning and performance framework. Coalition commitment measures are being established through consultation with service areas and elected members and will form part of the performance framework reporting to Senior Management Teams, Corporate Leadership Team and Committees. Performance reporting against the Council's commitments and outcomes forms the basis of the annual report on progress.</li> <li>Monitoring of performance is done through performance dashboards which indicators around quality of service, customer perceptions and service response rates.</li> <li>Data for the framework and dashboards is collated centrally using the Cognos performance management system.</li> <li><a href="#">The Annual Performance Overview</a> report was presented to Full Council on 23 August 2018. This report provides an overview of performance covering the key performance indicators linking to benchmarking and citizen's perception as well as progress towards achieving community plan outcomes. This report aims to promote a 'one Council' approach to deliver on corporate, political and Community Planning priorities.</li> <li></li> <li>KPI monitoring and measurement is an integral element in the development of a contract and forms a component of the quality score in the tender evaluation process. KPI planning at outset in the tender process ensures the performance of services / projects can be robustly and accurately measured. The successful tenderer is required to ensure provision of adequate monitoring of performance against agreed KPI's, the method of which is detailed within the tender documentation</li> <li>The Governance, Risk and Best Value Committee was established to take the lead role as the Council's main scrutiny panel. This is convened by a senior opposition member. Both the Chief Executive and the Executive Director of Resources attend meetings in person, supported by other members of the Corporate Leadership Team.</li> <li>The Committee has the ability to review any of the Council's activities, to require action or further reports and to call witnesses to support its debate.</li> <li>The Accounts Commission's <a href="#">Best Value Audit Report</a> stated that the Governance, Risk and Best Value Committee 'provides effective scrutiny of the Council's operations and performance.'</li> <li>The Council has responded to external scrutiny, in the form of external audit and inspection reports, with improvement plans which are reported to the appropriate committees.</li> <li>The Council Companies' Hub was established in <a href="#">June 2016</a> to improve officer scrutiny of Council companies, including risks. It clarifies roles and responsibilities, good governance, elected members' duties as councillors and the mitigation of conflicts of interest.</li> <li>The Annual Assurance schedule issued to all Heads of Service, Executive Directors, Council Companies and Joint Boards includes sections on risk and performance.</li> <li>When working with partners early consideration is given to risks and the appropriate framework and reporting mechanisms to be used.</li> <li>The Corporate Risk Team regularly meet with partners to ensure that where shared risks exist these are considered and assigned to appropriate owners. Some examples of these meetings are with representatives from NHS Lothian in relation to the EIJB/EHSCP, representatives from Edinburgh Trams to consider operational risks from the existing tram system, and the tram extension project to consider project and future operational risks.</li> <li>Reviewing service quality is embedded within the strategic change and delivery programme which covers process review and service improvement. Service areas work in partnership with change teams to identify opportunities for new ways of working.</li> <li>The <a href="#">Commercial and Procurement Service</a> works with service areas, suppliers and Strategy and Communication to ensure spend and service level, including KPI data, is available to measure performance of the contract during its life and prior to re-tender. This ensures the Council is procuring goods and services which meet its defined needs. This allows us to ensure that the contract is being managed regarding capacity, value for money and delivering savings both financially and in-service efficiencies. Service areas also monitor suppliers to ensure the general T&amp;Cs of the contract are being met and that all sustainable and community benefits are being realised.</li> <li>As part of the Council's Governance arrangements, regular reviews of project governance and management is carried out on larger projects and recommendations for improvements acted upon.</li> </ul> <p>The Integration Joint Board is developing a performance framework and reporting lines as part of its ongoing Governance Review. This will enable the Council to place reliance on the wider IJB framework for elements which sit within the remit of the IJB.</p>	
<b>Requirement of the Council's Framework</b>	4.2.3 Ensuring that budgeting and resource planning is informed by realistic revenue and capital estimates and aims to deliver objectives, strategies and plans in a sustainable manner.	<b>Score out of 10: 7</b>
Evidence of compliance and links	<p>The Council's revenue and capital budget frameworks are underpinned by regular and proactive review of the full range of factors influencing the costs of delivering its services and the resources available to fund them.</p> <ul style="list-style-type: none"> <li>The Council has an on-going system of review in place with regard to its main expenditure and income drivers. The contents of the revenue budget framework are subject to at-least six-monthly formal reporting, reflecting as appropriate updated grant funding estimates, population and wider demographic projections, inflationary forecasts (including pay awards) and cost impacts of legislative and other changes. The results of <a href="#">the most recent assessment</a> were reported to the Finance and Resources Committee on 5 September 2017. <a href="#">The most recent assessment</a> as reported to the Finance and Resources Committee on 4 December 2018. These assumptions and the effectiveness of the overall approach were favourably assessed as part of the Council's recent <a href="#">Annual Audit Report</a>.</li> <li>Budget has been balanced for eleven successive years due to a flexible and responsive approach.</li> <li>Budget reporting is presented regularly to SMTs. monthly to CLT and bi-monthly to F&amp;R.</li> </ul>	



