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Notice of meeting and agenda

Governance, Risk and Best Value Committee

10.00am, Tuesday, 9th November, 2021

Hybrid Meeting - Dean of Guild Court Room / Microsoft Teams

This is a public meeting and members of the public are welcome to watch the webcast live on the Council's website. Attendance may also be in person, but this will be limited in order to maintain a minimum of 1-metre distancing in the public gallery and access cannot therefore be guaranteed.

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 Any items under "Private Business" will not be published, although the decisions will be recorded in the minute.

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1. Order of Business

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

2. Declaration of Interests

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

3. Deputations

3.1 If any.

4. Minutes

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8. Reports

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the Executive Director of Corporate Services

8.3	Capacity to Deliver the 2021/22 Internal Audit Plan – Report by the Chief Internal Auditor, City of Edinburgh Council	333 - 350
8.4	Revenue Budget Framework 2021/26 – Progress Update – referral from the Finance and Resources Committee	351 - 376
8.5	Sustainable Capital Budget Strategy 2022-2032 – referral from the Finance and Resources Committee	377 - 392
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8.7	Best Value Assurance Audit Response - October Update – referral from the Policy and Sustainability Committee	445 - 462
8.8	The EDI Group – Annual Update – referral from the Housing, Homelessness and Fair Work Committee	463 - 508

9. Motions

9.1 None.

Nick Smith

Service Director, Legal and Assurance

Committee Members

Councillor Joanna Mowat (Convener), Councillor Scott Arthur, Councillor Lezley Marion Cameron, Councillor Jim Campbell, Councillor Mary Campbell, Councillor Phil Doggart, Councillor Gillian Gloyer, Councillor Melanie Main, Councillor Frank Ross, Councillor Norman Work and Councillor Ethan Young.

Information about the Governance, Risk and Best Value Committee

The Governance, Risk and Best Value Committee consists of 11 Councillors and is appointed by the City of Edinburgh Council. This meeting of the Governance, Risk and Best Value Committee is being held in the Dean of Guild Court Room in the City Chambers on the High Street in Edinburgh and remotely by Microsoft Teams.

Further information

If you have any questions about the agenda or meeting arrangements, please contact Committee Services, City of Edinburgh Council, Business Centre 2.1, Waverley Court, 4 East Market Street, Edinburgh EH8 8BG, Tel 0131 529 4107, email rachel.gentleman@edinburgh.gov.uk / emily.traynor@edinburgh.gov.uk.

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Minutes

Governance, Risk and Best Value Committee

10.00am, Tuesday 21 September 2021

Present

Councillors Mowat (Convener), Arthur, Cameron, Jim Campbell, Mary Campbell, Doggart, Gloyer, Main, Frank Ross (substituting for Councillor Dixon), Work (items 1 to 14) and Ethan Young (substituting for Councillor Bird, items 1 to 14).

1. Minutes

Decision

To approve the minute of the Governance, Risk and Best Value Committee of 10 August 2021 as a correct record.

2. Outstanding Actions

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

Decision

1) To agree to close the following actions:

- Action 4 – Internal Audit: Final Internal Audit reports supporting the 2019/20 Annual Opinion
- Action 11 (1) – Outstanding Actions
- Action 12 (2) – Work Programme
- Action 13 (2) – Internal Audit Annual Opinion for the year ended 31 March 2021
- Action 15 – Corporate Governance Code Self-Assessment 2020/21

2) To otherwise note the outstanding actions.

(Reference – Outstanding Actions 21 September 2021, submitted.)

3. Work Programme

The Governance, Risk and Best Value Committee Work Programme for August 2021 was presented.

Decision

1) To note the Work Programme for August 2021.

2) To request a report within two cycles on how the re-opening of Community Centres was taken forward during the pandemic up to the current date, including feedback from CCs themselves and a timeline of activity.

3) As a result of at P&S committee urgent decisions made around community centres not having been implemented as requested, and a Health and Social report not addressing the decision made by Council, GRBV would like to review the processes and protocols around how decisions are implemented, to ensure that communications and information are accurate and effective.

4) To request a report in two cycles covering:

- how formal and informal committee and council actions are taken forward by officers following committee decisions and commitments made by directors and other officers in the course of committee business;
- the process followed by Committee Services to notify directorates of actions to be taken forward from Council and Committee decisions and how they are tracked;
- the protocols for officers carrying out agreed actions; and
- A review of the two specific cases above and lessons learned.

(Reference – Governance, Risk and Best Value Committee Work Programme 21 September 2021, submitted.)

4. Internal Audit: Overdue Findings and Key Performance Indicators as at 11 August

The report on Internal Audit: Overdue Findings and Key Performance Indicators as at 11 August was presented. The report set out that the overall progress status for closure of overdue IA findings remained amber. This report supported the closure of an increased number of IA findings and management actions in the current period.

Decision

1) To note the status of the overdue Internal Audit (IA) findings as at 11 August 2021.

2) To approve that a further three-month extension date be applied to all open IA findings, recognising the ongoing impacts of Covid-19 and other priorities and challenges currently faced by the Council.

3) To note the management commitment to implementation of the governance and assurance model and ensuring appropriate ongoing focus on closure of all high rated findings, and all findings that were more than one year overdue.

4) To approve the referral of the report to the relevant Council Executive committees and the Edinburgh Integration Joint Board Audit and Assurance Committee for information in relation to the current Health and Social Care Partnership position.

(Reference – report by the Chief Internal Auditor, City of Edinburgh Council, submitted.)

5. Internal Audit Update Report 1 May to 31 August 2021

The Internal Audit (IA) Update Report 1 May to 31 August 2021 was presented. The annual opinions were finalised for the City of Edinburgh Council, Lothian Pension Fund and the Edinburgh Integration Joint Board and presented to the Committee for scrutiny.

Decision

1) To note the outcomes of the completed 2021/22 audit.
2) To note progress with delivery of the 2021/22 Internal Audit plan.
3) To note progress with delivery of IA key priorities and ongoing areas of focus.

(Reference – report by the Chief Internal Auditor, City of Edinburgh Council, submitted.)

6. Workforce Insight and Controls – Annual Report

On 12 August 2021, the Finance and Resources Committee considered a report which provided a summary of workforce insights for the core and flexible (agency and overtime) workforce for the 2020/21 financial year. The committee agreed to refer the report to the Governance, Risk and Best Value Committee for consideration as part of its work programme.

Decision

1) To note the report.
2) To note that a briefing note would be circulated on measures in place to support staff mental health and wellbeing.

(References – Finance and Resources Committee, 12 August 2021 (item 15); referral from the Finance and Resources Committee, submitted.)

7. Change Portfolio

The Committee noted the status of the Council's Portfolio of significant projects. The Committee received an overview of strategic delivery and the associated risks and issues managed within the Council's Change Portfolio of major programmes and projects.

Decision

1) To note the status of the Council's Portfolio of significant projects.
2) To request information on the process for reports being submitted to executive committees following decisions taken by Council, particularly in relation to the report on the EICC business case due to be considered by the Finance and Resources Committee in October 2021.

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

8. Corporate Leadership Team Risk Report as at 23 August 2021

The Corporate Leadership Team Risk Report as at 23 August 2021 was presented to the Committee. The report presented the Council's current enterprise risk profile and

highlighted risks where further action was required (where realistic and possible) to ensure that they were brought within approved strategic risk appetite levels.

Decision

1) To note the Council's current strategic risk profile.
2) To note that seven strategic risks were currently outwith agreed risk appetite ranges.
3) To note the impact that Covid-19 had on the Council's approved risk appetite statement.
4) To note the timeframes for completion of the operational risk management framework pilot had been extended.
5) To agree that the Service Director – Legal and Assurance would send an email to Directors and senior managers to request that risk was properly considered in Council and committee reports.
6) To request that the next review of the report template for Council and committees included a 'risk' section to ensure this is considered.

(Reference – report by the Chief Executive, submitted.)

9. 2021-31 Sustainable Capital Budget Strategy – Outturn 2020/21 and Revised Budget 2021/22 – referral from the Finance and Resources Committee

On 12 August 2021, the Finance and Resources Committee considered a report which provided capital expenditure and funding outturns for 2020/21, providing explanations for key variances. The Committee agreed to refer the report to the Governance Risk and Best Value Committee for consideration as part of its work programme.

Decision

To note the report.

(References – Finance and Resources Committee, 12 August 2021 (item 6); referral from the Finance and Resources Committee, submitted.)

10. Revenue Monitoring 2020/21 – Outturn Report – referral from the Finance and Resources Committee

On 12 August 2021, the Finance and Resources Committee considered a report which set out the provisional 2020/21 revenue outturn position for the Council based on the unaudited annual accounts. The Committee agreed to refer the report to the Governance Risk and Best Value Committee for consideration as part of its work programme.

Decision

To note the report.

(References – Finance and Resources Committee, 12 August 2021 (item 7); referral from the Finance and Resources Committee, submitted.)

11. Revenue Monitoring 2021/22 – Month Three Position – referral from the Finance and Resources Committee

On 12 August 2021, the Finance and Resources Committee considered a report which set out the first projected Council-wide revenue budget position for the year, based on analysis of the first three months' financial data. The Committee agreed to refer the report to the Governance Risk and Best Value Committee for scrutiny.

Decision

To note the report.

(References – Finance and Resources Committee, 12 August 2021 (item 8); referral from the Finance and Resources Committee, submitted.)

12. Treasury Management: Annual Report 2020/21 – referral from the Finance and Resources Committee

On 12 August 2021, the Finance and Resources Committee considered a report which provided an update on Treasury Management activity in 2020/21. The Committee agreed to refer the report to the Governance Risk and Best Value Committee for scrutiny.

Decision

To note the report.

(References – Finance and Resources Committee, 12 August 2021 (item 11); referral from the Finance and Resources Committee, submitted.)

13. Quarterly Status Update - Digital Service Programme

The Quarterly Status Update - Digital Service Programme report was presented to provide a quarterly progress update upon the Council's Digital Services programme of works and the delivery of the Digital and Smart City Strategy.

Decision

1) To note the progress detailed in the quarterly update report.
2) To request a briefing note on the evaluation of risks when decisions were taken to restrict access to third party apps and websites which resulted in members conducting some of their business outwith the Council network in order that these could be used.

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

14. Whistleblowing update

A whistleblowing update report provided a high-level overview of the operation of the Council's whistleblowing service for the quarter 1 April – 30 June 2021.

Decision

To note the whistleblowing activity for the quarter 1 April – 30 June 2021.

(Reference – report by the Chief Executive, submitted.)

15. Whistleblowing Monitoring Report

The Committee agreed under Section 50(A)(4) of the Local Government (Scotland) Act 1973 to exclude the public from the meeting for this item of business on the grounds that it would involve the disclosure of exempt information as defined in Paragraph 1,12 and 15 of Part 1 of Schedule 7A of the Act.

An overview of the disclosures received, and investigation outcome reports completed during the period 1 April to 30 June 2021 was provided.

Decision

To note the whistleblowing activity for the quarter 1 April – 30 June 2021.

(Reference – report by the Chief Executive, submitted.)

Outstanding Actions

Governance, Risk and Best Value Committee

9 November 2021

No	Date	Report Title	Action	Action Owner	Expected completion date	Actual completion date	Comments
1	26/09/2017	Principles to Govern the Working Relationships between the City of Edinburgh Council Governance, Risk and Best Value Committee and the Edinburgh Integrated Joint Board Audit and Risk Committee	To accept the high-level principles subject to further information on how elected members could best engage with the process.	Chief Internal Auditor	March 2022 ~~September 2021~~ ~~March 2021~~ ~~December 2020~~ ~~May 2020~~ ~~September 2019~~ ~~January 2019~~ ~~November 2017~~		**September 2021** The refreshed Principles were received from NHSL in April 2020. However, the workshop to be attended by the IJB Audit Committee Chairs for the four Lothians; the NHSL Audit Committee Chair; and the four Lothian and the NHSL CIAs to review, discuss,

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No	Date	Report Title	Action	Action Owner	Expected completion date	Actual completion date	Comments
							and finalise the refreshed principles has still to be scheduled due to a significant number of existing commitments and the timing of planned annual leave. It is recommended that the date for completion of this action is extended to the end of February 2022 to allow the principles to be reviewed and finalised and approved by relevant Lothian IJB and NHSL Audit and Assurance / Audit and Risk Committees.

No	Date	Report Title	Action	Action Owner	Expected completion date	Actual completion date	Comments
							March 2021 An update was provided on the Business Bulletin for the meeting on 23 March 2021. **July 2020** A briefing note by the Chief Internal Auditor was circulated to members separately. **September 2019** A briefing note by the Chief Internal Auditor was circulated to members separately.
2	17.09.19	Work Programme – Member/Officer Protocol	To add the review of the Member/Officer Protocol to the workplan with timescales for submission	Executive Director of Corporate	August 2022 ~~August~~		**August 2021** This will now form part of the wider review of political

No	Date	Report Title	Action	Action Owner	Expected completion date	Actual completion date	Comments
			and to agree that a workshop for members would be held prior to submission to the Committee.	Services	~~2021~~ ~~June 2021~~ ~~May 2021~~ ~~March 2021~~ ~~February 2021~~ ~~November 2020~~ ~~September 2020~~ ~~January 2020~~		management arrangements following the Local Government Election. **June 2021** Timescale extended to allow further engagement with political groups. **March 2021** Sessions with political groups are currently being arranged. **February 2021** The timescales have been extended to allow for further engagement with

No	Date	Report Title	Action	Action Owner	Expected completion date	Actual completion date	Comments
							elected members. **<u>December 2020</u>** The Code of Conduct Consultation is now live. The draft response to this is being developed to be presented to Council on 4 February 2021 (Consultation closes 6 February). Officers are working to ensure these two documents align. The Member/Officer Protocol will be brought to GRBV following this exercise in February 2021.

No	Date	Report Title	Action	Action Owner	Expected completion date	Actual completion date	Comments
							<u>July 2020</u> Scottish Government are consulting on changes to the Code of Conduct and it is suggested that changes to the protocol await this piece of work. **<u>June 2020</u>** **Update** Consideration of the member/officer protocol is awaiting the finalisation of the revised Code of Conduct from the Scottish Government that will impact on the content of the Protocol. Timescales to be

No	Date	Report Title	Action	Action Owner	Expected completion date	Actual completion date	Comments
							confirmed. **December 2019** Workshop with members held on 29 October 2019. A joint workshop will be arranged with officers and members early 2020 (following the General Election).
3	07.07.20	Motion by Councillor Doggart – Pandemic Planning	1) Agrees that the Executive Director of Corporate Services reviews the council's response and preparedness to COVID-19 but acknowledges that as the council is still responding to the pandemic, any review would be premature at this time.	Executive Director of Corporate Services	April 2022		**Update September 2021** A close report and lessons learned is underway for the Adaptation and Renewal programme after which advice will be provided on a lessons learned exercise for Covid-

No	Date	Report Title	Action	Action Owner	Expected completion date	Actual completion date	Comments
			2) Asks that the Executive Director of Corporate Services updates the Policy and Sustainability committee on when he believes it would be appropriate both in terms of Corporate Services and timing for such a review to take place.				19 as references in the accounts commission report to P&S on 5 March. **<u>Update August 2021</u>** An interim debrief of the Council's response to Covid-19 has been undertaken with key findings shared with the Adaptation and Renewal All Party Oversight Group on the 13th August. Lessons identified have been incorporated into the council's documentation for further waves / local outbreaks. A

No	Date	Report Title	Action	Action Owner	Expected completion date	Actual completion date	Comments
							summary will be provided to the next P&S Committee. As the incident remains ongoing, it is too early to undertake a full lessons learned exercise at this time, but this will be kept under review and undertaken at the earliest appropriate opportunity.
4	08.12.20	Best Value Assurance Audit	1) That the Governance, Risk and Best Value Committee recommends that when the refreshed Council Business Plan is brought forward this should clearly state what current plans it	Executive Director of Corporate Services	October 2021 ~~March 2021~~		**Recommended for closure** Report on agenda November 2021 **Update:** A workshop on the Planning and

No	Date	Report Title	Action	Action Owner	Expected completion date	Actual completion date	Comments
			replaces and how progress against the Plan will be measured and reported to Council so that Council governance is clear.				Performance Management Framework has been held and Framework agreed at P&S Committee. The October Best Value progress update report and Business Plan performance report will provide further clarity on the progress made.
			2) That the further consideration of genuine local community empowerment is reported back to Committee with details on how this will be put in place with a clear process and timescale that		November 2021		**Recommended for closure** Report on agenda November 2021

No	Date	Report Title	Action	Action Owner	Expected completion date	Actual completion date	Comments
			progress can be measured against.				

No	Date	Report Title	Action	Action Owner	Expected completion date	Actual completion date	Comments
5	23.03.21	Internal Audit Overdue Findings and Key Performance Indicators as at 10 February 2021	To agree to revise the timescale on outstanding action 107 which had a 2024 close date to an earlier date	Executive Director of Corporate Services	December 2022		To align with the new approach to resilience planning, the deadlines of the management actions has been re-considered. Business Impact Analysis (BIAs) across the organisation are being carried out and scenario-based protocols and associated documentation developed with services. The completion of this work will allow the Council Business Continuity Plan to be revised, by 31/12/2022.