	<ul style="list-style-type: none"> <li>While, as mentioned at 4.2.2, maintaining financial sustainability remains one of the Council’s key on-going challenges, revenue expenditure has been contained within approved levels for eleven successive years without recourse to unallocated reserves which remain at the level set out in its Financial Strategy.</li> <li>Capital expenditure and income projections are similarly based on up-to-date prudent assessments of likely receipt levels, grant funding, asset condition, Council commitments and priorities and other relevant data. By assisting service areas to develop realistic expenditure plans and promptly identifying instances of potential project delays, the level of expenditure slippage recorded across the programme has been significantly reduced in recent years, comparing very favourably with other authorities and realising savings in loans charge expenditure contributing to addressing wider savings targets.</li> </ul>	
<b>Supporting principle</b>	<b>4.3 Budgeting and financial sustainability</b>	
<b>Requirement of the Council’s Framework</b>	4.3.1 Ensuring that the budgeting process and financial strategy are sustainable whilst considering objectives, service priorities, affordability and medium/long-term plans.	<b>Score out of 10: 7</b>
Evidence of compliance and links	<p>The Council has a duty to ensure that its revenue and capital spending plans are prudent, affordable and sustainable whilst supporting the delivery of its priority outcomes. With this in mind, proposals are developed against the backdrop of a longer-term framework, recognising that the need for efficiency, transformation and prioritisation in the Council’s services is a recurring one. The Council has also undertaken a strategy of the incorporation within the revenue and capital frameworks of significant resources to address historic underinvestment in the Council’s estate and recognising the potential additional revenue liabilities of changes to the estate going forward.</p> <p><b>Strategic</b></p> <ul style="list-style-type: none"> <li>Progress against the delivery of our strategic plans is tracked by a Council-wide performance management framework, including key financial indicators</li> <li>The Council’s budget strategy affords relative protection to key service areas and priorities within an overall position that emphasises the need for both revenue and capital expenditure and income to remain in balance over the medium term.</li> <li>While recognising the Council’s legal responsibility to set a balanced revenue budget for the following financial year by 11 March, both the revenue and capital budget-setting processes adopt a whole-life approach, capturing the expenditure and income implications of approved or proposed actions not just for the following but also subsequent years. In this vein, the approved 2018/23 revenue and capital budget frameworks, in acknowledging historic underinvestment in the corporate estate, include significant additional resources to address this backlog, as well as adopting a more proactive and planned maintenance approach and recognising potential additional revenue liabilities of changes to the estate going forward.</li> <li>The Council’s capital plan similarly adopts a longer-term timeframe and is informed by explicit consideration of Council priorities, thereby maximising the level and effectiveness of investment available to take forward key initiatives with reference to the principles contained within the Asset Management Strategy and relevant Asset Management Plans.</li> <li>In addition to the direct impacts of specific proposals, the long-term financial plan takes account of the wider implications of the Council’s activity in such areas as the associated required levels of pay award and on-cost provision, fees and charges income and enabling investment. The framework also recognises that demand for the Council’s services mirrors changes in the population as a whole and therefore makes explicit provision for the impact of demographic-led growth in such areas as school education, older people’s care and services for those with physical and/or learning disabilities. The framework also reflects the financial impact of future changes such as approved increased employer pension contributions and anticipated changes in grant funding.</li> <li>The Council’s financial framework incorporates modelling of a number of key income and expenditure variables and, by adopting a four-year timeframe, seeks to provide a contingency against material changes in any of these key factors influencing the overall savings requirement.</li> <li>While acknowledging current demands and pressures within its financial planning processes, the Council has also placed an increased emphasis on preventative investment in recent years, with notable successes achieved in term of both improved outcomes and cost savings in the area of home care reablement and looked-after children’s services. The Change Strategy recognises the crucial role such a preventative approach will play going forward, forming a key pillar of the Council’s future operating model.</li> <li><u>The Programme for the Capital: The City of Edinburgh Council Business Plan 2017-22</u> describes how a sustainable balanced budget will be delivered in a challenging environment, with increasing demand for services at a time of on-going financial constraint.</li> </ul> <p><b>Operational</b></p> <ul style="list-style-type: none"> <li>While work is underway to introduce further integration of the revenue and capital budgets, the process also takes account of the indirect impacts of changes in demand for Council services, such as additional property and school meal costs linked to growth in the number of pupils within the Council’s schools.</li> <li>The Council’s budget framework is underpinned by a comprehensive and regular review of the key factors influencing the Council’s need to spend and the likely level of resources available to support that spend over the medium- to longer-term, be it due to demographic trends, inflationary pressures, legislative reform or grant funding or other changes. The results of these assessments are reported to the Council’s Leadership Team and the Finance and Resources Committee on an at-least six-monthly basis, allowing the adequacy of the Council’s actions to be framed against not just the immediate savings requirement but also the medium-term financial position. This medium-term perspective also informs the assessment of the adequacy and proposed use of the Council’s reserves in striking an appropriate balance between meeting specific liabilities as they fall due and supporting required transformation through, for example, spend to save investment or meeting staff release costs to secure recurring employee cost savings.</li> <li>An increased focus on workforce controls in recent years has seen modest overall reductions in agency and overtime expenditure but, more fundamentally, the Council has acknowledged that it will need to reduce overall staffing numbers through service redesign and prioritisation if it is to secure financial sustainability going forward.</li> <li>The Council has implemented a single workforce dashboard and management information (MI) process to provide the organisation with consistent, regular, and accurate workforce MI/data to facilitate workforce controls, strategic workforce planning, and to measure performance. Reporting has now been implemented at the Council, Directorate, and Division/Service level (for certain measures) to provide reliable insight into a range of workforce controls. The recent implementation of workforce dashboards at Directorate level provides regular MI on the monthly variation in Full Time Equivalent (FTE)/costs (by contract type – permanent, Fixed Term Contract (FTC) acting up/secondment and apprentice), and trend analysis to support workforce management controls.</li> </ul>	
<b>Principle 4 - Improvement plan</b>	<ol style="list-style-type: none"> <li>Develop a Council Change plan to provide a 4 year comprehensive strategy to improve services and balance budgets in the context of significant financial pressures.</li> <li>Review Performance Framework to ensure performance management is imbedded across the organisation and different aspects of council performance are properly imbedded.</li> <li>The Council is modelling a range of key expenditure and income assumptions and adopting a four-year timeframe across the period of the framework to increase the robustness of the plans brought forward.</li> <li>The Strategy and Communication service is developing a Balanced Scorecard for deployment across the Council.</li> </ol>	<p>Responsible officer(s)</p> <p>1-4) Head of Strategy &amp; Communications</p>

Principle 5	Developing the entity’s capacity, including the capability of its leadership and the individuals within it	
Supporting principle	5.1 Developing the entity’s capacity	
Requirement of the Council’s Framework	5.1.1 Regularly reviewing and improving effectiveness through performance monitoring, benchmarking and other methods to achieve defined outcomes.	Score out of 10: 6
Evidence of compliance and links	<p>The Council’s Performance framework assesses the Council’s performance from a number of different sources including the Local Government Benchmarking Framework, a suite of corporate performance indicators. Additionally, there are a series of Directorate level dashboards which include local performance indicators. Progress reporting against the delivery of the Administration’s 52 political commitments is also undertaken with the submission of full year reports to Council. The Council’s supporting infrastructure for performance management is also being supported by the deployment of enhanced technology and analytic solutions through the Business Intelligence project.</p> <p>Difficult decisions will undoubtedly be required if investment in delivering the Council’s priority outcomes is to be sustained. All areas of the Council need to contribute to addressing these financial challenges, both to secure sustainability and secure best value in the delivery of its services.</p> <ul style="list-style-type: none"> <li>▪ Prioritisation is key for the Council in regard to budget and focussing on outcomes. The importance of savings from all areas of Council is essential to meet budget needs and achieve best value.</li> <li>▪ The Council also considers the findings of all Audit Scotland national reviews.</li> <li>▪ The <u>Edinburgh Partnership</u> (EP) engages appropriately in all matters relating to communities and working in collaboration to ensure the added value can be achieved. All partners share a single vision for the city that: ‘Edinburgh is a thriving, successful and sustainable capital city in which all forms of deprivation and inequality are reduced.’ The Edinburgh Partnership provides a useful mechanism to gather partner and community views on service delivery.</li> <li>▪ In line with Scottish Government legislation the Edinburgh Integration Joint Board was formally established in April 2016, with responsibility for planning the future direction and overseeing the integration of health and social care services for the citizens of Edinburgh through the Edinburgh Health and Social Care Partnership. The Integration Joint Board is tasked with delivering its vision for a caring, healthier, safer Edinburgh through taking actions to transform how Council and NHS services and staff teams work together; with other partners; and those who use services and communities.</li> <li>▪ The Community Safety Partnership is responsible for coordinating a multi-agency response to promote community safety, to reduce reoffending and to tackle antisocial behaviour across the City. Improving community safety and effective reduction in reoffending depends on a complex, multi-agency and multi-sector approach to the delivery of a wide range of both universal and specialist services. This multi-agency approach to community safety has strengthened the locality focus which allows for closer engagement with neighbourhoods.</li> <li>▪ The Joint Committee oversees the implementation of the City Deal with the intention of creating further opportunity for regional collaboration and capacity.</li> </ul>	
Requirement of the Council’s Framework	5.1.2 Developing strategies and plans for the most appropriate model of delivery and allocation of resources to achieve the best possible outcomes.	Score out of 10: 7
Evidence of compliance and links	<p>Form must follow function. The Council has a clear business plan (agreed in 2017) and is building on this through a developing council change strategy that will consider appropriate models of delivery building on the previous transformation programme that created locality functions, centralised and modernised back office functions and created radically more digital models of delivery. A programme of service reviews was completed during the reporting period.</p> <ul style="list-style-type: none"> <li>▪ The Council’s customer transformation programme has not only created efficiencies but created greater channels for citizens to engage. This is an ongoing programme of work but the foundations for a truly digitally enabled council have been laid with 38 transactions now having been made available online. During the course of 2019, the Council is planning to deploy a new website, increased online transactions, digital/smart assistants to support key areas such as Council Tax, webchat capability, a new Customer Relationship Management (CRM) system. This will be further complemented by our ongoing work to focus on lean processes and intelligent automation, successful trials for which have been completed in 2018/19 in areas such as landlord registrations.</li> <li>▪ This includes the development of a process automation programme which seek to build on this approach automating significant numbers of processes to reduce administration time and cost.</li> <li>▪ The Council has a People Strategy in place, agreed at committee in <u>February 2017</u>.</li> <li>▪ Each Directorate has a People Plan, which will need to be reviewed and refreshed during 2019.</li> <li>▪ During 2018/19 the Council has been reviewing its approach to Managing Organisational Change and Redeployment, with a new Policy and supporting guidance anticipated to be approved in 2019/20. This revision to the policy and procedures supporting the management of organisational change will enable the Council to be more effective at engaging with staff before undertaking formal structural reviews to ensure that there is greater acceptance of and ownership for the need to change.</li> <li>▪ The Council produces monthly Workforce Dashboards, which provide clear insight into the capacity and performance management of its workforce, including the use of flexible/complementary workforce to supplement services and overtime/additional hours expenditure.</li> <li>▪ The Council has a single agency worker framework supplier in place, improving significantly the management information on agency worker useage and cost on a monthly basis.</li> <li>▪ The Council is developing a specific Leadership Framework, which will be supported by a range of programmes and projects, during 2019 with the deployment of our Inspiring Talent approach, Leadership in a Box toolkit, Thrive Learning Experience Platform for leaders and the use of the Future, Engage, Deliver framework by senior managers.</li> <li>▪ The Council continues to benchmark its performance through the LGBF and reports this annually to Full Council.</li> <li>▪ The Council annually benchmarks a number of functions using the CIPFA corporate service benchmarking club arrangements</li> <li>▪ Benchmarking on health and safety performance is carried out with other Local Authorities in Scotland each year.</li> <li>▪ The Council’s adoption of participatory budgeting provides an important mechanism to enable communities to identify priorities and make decisions on the allocation of resources to improve the quality of life in the city. This, combined with the participation of communities in the decision-making process for devolved locality budgets, has provided residents with an opportunity to influence the allocation of resources to meet their needs and circumstances.</li> <li>▪ The EIJB commissioned an external review of Governance by the Good Governance Institute to inform its committee structure, terms of reference, reporting arrangements, etc.</li> </ul>	

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Supporting principle		5.2 Developing the capability of the entity’s leadership and other individuals	
Requirement of the Council’s Framework	5.2.1 Ensuring clarity on roles, responsibilities and expectations for members and officers in terms of relationships and decision making.	Score out of 10: 7	
Evidence of compliance and links	<p>It is important that all new and existing members and officers are clear on their roles and responsibilities. We have improved our approach to onboarding and induction as this is a critical time in setting members and employees up for success. New elected members take part in a welcome event, are offered an experienced buddy and take part in classroom based essential learning in their first few weeks in office. In relation to employees, we have developed a new candidate portal for new recruits joining the Council and make it easier for them to complete essential learning. We have also created Setting You/Them up for Success Guides and a Welcome Event hosted by the Chief Executive and Executive Directors every 4-6 weeks. This helps develop capability early in a new employee’s career with the Council. Our new approach to performance focuses on the importance of having clarity conversations with all employees, setting clear goals and a development plan which is reviewed regularly through 1-1 check-ins and annual reviews.</p> <p>All operational governance documentation is subject to review annually and forms part of any review of the political management arrangements.</p> <ul style="list-style-type: none"><li>▪ <u>Procedural Standing Orders for Council and Committee Meetings</u> establish procedure for the conduct for such meetings and the decision-making process.</li><li>▪ Following the Local Government elections in May 2017 the <u>Governance – operational governance framework</u> was further reviewed (29 June 2017) to meet the aims and aspirations of the newly elected Council.</li><li>▪ There has been a reduction of eight to six executive committees and change of committee remits to ensure a more balanced structure. These committees ensure that there is significant business at all committees to ensure a joined-up approach to Council services, allowing sufficient focus and time to the business of the committee.</li><li>▪ Committees have the authority to refer reports to other Committees for specific review and scrutiny. This recognises the role and input of each particular committee but nevertheless provides clarity on the decision maker. For example, the Treasury Management report was considered by Finance and Resources (<u>4 December 2018</u>), Council (<u>13 December 2018</u>) and Governance, Risk and Best Value Committee (<u>15 January 2019</u>).</li><li>▪ A significant addition to the remit of the executive committees is strategic development. This allows the Local Development Plan and the corporate infrastructure investment programme that comes out of it, to be aligned with housing and economic policies.</li><li>▪ There is also additional scrutiny of health and social care issues, recognising the Integration Joint Board’s role but also the duties and responsibilities of the Council.</li><li>▪ The Governance, Risk and Best Value Committee retained its current cross cutting scrutiny remit within the model and also takes the lead role as the Council's main scrutiny panel.</li><li>▪ <u>Committee Terms of Reference and Delegated Functions</u> set out the powers delegated by the City of Edinburgh Council to its committees and sub-committees pursuant to the Local Government (Scotland) Act 1973.</li><li>▪ The <u>Scheme of Delegation</u> sets out the powers delegated by the City of Edinburgh Council to officers, pursuant to the <u>Local Government (Scotland) Act 1973</u>. The Scheme facilitates the efficient conduct of Council business by clearly setting out the nature and extent of the powers delegated to officers by the Council, thereby ensuring that decisions are taken at an appropriate level and ensure sufficient and appropriate scrutiny. Specific reference to the Chief Executive’s responsibilities can be found at Paragraph 4.1</li><li>▪ <u>Financial Regulations</u> . The Regulations clearly set out the responsibilities of Executive Directors with regard to budget management and the securing of best value with regard to resources entrusted to them. The Regulations also clarify Elected Members’ role with regard to setting the Council’s financial strategy and scrutinising the effectiveness of its financial management arrangements</li><li>▪ <u>Contract Standing Orders</u> apply (with certain exceptions) to all contracts made by or on behalf of the Council for the procurement of the execution of works, the supply of goods and materials to the Council, and/or for the provision of services.</li><li>▪ <u>Grant Standing Orders</u> – provide guidance, controls and regulate the grant application, evaluation and award process throughout the Council and on behalf of the Edinburgh Integration Joint Board (EIJB). Roles and responsibilities are set out and require for each grant that the relevant Executive Director or the Chief Officer of the EIJB to appoint a Grant Monitoring Officer to set targets, to oversee the process, manage any issues with individual recipients and ensure outcomes are achieved and managed. Elected members are reminded of their duties under the Councillors' Code of Conduct and on conflicts of interest. Procedures for determining the process and award procedure are set out and if and how these may be departed from.</li><li>▪ The <u>Member-Officer Protocol</u> sets out the roles and responsibilities of Elected Members and Council officers, including the Chief Executive, to ensure clarity when carrying out their respective duties.</li><li>▪ A suite of performance indicators is being further developed to measure the <u>Business Plan 2017-2022</u> progress and success at each level of the strategic planning framework. Indicators will be presented via dashboards and will include financial, workforce and customer elements to give a balanced view of performance against outcomes and commitments. Performance will be scrutinised by Elected Members and the Council’s Corporate Leadership Team.</li><li>▪ The Council Leader was appointed as Convenor of the Corporate Policy and Strategy Committee on <u>22 June 2017</u>.</li><li>▪ The leader of the Council undertakes the Chief Executive’s performance conversation.</li><li>▪ The Council’s performance framework for Senior Management Teams and the Corporate Leadership Team is reviewed regularly and performance reporting against the Council’s commitments and outcomes forms the basis of the annual report on progress. The regular review gives Council the opportunity to ensure the outcome-based measures which join up priorities across service areas and partnership continue to be effective.</li><li>▪ The Council’s <u>New Candidate Portal</u> has been a positive development in our approach to employee onboarding</li><li>▪ <u>Setting You</u> and <u>Setting Them</u> up for Success Guides have supported employees and their line managers to improve the induction experience and help employees to develop the capabilities they need early in their employment.</li><li>▪ <u>The Performance Framework</u> was co-produced with employees and is designed to support employees and their managers to have engaging and constructive performance conversations. It offers a blend of templates, tools and tips to support our people to be the best they can be.</li></ul>		
Requirement of the Council’s Framework	5.2.2 Developing the capability of members and officers through the encouragement and provision of appropriate training and continued professional development tailored to their respective roles.	Score out of 10: 7	
Evidence of compliance and links	<p>Training and development provision for elected members is strong, with regular classroom-based programmes running throughout the year based on feedback from training needs analysis, elected member and officer requests. Training and Development for officers starts with on-boarding and induction, through to essential learning and continuing professional development. There is a blend of classroom-based learning, e-learning, coaching and on-the-job training. Dependent upon job role and statutory requirements, employees are supported and funded to achieve relevant qualifications.</p> <ul style="list-style-type: none"><li>▪ Council <u>People Strategy</u> and People Plan was reported to Finance and Resources Committee on <u>23 February 2017</u> and Corporate Policy and Strategy Committee <u>28 March 2017</u>. People strategy updates have been ongoing on priority aspects of our strategic commitments e.g wellbeing, workforce dashboards, policy updates, performance framework and our engagement strategy.</li><li>▪ The <u>Open Framework agreement for Learning and Development</u> was reported to Finance and Resources Committee in November 2017. The framework will run for 3 years in the first instance and enables the Council to take a more strategic approach to the procurement of learning and development.</li><li>▪ A comprehensive induction programme for elected members was developed for implementation following the Scottish Local Government election in May 2017. This is supplemented on an ongoing basis by both regular general and tailored training for elected members. Most recently an Autumn Winter programme of elected member training and development was carried out in October/November 2017 based on the outcome of a training needs analysis exercise.</li><li>▪ An Elected Members’ Resources section was created on the Orb in preparation for the new Council following the Local Government election in May 2017. A wide range of information is available, including roles and responsibilities, code of conduct, training and development materials, key strategies and policies and city/ward information.</li><li>▪ Elected members are provided with ongoing briefings, briefing notes and presentations on topics of relevance.</li></ul>		