No	Date	Report Title	Action	Action Owner	Expected completion date	Actual completion date	Comments
6	23.03.21	Gas Service Improvement Plan – B Agenda	1) To note that the gas service improvement plan would be included in the broader service improvement plan going to the Housing, Homelessness and Fair Work Committee in June 2021 and agree to wrap this into a workshop (referenced in Confidential Schedule of 23.03.21)	Executive Director of Place	June 2021		**Closed August 2021** This was reported to Housing, Homelessness and Fair Work Committee in June 2021.
			2) To agree to provide a briefing note (referenced in Confidential Schedule of 23.03.21)	Executive Director of Place	June 2021		**Closed August 2021** This briefing has been followed up.
			3) To note that once the agreed management actions had been implemented, a closure report would	Executive Director of Place	January 2022		

No	Date	Report Title	Action	Action Owner	Expected completion date	Actual completion date	Comments
			be brought to the GRBV committee.				
7	23.03.21	Whistleblowing Monitoring Report – B Agenda	To agree to provide a date for the completion of the management actions for case CEC-07-17.	Senior Education Manager (Community Services) – Communities and Families	December 2021		**November 2021** An update will be provided to the next Committee meeting. **August 2021** Action partially completed as agreed with Governance Team. Outstanding tasks will be completed by Autumn.
8	04.05.21	Change Portfolio	1) To agree to provide a briefing note to update Committee on the North Bridge Refurbishment.	Executive Director of Place	November 2021		Briefing note to be circulated to GRBV members before Committee on 9 November

No	Date	Report Title	Action	Action Owner	Expected completion date	Actual completion date	Comments
			2) To agree that the Head of Place Management would provide reassurance why the Housing Service Improvement was amber status and details of what plans were in place to move it forward.	Executive Director of Place	June 2021		**Closed August 2021** An update on project status and plans moving forward was reported to Housing, Homelessness and Fair Work Committee in June 2021.
			3) To note that the foundations and MI were in place and information could be pulled off for particular areas and to agree that the Head of Customer and Digital Services would assess what information could be provided.	Executive Director of Corporate Services	March 2023		**Update August 2021** The Business Intelligence Programme is well underway, and the remit of the programme is to build MI dashboards which report on key areas across

No	Date	Report Title	Action	Action Owner	Expected completion date	Actual completion date	Comments
							Service Areas. The immediate focus is on dashboards for Place, HR and Customer. **Update June 2021** The Head of Customer and Digital Services has this work underway.
9	08.06.21	Internal Audit: Overdue Findings and Key Performance Indicators as at 27 April 2021	To agree to provide a briefing note on progress of actions 28 and 29 - the Edinburgh Alcohol and Drug Partnership (EADP) – Contract Management to Members of the Governance, Risk and Best Value Committee.	Service Director: Operations (Health and Social Care)	November 2021		**Recommended for closure** Briefing sent 3 November 2021

No	Date	Report Title	Action	Action Owner	Expected completion date	Actual completion date	Comments
10	10.08.21	Outstanding Actions	To request the IJB Risk Register to be circulated to GRBV Committee members.	Chief Officer, EHSCP			**Recommended for closure** IJB risk register has been circulated to GRBV members.
11	10.08.21	Work Programme	1) To request a report on community centres and the process followed to address Council and Committee decisions, and protocols for officers carrying out agreed actions, particularly in relation to recent decisions made on community centres and care home discharges.	Executive Director of Place / Executive Director of Education and Children's Services			**Recommended for closure** Action superseded by decision taken at September meeting under 'Work Programme' (action 14)

No	Date	Report Title	Action	Action Owner	Expected completion date	Actual completion date	Comments
			2) To note that a workshop would be held to consider the findings of the GRBV Effectiveness Audit and that this would also include consideration of how best to communicate the importance and impact of completing outstanding audit actions to committee members and conveners.	Executive Director of Corporate Services / GRBV Committee members	September 2021	September 2021	**Closed September 2021** Workshop was held on 6 September 2021.
12	10.08.21	Internal Audit Annual Opinion for the year ended 31 March 2021	1) To agree to hold a workshop for GRBV members and relevant officers to consider the findings of the GRBV Effectiveness audit and to report back to the next available GRBV Committee on implementation of the	Executive Director of Corporate Services / GRBV Committee members	November 2021		**Recommended for closure** Report on agenda November 2021 **Update September 2021** A workshop was held with members

No	Date	Report Title	Action	Action Owner	Expected completion date	Actual completion date	Comments
			findings.				of the Committee and Officers on 6 September 2021. A report will be submitted to the November meeting of the Committee.
			2) To consider how the Council's risk appetite had changed in response to Covid-19 and to include an update on this in the quarterly risk report in September.	Chief Internal Auditor	September 2021	September 2021	**Closed September 2021** Included in the IA update report for September 2021
13	10.08.21	First Line Governance and Assurance Model	To agree that progress updates should be provided in each GRBV Committee Business Bulletin from November onwards, including an update on the finalised structure and recruitment.	Service Director - Legal & Assurance	September 2022		Updates will be provided on an ongoing basis

No	Date	Report Title	Action	Action Owner	Expected completion date	Actual completion date	Comments
14	21.09.21	Work Programme	1) Requests a report within two cycles on how the re-opening of Community Centres was taken forward during the pandemic up to the current date, including feedback from CCs themselves and a timeline of activity.	Interim Executive Director of Education and Children's Services	December 2021		
			2) As a result of at P&S committee urgent decisions made around community centres not having been implemented as requested, and a Health and Social report not addressing the decision made by Council, GRBV would like to review the processes and protocols around how	Executive Director of Corporate Services	December 2021		

No	Date	Report Title	Action	Action Owner	Expected completion date	Actual completion date	Comments
			decisions are implemented, to ensure that communications and information is accurate and effective. 3) Requests a report in two cycles covering: • how formal and informal committee and council actions are taken forward by officers following committee decisions and commitments made by directors and other officers in the course of committee business • the process followed by Committee Services to notify directorates of actions to be taken				

No	Date	Report Title	Action	Action Owner	Expected completion date	Actual completion date	Comments
			forward from Council and Committee decisions and how they are tracked. • the protocols for officers carrying out agreed actions • A review of the 2 specific cases above and lessons learned.				
15	21.09.21	Workforce Insight and Controls - Annual Report – referral from the Finance and Resources Committee	To note that a briefing note would be circulated on measures in place to support staff mental health and wellbeing.	Executive Director of Corporate Services			
16	21.09.21	Change Portfolio – Report by the Executive Director of Corporate Services	To request information on the process for reports being submitted to executive committees following decisions taken by Council, particularly in	Executive Director of Corporate Services		October 2021	**Recommended for closure** Briefing sent to members 4 October 2021

No	Date	Report Title	Action	Action Owner	Expected completion date	Actual completion date	Comments
			relation to the report on the EICC business case due to be considered by Finance and Resources Committee in October.				
17	21.09.21	Corporate Leadership Team Risk Report as at 23 August 2021 – Report by the Chief Executive	1) To agree that the Service Director – Legal and Assurance would send an email to Directors and senior managers to request that risk is properly considered in Council and committee reports.	Executive Director of Corporate Services (Service Director – Legal and Assurance)			**Recommended for closure** Email sent to relevant officers 22 September 2021
			2) To request that the next review of the report template for Council and committees includes a 'risk' section to ensure this is considered.	Executive Director of Corporate Services			

No	Date	Report Title	Action	Action Owner	Expected completion date	Actual completion date	Comments
18	21.09.21	Quarterly Status Update - Digital Service Programme – Report by the Executive Director of Corporate Services	To request a briefing note on the evaluation of risks when decisions are taken to restrict access to third party apps and websites which results in members conducting some of their business outwith the Council network in order that these can be used.	Executive Director of Corporate Services			**Recommended for closure** Briefing note circulated to members 28 October 2021

Work Programme

Governance, Risk and Best Value Committee – 9 November 2021

	Title / description	Sub section	Purpose/Reason	Category or type	Lead officer	Stakeholder	Progress updates	Expected date
1	Internal Audit: Overdue Recommendations and Late Management Responses	Quarterly report	Paper outlines previous issues with follow up of internal audit recommendations, and an overview of the revised process within internal audit to follow up recommendations, including the role of CLG and the Committee	Internal Audit	Chief Internal Auditor	Council Wide	Quarterly	December 2021 March 2022 June 2022 September 2022

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	Title / description	Sub section	Purpose/Reason	Category or type	Lead officer	Stakeholder	Progress updates	Expected date
2	Internal Audit Quarterly Activity Report	Quarterly report	Review of quarterly IA activity with focus on high and medium risk findings to allow committee to challenge and request to see further detail on findings or to question relevant officers about findings	Internal Audit	Chief Internal Auditor	Council Wide	Quarterly	December 2021 March 2022 June 2022 September 2022
3	IA Annual Report for the Year	Annual report	Review of annual IA activity with overall IA opinion on governance framework of the Council for consideration and challenge by Committee	Internal Audit	Chief Internal Auditor	Council Wide	Annually	August 2022
4	IA Audit Plan for the year	Annual report	Presentation of Risk Based Internal Audit Plan for approval by Committee	Internal Audit	Chief Internal Auditor	Council Wide	Annually	March 2022

	Title / description	Sub section	Purpose/Reason	Category or type	Lead officer	Stakeholder	Progress updates	Expected date
5	Accounts Commission	Annual report	Local Government in Scotland: Financial Overview	External Audit	Executive Director of Corporate Services	Council Wide	Annually	February 2022
6	Accounts Commission	Annual report	Accounts Commission: Local Government in Scotland Overview 2021	External Audit	Executive Director of Corporate Services	Council Wide	Annually	October 2022
7	Annual Audit Plan	Azets	Annual audit plan	External Audit	Executive Director of Corporate Services	Council Wide	Annually	March 2022
8	City of Edinburgh Council – 2020/21 Annual Audit Report to the Council and the Controller of Audit	Azets	Annual Audit Report	External Audit	Executive Director of Corporate Services	Council Wide	Annually	October 2022
9	External Audit Review of Internal Financial Controls	Azets	Interim audit report on Council wide internal financial control framework	External Audit	Executive Director of Corporate Services	Council Wide	Annually	October 2022 (as part of 2020/21 Annual Audit report)
10	Internal Audit Charter	Annual Report	Annual Audit Charter	Internal Audit	Executive Director of Corporate Services	Council Wide	Annually	March 2022

Section B – Scrutiny Items								
11	Change Portfolio		To ensure major projects undertaken by the Council were being adequately project managed	Major Project	Executive Director of Corporate Services	All	Six- monthly	September 2022 March 2022
12	Welfare Reform	Review	Update reports to be referred annually by Policy and Sustainability Committee	Scrutiny	Executive Director of Corporate Services	Council Wide	Annual	June 2022
13	Review of CLT Risk Scrutiny	Risk	Quarterly review of CLT's scrutiny of risk	Risk Management	Executive Director of Corporate Services	Council Wide	Quarterly	December 2021 March 2022 June 2022 September 2022
14	Whistleblowing Quarterly Report		Quarterly Report	Scrutiny	Executive Director of Corporate Services	Internal	Quarterly	December 2021 March 2022 June 2022 September 2022
15	Whistleblowing Annual Report		Annual report	Scrutiny	Executive Director of Corporate Services	Internal	Quarterly	March 2022
16	Workforce Controls	Staff	Annual report	Scrutiny	Executive Director of Corporate Services	Council Wide	Annual	September 2022

17	Revenue Monitoring	Review	Progress reports	Scrutiny	Executive Director of Corporate Services	Council Wide	Quarterly	December 2021 February/March 2022 September 2022
18	Capital Monitoring	Review	Progress reports	Scrutiny	Executive Director of Corporate Services	Council Wide	Quarterly	December 2021 February/March 2022 September 2022
19	Revenue Outturn	Review	Progress reports	Scrutiny	Executive Director of Corporate Services	Council Wide	Annual	September 2022
20	Capital Outturn and Receipts	Review	Progress reports	Scrutiny	Executive Director of Corporate Services	Council Wide	Annual	September 2022
21	Treasury – Strategy report	Review	Progress reports	Scrutiny	Executive Director of Corporate Services	Council Wide	Annual	March 2022
22	Treasury – Annual report	Review	Progress reports	Scrutiny	Executive Director of Corporate Services	Council Wide	Annual	September 2022
23	Treasury – Mid-term report	Review	Progress reports	Scrutiny	Executive Director of Corporate Services	Council Wide	Annual	January 2022

24	Quarterly Status Update - Digital Service Programme	Review	Progress Reports	Scrutiny	Executive Director of Corporate Services	Council Wide	Quarterly	December 2021 March 2022 May 2021 September 2021
25	Annual Assurance Schedules	Review	Progress Report	Scrutiny	All Directorates	Council	Annual	January 2022 (Place) January 2022 (Education and Children's Services) February 2022 (Corporate Services) August 2022 (EIJB)
26	Review of the Member/Officer Protocol	Review	Including timescales for submission	Scrutiny	Executive Director of Corporate Services	Council Wide	Flexible	August 2022
Section C – Council Companies								
27	Capital Theatres	Review	Progress Report	Scrutiny	Executive Director of Place	Council Wide	Annual	December 2021
28	Edinburgh Leisure	Review	Progress Report	Scrutiny	Executive Director for Education and Children's Services	Council Wide	Annual	TBC
29	Capital City Partnership	Review	Progress Report	Scrutiny	Executive Director of Place	Council Wide	Annual	June 2022

30	Transport for Edinburgh	Review	Progress Report	Scrutiny	Executive Director of Place	Council Wide	Annual	November 2022
31	Lothian Buses	Review	Progress Report	Scrutiny	Executive Director of Place	Council Wide	Annual	November 2022
32	Edinburgh Trams	Review	Progress Report	Scrutiny	Executive Director of Place	Council Wide	Annual	November 2022
33	Edinburgh International Conference Centre	Review	Progress Report	Scrutiny	Executive Director of Place	Council Wide	Annual	December 2021

GRBV Committee Upcoming Reports

Appendix 1

Report Title	Type	Flexible/Not Flexible
December 2021		
Internal Audit: Overdue Findings and Key Performance Indicators – report by Chief Internal Auditor	Scrutiny	Not Flexible
Internal Audit Quarterly Activity Report – report by Chief Internal Auditor	Scrutiny	Not Flexible
CLT Risk Register – report by Executive Director of Corporate Services	Scrutiny	Flexible
Whistleblowing Quarterly Report – report by Executive Director of Corporate Services	Scrutiny	Not Flexible
Revenue Monitoring Month 6 Position –referral from Finance and Resources Committee	Scrutiny	Flexible
Capital Monitoring Month 6 Position – referral from Finance and Resources Committee	Scrutiny	Flexible
Quarterly Status Update - Digital Service Programme – report by Executive Director of Corporate Services	Scrutiny	Not Flexible
Capital Theatres Performance – report by Executive Director of Place	Scrutiny	Flexible
Edinburgh International Conference Centre – report by Executive Director of Place	Scrutiny	Flexible

Annual Update on Council Transport Arm's Length Companies – referral from Transport and Environment Committee	Scrutiny	Not Flexible
Community Centres Report – Response to Motion from 21 September 2021	Scrutiny	Not Flexible
Committee Decisions Report – Response to Motion from 21 September 2021	Scrutiny	Not Flexible

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Business Bulletin

Governance, Risk and Best Value Committee

10.00am, Tuesday, 9 November 2021

Teams Meeting

EDINBVRGH
THE CITY OF EDINBURGH COUNCIL

Governance, Risk and Best Value Committee

Convener:	Members:	Contact:
Councillor Joanna Mowat 	Councillor Scott Arthur Councillor Lezley Marion Cameron Councillor Jim Campbell Councillor Mary Campbell Councillor Phil Doggart Councillor Gillian Gloyer Councillor Melanie Main Councillor Frank Ross Councillor Norman Work Councillor Ethan Young	Rachel Gentleman Committee Officer 0131 529 4107

Recent news	Background/Contact
The GRBV workplan contained an annual report on **Monitoring Council Policies**. This was added following consideration of a report on Improving the implementation of Council decision making in August 2018. The report contained 5 key strands including the review of the policy register that is now complete. A follow up report was delayed due to resource constraints and should have remained on the rolling actions log rather than the workplan. The key element of this work was ensuring that Council Directorates disseminated Council and Committee decisions throughout its workforce. The new Governance and Assurance Model provides the opportunity for Corporate Governance and Policy and Insight teams to work with Directorates to ensure a system is in place to efficiently disseminate decisions and to monitor and check this is being implemented. As a result, it is recommended that the report is removed from the workplan and built into the new model. It has also been identified that the Committee Decisions report, Dec 2021 has been included in the workplan in error and should have been removed following consideration of the Review of Political Management Arrangements Report, December 2020. The workplan has been updated to reflect this correction.	Gavin King Head of Democracy, Governance and Resilience, Legal and Assurance, Corporate Services Directorate 0131 529 4239

First Line Governance and Assurance Model – progress update Each of the Executive Directors has put in place or is in the process of recruiting recurring resource to support the coordination and completion of the activities set out in the report to Committee in August 2021 as follows: **Edinburgh Health and Social Care Partnership** The Partnership Directorate Assurance Officer post has been advertised, with a closing date of the beginning of November. Interviews have been provisionally scheduled for mid-November and, if recruitment is successful, the new post holder is likely to start in early January at the earliest. The Directorate's Operations Manager is also working to put in place elements of the governance and assurance model that are not dependent on the recruitment of the Assurance Officer and these will be in place by the end of November. **Corporate Services** The Directorate Assurance Officer post for the Corporate Services Directorate was advertised externally and the vacancy closed on Tuesday 19 October. Interviews will take place during the first week in November, with an appointment being made as soon as possible thereafter. In the interim period, Corporate Services is continuing to utilise the temporary support the Executive Director put in place in October 2020 to sustain progress with audit actions. Corporate Services is also in the process of implementing other elements of the approved Assurance Framework that are not reliant on the Assurance Office being in post. **Place** The Place Directorate is currently in the final stages of appointing a second Operations Manager to provide dedicated first line governance and assurance support. It is expected that the new postholder will take up their new appointment on 1 November 2021. A risk prioritisation analysis exercise is currently underway to ensure that the initial priorities of the new Operations Manager are focused on the most significant risks for the Directorate. The Council's Governance team has prepared a comprehensive list of first line governance and risk management activities and this is currently being reviewed and updated for the Directorate. This will also feed into the risk prioritisation exercise.	Nick Smith Service Director: Legal and Assurance, Corporate Services Directorate 0131 529 4377

Education and Children's Services

The Directorate is currently advertising for an additional Operations Manager reporting to the interim Executive Director and is working on a Business Case to consider Operational Risk Management in terms of the wider context and capacity of the Directorate. These arrangements have been discussed with the substantive Executive Director, who will join the Council in November.

Organisational Assurance support

Recruitment to the second line team of three Governance officers is ongoing. Given funding pressures on the Corporate Services budget, these posts have been initially approved as fixed-term appointments and further exploration of recurring funding is underway. A comprehensive list of first line governance and risk management activities will be compiled and the business partnering aspects of these roles can be implemented once appointments have been made.

Given that this additional second line capacity has yet to be recruited, it is likely that the design of the assurance reporting framework will now be completed by 30 June 2022, with the first quarterly cycle of reporting on assurance activities through Directorate and the Corporate Leadership Team Risk and Assurance Committees being completed by 30 September 2022. This recognises the time required for the processes and ownership of revised assurance arrangements to more fully embed.

To provide specific support in relation to closure of audit findings, two internal auditors have been seconded for a period of 6 months to the Place Directorate and the Edinburgh Health and Social Care Partnership. Measures have been put in place to ensure independence of Internal Audit is maintained and backfill resource through our co-source Audit partner has been secured.

Forthcoming activities:

Governance, Risk and Best Value Committee

10.00am, Tuesday, 9 November 2021

City of Edinburgh Council – 2020/21 Annual Audit Report to the Council and the Controller of Audit

Executive/routine	**Executive**
Wards	
Council Commitments	

1. Recommendations

1.1 Members of the Governance, Risk and Best Value Committee are asked to:

1.1.1 note that, following the audit process, it is anticipated that an unqualified audit opinion will be issued on the Council's annual accounts for 2020/21;

1.1.2 refer the audited annual accounts 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;

1.1.4 note the external auditor's assessment of both implementation of the recommendations contained within the Council's Best Value Assurance Report and across the four dimensions of the wider scope audit and that progress in the delivery of the resulting improvement actions set out in Appendix 4 of the auditor's report will be reported to the Committee during the coming year; and

1.1.5 note that, once approved, a summarised version of the annual accounts will also be published on the Council's website by 30 November 2021.

Stephen S. Moir
Executive Director of Corporate Services

Contact: Hugh Dunn, Service Director: Finance and Procurement,
Finance and Procurement Division, Corporate Services Directorate
E-mail: hugh.dunn@edinburgh.gov.uk | Tel: 0131 469 3150

EDINBVRGH
THE CITY OF EDINBURGH COUNCIL

Report

City of Edinburgh Council – 2020/21 Annual Audit Report to the Council and the Controller of Audit

2. Executive Summary

2.1 The report summarises the principal findings arising from the Council's 2020/21 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 sustainability, financial management, governance and transparency and arrangements to secure and demonstrate value for money. Following the publication of the Council's Best Value Assurance Report (BVAR) in November 2020, the report also assesses progress in implementing its recommendations.

2.2 The proposed audit certificate provides an unqualified audit opinion on the financial statements and other prescribed matters.

2.3 Progress in addressing all of the recommendations contained within the BVAR is noted, with approaches to addressing the recommendations agreed and many of the overarching strategies also confirmed. It is now important that further detailed work is completed to support these agreed approaches.

2.4 The report concludes that the Council had appropriate arrangements in place for managing its financial position and use of resources during the year, with an overall surplus of £7.9m recorded after transferring COVID-specific funding to be applied in subsequent years to reserves at the year-end. The report also notes the Council increased its unallocated general reserve from £13m to £25m at the year-end as part of a reprioritisation of its earmarked funds.

2.5 While the report notes that a five-year medium-term financial framework has been developed, this shows significant funding gaps in future years and the Council therefore needs to take steps now to ensure that work has commenced in the areas and initiatives services will be required to deliver to address the shortfalls identified.