	<ul style="list-style-type: none"> <li>Regular meetings with conveners and vice conveners (weekly and/or fortnightly), briefings for member groups, 121 meetings on individual projects.</li> <li>Monthly employee induction events hosted by Chief Executive, Council Leader and Executive Directors.</li> <li>Launched Essential Learning, Key Policies Handbook to support policy refresher.</li> <li>Ongoing job specific induction and essential learning across the Council.</li> <li>The IOSH Leading Safety Course has been rolled out to the Wider Leadership Team in 2018.</li> </ul>	
Requirement of the Council's Framework	5.2.3 Ensuring arrangements are in place to consider leadership effectiveness and staff performance.	Score out of 10: 7
Evidence of compliance and links	<p>We continue to invest in leadership development, starting with new leader induction, essential learning for leaders around key Council policies and supporting our leaders to embed our new approach to performance to achieve the cultural change we need to enable the Council to achieve its vision.</p> <ul style="list-style-type: none"> <li>We have introduced New Leader Induction and essential learning.</li> <li>We continue to invest in our Wider Leadership Team (WLT) which meets monthly to work together on key issues and learn from each other and from external speakers. The WLT continue to meet in leadership sets as part of their ongoing leadership development.</li> <li>The foundation of our leadership development is the 'Future, Engage, Deliver' approach.</li> <li>Our Performance Framework incorporates key elements of looking ahead and looking back performance conversations and giving and receiving feedback throughout the performance year. We have supported our leaders to embed the new approach through Conversation Spotlight workshops which have been delivered throughout 2018/19. The Performance Management framework has at its core the principle of both what employees are delivering as well as the 'how'.</li> <li>Under the new Performance Framework all GR1-12 employees are in scope for performance review. The historical PRD process focused on measuring performance for GR5-12 colleagues only (approx. 6,000).</li> <li>The overall completion rate was 68% for GR1-12 employees on the 18/19 standard performance cycle April to March. There has been a decrease in engagement with the GR1-4 group with a 49% completion rate for these employees in 2018, versus a 65% completion rate in 2017 under current approach.</li> <li>An update on our <u>employee engagement</u> activity was reported to GRBV in August 2017</li> </ul>	
Requirement of the Council's Framework	5.2.4 Ensuring arrangements are in place to support and maintain the health and wellbeing of the workforce.	Score out of 10: 8
Evidence of compliance and links	<p>The wellbeing of our workforce remains a critical area of concern for us. We have seen a decrease in long term absence, with the majority attributed to long term conditions relating to stress, depression and mental fatigue. Whilst much has been done, we are committed to a renewed focus on this agenda through a combination of revised policies to drive the right culture and behaviour, training to develop skills in our leadership population to support employees with wellbeing issues and knowledge and awareness for our employees. The overarching aim of our approach is one of prevention and engagement with available support.</p> <ul style="list-style-type: none"> <li><u>Occupational Health and EAP</u> - The Council has procured the services of an Occupational Health provider to ensure we are able to gain independent professional advice to support colleagues with absence, including ill health retirement and reasonable adjustments. There is a focus on mental health and physical conditions whereby colleagues can be referred for early prevention without waiting until the condition is so severe it causes absence.</li> <li>On 1 Oct 2018 the new absence management policy will go live, promoting wellbeing and early prevention. This policy is less punitive and more supportive to help colleagues engage more with their wellbeing and ability to be at work fit and healthy.</li> <li>We provide a free confidential employee assistance programme for all colleagues who would like confidential advice ranging from bereavement to healthy body healthy mind. This includes trauma counselling and Cognitive Behavioural Therapy.</li> <li>As part of our onboarding and induction process for new employees, our Occupational Health provider comes along to our welcome events to promote our Employee Assistance programme.</li> <li>A wellbeing workshop has been developed taking a holistic approach starting with line manager awareness and focusing on supportive conversations. This includes mental health awareness and enables managers to arrange the right support or guide the employee to engage in the support available.</li> <li>We offered weekly Managing Attendance Workshops for Line managers throughout 2017/18.</li> <li>Availability of support mechanisms is regularly communicated through manager's newsletter and internal communications.</li> <li><u>Staff Benefits</u> We provide broadly the same level of benefits as most large employers to meet a range of lifestyles including:-</li> <li>Enhanced annual leave entitlement and a range of special paid and unpaid leave</li> <li>Flexible working options</li> <li>Enhanced Maternity, Paternity, Adoption and Shared Parental Leave provision</li> <li>Childcare Vouchers</li> <li>Ride to Work Scheme</li> <li>Premium Benefits card with access to local discounts and special offers</li> </ul> <ul style="list-style-type: none"> <li>Financial</li> <li>Ethical financial services through a credit union membership including loans, savings and mortgages.</li> <li>Season ticket loans</li> <li>Car benefit scheme - salary sacrifice car lease scheme</li> <li>Local Government Pension Scheme</li> <li>Scottish Teachers' Superannuation Scheme</li> <li>The <u>Annual Report on Health and Safety Performance</u> was reported to the Finance and Resources Committee in March 2019. Substantial progress was made in 2017 to improve the Council's health and safety performance, building on progress made in previous years. In the past 4 years the Council has achieved a 53% decrease in the number of reportable injuries to employees.</li> </ul>	
Principle 5 - Improvement plan	<ol style="list-style-type: none"> <li>To make the remaining 11 out of 21 top transactions available online. Online transactions aligns to the broader Customer and Digital Programme, including Enterprise Content Management, new Website and CRM deployment. These programmes will be in full delivery mode in 2019/20 and this follows agreements to business specifications and commercial models for all of these programmes, following the CEC/CGI Contract re-set in 2018/19.</li> <li>Significant work has been undertaken on the Council's Leadership Development approach, which will be formally launched as part of our "Leadership in Box" toolkit and supporting materials at WLT on 10 June 2019.</li> </ol>	Responsible officer(s) 1) Head of Customer and Digital Services 2) Head of Human Resources





<p>in risk management and developing frameworks and policies, for example, Information Governance; Strategic Change and Delivery; Risk Management; and Corporate Health and Safety; and</p> <ul style="list-style-type: none"> <li>the third line – teams that provide independent assurance, above all internal audit.</li> </ul>	<ul style="list-style-type: none"> <li>An internal audit of the risk management function was carried out in November 2016. There were no ‘high’ findings.</li> <li>The <a href="#">Annual Audit Report 2017-18</a> from Scott Moncrieff noted “Overall, we were satisfied that risk management arrangements appear to be embedded across the organisation and are well-integrated with the council's internal audit arrangements.”</li> <li>Wide range of internal and external counter fraud activities, including Council Tax, Benefits, parking, school placement and national fraud initiative work</li> <li>The Council’s Chief Internal Auditor is required (per Public Sector Internal Audit Standards) to provide an independent and objective annual opinion on the adequacy and effectiveness of the Council’s control environment and governance and risk management frameworks. The opinion is provided to the Governance, Risk, and Best Value Committee and should also be used to inform the Council’s Annual Governance Statement.</li> <li>The <a href="#">Member/Officer Protocol (2016)</a> sets out the roles and responsibilities of Elected Members and Council officers, including the Chief Executive, to ensure clarity when carrying out their respective duties.</li> <li><a href="#">Councillors’ Code of Conduct – Standards Commission</a> - the standards councillors must apply when undertaking their Council duties.</li> <li><a href="#">Anti-bribery policy</a> – introduced in 2012 to strengthen existing anti-corruption measures and to meet the requirements of the Bribery Act 2010.</li> <li><a href="#">Published Register of Elected Members’ Interests and Expenses</a> – as required by the Standards Commission.</li> <li><a href="#">Policy on Fraud Prevention</a> – introduced in 2013 and contains preventative and control measures designed to reduce the risks to the Council from fraud and fraudulent activity.</li> <li>Anti-bribery Policy and Fraud Prevention Policy are essential learning for all Council employees, with e-learning modules available.</li> <li>The Council’s Monitoring Officer will investigate serious allegations of fraud, corruption or maladministration and report findings and recommendations to full Council.</li> <li>The Council’s <a href="#">Whistleblowing Policy</a> mandates an independent service provider with authority to decide on the categorising of disclosures and investigations, with investigation outcomes reported quarterly to the Governance, Risk and Best Value Committee.</li> <li>Contract Standing Orders (June 2018) – regularly updated essential legal and operational rules for all Council staff to follow when procuring a contract, including escalation processes to Legal and Risk, ensuring that all procurements meet strategic objectives of the Council and achieve best value.</li> <li><a href="#">Grant Standing Orders</a> – provide guidance, controls and regulate the grant application and award process throughout the Council and on behalf of the Edinburgh Integration Joint Board (EIJB).</li> <li>There are also a number of additional third line of defence assurance providers who assess the adequacy and effectiveness of the Council’s controls in addition to Internal Audit. These include (for example) External Audit (who assess the adequacy and effectiveness of the Council’s key financial controls and audit the financial statements); The Care Inspectorate; the Scottish Housing Regulator; the Health and Safety Executive; and the Information Commissioners Office.</li> </ul>
<b>Requirement of the Council’s Framework</b>	<div>6.2.2 Ensuring additional assurance on the overall adequacy and effectiveness of the framework of governance, risk management and control is provided by the internal auditor.</div> <div>Score out of 10: 7</div>
<p>Evidence of compliance and links</p> <p>Page 402</p>	<p>During 2018/19, Internal Audit did not conform with the requirements of the Public Sector Internal Audit Standards requirements to maintain a quality assurance programme due to Ongoing recruitment challenges arising from staff turnover and an increase in the size of the in-house internal audit team has impacted upon the implementation of the internal quality assurance process to ensure consistency of audit quality.</p> <p>These resourcing challenges have been managed to ensure sufficient and appropriate audit coverage with Complementary resources were drawn down from the existing co-source arrangement with PwC and temporary resources secured from the external market to address resourcing gaps and ensure completion of the annual audit plan.</p> <ul style="list-style-type: none"> <li>There has been insufficient follow-up of Internal Audit findings between April 2015 and October 2017 to monitor and ensure that management actions have been effectively implemented; and</li> <li>This non conformance has been reflected in the Council’s 2018/19 annual Internal Audit opinion reported to the GRBV in August 2019.</li> <li>The <a href="#">Internal Audit Plan</a> is driven by the Council’s organisational objectives and priorities, and the most significant risks that may prevent the Council from meeting those objectives. Internal Audit is also required to provide ongoing coverage across all remaining Council services on a rolling three year basis.</li> <li>The Governance, Risk and Best Value (GRBV) Committee’s remit includes agreeing internal audit plans and ensuring internal audit work is properly planned with due regard to risk, materiality and coverage, and scrutinising final Internal Audit reports. The Council’s 2019/20 Internal Audit Plan was approved by the Governance, Risk and Best Value Committee in March 2019 <a href="#">Internal Audit Plan 2019 - 20</a>.</li> <li>The work of Internal Audit informs the annual Governance Statement.</li> <li>The scopes of individual audit reviews detailed in the annual Internal Audit plan are designed to review and test the adequacy of the design and operating effectiveness of the governance, risk management frameworks and key controls established to support service delivery and (where relevant) compliance with applicable legislation.</li> <li>Annual Assurance Exercise – seeks assurance from executive directors, heads of service, significant Council companies and joint boards over a wide range of controls and requirements which is then certified by the responsible executive director/chief officer to inform the drafting of the Annual Governance Statement.</li> <li>The Council’s risk management framework is continuously reviewed and improvements are implemented as appropriate. The Council’s Risk Appetite Statement and Enterprise Risk Management Policy were agreed by GRBV in August 2018.</li> <li>Where risk management and/or governance frameworks are considered as either high or medium risk in the context of individual audit reviews, these areas will be included in scope.</li> </ul>
<b>Requirement of the Council’s Framework</b>	<div>6.2.3 Ensuring an audit committee or equivalent group/ function, which is independent of the executive and accountable to the governing body: provides a further source of effective assurance regarding arrangements for managing risk and maintaining an effective control environment; and that its recommendations are listened to and acted upon.</div> <div>Score out of 10: 8</div>
<p>Evidence of compliance and links</p>	<p>The Council has a strong, independent audit committee which is chaired by an opposition elected member. The Council’s GRBV committee is independent as the Council’s main scrutiny committee as well as its audit committee. It is linked with the Council’s decision-making bodies, having a relationship that both supports and challenges the services under the oversight of the executive committees. However, the Committee has the power to act on its own accord with no need for executive committee permission and its power to call any elected member or officer to the committee provides it the ability to effectively scrutinise. There is a history of scrutinising difficult areas for the Council including shared repairs and Cameron House. It has also improved governance across the Council by driving change such as policy review.</p> <ul style="list-style-type: none"> <li><a href="#">The Accounts Commission Best Value Audit Report</a> stated that the Governance, Risk and Best Value Committee ‘provides effective scrutiny of the Council’s operations and performance.’</li> <li><a href="#">Committee Terms of Reference and Delegated Functions</a> require the Governance, Risk and Best Value Committee to be convened by a senior opposition member. Both the Chief Executive and the Executive Director of Resources attend meetings in person, supported by other members of the Corporate Leadership Team.</li> <li>The Committee has the ability to review any of the Council’s activities, to require action or further reports, and to call witnesses to support its debate.</li> <li>The Committee has a role in the Council’s governance framework for its companies, scrutinising their past performance on an annual basis.</li> <li>The Committee receives quarterly and annual whistleblowing monitoring reports, including investigation outcomes and proposed management actions, and will in future monitor the implementation of management actions. The Council’s independent whistleblowing service provider has direct access to the committee on request and the committee can request sight of full investigation reports and call on investigating officers and council officers to attend its meetings in private session to account for their actions.</li> <li>The Council has responded to external scrutiny, in the form of external audit and inspection reports, with improvement plans which are reported to the appropriate committees.</li> <li>GRBV also reviews and performs scrutiny on the CLT risk register; monitors progress with delivery of the Internal Audit Plan; and scrutinises all Internal Audit reports.</li> </ul>