2.6 The report concludes that the Council's governance arrangements were satisfactory during the year, with appropriate scrutiny, challenge and informed decision-making and a prompt and effective response in political management arrangements during the pandemic. Areas with scope for improvement exist, however, and these have been highlighted in the BVAR, the work of internal audit and independent reviews.

2.7 Finally, the report notes the development of the Adaptation and Renewal programme and the reporting of regular updates to members on the pandemic's impact on the Council and steps taken during the year to improve and align business planning and public performance reporting.

3. Background

3.1 The Council submitted its unaudited annual accounts to the external auditor by the required date of 30 June. As with the 2019/20 audit, the supplementary provisions contained within the Coronavirus (Scotland) Act 2020, however, allowed local authorities, in consultation with their external auditors, to defer reporting to those charged with governance (in the Council's case, members of this committee) by up to two months i.e. from the end of September until the end of November. This flexibility reflected the additional logistical challenges of obtaining appropriate audit assurance within a remote working environment. A revised timetable for the audit process was subsequently agreed, with the auditor's report being presented to today's meeting.

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 today's 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 18 November. Subject to this approval, a shorter, more accessible version of the annual accounts will then be published on the Council's website by 30 November.

3.3 The unaudited annual accounts were published on the Council's website by 30 June 2021 and made available for public inspection from 1 July 2021 for a period of 15 working days, in accordance with relevant regulations. Due to the on-going pandemic, however, this year's inspection process was undertaken by electronic means.

3.4 Correspondence was received from two individuals on two different subjects during this period, resulting in the lodging of two objections. Following consideration by the external auditor, one of these was assessed not to constitute a valid objection as the issues raised did not relate to material misstatements in the accounts due to incorrect recognition, measurement, presentation, disclosure or illegality.

3.5 The other submission related to the Lauriston Castle Charitable Trust and did contain elements that constituted a valid objection. The issue raised related to the Council's contribution towards meeting the net operating costs of Lauriston Castle not being included within the Lauriston Charitable Trust unaudited accounts. This

objection was upheld and the accounts now reflect a net Council contribution in 2020/21, with an equivalent contribution also included within the restated prior year.

3.6 The external auditor is required, in undertaking the audit, to comply with Audit Scotland's revised Code of Audit Practice and ISA260: Communications with those charged with governance. As part of the standard, the auditor is required to highlight:

- Relationships that may bear on the independence, integrity and objectivity of the appointed auditor and audit staff;
- The overall scope and approach to the audit, including any expected limitations, or additional requirements;
- Expected modifications to the audit report;
- Management representations requested by him/her;
- Unadjusted misstatements other than those that are clearly trivial;
- Material weaknesses in internal control identified during the audit;
- Qualitative aspects of accounting practice and financial reporting, including accounting policies; and
- Matters specifically required by auditing standards to be communicated to those charged with governance and any other matters that are relevant to the audit.

3.7 Appendix 1 of the auditor's report summarises the respective responsibilities of the Council and the auditor.

4. Main report

Overall audit opinion

4.1 There are no qualifications to the proposed audit certificate. The report notes that the unaudited accounts were received in accordance with the audit timetable and were accompanied by working papers of a high standard.

4.2 As part of the audit process, a number of adjustments were incorporated within the audited accounts and these are itemised within Appendix 2 of the auditor's report.

Wider scope assessment and BVAR actions follow-up

4.3 As with recent 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 sustainability;
- Financial management;
- Governance and transparency; and
- Value for money.

4.4 In addition, the report includes a progress assessment on the implementation of the recommendations contained within the Council's BVAR.

Key messages (pages 4 to 8)

4.5 The key messages from the audit are presented on pages 4 to 8 of the auditor's 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 92 to 98. The report also summarises on pages 100 to 114 progress made in implementing the recommendations contained in previous years' reports.

4.6 The wider scope aspects of the audit and progress in addressing the recommendations of the BVAR are subject to a revised grading system set out on page 8. With the exception of financial sustainability where, due to the need to initiate a programme to address significant future-year funding gaps, current arrangements are assessed to be inadequate, all other areas are assessed as having no major weaknesses but with opportunities for improvement to offset remaining risks.

Annual accounts audit (pages 12 to 37)

4.7 An unqualified opinion has been provided on the financial statements and other prescribed matters, with positive feedback provided across a number of areas.

4.8 While noting the improvements implemented in recent years in respect of property valuations, the report nonetheless identifies opportunities to build further on these through closer collaboration between Finance and Estates staff, as well as more explicit consideration of potential impairment for assets under construction.

4.9 Although audit testing confirmed the appropriateness of provisions made in respect of doubtful debts, the report also encourages the Council to keep the amount of this provision under annual review based on any significant changes in debt recovery rates and consideration of other relevant factors.

4.10 The report attests to the appropriateness of both the Council's decision to "de-badge" the Other Catering Significant Trading Operation (STO) and the accounting entries processed in respect of capitalisation of interest costs for relevant projects during the year.

4.11 The report notes the receipt of some £359m of COVID-related funding during the year and comments on the Council's arrangements to account, as appropriate, for sums received acting as principal (i.e. acting on its own behalf) or agent (i.e. acting as an intermediary). Audit testing identified one small funding stream of £0.162m which had been accounted for as income received as principal where, in fact, the Council was acting as an agent. This change is reflected in the audited accounts, resulting in a revised in-year underspend of £7.918m.

4.12 Very late in the audit process, an adjustment required to comply with the Accounting Code of Practice was identified. While not material, this adjustment, which affects only the Group and not the Council, would have required considerable reworking and, for this reason, has not been incorporated in the audited accounts. The auditor's report therefore draws attention to this unadjusted error in Appendix 2.

BVAR follow-up (pages 38 to 40)

4.13 Progress in addressing all of the recommendations contained within the BVAR is noted, with approaches to addressing the recommendations agreed and many of the overarching strategies already confirmed. It is now important that further work is prioritised to support these agreed approaches, specifically to:

- develop detailed savings plans to address the significant funding gaps identified in the medium-term financial plan;
- develop detailed workforce plans for service teams to support the strategic workforce plan;
- develop annual service plans for directorates and teams that support the delivery of key performance targets. Targets should be set for all KPIs agreed within the new Planning and Performance Framework;
- continue to progress approved Community Asset Transfer requests as a matter of priority; and
- progress the framework drawn up for collaboration with community councils and ensure this delivers the real involvement of community representatives in delivering community outcomes.

4.14 A summary of progress in respect of each recommendation is included as Appendix 3 to the report.

Financial sustainability (pages 41 to 47)

4.15 The report notes the Council's development of a medium-term revenue framework covering the period to 2026/27, along with a balanced ten-year capital budget strategy, albeit with a number of associated risks. Whilst the 2021/22 revenue budget is forecast to show a balanced position, the medium-term framework identifies significant funding gaps in future years, emphasising the importance of taking steps now to ensure that work has commenced on the areas and initiatives services are required to deliver to address the shortfalls identified.

4.16 The report also sets out various facets of the Council's response to the United Kingdom's exit from the European Union.

Financial management (pages 48 to 53)

4.17 The report concludes that the Council had appropriate arrangements in place for managing its financial position and use of resources during the year, with an overall surplus of £7.9m recorded after transferring COVID-specific funding to be applied in subsequent years to reserves at the year-end. The report also notes the Council

increased its unallocated general reserve from £13m to £25m as part of a reprioritisation of its earmarked funds.

4.18 The external auditor's report intimates that no significant weaknesses were identified within the Council's systems of accounting and internal financial control and that its arrangements with regard to the detection of fraud and irregularity are considered sufficient and appropriate, complemented by active participation in the National Fraud Initiative.

Governance and transparency (pages 54 to 63)

4.19 The report concludes that the Council's governance arrangements were satisfactory during the year, with appropriate scrutiny, challenge and informed decision-making. Areas with scope for improvement exist, however, and these have been highlighted in the BVAR, the work of internal audit and independent reviews.

4.20 The Council is assessed to have responded promptly and effectively in its political management arrangements to the COVID-19 crisis. An external review of the effectiveness of the scrutiny applied by the Governance, Risk and Best Value Committee undertaken as part of the 2021 Internal Audit Plan concluded that it was fulfilling its core remit but identified a number of short- and longer-term potential improvements, to which the Council has now responded, with the majority to be implemented after the May 2022 elections.

Value for money (pages 64 to 70)

4.21 The report notes the development of the Adaptation and Renewal programme and the regular reporting of updates to members on the pandemic's impact on the Council and steps taken during the year to improve and align business planning and public performance reporting, including a redesign of the performance web pages.

4.22 In-year service performance was significantly impacted by the pandemic, with many indicators therefore not comparable year on year. Of those that were comparable, however, 80% showed maintained or improved performance.

5. Next Steps

5.1 Subject to approval by the Finance and Resources Committee on 18 November, the annual accounts will be signed and submitted to the external auditor.

5.2 Progress in implementing the improvement actions set out in Appendix 4 will be reported to the Governance, Risk and Best Value Committee over the coming year.

6. Financial impact

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

7. Stakeholder/Community Impact

7.1 The annual audit report includes a 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. Following the upholding of an element of an objection received, the audited accounts include the Council's contribution towards the net operating cost of Lauriston Castle.

8. Background reading/external references

8.1 Revenue Monitoring 2020/21 – outturn report, Finance and Resources Committee, 12 August 2021

8.2 Unaudited Annual Accounts 2020/21, The City of Edinburgh Council, 24 June 2021

9. Appendices

Appendix 1 – 2020/21 Annual Audit Report to the Council and the Controller of Audit

Appendix 2 – 2020/21 Audited Annual Accounts

Appendix 1

City of Edinburgh Council

2020/21 Annual Audit Report to the Council and the Controller of Audit

November 2021

Table of Contents

Key messages

This report concludes our audit of the City of Edinburgh Council for 2020/21.

This section summarises the key findings and conclusions from our audit.

Financial statements audit

Audit opinion	The annual accounts are due to be considered by the Governance, Risk and Best Value Committee on 9 November and approved by the Finance and Resources Committee on 18 November. We report unqualified opinions within our independent auditor's report.
Key findings on audit risks and other matters	COVID-19 continues to present unprecedented challenges to the operation, financial management and governance of organisations, including public sector bodies. In response to the pandemic, we identified potential areas of increased risk of material misstatement to the financial statements and/or our audit opinion. We are pleased to report those risks identified did not materialise. The Council had appropriate administrative processes in place to prepare the annual accounts and the required supporting working papers.
Audit adjustments	Audit adjustments are detailed at Appendix 2. The overall impact on the annual accounts was an increase in group reserves of £53.359million. We also identified disclosure and presentational adjustments during our audit, which have been reflected in the final set of accounts.
Accounting systems and internal controls	We have applied a risk-based methodology to the audit. This approach requires us to document, evaluate and assess the Council's processes and internal controls relating to the financial reporting process. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we have included these in this report. We consider the control environment within the Council to be satisfactory although there is scope for improvement.

Best value Assurance Report – follow up

Appointed auditors have a duty to be satisfied that local government bodies have made proper arrangements to secure best value.

A Best Value review was undertaken on the City of Edinburgh Council in 2020. The Best Value Assurance Report (BVAR) includes recommendations to help the Council address the improvement areas identified during the audit.

We have considered progress made by the Council in implementing the recommendations made in the BVAR.

Auditor judgement	

Overall, progress has been made against all of the recommendations. Agreed approaches to addressing the recommendations and many of the overarching strategies have been confirmed. It is now important that further detailed work is completed to support these agreed approaches.

Wider scope audit

Financial Sustainability

Auditor judgement

A medium-term financial framework covering the period to 2026/27 has been developed. Whilst the 2021/22 revenue budget is forecast to show a balanced position, the medium-term framework identifies significant funding gaps facing the Council in future years. The Council should take steps now to ensure that work has commenced on the areas and initiatives services are required to deliver to address the shortfalls identified.

Financial Management

Auditor judgement

The Council has appropriate arrangements in place for financial management and the use of resources.

The Council reported a surplus outturn position in 2020/21. The surplus was achieved after additional transfers to reserves from the receipt of COVID-19 funding late in 2020/21. The Council has earmarked £101million in reserves to off-set future specific or unknown COVID-19 costs. 82% of approved savings were delivered.

The Council has reviewed its reserves policy, increasing the size of the unallocated general fund reserve from £13million to £25million.

Around 94% of the revised general fund capital programme and 62% of the revised HRA capital programme was delivered in 2020/21.

Governance & Transparency

Auditor judgement

Governance arrangements at the Council were found to be satisfactory and appropriate, including throughout the COVID-19 pandemic and we concluded that the Council responded promptly and effectively in its political management arrangements.

From our review of committee papers and observations at committee meetings we are satisfied that there has been appropriate scrutiny, challenge and informed decision making; in particular over the Council's financial arrangements and its monitoring and support to ALEO's during the pandemic.

Areas with scope for improvement exist in the Council's governance arrangements. These have been highlighted through the Best Value Assurance Report, the work of internal audit and independent reviews.

Value for Money

Auditor judgement

In response to the pandemic, the Council developed an Adaptation and Renewal work programme, with 5 main workstreams. Regular updates are presented to committee which include the impact the pandemic has on the Council.

The Council has published an annual performance report and report on performance against the Local Government Benchmarking Framework (2019/20). Performance in 2020/21 has been impacted by the pandemic; in particular in areas such as education, social care, housing and waste services.

Further work is required to fully demonstrate compliance with the Accounts Commission Statutory Performance Information Direction; in particular demonstrating best value. During 2021, the Council published its Business Plan which is supported by a newly developed Planning and Performance Framework (PPF). The new PPF is designed to meet the Council's public performance reporting responsibilities including meeting the requirements of Statutory Performance Information Directions.

Definition

Our wider scope audit involves consideration of the Council's arrangements as they relate to financial sustainability; financial management, governance and transparency and value for money. We have used the following grading to provide an overall assessment of the arrangements in place as they relate to the four dimensions.

There is a fundamental absence or failure of arrangements in place
There is no evidence to support improvement
Substantial unmitigated risks affect achievement of corporate objectives

Arrangements are inadequate or ineffective
Pace and depth of improvement is slow
Significant unmitigated risks affect achievement of corporate objectives

No major weaknesses in arrangements but scope for improvement exists
Pace and depth of improvement are adequate
Risks exist to achievement of operational objectives

Effective and appropriate arrangements are in place
Pace and depth of improvement are effective
Risks to achievement of objectives are managed

Introduction

We carried out our audit in accordance with Audit Scotland's Code of Audit Practice and maintained auditor independence

Scope

1. We outlined the scope of our audit in our External Audit Plan, which we presented to the Governance, Risk and Best Value Committee at the outset of our audit. The core elements of our work include:
   - an audit of the 2020/21 annual accounts for both the Council and its group and related matters;
   - consideration of the wider dimensions of public audit work, as set out in Exhibit 1;
   - consideration of the Council's arrangements to secure best value
   - consideration of the arrangements for the collection and publication of statutory performance information in accordance with the Accounts Commission direction
   - 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

Responsibilities

2. The Council is responsible for preparing annual accounts which show a true and fair view and for implementing appropriate internal control systems. The weaknesses or risks identified in this report 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 management from its responsibility to address the issues raised and to maintain an adequate system of control.

3. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as

this report was not prepared for, nor intended for, any other purpose.

4. We would like to thank all management and staff for their co-operation and assistance during our audit.

Auditor independence

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

6. We confirm that we complied with the Financial Reporting Council's (FRC) Ethical Standard. In our professional judgement, we remained independent and our objectivity has not been compromised in any way.

7. 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 Azets 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

8. 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.

Feedback

9. 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 any member of the audit team.

Openness and transparency

10. This report will be published on Audit Scotland's website www.audit-scotland.gov.uk.

Annual accounts audit

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.

Overall conclusion

11. The annual accounts are due to be considered by the Governance, Risk and Best Value Committee on 9 November and approved by the Finance and Resources Committee on 18 November. Our independent auditor's report is unqualified.

Administrative processes

12. We received unaudited annual accounts and supporting papers of a high standard, in line with our agreed audit timetable. Our thanks go to staff at the Council for their assistance with our work, particularly given the current environment we are working in.

Our audit opinion

Opinion	Basis for opinion	Conclusions
Financial statements	We conduct our audit in accordance with applicable law and International Standards on Auditing. Our findings / conclusion to inform our opinion are set out in this section of our annual report.	We have issued unqualified audit opinions.
Going concern basis of accounting	In the public sector when assessing whether the going concern basis of accounting is appropriate, the anticipated provision of the services is more relevant to the assessment than the continued existence of a particular public body. We assess whether there are plans to discontinue or privatise the Council's functions. Our wider scope audit work considers the financial sustainability of the Council.	We reviewed the financial forecasts for 2021/22. 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. Our audit opinion is unqualified in this respect.
Opinions prescribed by the Accounts Commission on:	We read all the statutory other information in the annual accounts to identify material inconsistencies with the financial statements and to identify any information that is apparently materially incorrect	The statutory other information contains no material misstatements or inconsistencies with the financial statements. We have concluded that:

Opinion	Basis for opinion	Conclusions
• Management Commentary • Annual Governance Statement • Remuneration Report	based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. We plan and perform audit procedures to gain assurance that the statutory other information has been prepared in accordance with: • statutory guidance issued under the Local Government in Scotland Act 2003 (Management Commentary); • the Delivering Good Governance in Local Government: Framework (Annual Governance Statements); and • The Local Authority Accounts (Scotland) Regulations 2014 (Remuneration Report)	• the management commentary is consistent with the financial statements and has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003. • the information given in the annual governance statement and statement of financial control is consistent with the financial statements and has been prepared in accordance with the Delivering Good Governance in Local Government: Framework. • the audited part of the Remuneration Report has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014.
Matters reported by exception	We are required to report on whether: • adequate accounting records have not been kept; or • the financial statements and the audited part of the Remuneration and Staff 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 no matters to report.

An overview of the scope of our audit

13. 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 2021. 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.

14. 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.

15. In our audit, we test and examine information using sampling and other audit techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain evidence through performing a review of the significant accounting systems, substantive procedures and detailed analytical procedures.

Significant risk areas

16. Significant risks are defined by professional standards as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, we consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

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

Significant risk areas

1. Management override	
Significant risk description	In any organisation, there exists a risk that management have the ability to process transactions or make adjustments to the financial records outside the normal financial control processes. Such issues could lead to a material misstatement in the 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.* **Risk assessment**: **High**

Significant risk areas

How the scope of our audit responded to the significant risk	**Key judgement** There is the potential for management to use their judgement to influence the financial statements as well as the potential to override controls for specific transactions. **Audit procedures** • Review of the Council's accounting records and audit testing on transactions. • Adoption of data analytics techniques in carrying out testing. • Review of judgements and assumptions made in determining accounting estimates as set out in the financial statements to determine whether they are indicative of potential bias. This included a retrospective review of the prior year estimates against the current year estimates.
Key observations	We have not identified any indication of management override in the year. We did not identify any areas of bias in key judgements made by management and judgements were consistent with prior years.
2. Revenue recognition	
Significant risk description	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 income transactions in such a way as to lead to a material misstatement in the reported financial position. **Risk assessment: High**
How the scope of our audit responded to the significant risk	**Key judgements** Given the financial pressures facing the public sector as a whole, there is an inherent fraud risk associated with the recording of income around the year end. **Audit procedures** • Evaluate each material revenue stream and review controls over revenue accounting. • Substantive testing on all material revenue streams. • Audit testing over the revenue recognition policy to ensure it is appropriate and applied consistently throughout the year.

Significant risk areas

Key observations	At the planning stage of our audit we concluded that the revenue recognition risk was present in all revenue streams except for council tax income, non-domestic rates, housing rents and non-ring fenced government grants. Our conclusion remained the same throughout the audit. Based on audit work performed, we have gained reasonable assurance on the completeness and occurrence of income and we are satisfied that income is fairly stated in the financial statements.
3. Expenditure recognition	
Significant risk description	As most public sector bodies are net expenditure bodies, the risk of fraud is more likely to occur in expenditure. There is a risk that expenditure may be misstated resulting in a material misstatement in the financial statements. **Risk assessment: High**
How the scope of our audit responded to the significant risk	**Key judgements** Given the financial pressures facing the public sector as a whole, there is an inherent fraud risk associated with the recording of accruals around the year end. **Audit procedures** • Evaluate the significant non-pay expenditure streams and review the controls in place over accounting for expenditure. (Payroll is subject to separate tailored testing). • Consideration of the Council's key areas of expenditure and obtain evidence that expenditure is recorded in line with appropriate accounting policies and the policies have been applied consistently across the year. • Review of accruals around the year end to consider if there is any indication of understatement of balances held through consideration of accounting estimates.
Key observations	We gained reasonable assurance over the completeness and occurrence of expenditure and are satisfied that expenditure is fairly stated in the financial statements.

Significant risk areas

4. Asset valuations (significant accounting estimate)	
Significant risk description	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. The valuation provided by the valuer as at 31 March 2020 recognised a material uncertainty, indicating that lower confidence could be attached to the valuation than otherwise would be the case given the unprecedented impact of COVID-19 on global markets. We included an emphasis of matter paragraph in our independent auditor's report on the 2019/20 annual accounts to draw attention to this. There is a risk of material misstatement to the financial statements relating to asset valuations. **Risk assessment: High**
How the scope of our audit responded to the significant risk	**Key judgements** Councils are required to revalue assets held at fair value with sufficient regularity to ensure that the carrying amount does not differ materially from the current value at 31 March. This includes other land and buildings, council dwellings, investment properties, assets held for sale and surplus assets. In accordance with its accounting policies, all valuations are carried out internally by a professional valuer. **Audit procedures** • Consider the competence, capability and objectiveness of the internal valuer in line with ISA (UK) 500 Audit Evidence. • Consider the scope of the valuer's work and the information provided to the valuer for completeness. • Review the valuation report and consider the assumptions used by the valuer against external sources of evidence. • Challenge management's formal assessment of impairment to ensure assets are not materially misstated as at 31 March.
Key observations	Valuations are carried out by internal valuers and formally communicated to the Council through a valuation report. We have gained assurance that the carrying value of assets in the audited annual accounts is in line with the internal valuer's report. In accordance with ISA (UK) 500 "Audit Evidence" we have considered the competence, capability and objectivity of the

Significant risk areas

professional valuer and did not identify any items which gave use cause for concern over the suitability of the valuer.

In the current year, the valuation report provides assurance that, whilst the pandemic continues to affect economies and global markets, property markets have started to function again and, as a result, the valuation as at 31 March 2021 is not subject to a material valuation uncertainty. This is consistent with the latest guidance issues by the Royal Institute of Chartered Surveyors (RICS). The valuer is satisfied that there is no evidence to suggest the valuation of assets as at 31 March 2020 is materially misstated.

Review of assumptions

We confirmed that the basis of valuation for assets is appropriate based on their usage and that the assumptions applied appear reasonable. Overall, the valuation movements were in line with our expectation.

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. A discount factor is applied to reflect the lower rent yield from social housing compared to market rates. A full revaluation exercise is completed every five years, with the last exercise undertaken in 2018/19.

In interim years the Council applies an uplift factor to the valuation of beacon properties based on growth in the housing sector and other key factors. The appropriateness of the discount factor is also considered. An uplift of 4.5% was applied in 2020/21 whilst the discount factor remained at 38%; both of which we deem to be reasonable based on the evidence available.

Other land and buildings are held at fair value and revalued as part of the five-year rolling programme. In addition, the valuer considers all material changes to assets, such as significant maintenance spend or a change in the condition of the property and makes an assessment as to whether a revaluation is necessary.

In 2020/21 a total of 559 valuations were completed, equating to 19% of asset records and over 30% of the portfolio by value. We reviewed the reasonableness of valuation assumptions applied and are satisfied that these are appropriate.

The Council has considered the potential for applying indexation to other land and buildings, using indices to reflect market changes in interim years between valuations. However, based on the professional judgement of the valuer it was deemed that this would

Significant risk areas

make valuations less accurate and oversimplify all the relevant factors that should be considered when determining a valuation. Hence, indexation has not been applied.

We deem this assessment to be reasonable. Indexation should only be applied where there is sufficient certainty that the indices used are comparable to the valuations being adjusted. The Council's portfolio of other land and buildings is so diverse that this cannot be guaranteed and as such there is a risk that indexation could result in inappropriate or inaccurate movements in valuation. We deem the Council's current approach of revaluing a proportion of the portfolio each year and considering all material changes to relevant assets to provide sufficient assurance that the valuation of other land and buildings is free from material misstatement as at 31 March.

Scope of the valuer's work

We considered the instructions and information provided to the valuer and performed procedures to confirm the accuracy and completeness of information. All property, plant and equipment required to be carried at fair value has been appropriately revalued as part of the five-year rolling programme.

However, some improvements are required in communication between the Finance team and the internal valuer to support timely and robust valuations.

We identified two assets where the valuation was not based on accurate or up-to-date information as a result of miscommunication between the Finance team and the valuer. The valuation of these two assets was revisited, resulting in a net decrease of £3.640million which has been adjusted for in the annual accounts.

The Council applies component accounting to land and buildings, with management estimating how the overall valuation should be allocated between each component. Whilst we are satisfied that the estimated allocation is free from material misstatement, going forward we encourage management to take a more collaborative approach, liaising with the valuer when making this estimate.

In addition, we noted a number of assets under construction that were prematurely valued by the valuer when Finance intended to continue holding the asset at cost within the annual accounts. Increased collaboration between both parties is required to support a more efficient and robust valuation exercise.

Action Plan Point 1

Significant risk areas

Impairment

The Council has further developed its procedures for assessing whether there has been an impairment to ensure this takes cognisance of a range of sources of information. This includes:

- Any changes in condition per the conditions surveys performed as part of the five year rolling programme;
- A review of the level of repairs and maintenance undertaken on each property;
- Confirmation from asset managers as to whether any assets have been damaged or demolished in year.

No indication of material impairment was identified, which is consistent with our testing. However we would encourage the Council to further develop its procedures by ensuring assets under construction are also subject to an impairment review.

Action Plan Point 2

Disclosure of estimation uncertainty

IAS 1 'Presentation of Financial Statements' requires entities to disclose assumptions made about the future and other major sources of estimation uncertainty, specifically those that present a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the next financial year. Disclosures should include the nature of the assumption or estimation uncertainty and the sensitivity of the carrying amounts to the methods, assumptions and estimates underlying their calculation.

The Council has identified the valuation of property, plant and equipment as a major source of estimation uncertainty. At our request, management have included further disclosures within the audited annual accounts on key assumptions made when determining the valuation of all assets held at fair value and their sensitivities.

Significant risk areas

5. Pension assumptions (significant accounting estimate)	
Significant risk description	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. There is a risk that the assumptions used are not appropriate. **Risk assessment: High**
How the scope of our audit responded to the significant risk	**Key judgements** A significant level of estimation is required in order to determine the valuation of pension assets/liabilities. Small changes in the key assumptions (including discount rates, inflation and mortality rates) can have a material impact on the pension asset/liability. **Audit procedures** • Review the controls in place to ensure that the data provided from the pension fund to the actuary is complete and accurate. • Review the reasonableness of the assumptions used in the calculation against other local government pension fund actuaries and other observable data. • Agree the disclosures in the financial statements to information provided by the actuary. • Consider the competence, capability and objectiveness of the management expert in line with ISA (UK) 500 Audit Evidence.
Key observations	Formal actuarial valuations are carried out every three years, where each employer's assets and liabilities (obligations) are calculated on a detailed funding basis, using individual member data, for cash contribution setting purposes. The 31 March 2020 formal valuations for Scottish LGPS Funds were concluded by 31 March 2021. The accounting balance sheet position as at 31 March 2021 is based on a roll forward from the 2020 formal valuation. This differs to the balance sheet position as at 31 March 2020 which was based on a roll forward from the 2017 formal valuation. This 'step change' can lead to sizeable asset and obligation 'remeasurement experience' items in the reconciliation of the balance sheet from 31 March 2020

Significant risk areas

	to 31 March 2021. Movements in price/salary increase assumptions and reductions in the discount rate as a result of reducing corporate bond rates also impact on the year end position. We reviewed the reasonableness of those assumptions used in the calculation against other local government pension fund actuaries and other observable data, with no issues identified. We reviewed the information in the actuarial report for completeness and accuracy against the published pension fund data. Our review identified the omission of early retirement data from the valuation report. An updated report was prepared and the annual accounts reflect the revised report. The net effect was an increase to the net pension liability of £2.084million. We have considered the competence, capability and objectivity of the actuary in line with the requirements of ISA (UK) 500 'Audit Evidence'. From this review we did not identify any items which gave us cause for concern over the suitability of the actuary.
6. Provisions for doubtful debts (significant accounting estimate)	
Significant risk description	The Council in its annual accounts provides for doubtful debts over sundry debtors and housing rent arrears. There is a significant degree of subjectivity in the measurement and valuation of provisions for doubtful debts. This subjectivity represents an increased risk of misstatement in the financial statements. **Risk assessment: High**
How the scope of our audit responded to the significant risk	**Key judgements** Given the financial pressures facing the public sector as a whole, there is an inherent fraud risk associated with the recording of provisions around the year end. **Audit procedures** • Review of management's estimation for the provisions and related disclosures.
Key observations	We are satisfied that the amounts recognised as a provisions for doubtful debts over sundry debtors and housing rent arrears appropriately reflect the expected recovery rate of debt over the next 12 months. This is based on a historical analysis of aged debt recovery within the Council.

Significant risk areas

	Whilst we deem the provision for doubtful debts to be free from material misstatement, we encourage the Council to continue to reflect on any significant changes in debt recovery rates when calculating this provision. **Action Plan Point 3**
7. Financial instruments (significant accounting estimate)	
Significant risk description	The Council maintains significant debt and investment portfolios. Financial assets classified as loans and receivables and all financial liabilities are carried in the balance sheet at amortised cost. The fair value of these is estimated by calculating the net present value of the remaining contractual cash flows using a number of methods and assumptions. **Risk assessment: High**
How the scope of our audit responded to the significant risk	**Key judgements** Fair values are categorised by their level in the fair value hierarchy: Level 1 – fair value is derived from quoted prices in active markets for identical assets or liabilities Level 2 – fair value is calculated from inputs other than quoted prices that are observable for the asset or liability Level 3 – fair value is determined using unobservable inputs For level 1 and level 2; the Council's valuations are supported by independent expert advice from its treasury management advisors; Arlingclose. For level 3, there is the potential for management to use their judgement to influence the financial statements. **Audit procedures** • Evaluate and review the controls in place over accounting for financial instruments. • Consider the Council's material financial instruments and obtain evidence that these have been appropriately valued at 31 March 2021 including challenging fair value classification. • Review management experts and external investment managers. • Review the disclosures within the annual accounts to ensure they are consistent with supporting information.

Significant risk areas

Key observations	**Level 1 / 2** Levels 1 and 2 comprise loans, including PWLB loans, and investments held within money market funds and local authority loans. For those loans and investments assessed as level 1/2 the Council's valuations are supported by expert advice from its treasury management advisors. We obtained evidence during our audit over the values assigned to those loans and investments and where appropriate third party confirmation over the values. **Level 3 – PPP liabilities** The Council has entered into significant financial contracts to build new schools and a residual waste treatment plant under 'Public Private Partnership' agreements. At 31 March 2021, the value of financial liabilities in relation to these projects was £294.236million. Valuations are based on a financial model prepared by management. We considered the appropriateness of the models, ensuring that the assumptions, inputs and disclosures are reasonable. We agreed the models to the underlying contract and third party operator models. We considered whether the models and resulting transactions were in line with accounting standards. We challenged changes to an operational model which resulted in the valuation of the liability being revisited and adjusted in the accounts. We gained reasonable assurance over the valuation of the PPP liabilities at year end and are satisfied that the liabilities are fairly stated in the financial statements.

Other risk factors

Other impacts of COVID-19 on the annual accounts

18. COVID-19 continues to present unprecedented challenges to the operation, financial management and governance of organisations, including public sector bodies. In response to the pandemic we identified potential areas of increased risk of material misstatement to the financial statements and/or our audit opinion. Our conclusions are set out in the table below.

Area considered	Description	Conclusion
Access to audit evidence	Our audit this year has been carried out remotely. As a consequence, we identified a risk that access to and provision of sufficient, appropriate audit evidence in support of our audit opinion may be impacted by the inherent nature of carrying out our audit remotely.	We have employed a greater use of technology to examine evidence, but only where we have assessed both the sufficiency and appropriateness of the audit evidence produced. We stayed in close contact with Council officers to ensure all relevant issues were satisfactorily addressed.
Timescales / administrative processes	The pre COVID-19 deadline was 30 September and the provisional deadline for 2020/21 was 31 October. The Scottish Government amended the accounts regulations to require the 2020/21 annual accounts to be signed off by 31 October (amended from 30 September) and published by 15 November (amended from 31 October). However, the provision of the Coronavirus (Scotland) Act 2020 (which permitted bodies to delay publication of the 2019/20 accounts until reasonably practicable) have been extended. 'Reasonably practicable' was considered to be 30 November and this date is considered appropriate for 2020/21. The extension of the Act also allows flexibility over the date (usually 30 June) for the unaudited accounts.	The annual accounts are due to be considered by the Finance and Resources Committee on 18 November 2021 and therefore are in line with the revised timescales.

Significant trading operations (STO)

19. Local authorities have a duty under section 10 of the Local Government in Scotland Act 2003 to maintain and disclose trading accounts for Significant Trading Operations.

20. The Council has in previous years classified and reported its Edinburgh Catering Services – Other Catering as a significant trading operation.

21. During the year, the Council reviewed whether this trading account should continue to be classified as a significant trading operation. As a result of the pandemic and the move to home working, the trading operation has been unable to trade. As a result of its review, the Council concluded that the Edinburgh Catering Services – Other Catering was no longer a significant trading operation. This 'declassification' took effect from 1 April 2020.

22. We have reviewed the basis / justification for the reclassification of its trading operation and concluded that the assessment reasonable and appropriate.

Change in accounting policy – capitalisation of interest costs

23. During the year, the Finance and Resources Committee approved a change to the Council's accounting policy to allow interest to be capitalised under specific circumstances for expenditure on qualifying assets.

24. Interest costs were retrospectively capitalised in 2019/20 for the Trams to Newhaven project, with the changes reflected in the annual accounts.

25. We reviewed the accounting treatment and disclosures in the annual accounts and concluded that they complied with the relevant accounting standards. The overall impact on the prior year accounts was the capitalisation of £1.234million of interest costs.

Coronavirus Job Retention Scheme

26. The Coronavirus Job Retention Scheme is a UK wide scheme, managed by the UK Government. Only organisations that are not fully funded by public grants can consider accessing the scheme. However public bodies which rely extensively on commercial income can apply to access it.

27. The Council undertook an assessment in year and concluded that staff working in its outdoor centres, non-school catering services and the culture sector would be able to access the scheme.

28. In 2020/21, furlough claims to HMRC totalling £0.986million were submitted in respect of staff working in the Council's outdoor centres, non-school catering services and Culture employees. As the value of claims was below our performance materiality threshold we did not undertake sample testing on the validity of those claims.

COVID-19 funding streams

29. In response to the pandemic, the Scottish Government provided a range of COVID-19 support funding streams. A key consideration for the Council in 2020/21 was determining whether the Council acted as principal (acting on its own behalf) or as an agent (acting as an intermediary) when administering the receipt and payment of these funding streams. This assessment impacted on the accounting treatment in the annual

accounts whereby principal transactions are recognised in the Comprehensive Income and Expenditure Statement and agent transactions are disclosed in the annual accounts but not accounted for in the core financial statements.

30. During 2020/21, the Council received and accounted for the following COVID-19 funding streams:

	£m
Principal	145.384
Agent	213.473

31. As part of our audit; we reviewed the Council's classification of these funding streams against guidance issued to local authorities. We considered the completeness, existence and associated accounting treatment / disclosures. Through our audit testing we identified one funding stream which had been accounted for as a principal funding stream where the Council was acting as an agent (£162,000). The annual accounts were updated to reflect the correct accounting treatment.

Common Good

32. 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.

33. The Common Good Fund stands separately from the Council's annual accounts and has been described as "the ancient patrimony of the community".

34. During 2020/21, a surplus of £3,000 was reported on the common good fund. Overall useable common good funds stood at £2.669million as at 31 March 2021.

35. 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.

36. Since this earmarked fund was created in 2016, £123,000 has been used on the Scott Monument, £33,000 on surveys at the City Observatory, £8,600 on Queensferry Harbour, £12,600 on Portobello Municipal Clock and £16,400 on Queensferry Harbour.

37. During our 2020/21 audit of the Common Good fund annual accounts, we noted the following:

Common Good income & expenditure

38. The common good fund comprehensive income and expenditure statement reports a full disclosure of the income and expenditure which relates to the common good fund. Property costs expenditure for the period totalled £2.983million which has been offset by rental income for the period of £0.271million. In order to achieve a "breakeven position" on property costs, the Council has offset the expenditure with an income recharge from the Council of £2.566million and capital funding of £142,000.

39. As part of the planning and fieldwork stages of the audit we identified all

accounting estimates made by management and determined which were key to the common good fund. We identified expenditure recognition as a key area where management use estimates.

40. Our audit work consisted of reviewing the keys areas for any indication of bias and assessing whether the judgements used by management are reasonable.

41. While we gained reasonable assurance that expenditure was materially appropriate, we identified areas for improvements. Estimates for expenditure on parks and other green spaces did not take into account all relevant assets. We recommend that going forward, the process is reviewed to ensure that estimates are based on appropriate and complete data.

Action plan point 4

Common Good Asset Registers

42. Local Authorities have a statutory responsibility, per Part 8 of the Community Empowerment (Scotland) Act 2015, to establish, maintain and publish a register of all property held by them for the common good. The Council has met all statutory deadlines set by this act in the establishment, consultation and publication of a common good register.

43. As part of audit work in 2019/20, we confirmed the completeness of the Common Good annual accounts by comparing the published common good register to the asset register ("accounting asset register") used to prepare the accounts. We identified five assets which were on the published register but not included in the accounting asset register and a further four which were included in the accounting asset register but not on the published register.

44. In 2020/21, we followed up on these identified items and found a further item which had been included on the published register but not on the accounting register. The items identified previously remain unactioned.

45. We reviewed the requirements of the Community Empowerment (Scotland) Act 2015 along with related Scottish Ministerial guidance. We noted that the requirement to provide, consider and respond to representations within twelve weeks has not been met on a number of occasions. There is also no timetable of when cases will be looked at by the local authority.

Estimates and judgements

46. We are satisfied with the appropriateness of the accounting estimates and judgements used in the preparation of the financial statements.

47. As part of the planning and fieldwork stages of the audit we identified all accounting estimates made by management and determined which of those were key to the overall financial statements. Consideration was given to asset valuations, pension assumptions, impairment, depreciation and amortisation rates, provisions for legal obligations and doubtful debts, financial instruments and accruals. Other than asset valuations, pension assumptions, provisions for doubtful debts and financial instruments, we have not determined the accounting estimates to be significant. We revisited our assessment during the fieldwork and completion stages of our

audit and concluded that our assessment remained appropriate.

48. Our audit work consisted of reviewing these keys areas for any indication of bias and assessing whether the judgements used by management are reasonable. We have summarised our assessment of this below, categorised between Prudent, Balanced and Optimistic.