Supporting principle	6.3 Managing data	
Requirement of the Council's Framework	6.3.1 Ensuring that data is properly managed, accurate and of a good quality.	Score out of 10: 6
Evidence of compliance and links	<p>The Council has a strong centralised Information Governance Unit that monitors and assesses compliance with its statutory obligations under information governance legislation. As processes mature and training and awareness reach more staff there has been a significant increase in activity, particularly in relation to breach reporting. This increase reflects the fact that the Council is better at identifying issues when they occur and taking appropriate action to mitigate impact and reduce reoccurrence.</p> <p>The EU General Data Protection Regulation and the UK Data Protection Act 2018 came into force in May 2018. This new legislation gives people greater control over what happens to their data and assists the Council manage the expectations of our service users and customers, so they are clearer about what we need their data for, and how and why it is being processed.</p> <ul style="list-style-type: none"><li>▪ The Council's <u>Information Governance Policies</u> set out the Council's approach to the collection, storage, use, sharing and security of information, including employee roles and responsibilities. Policies are supported by an information governance framework consisting of detailed <u>guidance, procedures</u> and mandatory training for all employees. The framework is promoted through an annual communications plan which includes various awareness raising initiatives and training events.</li><li>▪ The Information Governance Unit maintains a Council-wide <u>Record of Processing</u> which documents why and how personal data is processed by the Council. How the Council manages personal data is also explained within the Council's <u>Privacy Notice</u>.</li><li>▪ Procedures to review and comment upon <u>information sharing agreements</u> and <u>personal data collection and use</u> are also in place within the organisation. Data Protection Impact Assessments are carried out when new processes for handling personal data are introduced, or existing ones updated. This ensure compliance with all data protection principles.</li><li>▪ Standard information governance related terms and conditions have been added to all new Council contracts.</li><li>▪ The <u>Employee Code of Conduct</u> gives clear guidance for employees in the use of Council Assets, Systems and Information.</li><li>▪ <u>Policy on Fraud Prevention</u> aims to uphold the highest standard of conduct and ethics in all areas of the Council's work.</li><li>▪ The <u>ICT Acceptable Use Policy</u> gives clear guidance on effective use of technology, providing opportunities to communicate and interact internally, with partners and with the public. The Policy outlines the standards of conduct that are required of staff when using all electronic communications and systems.</li><li>▪ Senior Management Teams regularly monitor performance of their services as part of the Council's Performance Framework. A key element of this involves senior officers analysing the performance data in advance of the performance discussion to identify areas of good practice and areas for improvement. The quality and accuracy of the data is assessed at this point to ensure that the performance information is robust.</li><li>▪ Data quality is also reviewed and audited as part of statutory returns (for example Local Government Benchmarking Framework, Children's Social Work Services returns) to ensure performance information is robust and accurate.</li><li>▪ Established management information data and reporting supports service managers with their operational decision making and allows for comparisons and trends over time to be analysed with confidence.</li></ul>	
Supporting principle	6.4 Strong public financial management	
Requirement of the Council's Framework	6.4.1 Ensuring that financial management is integrated at all levels of planning and control, and supports the achievement of outcomes and short-term financial and operational performance.	Score out of 10: 7
Evidence of compliance and links	<p>The Council operates a tiered framework of financial planning and control, with regular updates provided to Senior Management Teams, the Council Leadership Team and elected members. There are, however, opportunities to improve transparency in financial reporting and improvements to the internal control framework are also required to provide increased assurance as to their effectiveness.</p> <ul style="list-style-type: none"><li>▪ The Council's Financial Regulations set out the responsibilities of Executive Directors in managing their respective budgets within approved levels. To this end, Finance staff work closely with service managers in supporting the development and delivery of robust savings measures, as well as providing timely advice facilitating the management of risks and pressures and, where necessary, highlighting issues where a service- or Council-wide response may be required.</li><li>▪ Given the constraints under which all service areas are necessarily working, the role of Finance staff continues to combine the functions of support and challenge, with an increasing emphasis upon informing decisions about the relative prioritisation afforded to services as a route towards longer-term sustainability.</li><li>▪ Within the constraint of limited resource availability, as noted in a number of previous sections, the Council's medium-term financial strategy and budget framework seek to strike an appropriate balance between reflecting the Council's commitments whilst maximising the availability and proactive use of resources to support delivery of key outcomes, acknowledging the risks to which the Council is exposed and its maturity in addressing these risks.</li><li>▪ Technical and more general management training has been delivered to all professional accountancy staff for onward dissemination of the principles of good financial management throughout the organisation. Principal Accountants attend service senior management team meetings and the Finance function is represented on the boards of all of the main transformational projects, as well as project assurance reviews.</li><li>▪ The Council has a comprehensive system of revenue and capital monitoring in place and the summarised position is regularly considered at Service Management Teams and the Corporate Leadership Team. The focus of this monitoring has been realigned more specifically towards high-risk, material and/or more volatile areas, allowing available staffing resource to support a range of key initiatives within the Council.</li><li>▪ The Council's internal control framework was examined as part of the 2017/18 Annual Audit process and assessed to be well-designed and effective in supporting the Council's wider governance framework.</li><li>▪ As part of the wider new elected member induction process, the Finance function has supported improving the financial literacy of members through the provision of dedicated, well-attended sessions on financial statements, financial planning and treasury management. Officers are also assigned to work with each political group in developing its budget proposals and advising on wider financial matters.</li></ul>	
Principle 6 - Improvement plan	<ol style="list-style-type: none"><li>1) The Information Governance Unit will review and revise the Council's Information Governance Framework to support services. Updating the relevant policies where appropriate.</li><li>2) Establish an Information Board to facilitate better information management across the Council.</li><li>3) Review and update all existing Council contracts to have necessary clauses on information governance obligations included.</li><li>4) Review the cataloguing, accessibility and retention of information held at Iron Mountain.</li><li>5) A new quality assurance process has been designed and will be applied to a sample of Internal Audit reviews completed in the 2019/20 plan year.</li></ol>	<p>Responsible officer(s)</p> <p>1 - 4) Head of Strategy &amp; Communications</p> <p>5) Chief Internal Auditor</p>