Estimates and judgements	
Asset valuation	Balanced
Valuations are undertaken internally on a five year rolling programme. 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 experts was appropriate. We considered key assumptions against other sources of evidence. While we have not identified any indication that the asset valuation as at 31 March 2021 is not materially appropriate, challenges to valuations resulted in a net decrease of £3.640 million to the carrying amount of fixed assets which has been reflected in the annual accounts.	
Pension Assumptions	Balanced
Management consider the present value of retirement obligations on an annual basis. The valuation is carried out by the actuarial firm Hymans Robertson. We considered key assumptions against other sources of evidence and did not identify any indication that the valuation was materially misstated as at 31 March 2021. The assumptions of the actuary, Hymans Robertson, were within our expected range. The assumptions were predominantly in the middle of our expected range with the exception of the discount rate which, while within our expected range, is considered to be on the prudent end of the scale.	
Provisions for doubtful debts	Balanced
There is a significant degree of subjectivity in the measurement and valuation of provisions for doubtful debts. We considered key assumptions and are satisfied that these are reflective of debt recovery rates across the Council.	
Financial instruments	Balanced
For financial instruments assessed under the fair value hierarchy as level 1 or level 2; the Council's valuations are supported by independent expert advice from its treasury management advisors; Arlingclose. 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 experts was appropriate.	

Materiality

49. Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. A matter is material if its omission or misstatement would reasonably influence the decisions of an addressee of the auditor's report. The assessment of what is material is a matter of professional judgement and is affected by our assessment of the risk profile of the organisation and the needs of users. We review our assessment of materiality throughout the audit.

50. Our initial assessment of materiality for the group annual accounts was £22.3million and for the Council single entity annual accounts £20.3million. On receipt of the unaudited annual accounts, we reassessed materiality and revised it as detailed in the table below. We consider that our updated assessment has remained appropriate throughout our audit.

Materiality

	Group	Council		
Overall materiality	£22.5million	£20.8million	100%	Accounts materially misstated where total errors exceed this value
Performance materiality	£16.875million	£15.6million	75%	Work performed to capture individual errors at this level
Trivial threshold	£250,000	£250,000		All errors greater than this level are reported

Materiality

Our assessment is made with reference to the group and Council's gross expenditure. We consider this to be the principal consideration for users of the annual accounts when assessing financial performance of the Council and its group.

Our assessment of materiality equates to approximately 1% of gross expenditure as disclosed in the 2020/21 unaudited annual accounts.

We apply a lower level of materiality to the audit of the Remuneration Report. Our materiality is set at £5,000.

Performance materiality	Performance materiality is the working level of materiality used throughout the audit. We use performance materiality to determine the nature, timing and extent of audit procedures carried out. We perform audit procedures on all transactions, or groups of transactions, and balances that exceed our performance materiality. This means that we perform a greater level of testing on the areas deemed to be at significant risk of material misstatement. Performance materiality is set at a value less than overall materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of the uncorrected and undetected misstatements exceed overall materiality.
Trivial misstatements	Clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

Group audit

51. 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.

52. As group auditors under ISA (UK) 600 we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and regarding the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework. The following table sets out the components within the group.

Component	Significant	Level of response required
City of Edinburgh Council	Yes	Comprehensive
Transport for Edinburgh	Yes	Comprehensive
Edinburgh Living MMR LLP	Yes	Comprehensive
CEC Holdings Limited	No	Analytical
Edinburgh Leisure	No	Analytical
Capital Theatres	No	Analytical
Lothian Valuation Joint Board	No	Analytical
Common Good	No	Analytical
Edinburgh Integration Joint Board	No	Analytical

Comprehensive The component is of such significance to the group as a whole that an audit of the components financial statements is required for group reporting purposes. Azets is the appointed auditor to all significant components.

Analytical The component is not significant to the Group and audit risks can be addressed sufficiently by applying analytical procedures at the Group level.

53. As part of our audit we reviewed the consolidation entries made within the group accounts and confirmed those entries back to the financial statements of the group bodies.

54. The Code sets out that the financial statements of all entities within the group accounts are required to be prepared to the same date. Where entities within the group do not have the same year-end as the Council, either additional financial statements should be prepared or where this is impracticable, the financial statements should be adjusted for the effects of significant transactions and events that occur between the two dates.

55. In 2020/21, an adjustment was made to the Council's group accounts for net pension liabilities as reported by Transport for Edinburgh (whose financial statements are prepared to 31 December). The overall impact was an decrease in net pension liabilities of £43.009million; resulting in an overall net pension asset position for Transport for Edinburgh.

56. The audited annual accounts also include the following prior year adjustments as they relate to the group bodies:

- Transport for Edinburgh – An adjustment to reflect the acquisition of B shares after the year end date of 31 December;
- Edinburgh Living MMR LLP – adjustment in respect of grant funding towards the costs of acquiring properties being recognised as deferred income;

- CEC Holdings – adjustment to align accounting policies in respect of leases;
- Lothian Valuation Joint Board – deferred Individual Electoral Registration grant funding has been restated and recognised as income in the annual accounts.

57. Overall, we concluded that the results of the group bodies had been appropriately consolidated into the Council's audited group accounts.

58. As part of our audit planning process we assess the group, for the purposes of approach to the audit of the group. As set out in our External Audit Plan we deemed the following subsidiaries to be significant in the context of the group audit:

- Transport for Edinburgh; and
- Edinburgh Living MMR LLP.

59. We revisited our assessment, following receipt of the unaudited accounts and our assessment remained the same.

60. In preparing the annual accounts, the Council makes an assessment as to whether those bodies to be consolidated are classified as a subsidiary, associate or joint venture. Entities which the council controls should be treated as subsidiaries. The Code of Accounting Practice sets out three aspects of control including:

- Power over an entity
- Exposure, or rights, to variable returns from involvement with the entity
- Ability to use power over the entity to affect the amount of returns

61. Further to this; information on assessing control is provided in IFRS10,11 and 12.

62. Edinburgh Leisure is accounted for as an associate within the group accounts. Due to the current environment, and the support provided by the Council to its arm's length external organisations in year, particularly Edinburgh Leisure we would encourage the Council to review and update its assessment of its group bodies.

63. We note for 2020/21 that the financial results for Edinburgh Leisure, should it have been accounted for as a subsidiary, would not have had a material impact on the Council's group accounts.

64. Azets is also the appointed auditor to Transport for Edinburgh and Edinburgh Living MMR LLP. During our audit we liaised with the audit engagement teams to confirm that their programmes of work were adequate for our purposes.

65. 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.

Audit differences

66. Audit differences, both adjusted and unadjusted, we identified during the audit have been detailed in Appendix 2.

67. All misstatements identified during our audit have been adjusted for in the annual accounts.

68. We also identified disclosure and presentational adjustments during our audit, which have been reflected in the final set of annual accounts and are also disclosed in Appendix 2.

Internal controls

69. As part of our work we considered internal controls relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Council. These matters are limited to those which we have concluded are of sufficient importance to merit being reported.

Area	Assessment	Comment
Control and process environment	**Satisfactory – although scope for improvement**	We consider the control environment within the entity to be satisfactory although there is scope for improvement. Our assessment has taken into account Internal Audit's annual audit opinion. Internal audit's overall opinion was that "*significant improvement was required as significant and / or numerous control weaknesses were identified, in the design and / or effectiveness of the control environment and / or governance and risk management frameworks".* Consequently, only limited assurance could be provided that risks were being managed and that the Council's objectives should be achieved. We have noted suggestions on possible process improvements as documented at Appendix 4.
Quality of supporting schedules	**Satisfactory**	We received unaudited annual accounts and supporting papers of a high standard, in line with our agreed audit timetable.
Responses to audit queries	**Satisfactory**	Management's responses to our audit queries were appropriate and received on a timely basis.

Follow up of prior year recommendations

70. We followed up on progress in implementing actions raised in the prior year as they relate to the audit of the financial statements. Full details of our findings are included in Appendix 5.

Other communications

Accounting policies, presentation and disclosures

71. Our work included a review of the adequacy of disclosures in the financial statements and consideration of the appropriateness of the accounting policies adopted by the Council.

72. The accounting policies, which are disclosed in the annual accounts, are considered appropriate.

73. There are no significant financial statements 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.

74. Overall we found the disclosed accounting policies, and the overall disclosures and presentation to be appropriate.

Fraud and suspected fraud

75. We have previously discussed the risk of fraud with management. We have not been made aware of any incidents in the period nor have any incidents come to our attention as a result of our audit testing

76. Our work as auditor is not intended to identify any instances of fraud of a non-material nature and should not be relied upon for this purpose.

Non-compliance with laws and regulations

77. As part of our standard audit testing, we have reviewed the laws and regulations impacting the Council. There are no indications from this work of any significant incidences of non-compliance or material breaches of laws and regulations that would necessitate a provision or contingent liability.

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[1] as they relate to the annual accounts.

79. The Scottish Government included in its Finance Circular 10/2020 guidance on the publication and inspection of the unaudited annual accounts as a result of the COVID-19 pandemic.

80. Overall we concluded that appropriate arrangements were in place to comply with the Regulations and the guidance as set out in Finance Circular 10/2020.

81. We received two submissions in relation to the annual accounts in 2020/21. One submission did not constitute a valid objection to the accounts, as the issues raised did not relate to material misstatements in the accounts due to incorrect recognition, measurement, presentation, disclosure or illegality. The other submission related to Lauriston Charitable Trust and did contain elements that constituted a valid objection. The issue raised related to

[1] 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.

the City of Edinburgh Council's contribution towards meeting the costs of Lauriston Castle not being included within the Lauriston Charitable Trust unaudited accounts. We upheld this objection and the Lauriston Castle Charitable Trust accounts now reflect in 2020/21 a net contribution of £202k representing expenditure met by the Council. The 2019/20 comparative has also been restated to reflect a £229k net contribution from the Council.

Written representations

82. We will present the final letter of representation to the Service Director: Finance and Procurement (section 95 officer) to sign at the same time as the financial statements are approved.

Related parties

83. We are not aware of any related party transactions which have not been disclosed.

Confirmations from third parties

84. All requested third party confirmations have been received.

Best Value

Appointed auditors have a duty to be satisfied that local government bodies have made proper arrangements to secure best value.

A Best Value review was undertaken on the City of Edinburgh Council in 2020. The Best Value Assurance Report (BVAR) includes recommendations to help the Council address the improvement areas identified during the audit.

We have considered progress made by the Council in implementing the recommendations made in the BVAR.

Auditor judgement

Overall, progress has been made against all of the recommendations. Agreed approaches to addressing the recommendations and many of the overarching strategies have been confirmed. It is now important that further detailed work is completed to support these agreed approaches.

Best Value Assurance report follow-up

85. The Best Value Assurance Report on the City of Edinburgh Council was published in November 2020 following consideration by the Accounts Commission. The Commission's findings were that the City of Edinburgh Council is an ambitious council that needs to do more to maximise its potential. The Commission considered that more momentum was needed to demonstrate and embed a culture of continuous improvement. Although services continued to perform relatively well the council needed to better articulate and deliver its ambition by providing clearer priorities and direction and to ensure better reporting of performance against objectives.

86. The Commission considered that while the Council has had a good record in managing its finances, it needed a longer-term financial plan to show how it would address future pressures. This also needed to be supported with more effective workforce planning, an area where the council's progress had not been satisfactory.

87. The Commission also expressed concern about the effect of COVID-19 on the inequalities experienced by some communities. It encouraged the Council to continue its work to progress the commitments arising from the work of Edinburgh's Poverty Commission and to better reflect how it would empower communities in improving community outcomes and public services.

The Council's response

88. The Best Value Assurance Report was submitted to the Council's Policy and Sustainability Committee, Governance Risk and Best Value Committee and full Council in December 2020. Members noted the findings and provided feedback on priority areas for improvement. They also noted that the improvement actions arising from the report would be addressed in the Council's refreshed Business Plan and specifically requested further consideration of genuine local community empowerment. The Council Business Plan: Our Future Council, Our Future City was published on 27 January 2021.

89. An action plan was drawn up to address the main recommendations included in the report and subsequent reports on progress against the action plan were submitted to the Policy and Sustainability Committee in February, April and October 2021. These update reports include progress reports from the Edinburgh Partnership.

90. Appendix 1 to this report shows a summary of the Council's progress against the main recommendations made along with the audit assessment of this progress. Overall, progress has been made against all of the recommendations. Agreed approaches to addressing the recommendations and many of the overarching strategies have been confirmed. It is now important that further detailed work is completed to support these agreed approaches. In particular we would highlight the following areas which the Council should prioritise:

- Develop detailed savings plans to address the significant funding

gaps identified in the medium-term financial plan.

- Develop detailed workforce plans for service teams to support the strategic workforce plan.
- Develop annual service plans for directorates and teams that support the delivery of key performance targets. Targets should be set for all KPIs agreed within the new Planning and Performance Framework.
- Continue to progress approved Community Asset Transfer requests as a matter of priority.
- Progress the framework drawn up for collaboration with community councils and ensure this delivers the real involvement of community representatives in delivering community outcomes.

Action plan point 6

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 and the way in which they should be delivered.

Auditor judgement

A medium-term financial framework covering the period to 2026/27 has been developed. Whilst the 2021/22 revenue budget is forecast to show a balanced position, the medium-term framework identifies significant funding gaps facing the Council in future years. The Council should take steps now to ensure that work has commenced on the areas and initiatives services are required to deliver to address the shortfalls identified.

Significant audit risk

91. Our audit plan identified a significant risk in relation to financial sustainability under our wider scope responsibilities:

Financial sustainability
The Council's Business Plan and budget for 2021/22 were approved by Council in February 2021, subject to approval of the Scottish Government's budget and UK budget announcements in March 2021. The Council approved a balanced budget for 2021/22, a five-year revenue forecast projection and a 10 year capital budget strategy. Council tax was frozen for 2021/22. In October 2020 a review was undertaken of the Council's underlying planning assumptions and previously approved savings for both 2021/22 and 2022/23 to determine where corresponding adjustments may be required. The results of this review were considered by the Finance and Resources Committee on 29 October and pointed to a need to identify further savings of at least £16.1million in 2021/22, with an additional £5.6million of savings also required in 2022/23. The paper presented to Council in February 2021 noted that savings of £18.661million would be required in 2021/22 and c. £95million over the four years commencing 2022/23 prior to consideration of new savings and financial flexibilities. The approved budget assumes that the Council will utilise financial flexibility whereby the payment of the principal element of the planned loans fund repayment in 2021/22 will be deferred until 2022/23. This enabled the Council to approve a balanced budget for 2021/22; reducing the savings gap by £18million. The application of the financial flexibilities does however impact on subsequent years. The revised forecast position over the four years commencing 2022/23 is c.£112.7million. Update reports on the financial position are regularly reported to Committee. Provision for the anticipated recurring financial impacts of the pandemic total £23million in 2021/22, reducing to £21million in 2022/23 and continuing at that level thereafter. The Council has noted however there is a risk that the net pressure on the budget, after taking account of any additional COVID-related funding included within the Local Government Finance Settlement, is higher than that assumed. On that basis, the Council, in addition to optimising the level of financial flexibilities available to spread the pandemic expenditure and income impacts over a longer period, reprioritised its earmarked reserves to create a specific COVID mitigation reserve. In response to the BVAR, the Council has reviewed its reserves policy. The Council's reserves as of 31 March 2021 are expected to comprise four main elements: • an increased unallocated General Fund balance of £25million, equating to around 2.3% of the Council's net expenditure and being more in line with other authorities in Scotland;

Financial sustainability

- a series of ringfenced reserves maintained for statutory or specific policy reasons or to reflect timing differences between the receipt of income and its subsequent application;
- a workforce transformation reserve; and
- a COVID contingency reserve, acknowledging the continuing uncertainty of the recurring impacts of the pandemic on, in particular, income levels in key areas such as parking, commercial rentals and other fees and charges.

Noted in the 2020/21 External Audit Plan (March 2021)

92. Our detailed findings on the Council's financial framework for achieving long term financial sustainability are set out below.

2021/22 financial plans

93. In February 2021 the Council set a balanced one-year revenue budget for 2021/22. The budget included provision for £23million of COVID-19 related impacts, the majority of which was funded on a short-term basis through application of loans charge repayment flexibility. This flexibility was granted by the Scottish Government so that councils could take a loans fund principal repayment "holiday" in 2021/22, with the amount of this repayment being added to the term of the remaining loans fund advance.

94. At the time the budget was set, further financial COVID related impacts were anticipated for future years and as a result a specific COVID contingency reserve was established.

95. The Executive Director of Corporate Services reported in October 2021 that a balanced overall revenue budget continued to be forecast although there were considerable uncertainties over the continuing impact of the pandemic on the Council and its ALEOs. COVID-related costs expected for 2021/22 have been updated and are now forecast for the year as follows:

Area of expenditure /income loss	£m
Reduction in parking income	8
Reduction in commercial rental income	5
Loss of Lothian Buses dividend	6
Support for Edinburgh Leisure	6
Support for other ALEOs	1
Personal Protective Equipment costs	1
Homelessness	5
Other income loss e.g. cultural venues and additional costs e.g. staffing costs for waste and cleansing and processing support payments	7
Total 2021/22 estimated costs related to COVID	**39**

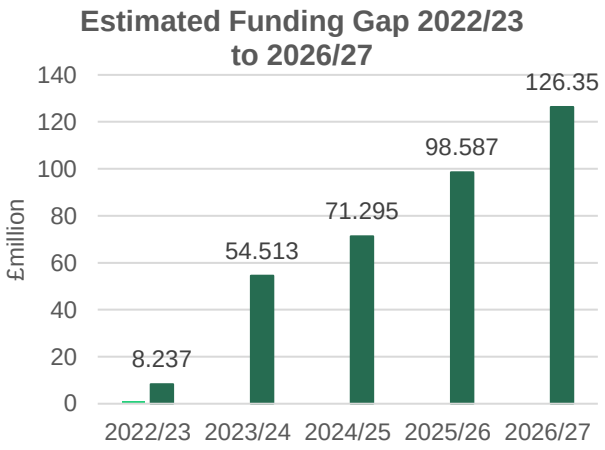
96. In 2021/22 the on-going costs of COVID-19 are estimated to be £39million with a further £25million estimated for 2022/23 and £11million in 2023/24. This represents a total estimated cost to the Council related to COVID-19 in the period to 2023/24 of over £152million. Against this the Council has received support from the Scottish Government to date of £121.3million.

97. Whilst overall, the 2021/22 budget is on track to be delivered with unmet savings being off-set by favourable variances identified in loans charges, a significant risk is identified in relation to local government employees pay negotiations for 2021/22 which have not yet been concluded. Provision was made in the budget for a 2% increase but an offer broadly aligned to this level of provision has been rejected by the Unions. Any increase to the provision would add significantly to the savings required. In addition, back-dating of an agreed pay award would also add to the cost pressures faced by the Council .

Medium term financial planning

98. As part of the Council's response to its Best Value Assurance Report (BVAR), a medium-term financial framework covering the period to 2026/27 has been developed. Whilst the 2021/22 revenue budget is forecast to show a

balanced position, the medium-term framework identifies significant funding gaps facing the Council in future years.



99. This amounts to an accumulated funding gap over the five years to 2026/27 of £359million. The assumptions behind this financial assessment include increases due to pay awards, inflation, demographic increases and assumptions around increases in council tax and government funding.

100. These assumptions will be refined over time as greater certainty is gained.

101. The medium term financial framework identifies significant funding gaps. Whilst the savings requirement for 2022/23 is fairly modest in relation to the Council's net budget, from 2023/24 the impact of increases to payroll and general inflation means the savings requirements grow substantially each year. The Council should take steps now to ensure that work has commenced on the areas and initiatives services are required to deliver to address the shortfalls identified.

Capital plans

102. A Sustainable Capital Budget Strategy 2021-2031 covering General Fund expenditure was approved by the Council in 2021. This reflected capital investment of £1,492.5million over the 10 years to 2031. Further work was undertaken to identify a funding shortfall but in October 2021 it was reported that this shortfall had been addressed and the capital budget was now fully funded.

103. The budget aligns with the Council Business Plan and includes significant investment in new primary and secondary schools (£361million), roads and transport, including completion of works on North Bridge (£204million), the Tramline to Newhaven (£127million), asset management works (£224million) and lending to Edinburgh Living LLP for new house building (£210million). This will be financed principally by capital grants (£483million) and loans fund borrowing (£604million) with other funding coming from asset sales, developer contributions, specific grants and revenue funding.

104. The capital plan is ambitious but is subject to significant risk given the increased financial pressures caused by COVID -19 and rising construction costs. In addition, as noted above whilst the revenue budget remains unbalanced over the first 5 years of the capital budget strategy there remain uncertainties over the affordability of the capital plan.

Housing Revenue Account

105. The financial framework underpinning revenue and capital decisions on the Housing Revenue Account is the HRA

Business Plan 2021/22- 2050/51. A 10 year capital plan totalling £2.8billion of investment was approved in 2021 and includes funding to achieve the Council's commitment to build at least 20,000 social and affordable homes over the first 5 year period. The capital plan also includes commitments to retrofit houses where the Council is a landlord to meet energy efficiency and sustainability objectives. The funding for this £2.8billion of investment is to come from capital receipts, prudential borrowing and Scottish Government subsidy for new social rented homes. Members agreed to a freeze on housing rents for 2021/22. Cost efficiencies of 12% are also to be delivered in line with the Business Plan.

EU withdrawal

Risk management

106. Detailed work had been undertaken to manage the risks associated with the UK's withdrawal from the EU. Mitigating actions were identified and implemented by the relevant services in regard to these risks. The Council's response to COVID-19, however, has taken priority over the last year. While there has not been a significant change in circumstances in regard to the exit from the EU for the Council to respond to, the Corporate Leadership Team has been updated on how the risks are being managed. The Brexit Resilience Working Group which is a sub-group of the Council Resilience Group met to review the risk register and identify whether any further changes are recommended.

107. The Brexit Risk Register was created in response to a no-deal EU Exit. It was therefore agreed by the Chief Executive that Brexit risks would transfer to directorate risk registers, as appropriate, and that the Brexit Risk register (last agreed by CLT on 18 December 2020) as a 'standalone' would cease.

108. With supply chain issues being identified as the most likely ongoing risk, such issues come through Directorate SMTs/Incident MTs and Risk Committees, with Commercial and Procurement Services providing guidance and support.

109. Prior to this, detailed work had been collated by Resilience in order for services to manage the risks associated with the UK's withdrawal from the EU. Mitigating actions were identified and implemented by the relevant services. The Brexit Resilience Working Group has been disbanded and post-Brexit supply chain issues may be raised at the Council Resilience (main) Group with procurement specialists invited to attend on an ad-hoc basis, where appropriate.

Workforce

110. The Council continues to monitor the number of EU/EEA nationals employed across the organisation and can produce data at departmental, service and job title level. Until 30 June 2021 no additional Right to Work evidence was required from EU/EEA nationals joining the organisation and the Council did not have to record settled/pre-settled status before this date.

111. In terms of vacancies, the recruitment market is extremely difficult across a wide range of sectors and the Council's main recruitment partner has confirmed this is not limited to The City of Edinburgh Council/Public Sector but

includes private sector organisations as well. There is currently no Council data to assess if this is the impact of Brexit, the pandemic, or a combination of both.

Procurement

112. The Council is managing multiple requests for price increases from existing and newly-awarded contracts due to material cost increase and container/haulage increases. Some suppliers are suffering manufacturing delays in the UK due to delays in parts arriving into the country. ICT, vehicles and technical products are all affected by mineral shortages due to demand for microchips. There is currently a six-month lead time for laptops and many vehicles and electronic products.

113. Many suppliers to the Council are reviewing and changing import routes based on container processing delays at the ports. This often leads to increased lead times or changes to the product or brand and can lead to additional validity checks before products are distributed across services areas. These situations also apply to suppliers on national frameworks where partners are performing the same checks and implementing price variations which the Council has to accept.

Financial management

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

Auditor judgement

The Council has appropriate arrangements in place for financial management and the use of resources.

The Council reported a surplus outturn position in 2020/21. The surplus was achieved after additional transfers to reserves from the receipt of COVID-19 funding late in 2020/21. The Council has earmarked £101million in reserves to off-set future specific or unknown COVID-19 costs. 82% of approved savings were delivered.

The Council has reviewed its reserve policy, increasing the size of the unallocated general fund reserve from £13million to £25million.

Around 94% of the revised general fund capital programme and 62% of the revised HRA capital programme was delivered in 2020/21.

Financial performance

114. The 2020/21 Comprehensive Income and Expenditure Statement shows that the Council spent a total of over £2billion on the provision of public services and recorded an accounting surplus on the provision of services of £80.733million. The accounting surplus 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.

115. 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 an increase of £99.687million to £221.033million. In total, cash backed (useable) reserves held by the Council increased by £131.395million in the year to £359.875million.

Movement in the Council's useable reserves per the Annual Accounts 2020/21

	2019/20 £million	2020/21 £million	Movement £million
General Fund	121.346	221.033	99.687
Housing Revenue Account	0	0	0
Renewal and Repairs Fund	29.748	41.162	11.414
Capital Fund	48.934	49.731	0.797
Capital Grants Unapplied Account	28.452	47.949	19.497
Total useable reserves	**228.480**	**359.875**	**131.395**

116. The significant increase in General Fund reserves is due primarily to the receipt of COVID funding in the last quarter of the financial year which included funding for 2021/22.

117. Following the Best Value Assurance Report, as part of its budget strategy, a detailed review of the Council's reserves was undertaken, increasing the size of the unallocated general reserve from £13million to £25million in 2020/21 equivalent to 2.127% of annual net budgeted expenditure. Unallocated General Fund Reserves are held to cover unforeseen circumstances and the increase from

the previous level of 1.37% of annual net budgeted expenditure brings the Council more in line with other Scottish local authorities.

118. Other elements of the General Fund include balances set aside to manage specific financial risks or for specific investment in the future together with income received in advance. Details of the make-up of these balances are shown in note 12 to the annual accounts.

Revenue performance against budget

119. The final outturn position on the General Fund for 2020/21 shows a surplus of £7.92million compared with a break-even budget. This surplus is carried forward to 2021/22 to meet a number of agreed initiatives. The surplus represents a combination of favourable movements in service outturns (£3.1million) and additional Council Tax income (£4.8million).

120. The surplus achieved is after additional transfers to reserves of £39.195million representing COVID related funding received late in 2020/21 to be applied against COVID costs in 2021/22 and subsequent years. This together with other earmarked and non-specific COVID relating funding carried forward to be applied to future years means that the Council has £101million in reserves at March 2021 to off-set future specific or unknown COVID costs.

121. The approved 2020/21 budget was predicated on the delivery of £29.5million of directorate-specific and corporate savings. 82% of approved savings by value were actually delivered. This represents an improvement on previous years – 2019/20: 77%, 2018/19: 60%.

Housing revenue account (HRA)

122. The balance on the HRA is nil. In line with the HRA Business Plan, at the end of 2020/21 the HRA was balanced after making a contribution totalling £11.103million towards in-year capital investment and the Strategic Housing Investment Fund.

COVID-19 costs

123. In 2019/20 the impact of COVID-19 was felt late in the financial year but there was a cost (including loss of income) of £8.4million. In 2020/21 total COVID related costs including loss of income amounted to £69.0million. A breakdown of these costs is shown below.

COVID related expenditure/(loss of income)	£m
Loss of parking income	12.3
Temporary accommodation	8.8
Reduction in commercial rental income	7.1
Loss of Lothian Buses dividend	6.0
Additional waste and cleansing costs	4.0
ALEO support -Edinburgh Leisure	3.0
ALEO support – Edinburgh Trams	6.0
Loss of income cultural venues	3.5
Free school meals and wider food support	2.9
Additional costs relating to prioritisation of repairs (General Fund)	2.2
Other costs including reduction in parking fines, reduction in council tax and outdoor centres income, reduction in planning fees and additional agency costs to cover staff absences	13.2
Total COVID costs 20/21	**69.0**

Capital expenditure

124. During 2020/21, the Council reported total capital expenditure of £347million; of which £306million was general fund expenditure and £41million was housing revenue account (HRA) expenditure. In so doing the Council delivered on 94% of its revised general fund capital programme and 62% of its HRA revised capital programme. The slippage was caused by the impact of the COVID-19 lockdown in the winter as well as land acquisitions not proceeding as planned.

125. Projects contributing to the slippage on the general fund capital programme include:

- New South Edinburgh Primary School, Darroch refurbishment and rising school rolls projects
- Energy efficiency street lighting, fleet replacement and the town centre projects
- National Housing Trust (NHT)
- Edinburgh Living LLPs
- Trams to Newhaven

126. Projects contributing to the slippage on the housing revenue account capital programme were:

- Land acquisition of Liberton Hospital
- Improvements to council houses

Treasury management

127. The Council increased its borrowing in 2021 by £70million of which £10million was from PWLB and £60million from the market. The Council's debt outstanding increased during the year due to the new borrowing, but at 31 March 2021 remained £134million below its Capital Financing Requirement.

128. Borrowing was undertaken during 2020/21 for the following:

- £60million as part of the Growth Accelerator Model (GAM) to support the Edinburgh St James Centre redevelopment. The GAM is a funding mechanism that allows borrowing costs to be off-set by performance-related payments from the Scottish Government linked to the achievement of targets relating to the rateable value of the centre and surrounding areas by new income streams – primarily Non-Domestic Rate Income. Under the GAM agreement payment of the amounts to the developer was due when practical completion certificates had been issued and where at least 50% of the retail and leisure element on which NDR is payable was open for trading. Whilst the 50% threshold test has been met statements of practical completion have not been issued in relation to the cinema and only interim certificates in relation to the other growth assets. The Council therefore withheld £5million from the amounts paid in September 2021 to ensure that all aspects of the GAM assets were completed.
- In 2019 the Scottish Government made lending available to local authorities at a reduced interest rate for infrastructure projects. The Council applied and was awarded £2million in 2019/20 and £10million in 2020/21.

Systems of internal control

129. We have evaluated the Council's key financial systems and internal financial controls to ensure internal controls are operating effectively to safeguard public assets.

130. We did not identify any significant weaknesses in Council's accounting and internal control systems during our audit.

Prevention and detection of fraud and irregularity

131. We found the Council's arrangements for the prevention and detection of fraud and other irregularities to be sufficient and appropriate. The Council has continued to operate an

appropriate control environment throughout the pandemic to ensure that those controls and procedures which prevent fraud have been appropriately managed.

132. The Council has a Whistleblowing Policy which was updated in May 2019, a Policy on Fraud Prevention (updated July 2021) and an Anti-Bribery policy which dates back to 2012. Regarding cyber-security, Council back-ups are held within the cloud, segregated and air-gapped, should recovery from a ransomware incident ever be required. Incident testing and playbook exercises are a key ongoing priority for the Council and its IT suppliers.

133. Audit Scotland published a report *"COVID-19 Emerging Fraud Risks"* in July 2020. The report identified that the COVID-19 pandemic has brought significant challenges across the Scottish public sector as bodies seek to deliver services for individuals. The report identified six areas of expected increased risk due to the COVID-19 pandemic: governance risk, procurement risk, COVID-19 funding, payroll, IT and cyber-crime and health and wellbeing risk. In response, the Council provided a summary position with regard to these six risk areas which was reported in our 2019/20 Annual Report on the Audit.

National Fraud Initiative (NFI)

134. The National Fraud Initiative (NFI) in Scotland is a biennial counter-fraud exercise led by Audit Scotland, and overseen by the Cabinet Office for the UK as a whole. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems that might suggest the existence of fraud or error. Participating bodies received matches for investigation in January 2021. All recommended matches plus any further matches based on findings and the risk of error or fraud should be investigated by early 2022 and the results recorded on the NFI system.

135. The Council has advised that this remains work in progress and will be completed in line with the deadline. At the end of August 2021 the total number of high risk matches investigated was 3,058 which represented 53% of the total number of high risk matches. Areas with the most high risk matches were Blue Badges and Council Tax reductions.

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.

Auditor judgement

Governance arrangements at the Council were found to be satisfactory and appropriate, including throughout the COVID-19 pandemic to date where we concluded that the Council responded promptly and effectively in its political management arrangements.

From our review of committee papers and observation at committee meetings we are satisfied that there has been appropriate scrutiny, challenge and informed decision making; in particular over the Council's financial arrangements and its monitoring and support to ALEO's during the pandemic.

Areas for scope for improvement exist in the Council's governance arrangements. These have been highlighted through the Best Value Assurance Report, the work of internal audit and independent reviews.

Governance and transparency

Responding to the COVID-19 pandemic

136. The Council has responded promptly and effectively in its political management arrangements to the COVID-19 crisis.

137. Following the COVID-19 emergency and in accordance with existing provisions within the Scheme of Delegation, a Leadership Advisory Panel was established by the Council. The Leadership Advisory Panel consisted of five Councillors, the Council Leader and Deputy Leader, and the Leaders of the Conservative, Green and Scottish Liberal Democrat Groups. The Leadership Advisory Panel was set up to deal with the initial emergency measures created by COVID-19 and the subsequent lock-down.

138. In May 2020 interim political management arrangements were put in place. A Policy and Sustainability Committee, comprising the conveners of all of the Council's executive committees and the majority of party group leaders was reconvened to sit every two weeks. Scrutiny of decision-making was provided by the Governance, Risk and Best Value Committee (GRBV) which met from June 2020 on a monthly basis. In addition groups were established to deal with planning and licensing issues. The Policy and Sustainability Committee continued to meet throughout the first months of the pandemic, holding virtual but web-cast meetings with papers available on the web-site.

139. In August 2020 it was agreed that all other committees could start to meet including the Finance and Resources Committee and the Policy and Sustainability Committee. It was agreed that all meetings would be held virtually and that the meetings would be webcast.

140. In August 2021 it was agreed that physical meetings of executive committees would re-commence with the Policy and Sustainability Committee on 5 October 2021. Meetings of the full Council would continue virtually until the Council removed the physical distancing requirement in its buildings. The Chief Executive was delegated, in consultation with relevant Conveners and Vice-Conveners, to agree appropriate time to reinstate physical other Committees and sub-committees.

Governance arrangements

141. In our 2019/20 audit we noted the importance of all councillors and senior staff having a clear understanding of their rights and responsibilities in relation to information held by the Council.

142. We recommended that Councillors and the senior leadership team should review the existing protocols to ensure these were still appropriate and that both members and officers could comply fully with their responsibilities.

143. The Council initially agreed by January 2020 to review its existing protocols with elected members and senior management to ascertain where improvements were required. This was

paused to take account of the Scottish Government's planned review of the Code of Conduct for Councillors. This review has not yet been completed and it is disappointing to note that the intention now is that this work is not scheduled to be completed until after the May 2022 elections.

Review of the effectiveness of the Governance Risk and Best Value Committee

144. As part of the 2021 internal audit programme the Council appointed the Chartered Institute of Internal Auditors UK and Ireland to undertake a review of the effectiveness of the scrutiny applied by the Council's GRBV Committee.

145. The review involved interviews with selected members and Council officers supported by a wider survey of members and heads of divisions, observation of GRBV meetings and review of GRBV papers, agendas and other records.

146. The review's summary conclusions were included in a report dated July 2021:

> *In regard to GRBV's responsibilities, as set out in its terms of reference, the Committee is fulfilling its core remit, particularly in relation to oversight of the internal and external audit processes, risk management and the operational performance of the Council. However, the current design of the arrangements for GRBV, does limit the effectiveness of the scrutiny it undertakes and the impact it can achieve.*
>
> *GRBV is to some degree constrained by the overall design of the Council's scrutiny model and we have made some suggestions for consideration when this model is reviewed post the 2022 elections.*
>
> *Nevertheless, there are actions that could be taken, independently in relation to GRBV, which would enhance the Committee's effectiveness. We have made a number of recommendations in this regard. Some of these actions, such as considering adding independent experts to the GRBV, could be taken in the short term before the May 2022 elections.*

147. The report makes a number of recommendations including:

- Reinstating the role of a Vice Convenor from another non-administration party
- Independent experts joining the committee
- Enhancing the scrutiny oversight of Executive Committees
- Annually setting objectives and goals for scrutiny and evaluating whether these have been achieved
- Undertaking an annual skills assessment to identify the expertise required
- Enhancing training arrangements for GRBV members
- Preparation of an annual report of the Committee's activities
- Agreement of a formal protocol between GRBV and Executive Committees.

148. We would endorse the recommendations made in this

independent review as further ways to improve the effectiveness of the Committee's work.

149. The Council has responded to each of the recommendations with most of the actions scheduled for after the May 2022 election. Those which are scheduled to be implemented by an earlier date are in progress and expect to be in place by the agreed date.

Internal Audit

150. The Council's internal audit service is an independent assurance function that provides an opinion on the Council's control environment. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources. To avoid duplication of effort and to ensure an efficient audit process we have taken cognisance of the work of internal audit.

151. Internal audit's annual audit opinion on the Council for the year to 31 March 2021 was presented to GRBV in August 2021.

152. As a result of some service teams being unable to support the completion of planned audits due to the pandemic a limited opinion was given as only 80% of the agreed plan could be completed. Internal audit's overall opinion was that significant improvement was required as significant and / or numerous control weaknesses were identified, in the design and / or effectiveness of the control environment and / or governance and risk management frameworks. Consequently, only limited assurance could be provided that risks were being managed and that the Council's objectives should be achieved. This opinion is consistent with that given in 2019/20.

153. The 2020/21 internal annual opinion has slightly improved in comparison to the 2019/20 position, with internal audit's assessment now at the lower end of the red rated / significant improvement required category. In particular internal audit highlights in its annual report:

- closure of all 26 historic internal audit findings that were reopened in June 2018;
- a decrease in the total number of findings raised, with 69 raised in 2020/21 in comparison to 83 and 82 in 2019/20 and 2018/19 respectively;
- a decrease in the proportion of high rated findings raised, with 23% (16) raised in 2020/21 in comparison to 32% (27) and 37% (30) in 2019/20 and 2018/19 respectively.

154. One of the reports during the year was rated as inadequate due to the inconsistent application of the Council's established supplier management framework to support effective management of high risk contracts. Other areas where improvements were identified as being required were:

- **COVID-19 response:** Areas were identified where the design and implementation of controls relating to the Council's COVID 19 response could have been improved.
- **Governance, Decision making and scrutiny**: Improvement of second-line frameworks to support

effective management and scrutiny of the Council's ALEOs. Improvement areas were identified in the GRBV effectiveness review

- **Resilience**: Only limited assurance could be given over the Council's ability to restore critical systems and services in the event of a technology resilience incident
- **Health and Safety:** The Council's violence at work policy required updating. Education and Children's Services policies and procedures required to be updated and consistently applied
- **Technology and Information**: significant improvement was required to the security of the Council's corporate and learning and teaching networks
- **Service delivery:** some weaknesses identified in service delivery controls.

155. Internal audit's view is that the weaknesses identified and highlighted in reports supporting the 2020/21 annual opinion are predominantly attributable to lack of capacity and skills within first line divisions and directorates to ensure that key controls, governance and risk management processes are consistently and effectively applied to support effective ongoing management of service delivery and projects.

156. We note that the Council has agreed to enhance its first and second line assurance capability with a first quarterly cycle of reporting on assurance activities through Directorates and the Corporate Leadership Team by March 2022.