Principle 7	Implementing good practices in transparency, reporting, and audit to deliver effective accountability	
Supporting principle	7.1 Implementing good practice in transparency	
Requirement of the Council's Framework	7.1.1 Writing and communicating reports to the public and other stakeholders in a transparent manner which facilitates accountability and accessibility.	Score out of 10: 8
Evidence of compliance and links	<p>The Council's reports have a strong focus on decision making and the information required to make those decisions. The committee <a href="#">report template and guidance</a> includes standard sections that provides the necessary information for elected members to take decisions with clear explanation of key considerations. Access to reports is good with a robust focus on ensuring private reports are kept to a minimum and thus most decision making is done in public.</p> <ul style="list-style-type: none"> <li>The Council meets all obligations outlined in the <a href="#">Local Government (Access to Information Act) 1985</a>.</li> <li>The Council's <a href="#">procedural standing orders</a> ensure compliance with requirements outlined in the <a href="#">Local Government (Access to Information Act) 1985</a>.</li> <li>Council minutes are concise and provide all necessary information as required by the <a href="#">Local Government (Scotland) Act 1973</a>.</li> <li>Training on the <a href="#">Access to Information Act</a> is provided for key officers and elected members as part of the Governance Framework Training Session.</li> <li>All Council and Committee reports and decisions are recorded and are available on the <a href="#">CEC website</a> (since May 2003).</li> <li>Webcasting of Council and major committee meetings – webcasts available for 5 years online and then by request via the <a href="#">Council archive</a>.</li> <li>New report templates and guidance are routinely introduced, the latest of which was in <a href="#">November 2018</a>. This stresses the importance of using plain English and includes standard sections including an executive summary.</li> </ul>	
Supporting principle	7.2 Implementing good practices in reporting	
Requirement of the Council's Framework	7.2.1 Elected member and senior management owned annual reporting on performance, best value and resource stewardship.	Score out of 10: 7
Evidence of compliance and links	<p>As part of the Council's annual performance framework, performance is submitted to Council annually. The Council has business plan and a performance framework. Additional reporting is published on delivery of the 52 Coalition Commitments and this year for the first time, officers produced their own analysis of the Local Government Benchmarking Framework report.</p> <ul style="list-style-type: none"> <li><a href="#">Annual publication</a> of progress reports against the Council's outcome-based Performance Framework and public scrutiny by elected members.</li> <li>Annual publication of performance against <a href="#">Community Plan</a> indicators and targets.</li> <li><a href="#">Annual performance report</a> on the Integration Joint Board (IJB) including 23 National Indicators and progress report of its strategic direction to IJB.</li> <li>Annual submission to Local Government Benchmarking Framework on various performance indicators including indicators relating to value for money and stewardship of resources.</li> <li>Annual submission to Scottish Public Services Ombudsman of Council complaints.</li> <li>Various thematic annual submissions to stakeholders e.g. Education returns, Scottish Social Housing Charter Indicators, financial submission to Scottish Government etc.</li> <li>Results of <a href="#">Edinburgh People Survey</a> are reported and acted upon.</li> <li>Regular performance discussion within service areas on operational performance.</li> <li>Quarterly CLT performance meeting discussing service level performance. Senior Managers accountable for their area performance providing comments for indicators along with service improvements.</li> <li>Six monthly reporting to elected members on <a href="#">coalition commitments</a> to give Council Leaders/Conveners opportunity to discuss the progress in achieving milestones and performance measures.</li> <li><a href="#">Edinburgh by Numbers</a> is an infographic report led by Strategy and Communications with collection of city facts and figures for people who do business here.</li> <li>Various thematic reports e.g. on Educational Attainment are available to access online.</li> <li>The Council publishes <a href="#">performance information</a> regularly to inform our customers and stakeholders about progress towards delivery of strategic aims and outcomes. This demonstrates our ability to be transparent and accountable and our commitment to seeking continuous improvement.</li> </ul>	
Requirement of the Council's Framework	7.2.2 Ensuring that robust arrangements for assessing compliance with CG Framework principles, publishing results and improvement actions are in place for the Council and jointly managed services.	Score out of 10: 6
Evidence of compliance and links	<p>Assessing compliance with the Corporate Governance Framework in 2016/17 highlighted many areas where improvement was required in the process for collecting the data. A review took place which identified weaknesses and identified improvement actions to ensure the CGF is a more effective tool in improving processes and practices across the council.</p> <ul style="list-style-type: none"> <li>A Corporate Governance Framework Self-Assessment Exercise, following the Cipfa/SOLACE recommended format, is undertaken annually and submitted in full to the GRBV Committee.</li> <li>The CG Framework Self-Assessment Exercise is reviewed by the Council's CLT and it seeks to apply improvements when identified.</li> <li>An elected members workshop was held to further develop the mechanisms for assessing compliance with CG Framework principles.</li> <li>The self-assessment for the period 1 April 2017 - 31 March 2018 was reported to the GRBV Committee on <a href="#">27 November 2018</a>.</li> <li>A comprehensive review was undertaken and resulted in a revision of evidence requirements and realignment of the timetabling of processes to allow for synergies with the annual assurance exercise and the production of the Council's Governance Statement.</li> </ul>	
Requirement of the Council's Framework	7.2.3 Ensuring that performance information that accompanies the financial statements is prepared on a consistent and timely basis and the statements allow for comparison with other, similar organisations.	Score out of 10: 8
	<p>The Council adopts a number of means to improve the transparency of its financial affairs, including relevant commentary in its Annual Accounts, production of the annual Key Facts and Figures publication and supplementary information to accompany the issuing of Council Tax bills.</p> <ul style="list-style-type: none"> <li>The Council's financial statements have been prepared by the statutory deadline and without subsequent qualification every year since 1997/98.</li> <li>The financial statements are accompanied by a management commentary that includes a range of key financial performance indicators, prepared in accordance with professional standards and with prior-year comparator and background information. The Council also actively participates in the Local Government Benchmarking Framework and other performance improvement networks to examine opportunities to adopt and share best practice with other local authorities and public-sector bodies.</li> <li>The Council additionally prepares an annual Key Facts and Figures document that provides, in an accessible format, details of its revenue and capital budgets and associated key activities.</li> </ul>	