157. The annual audit report continues to report that there are significant overdue findings which have not been implemented by the original agreed dates. 64 recommendations were reported as overdue including 17 high recommendations which could have significant detrimental impact on the Council if not addressed. It is imperative that the upgraded first and second line assurance capability is put in place as soon as possible to ensure that these long overdue weaknesses identified are addressed.

Following the public pound

158. The Council uses a number of arm's-length external organisations (ALEOs) to provide services on its behalf, including Transport for Edinburgh Limited and Edinburgh Leisure. While the ALEOs are responsible for the delivery of the services, the Council remains responsible for the public money it provides to the ALEOs and the quality of services the ALEOs provide. 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.

159. The Council's Governance Hub has continued to meet quarterly to scrutinise the management of the Council's ALEOs, seek assurance over the delivery of services, consider activities during the pandemic and ensure that the Council is aware of any risks.

160. The Council's executive committees scrutinise the future direction of each ALEO, service performance, including progress against service level agreements, and any emerging issues.

161. The GRBV Committee scrutinises the ALEOs' financial performance, including the annual accounts, and any risks affecting the Council or any individual ALEO. Reviews of the main Council ALEOs are scheduled for November and December 2021 meetings of the Committee.

162. Through our review of the committee papers, we are satisfied that there has been effective scrutiny, challenge and informed decision making through the financial period.

163. All of the ALEOs undertake services that have been greatly affected by COVID-19, for example leisure services, cultural venues and transport. As reflected in the financial management section of this report the Council has required to make additional payments to a number of its ALEOs as a result of lost income. In the case of Lothian Buses its anticipated annual dividend stream of £6million to the Council has not been made and future dividends income remains unlikely and has been removed from the medium term financial plan. Services will continue to be affected for some time by social distancing requirements, public attitudes and market capacity. These factors will all affect future income forecasts. A further £7million of support is also anticipated in 2021/22 in support of the Council's ALEOs including Edinburgh Leisure.

164. The Council has provided letters of comfort to a number of the Boards of its ALEOs to allow directors to conclude regarding the going concern of these companies.

ALEO restructuring

165. To achieve greater integration of the public transport system, the Council considered options for the reform of its Transport ALEOs (Lothian Buses Limited, Transport for Edinburgh Limited and Edinburgh Trams Limited). A working group comprising Council officers and NEDs from each of the Transport ALEOs was convened to consider the options available.

166. Their conclusions were to reconstitute Lothian Buses with an amended Memorandum and Articles of Association to be responsible for multi-modal public transport delivery with Edinburgh Trams operating as a subsidiary. The proposal required a new shareholder agreement to be drawn up with the minority shareholders of Lothian Buses respected, a new Board appointed and updated corporate documentation. Once this was in place Transport for Edinburgh would be wound down. This process would take place over the 12 months to August 2022. The proposals were considered by the Transport and Environment Committee and approved but referred onto full Council at which the recommendations were approved.

Whistleblowing investigation

167. In October 2020, in response to a motion from an elected member on the council's whistleblowing culture, the Policy and Sustainability Committee agreed that an independent assessment of council culture and relevant processes should be undertaken. Susanne Tanner QC was appointed as an independent chair of the investigation with support provided by Pinsent Masons.

168. Terms of reference were prepared by the chair in consultation with Council

political leaders. These included the objective of the review – to: "*examine the organisational culture, processes and practices, relevant to whistleblowing and reporting of and responding to wrongdoing, of the Council as a whole, including amongst elected members, officers and colleagues.*"

169. The terms of reference also specify that the remit is to:

> *"determine the organisational culture, processes and practices with a view to making recommendations to improve any shortcomings. The Review will necessarily entail looking at the approach to whistleblowing and other relevant processes, which may include reports and investigations both before and after the introduction of the Council's Whistleblowing Policy in May 2014, insofar as relevant to the assessment of the current position"*

170. Anyone from within or out with the Council could raise issues they believed relevant to the investigation. The outcome of the review would be a written report to be provided to the Council with the independent chair reporting publicly on the Review's findings

171. A call for evidence was opened in November 2020. This is now closed. The inquiry has yet to report its findings to the Council. The total costs to date for this investigation amount to £521,000.

Inquiry into complaints regarding Sean Bell

172. In addition to the whistleblowing culture investigation, the Council commissioned an independent inquiry into complaints about a former senior manager in Communities and Families who died in August 2020. Sean Bell was due to stand trial for charges of non-recent sexual offences but the investigation was closed following his death.

173. The investigation is being undertaken by Pinsent Masons and overseen by Susanne Tanner QC. The purpose of the inquiry is to establish, amongst other things, whether or not any steps were taken by the Council to respond to any past allegations or suspicions of abuse or inappropriate behaviour by Mr Bell.

174. The Inquiry team issued calls for evidence and interviewed nearly 100 witnesses. The Team considered evidence which included consideration of five alleged formal disclosures to the Council from survivors of sexual or physical abuse from Sean Bell. They concluded that Sean Bell was a serial abuser and that the abuse took many forms. There was no evidence that anyone else at the Council was involved in the abuse but there was evidence that there was widespread knowledge of or suspicion of Sean Bell's inappropriate conduct across the Council. On several occasions, the Council failed to take appropriate action and the Inquiry Team considered that the failure to properly report, escalate and investigate the allegations of inappropriate behaviour was a significant failing of the Council and was in breach of its own policies in place at the time. In 2010 an

incident was reported to two senior officers but there was a failure to take appropriate action which the report considers a dereliction of their duty.

175. The Inquiry Team made a number of recommendations including :

- The Council should consider the implementation of an independent investigation unit of appropriately experienced and properly trained investigators, to investigate all allegations in relation to the Council employees of a sexual nature, domestic abuse, physical violence, harassment or stalking (whether occurring during the course of work hours or on Council premises or not). The Council should either procure an independent external firm to establish an independent team of investigators to take on this role; or create an internal unit of investigators whose sole role is to carry out such investigations. If internal, any such unit should be regularly audited by an independent body;
- an appropriate Council redress scheme should be set up, without admission of liability, to compensate those who have been abused by Sean Bell;
- current Council HR practices relating to relationships between Council employees are inadequate and do not reflect the close working and personal relationships between many Council employees, which are often undisclosed. These require to be revised and updated;
- record keeping must be improved within the Council, with notes taken at all meetings where disclosures or concerns are raised by employees to line managers regarding sexual or physical violence, harassment or stalking (whether occurring during the course of work hours or on Council premises or not). Once recorded, line managers should be obliged to report such disclosures or concerns up the management structure at the Council;
- all allegations in relation to Council employees of a sexual nature, domestic abuse, physical violence, harassment or stalking (whether occurring during the course of work hours or on Council premises or not) must be escalated to the Council's Monitoring Officer prior to the appointment of any investigator.

176. The report was considered by the full Council on 28 October 2021 and the Chief Executive was requested to report back to Council within one cycle detailing how the recommendations will be implemented. The failings and omissions identified by the Inquiry were also noted by the Monitoring Officer as amounting to maladministration and injustice.

177. The total costs to date for this investigation amount to £511,000.

Risk management

178. 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. Emerging risks are escalated to the Corporate Leadership Team (CLT) as appropriate.

179. In 2019/20 the Council reviewed and updated its risk management framework. It has established a 'three lines of defence' model:

- The 'first line' is the team responsible for consistent application of the risk management framework.
- The 'second line' is the team responsible for establishing and communicating an appropriate organisational risk management and governance framework and a risk appetite statement framework.
- The 'third line' provides independent assurance (for example, Internal Audit) on the controls established to manage risks.

180. As part of the process of updating the risk management framework, the Council has restructured the team responsible for risk management. It has increased oversight by Service Director: Legal and Risk and the Head of Internal Audit, along with transferring more responsibility for risk management from the second to the first line of defence.

181. The implementation of the new risk management framework is planned to be undertaken over the three years to 2022/23. In 2020/21 this included the establishment of appropriate governance structures. In 2021/22 further work will be undertaken including the implementation of sample-based assurance reviews. 2022/23 is planned to include detailed assurance mapping as recommended by CIPFA.

182. In response to the COVID-19 pandemic the Council's Incident Management Team agreed on the approach to be applied to the ongoing management assessment and recording of new and emerging COVID-19 risks and associated mitigating actions. A risk management plan was drawn up which continues to be updated to reflect any new and emerging COVID-19 risks. The risk management plan is discussed weekly at a Risk Forum and reviewed fortnightly at the incident management team.

183. The original and current risk assessment ratings (24 September 2021) for each of the COVID-19 strategic risks are detailed below. This assessment demonstrates that mitigating actions have reduced the risk in eight of the nine strategic risks.

Covid-19 Strategic Risks as at 24 September 2021

Covid-19 Strategic Risks	Original Risk	Current Risk
Health and Safety of Citizens and Service Users	Critical	High
Council response and governance	Critical	High
Health and availability of employees to deliver services	Critical	Critical
Council premises and physical security	Critical	High
Supply chain risk	Critical	Medium
Technology and information	Critical	High
Financial and economic risk	Critical	Medium
Fraud and Serious Organised Crime Risk	Medium	Low
Legal and Commercial Risk	Medium	Low

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 reporting of its performance.

Auditor judgement

In response to the pandemic, the Council developed an Adaptation and Renewal work programme, with 5 main workstreams. Regular updates are presented to committee which include the impact the pandemic has on the Council.

The Council has published an annual performance report and report on performance against the Local Government Benchmarking Framework (2019/20). Performance in 2020/21 has been impacted by the pandemic; in particular in areas such as education, social care, housing and waste services.

Further work is required to fully demonstrate compliance with the Accounts Commission Statutory Performance Information Direction; in particular demonstrating best value. During 2021, the Council published its Business Plan which is supported by a newly developed Planning and Performance Framework (PPF). The new PPF is being designed to meet the Council's public performance reporting responsibilities including meeting the requirements of Statutory Performance Information Directions.

The Council's response to the pandemic: Adaptation and Renewal

184. In May 2020 the Council, recognising the significant long-term impact and challenges caused by the pandemic, commenced a programme of work titled Adaptation and Renewal, focussed on post-Covid new ways of working. It aimed to set a clear long-term vision, feeding into the business plan, on how the city would recover while retaining the flexibility to adapt to the changing public health situation.

185. Five officer working groups were established, four of which continue to be active:

- **Public Health - Triage Oversight Group** – bringing together Council, NHS Lothian and Edinburgh Health and Social Care Partnership colleagues to ensure effective communication and implementation of national advice concerning public health within an Edinburgh context;
- **Service Operations: Wellbeing Programme** – facilitating cross-Council co-ordination to enable a phased and prioritised plan for resumption and adaptation where possible, guided by the Scottish Government's route map;
- **Sustainable Economic Recovery** – allowing key sectors of the city to survive and thrive thereafter, with a focus on investment and development, employability, business support and resilience, our future cultural capital and fostering innovation;
- **Life Chances** – aligning the Council's recovery activity to the key theme of addressing poverty, promoting sustainability and improving well-being;
- **Change, People and Finance –** enabling the adaptation and renewal of the Council as an organisation and ensuring that clear direction for the Council's own requirements for change in a post COVID-19 world is aligned with the resources available to deliver these changes. This group has recently reached conclusion and delivered against its original scope so has now been stepped down.

186. Regular updates have been presented to the Council's Policy and Sustainability Committee which covered:

- the impact of the pandemic on the Council over the short, medium and longer term (presented as a dashboard);
- decisions taken under urgency provisions by the Chief Executive in consultation with the Leader and Deputy Leader. Such matters are discussed by the Council Incident Management Team (CIMT) which has continued to meet twice a week or at the weekly Corporate Leadership Team meetings;
- service resumption; and
- update on current system pressures – services impacted include social care, education, waste and cleansing, streetscapes.

187. Since the Adaptation and Renewal programme was approved, the Council Business Plan has been published

and the officer working groups have either delivered their remit, or their activity has moved into business as usual delivery arrangements. In addition, the senior leadership review of Chief Officer roles has concluded with responsibilities and accountabilities for delivery now aligned to the new Council organisational structure.

188. A 'close' report is in development which will look at how well the projects that formed the Adaptation and Renewal Programme delivered against the scope for the now, near and future phases. It will also highlight any 'follow on actions' i.e. outputs or outcomes that still need to be delivered as part of business as usual activities.

189. Lessons Learned have been captured across individual projects and will be consolidated into the close report for awareness and adoption to inform other similar programmes response types.

Performance management framework 2020/21

190. The Council's performance management framework was revised in light of the pandemic. The revised framework comprised the following components in 2020/21:

- Performance reports were produced as required throughout the year. For some services, reports continued to be generated throughout the year whereas for others reporting was suspended as the service ceased due to COVID restrictions. As services started to resume, performance reporting was restarted. For other services, reporting was refocused to reflect new ways of working or additional support as they set up to support people during lockdowns (for example, the customer contact team ran the shielding/vulnerable lines and reports were developed to show changes in activity and pressures).
- New reports were created to highlight the impact of COVID on demand for Council services as well as the wider impact on Edinburgh to support senior managers' decision making.
- Quarterly scorecards were paused and weekly/monthly Corporate Leadership Team (CLT) COVID dashboards were developed. Quarterly scorecards contained KPIs on services that were paused during 2020/21.
- A Weekly Covid Dashboard was created and shared with Elected Members and the wider Leadership Team with key COVID data.
- A monthly CLT COVID dashboard was created to provide CLT with an overview of Covid Public Health data as well as core services information to support their decision making due to impact of the pandemic.
- The focus of most reports to Committee during 2020/21 was on impact of the pandemic and service resumption not improvement plans. Regular Adaptation and Renewal report updates went to the Policy and Sustainability Committee to give an overview of the Council's

response to the pandemic and changes to services.

- An annual performance report was presented to elected members which sets out progress against the key performance indicators (KPIs) in its Change Strategy. Elected members also received six-monthly updates on the 52 Business Plan commitments and annual updates on the Local Government Benchmarking Framework (LGBF).

Performance management framework 2021/22

191. Following the approval by Council of its Business Plan in February 2021, a new Planning and Performance Framework has been developed. The Planning and Performance Framework includes a new suite of key performance indicators aligned to the business plan. The performance indicators have been mapped against the National Performance Framework and seven best value themes.

192. The new Planning and Performance Framework will support the use of performance information including benchmarking data, such as the Local Government Benchmarking Framework (LGBF), to drive continuous improvement.

193. Where appropriate, targets for 2021/22 have been set. However, the impact of COVID-19 over the last year has resulted in some indicators requiring new baselines to be established before meaningful target setting can be done.

194. Performance scorecards and trend dashboards are to be aligned to service plans and monitored regularly at each level in the organisation.

195. On an annual basis, a review of its Directorate/Divisional Plans will be undertaken to ensure that the Council is on track to deliver its outcomes and objectives. Benchmarking data such as LGBF will be used to review performance against plans and inform the next year's annual planning process, the budget cycle and year end performance reporting.

196. This suite of measures (and targets) will be kept under review as part of the Planning and Performance Framework annual cycle to ensure they remain fit for purpose.

197. The framework sets the Council's approach to monitoring and reporting performance including service level arrangements, elected members scrutiny of performance and public performance reporting arrangements:

Elected members scrutiny of performance

198. A Council performance report with both supporting narrative and trend analysis will be submitted to the Policy and Sustainability Committee once every four months. This will include the annual performance report which will be brought to the Policy and Sustainability Committee and full Council in June of each year. In addition, there will be the publication of data of specific performance indicators for elected member and public oversight. The Council aims to move to a more transparent and open data led approach, with the intention of supporting wider discussions about the performance of specific services beyond the Committee. The Best Value Assurance Audit Report progress update will be presented

alongside the Council performance reports.

Public reporting of performance information

199. The Council intends to, in addition to publishing all committee performance reports, develop a suite of core measures to be published on a quarterly basis. A data section on the website is to be developed to give a wider perspective on city data, for example, Edinburgh by Numbers.

200. The Council is also reviewing its website with a view to simplifying public access to performance data and ensuring timely publication of the performance information. The redesign of the performance web pages is due to be completed by the end by March 2022.

Statutory Performance Information

201. The Accounts Commission has a statutory responsibility to define the performance information that councils must publish. This responsibility links with the Commission's best value audit responsibilities. In turn, councils have their own responsibilities, under their best value duty, to report performance to the public. The Accounts Commission issued a revised 2018 Statutory Performance Information Direction ('2018 Direction') in December 2018, which applied for the first time in 2019/20 and remains in effect for 2020/21 and 2021/22. The 2018 Direction requires a council to report its:

- performance in improving local public services provided by the council (on its own and with its partners and communities), and progress against agreed desired outcomes
- own assessment and independent audit assessments of how it is performing against its duty of best value and how it plans to improve these assessments
- how it (with its partners where appropriate) has engaged with and responded to its diverse communities.

202. The information reported in the Council's 2020/21 Annual Performance Report and the 2019/20 Local Government Benchmarking Framework Report is the Council's response to meeting the requirements of the 2018 Statutory Performance Direction.

203. In the prior year we recommended that the Council map its annual performance report against the 7 Best Value themes and publish these as part of the Annual Performance Report. An exercise was carried out by the Council to show coverage against the best value themes; however this has not been included in the Annual Performance Report. A similar exercise has been carried out to map the new performance indicators under the Planning and Performance Framework against the best value themes.

204. Statutory Performance Indicator 2 in the 2018 Direction is on demonstrating best value; including the Council's assessment of how it is performing against its duty of best value and its plans to improve against this assessment. On review of the 2020/21 Annual Performance Report, and notwithstanding the current environment, we consider that the performance report could be further developed to fully demonstrate the Council's compliance with the 2018

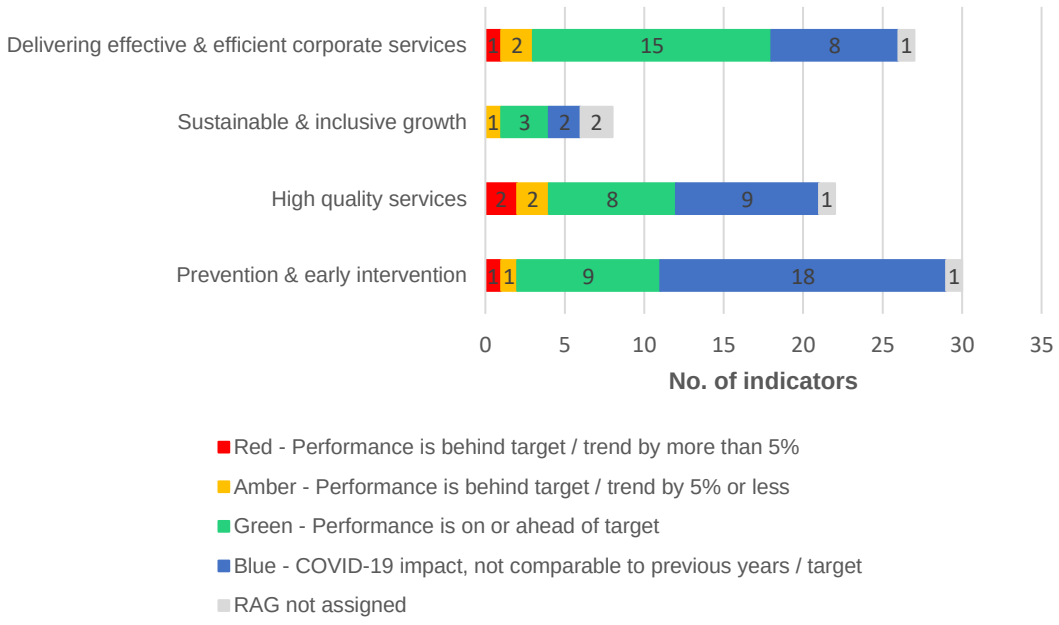
Direction as it relates to demonstrating best value. We recommend that the Council develop future performance reports to ensure / demonstrate full compliance with the 2018 Direction.