Supporting principle	7.3 Assurance and effective accountability	
Requirement of the Council's Framework	7.3.1 Ensuring that when working in partnership, arrangements for accountability are clear and the need for wider public accountability has been recognised and met.	Score out of 10: 6
Evidence of compliance and links	<p>Partnership working is generally clear with robust arrangements for decision making and where accountability lies. Health and Social Care has different arrangements from the rest of the council through the IJB and we are working within a legislative framework.</p> <ul style="list-style-type: none"> <li>Arrangements for scrutiny and accountability for services directed by the IJB were agreed in the scheme in May 2016. There is a need, however, to further clarify roles and responsibilities within the complex accountability arrangements of the IJB. EIJB, CEC and NHS Lothian all have duties and responsibilities out of the creation of the IJB.</li> <li>Council Companies' Hub established in <u>June 2016</u> to improve the officer scrutiny of Council companies. It clarifies roles and responsibilities, good governance, elected members duties as councillors and the mitigation of conflicts of interest.</li> <li>Subtitles on the Council's webcasts have now launched.</li> <li>Annual performance reporting by Council Companies to the responsible Executive Committee and GRBV has commenced, with a <u>report template and guidance</u> produced in November 2018..</li> <li>The Council's Chief Executive holds regular one to one meetings with Chief Executives of the Council's key ALEOs.</li> <li>The Edinburgh Partnership (EP) is made up of a Board, four strategic partnerships, four locality partnerships and 13 neighbourhood networks. The EP Board is not an incorporated body. The partnership operates in a spirit of mutual respect and partnership working. Each member has equal standing. The EP Community Plan 2018-28 includes three strategic priorities that have been agreed on the basis of resourced commitments being made by community planning partners. The aim of the partnership is to work together to address common problems and to hold partners to account in terms of partnership services.</li> <li><u>The Community Empowerment (Scotland) Act</u> received Royal Assent in 2015 and sets out duties for public bodies in relation to community planning. In response, the Edinburgh Partnership is undertaking a review and consultation of community planning governance arrangements, together with the development of a new Local Outcome Improvement Plan and Locality Improvement Plans, to ensure the planning and partnership working arrangements in the city meet the legislative requirements set out in the Act.</li> </ul>	
Requirement of the Council's Framework	7.3.2 Ensuring that internal audit arrangements provide assurance on governance arrangements and risks from 3 <sup>rd</sup> party service delivery and that this is reflected in the annual governance statement.	Score out of 10: 7
Evidence of compliance and links	<p>Third party or supplier management risk is a consistent theme that is reflected in a number of specific risks included in the CLT risk register, and will be covered by a number of audits included in the 2018/19 Internal Audit annual plan.</p> <ul style="list-style-type: none"> <li>Audits in the 2018/19 Internal Audit annual plan, to address governance arrangements and risks from 3rd party service delivery, will include: Compliance with IR35; Supplier Management Framework; and Tram Extension.</li> </ul>	
Requirement of the Council's Framework	7.3.3 Ensuring that recommendations from Internal Audit, External Audit, peer challenge, reviews and inspections are welcomed and acted upon.	Score out of 10: 6
Evidence of compliance and links	<p>In 2017/18 it was identified that a number of historic management actions to address Internal Audit findings raised had either not been implemented, or were implemented but had not been sustained, resulting in a total of 30 historic IA findings being re-opened 26 for the Council; 3 for the Edinburgh Integration Joint Board; and 1 for the Lothian Pension Fund, and tracked as overdue. This was discussed at GRBV in May 2018, and the Council's response to the GRBV decision taken in May was presented to the June GRBV Committee meeting. <u>Response to GRBV decision on Historic Internal Audit Findings</u> Additionally, a number of current agreed management actions continue not to achieve their agreed implementation dates. As at 31 March 2019 10 of the Council findings had been closed; 5 with Internal Audit for review to determine whether they could be closed; the 3 EIJB findings remained overdue, and the Lothian Pension Fund finding has been closed.</p> <ul style="list-style-type: none"> <li>Implementation of agreed management actions to support closure of Internal Audit findings raised is monitored with validation performed to confirm that controls gaps have been addressed prior to closure. All overdue findings and supporting agreed management actions and findings (those that have not achieved their initial implementation date) are reported monthly to the Council's Corporate Leadership Team and quarterly to the Governance, Risk and Best Value Committee. The latest report is located at <u>Internal Audit - Overdue Findings and Late Management Responses June 2018</u></li> <li>An annual validation audit is also included in the IA plan. This confirms that controls to address historic controls gaps have been implemented and sustained.</li> <li>Coverage and assessment of these areas forms an integral part of the annual assurance exercise in preparation for the writing of the Annual Governance Statement – <u>June 2018</u>.</li> <li>The Council's Strategy &amp; Communication service along with Finance lead on the Annual Audit report of Council services to support statutory duties and use external scrutiny to ensure services benchmark with their peers. The Audit Report is scrutinised by the Governance, Risk and Best Value Committee and an improvement plan is developed to ensure actions identified in the report are act on.</li> <li>Local Area Network (LAN), comprising representatives of all the scrutiny bodies who engage with the councils, draws scrutiny activity for each council in Scotland. Edinburgh is part of the scrutiny activity which is based on the shared risk assessment. Improvement actions from each inspection are implemented and progress reported regularly to senior managers and relevant Committees.</li> <li>Following a Scottish Government Building Standards Division audit of the Council's Building Standards Service in 2017 a number of areas for improvements were identified as a prerequisite for continued verification for the service. There has been significant improvement within the service in the last year with performance now at the best since targets were introduced by Scottish Government. Customer engagement through Stakeholder panel, quarterly newsletters and a programme of strategic engagement are well underway. A programme of continuous improvement across the operational aspects of the service ensure change is being embedded.</li> </ul>	
Principle 7 - Improvement plan	<ol style="list-style-type: none"> <li>Develop a new template and procedure for the delivery of the Assurance Schedule process following officer workshops.</li> <li>Strategy and Communications is working with the Scottish Government on their Local Governance Review.</li> <li>Introduce the Modern.Gov system in the next reporting period (2019/20) to improve the functionality of Committee Services, as well as developing transparency and accountability in Council decision making,</li> <li>Create a "Budget Book" for Elected members to give them additional information and context when making complex budget decisions. Breaking down the approved expenditure by service area and directorate to show how our money is spent in a clearer and more transparent way.</li> <li>EIJB governance review establishing the new governance framework will be approved.</li> </ol>	
	<p>Responsible officer(s)</p> <p>1-4) Head of Strategy &amp; Communications</p> <p>5) Chief Officer EIJB</p>	

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# Governance, Risk and Best Value Committee

10am, Tuesday 17 September 2019

## Whistleblowing update

Item number  
Executive/routine  
Wards  
Council Commitments

### 1. Recommendations

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- 1.1 To note whistleblowing activity for the period 1 April – 30 June 2019.

**Andrew Kerr**

Chief Executive

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# Report

## Whistleblowing update

### 2. Executive Summary

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- 2.1 This report provides a high-level overview of the operation of the Council's whistleblowing service for the period 1 April – 30 June 2019.

### 3. Background

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- 3.1 The Council's whistleblowing service (including a confidential reporting line) is contracted to an independent external organisation, currently Safecall Limited.
- 3.2 The Council's Whistleblowing policy (section 4.3.2) requires that quarterly summary reports on whistleblowing activity are presented to the Governance, Risk and Best Value Committee.

### 4. Main report

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#### 4.1 Disclosures

During the reporting period Safecall received three new disclosures as follows:

Category	Number of disclosures
Major/significant disclosures	0
Minor/operational disclosures	3
Category still to be determined	0
Non-qualifying disclosures	0

- 4.2 The current contract with Safecall Limited for the provision of whistleblowing services will end on 11 May 2020. Governance and Procurement have begun the

process of reviewing the current contract, costs and requirements to procure a new contract for whistleblowing services starting on the 12 May 2020.

## **5. Next Steps**

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- 5.1 There are no proposals contained within this report, the information provided is for noting only.

## **6. Financial impact**

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- 6.1 The cost of the whistleblowing service for the three-month period 1 April to 30 June 2019 was £4,725 (exclusive of VAT).

## **7. Stakeholder/Community Impact**

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- 7.1 The whistleblowing policy was developed and agreed to complement management reporting arrangements and to ensure all matters at the Council are fully transparent and officers are accountable.
- 7.2 The aim of the policy and the appointment of an independent service provider is to empower employees to report suspected wrongdoing as early as possible in the knowledge that their concerns will be taken seriously and investigated appropriately; that they will be protected from victimisation and other forms of detriment; and that their confidentiality will be maintained.
- 7.3 The whistleblowing policy, and subsequent reviews, have been consulted on with the trades unions to secure a local agreement.

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

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- 8.1 [Finance and Resources Committee 23 May 2019: item 7.20 Whistleblowing Policy](#)

## **9. Appendices**

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- 9.1 None.

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by virtue of paragraph(s) 1, 12, 15 of Part 1 of Schedule 7A  
of the Local Government(Scotland) Act 1973.

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