Overview of performance in 2020/21

205. The Council's 2020/21 Annual Performance Report provides an overview of council performance against its Change Strategy themes, drawing on corporate performance indicators and benchmarking data including the Local Government Benchmarking Framework 2019/20 data.

206. The impact of the COVID-19 pandemic has been varied across Council services. The Council has implemented a Blue RAG assessment to show where this impact makes comparison with performance in previous years or against targets not appropriate (37 out of 87 indicators)[2]

Council performance against KPIs by theme, 2020/21



Source: City of Edinburgh Council 'Annual Performance 2020/21' Report

[2] Comments on the performance information as reported in the Annual Performance Report:

The suite of performance indicators reported has changed slightly from last year, with one indicator re-introduced; 6 indicators revised; 3 indicators added; and one indicator removed.

Some of indicators refer to the latest academic school year (running from August 2019 to June 2020) and trend analysis and RAG status has been reported on this data.

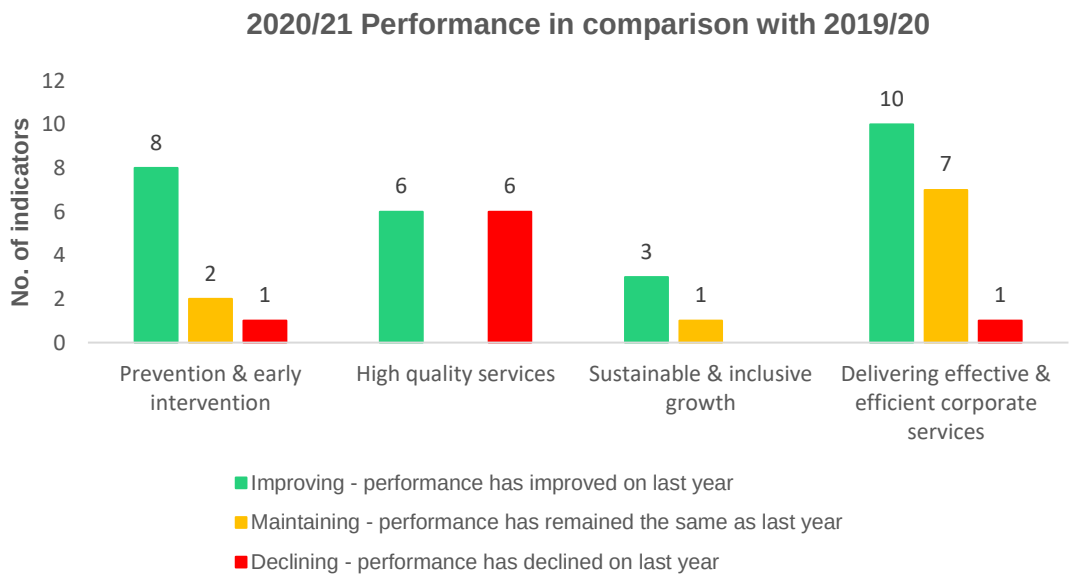
The lag time in the publication of some national reports (delayed by the impact of COVID-19) means there are some indicators where full year data for 2020/21 is not available.

207. The 'blue' assessed indicators covered the following areas:

- Schools and education
- Homelessness
- Criminal justice orders
- Street cleansing
- Rent arrears
- Attendances at museums and galleries
- Non-Domestic Rates / Council tax collection
- Commercial income
- Asset management
- Lost working time due to ill health
- Delivery of budget savings

208. Of the remaining indicators where a RAG status has been assigned, 36 show improved or maintained performance and nine show a decline. The indicators that show a decline in performance in 2020/21 are found across the services rather than focused in a single service area, including: waste management, roads, adult social care, housing and customer services.

209. The report identifies areas where performance challenges remain and sets out how the Council is focussing on these areas and the next steps being put in place to address these areas.



Source: City of Edinburgh Council 'Annual Performance 2020/21' Report

Local Government Benchmarking Framework

210. The Council's annual LGBF report (2019/20) was reported to the Policy and Sustainability Committee in June 2021. As this information is based on 2019/20 it does not show the impact of COVID-19. These results will be reported in 2022.

Appendices

Appendix 1: Respective responsibilities of the Council and the Auditor

The Code of Audit Practice (2016) sets out the responsibilities of both the Council and the auditor and are detailed below.

Council responsibilities

The Council is required to make arrangements for the proper administration of financial affairs and to secure that one of its officers has responsibility for the administration of those affairs. The Service Director: Finance and Procurement has been designated as that officer.

The Service Director: Finance and Procurement 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).

Area	Council responsibilities
Corporate governance	The Council is responsible for establishing arrangements to ensure the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Those charged with governance should be involved in monitoring these arrangements.
Financial statements	The Council has responsibility for: • preparing financial statements which give a true and fair view of its financial position and their expenditure and income, in accordance with the applicable financial reporting framework and relevant legislation; • maintaining accounting records and working papers that have been prepared to an acceptable professional standard and that support its financial statements and related reports disclosures; • maintaining proper accounting records; and • preparing and publishing, along with the financial statements, an annual governance statement, management commentary (or equivalent) and a remuneration report that is consistent with the disclosures made in the financial statements. Management commentary should be fair, balanced and understandable and also address the longer term financial sustainability of the Council. Management is responsible, with the oversight of those charged with governance, for communicating relevant information to users about the

Area	Council responsibilities
	entity and its financial performance, including providing adequate disclosures in accordance with the applicable financial reporting framework. The relevant information should be communicated clearly and concisely. The Council is responsible for developing and implementing effective systems of internal control as well as financial, operational and compliance controls. These systems should support the achievement of its objectives and safeguard and secure value for money from the public funds at its disposal. They are also responsible for establishing effective and appropriate internal audit and risk-management functions.
Standards of conduct for prevention and detection of fraud and error	The Council is responsible for establishing arrangements to prevent and detect fraud, error and irregularities, bribery and corruption and also to ensure that its affairs are managed in accordance with proper standards of conduct.
Financial position	The Council is responsible for putting in place proper arrangements to ensure the financial position is soundly based having regard to: • Such financial monitoring and reporting arrangements as may be specified; • Compliance with statutory financial requirements and achievement of financial targets; • Balances and reserves, including strategies about levels and their future use; • Plans to deal with uncertainty in the medium and long term; and • The impact of planned future policies and foreseeable developments on the financial position.
Best value	The Council has a specific responsibility to ensure that arrangements have been made to secure best value. They are responsible for ensuring that these matters are given due priority and resources, and that proper procedures are established and operate satisfactorily.

Auditor responsibilities

Auditor responsibilities are derived from statute, the Code of Audit Practice, International Standards on Auditing (UK), professional requirements and best practice. These are to:

- undertake statutory duties, and comply with professional engagement and ethical standards;
- provide an opinion on the financial statements and the regularity of transactions;
- review and report on, as appropriate, other information such as annual governance statements, management commentaries and remuneration reports;
- notify the Controller of Audit when circumstances indicate that a statutory report may be required; and
- demonstrate compliance with the wider scope of public 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 follow up on the Council's Best Value Assurance Report and work on the wider scope dimensions.

Independence

In accordance with our profession's ethical guidance and further to our External Audit Annual Plan issued confirming audit arrangements there are no further matters to bring to your attention in relation to our integrity, objectivity and independence.

We confirm that Azets Audit Services and the engagement team complied with the FRC's Ethical Standard. We confirm that all threats to our independence have been properly addressed through appropriate safeguards and that we are independent and able to express an objective opinion on the financial statements.

Audit and non-audit services

The total fees charged to the Group for the provision of services in 2020/21is as follows:

	Current year £
Audit of City of Edinburgh Council (Auditor remuneration)	333,550
Audit of components (as audited by Azets)	153,889
Total audit	**487,439**
Non-audit services	34,000
Total fees	**521,439**

FRC's Ethical Standard stipulates that where an auditor undertakes non audit work, appropriate safeguards must be applied to reduce or eliminate any threats to independence. No non-audit services are provided to the City of Edinburgh Council. We have detailed in the table below the non-audit services provided to the wider group, the threats to our independence and the safeguards we have put in place to mitigate these threats.

Non-audit service	Type of threat	Safeguard
Corporation tax compliance services	Self-review	Corporation tax compliance services are provided by a separate tax team.
Tax advisory services	Self-review Management decisions	Tax advisory services are provided by a separate tax team.
Preparation of financial statements	Self-review Management decisions	All adjustments to the financial statements are agreed with those charged with governance. In addition to this, a 2nd manager review of the financial statements is performed by an audit manager not involved in the audit of the financial statements.

Audit quality

The Auditor General and the Accounts Commission require assurance on the quality of public audit in Scotland through comprehensive audit quality arrangements that apply to all audit work and providers. The audit quality arrangements recognise the importance of audit quality to the Auditor General and the Accounts Commission and provide regular reporting on audit quality and performance.

Audit Scotland maintains and delivers an Audit Quality Framework.

The most recent audit quality report which covers our work at the Council since appointment can be found at https://www.audit-scotland.gov.uk/report/quality-of-public-audit-in-scotland-annual-report-202021

Appendix 2: Audit differences identified during the audit

Adjusted audit differences

Prior year audit adjustments - Group

No	Detail	Balance Sheet Dr / (Cr) £million	Comprehensive Income and Expenditure Statement Dr / (Cr) £million
1.	CEC – adjustments in respect of Residual Waste PPP	(10.939)	10.939
2.	Transport for Edinburgh – adjustment in respect of B shares	8.800	(8.800)
3.	Lothian Valuation Joint Board – adjustment to reflect prior year audit adjustment in its accounts	0.173	(0.173)
Net impact on total comprehensive (income)/expenditure (increase)/decrease			1.966
Total reserves per the unaudited annual accounts (Group)			3,102.490
Revised reserves per the audited annual accounts (Group)			3,100.524

Current year audit adjustments - Group

No	Detail	Balance Sheet Dr / (Cr) £million	Comprehensive Income and Expenditure Statement Dr / (Cr) £million
1.	CEC – COVID funding adjustments	(0.268)	0.268
2.	CEC – IAS 19 pension adjustments	(2.084)	2.084
3.	CEC – PPP adjustments	(11.582)	11.582
4.	CEC – Provisions adjustments	3.476	(3.476)
5.	Transport for Edinburgh – IAS 19 pension adjustments	43.009	(43.009)
6.	Transport for Edinburgh – B shares consolidation	17.131	(17.131)
7.	Transport for Edinburgh – IFRS 16 adjustment	0.006	(0.006)
8.	Transport for Edinburgh – Minority interests	4.254	(4.254)
9.	Group bodies – adjustments to reflect audited accounts of group bodies	(0.583)	0.583
Net impact on total comprehensive (income)/expenditure (increase)/decrease			(53.359)
Total reserves per the unaudited annual accounts (Group)			3,400.879
Revised reserves per the audited annual accounts (Group)			3,454.238

Unadjusted audit differences - Group

No	Detail	Balance Sheet Dr / (Cr) £million	Comprehensive Income and Expenditure Statement Dr / (Cr) £million
1.	Alignment of group accounting policies (treatment of capital grant income)	5.233	(5.233)

Net impact on total comprehensive (income)/expenditure (increase)/decrease	(5.233)
Total reserves per the audited annual accounts (Group)	3,454.238
Revised reserves if the adjustment were amended for (Group)	3,459.471

We have discussed this unadjusted audit difference with management and confirmed that its is immaterial to the annual accounts.

Disclosure amendments

Note reference in the annual accounts	Detail
Movement in reserves statement	Restricting the statutory adjustment from the General Fund to the Capital Adjustment Account to depreciation on the asset's historical cost in line with LASAAC guidance. Depreciation on the asset's revaluation element has been transferred from the Revaluation Reserve to the General Fund.
Note 4	Assumptions made about the future and other major sources of estimation uncertainty – Property, Plant and Equipment Additional disclosure included on key assumptions made in relation to the valuation of other land and buildings, council dwellings and investment properties.
Note 4	Assumptions made about the future and other major sources of estimation uncertainty – Housing Rent Arrears Additional disclosure included on the sensitivity of the carrying amount of the provision for doubtful debt to the methods, assumptions and estimates underlying its calculation.
Note 15	Property, Plant and Equipment Correction to the disclosure of Queensferry High School within the Public Private Partnership and similar assets disclosure.
Note 25	Provisions Provisions split between long term and short term.
Note 29	Cash flow statement notes Additional disclosures provided.

Appendix 3: Best Value Assurance Report – follow up

In assessing the Council's progress on implementing the recommendations included in the Best Value Assurance Report we have considered both the pace and depth of improvement.

The recommendations have been categorised under the key areas of focus for the Best Value audit and an overall auditor judgement applied. The definitions for our judgements are as set out in the Executive Summary.

1. Council vision and strategic direction	Overall auditor judgement:

Recommendation	**As part of its Adaptation and Renewal Programme, the council should quickly amalgamate its Business Plan and Change Strategy, to provide clearer priorities and direction for the council.**
Status and progress to date	On 27 January 2021 the Council published the draft three-year Council Business Plan: The three year Business Plan: Our Future Council, Our Future City and budget were approved by the Council on 18 February 2021. The Business Plan is supported by a People Strategy and Workforce Plan. The Business Plan brings together 15 outcomes and accompanying actions for the next three years. It includes detail on working with partners, finances and the new planning and performance framework. The Business Plan is a live document which staff are using across the Council to provide strategic direction for deliverables – replacing the previous Business Plan and Change Strategy. It is available on both the Council's intranet and public pages alongside the People Strategy and Strategic Workforce Plan. It remains a live document which will be updated as required.
Audit assessment	**Complete** The 5 year Business Plan now provides strategic direction. The Business Plan is a well-developed document setting out how the Council will achieve its priorities. It needs to be fully costed and supported by a Financial Plan which covers the same time horizon.

1. Council vision and strategic direction	Overall auditor judgement:

Recommendation	**To help them carry out their best value responsibilities, elected members should take advantage of the learning and development opportunities provided by the council.**
Status and progress to date	To fully respond to this recommendation the Council is proposing a short (end of March 2021), medium (2021/2022) and longer-term response (post local government 2022 election). Short (end March 2021) – To ensure elected member learning and development meets statutory requirements, is continuous, relevant and of good quality officers will carry out an audit of all current training materials and communicate the current offering to members. Medium (2021/2022) – A training needs analysis will be carried out with elected members. This will be fundamental to identify any gaps in learning and development and help implement further training that is useful, relevant, developmental and will encourage and support participation. Long-term (post Local Government elections) - The training needs analysis will be a fundamental tool to support the induction and on-going training offering to new and returning members after the 2022 election. As in previous election years, a full 8-week induction programme will be offered to members. Building on this, there will then be a focus on continuous learning and development with members supported to take an active role in their development and monitor their participation in further training.
Audit assessment	**In progress** An audit of all current training materials has been undertaken and Members have been informed about the learning and development opportunities. The medium-term and long-term commitments are currently at planning stage. Officers are currently developing a programme of workstreams - Council 2022 in preparation for the 2022 Local Government elections.

1. Council vision and strategic direction	Overall auditor judgement:

Recommendation	**In order to make community engagement an integral part of service improvement and delivery, the council should support community groups to complete asset transfers**
Status and progress to date	Community Asset Transfer (CAT) is an important element of the Council's approach to Community Empowerment. The Council has a well-established CAT Policy and provides advice and guidance to community organisations at all stages of the process to enable them to present the best possible case for an asset transfer. Prior to formal asset transfer requests being submitted, officers score the draft submissions following the CAT policy scoring matrix and works with the community to improve their business case so that it is as strong and robust as possible in terms of finance, operation, community consultation and governance. The Council has recently seen evidence of a greater number of Community Asset Transfer requests which it has supported and the number of approved requests has risen during the last 12 months.
Audit assessment	**In progress**
	Since the publication of the Best Value report there have been three further Community Asset Transfers completed and a further four transfers have been agreed to by the Council and legal work is ongoing to bring them to a successful conclusion. There are a further 14 CATs being worked on.

2. Performance and outcomes, including public performance reporting	Overall auditor judgement:

Recommendation	**The Council should further improve its performance reporting by making better use of performance measures and targets, particularly to demonstrate the impact of improvement work.**
Status and progress to date	The Council's draft Business Plan includes a new strategy performance map which details the outcomes, actions and initial metrics. In June 2021, the Policy and Sustainability Committee approved the new planning and performance framework for the Council Business Plan, including an initial suite of Key Performance Indicators (KPIs) which are aligned to Specific, Measurable, Achievable and Relevant (SMART) performance indicators and milestones. The new planning and performance framework provides a clear link between the three- year business plan, key strategies, annual service plans and the underlying performance framework including benchmarking. The next phase of work will look to develop service plans and targets against each performance indicator or milestone.
Audit assessment	In progress The Planning and Performance Framework includes KPIs. Some of these KPIs do not have targets. The covering report notes that 2021/22 targets have been set where appropriate but that the impact of COVID-19 has resulted in some indicators requiring new baselines to be established before meaningful targets can be set. It is important that progress is made in setting these targets. The intention is that a Council Performance Report with both supporting narrative and trend analysis is submitted to the Policy and Sustainability Committee every four months. The first Council Performance Report under these new arrangements is due in November 2021.

2. Performance and outcomes, including public performance reporting	Overall auditor judgement:	

Recommendation	**The Council should further improve its performance reporting by publishing easily accessible, up-to-date performance information on its website.**
Status and progress to date	Officers are working to improve the performance reporting available to the public via the Council website. Key improvements have focused on the layout and format of its reporting to ensure that publications are both accessible and timely. Along with publishing all committee performance reports officers are working to improve the performance reporting available to the Public via the Council website. Key improvements have focused on the layout and format of our reporting to ensure that publications are both accessible and timely.
Audit assessment	In progress The Annual Performance Report for 2020/21 was approved by the Council in June 2021 and is available on the Council web-site. It follows a similar structure to previous report. Quarterly reporting under the new planning and performance framework is due to start in November 2021

3. Effective use of resources	Overall auditor judgement:

Recommendation	**As part of its Adaptation and Renewal Programme, the Council should prepare sustainable medium and long-term financial plans, and detailed workforce plans, to support its strategic priorities.**
Status and progress to date	Given the announcement on 5 January 2021 that Edinburgh and all other mainland authorities in Scotland would be returning to arrangements akin to the March 2020 lockdown and the significant consequent increase in uncertainty and risk that any longer-term budget is based on incomplete information or flawed assumptions, the primary focus for 2021/22 activity has reflected the Council's statutory responsibility to set a balanced budget for the following year by 11 March. This shorter, one-year timeframe is consistent with both the UK and Scottish Governments and councils elsewhere in Scotland. Once the financial position is clearer, a strategic long-term financial plan, guided by the overarching vision, principles and priorities set out within the Business Plan: Our Future Council, Our Future City will be developed.
Audit assessment	In progress A high level medium tern financial revenue plan was submitted to Finance and Resources Committee in October 2021 covering the period 2022/23 to 2026/27. The plan reflects a number of assumptions over the period and the fact that the local government finance settlement has not been published beyond 2021/22. Currently the plan shows an estimated funding gap of £8.237m in 2022/23 rising to £126.350m in 2026/27. The financial plan will need to be updated as some of the assumptions used become clearer. Savings plans to address the shortfalls in 2022/23 and beyond require to be drawn up to ensure the plan reflects a realistic assessment of the next five years' position. A capital budget covering the 10 years from 2022-2032 was also agreed by the Finance and Resources Committee. Whilst the capital budget is fully funded there is a recognition that capital budgets are expected to come under significant pressure as a result of higher tender prices. Delivery of the capital budget will also be impacted by the revenue budget which as noted above is currently showing significant funding gaps over the first 5 years of the capital budgets timescale

3. Effective use of resources	Overall auditor judgement:

	A People Strategy and Strategic Workforce Plan has been approved. However these are not detailed workforce plans. The Strategic Workforce Plan includes within its action plan an action to develop workforce plans for Customer, Property and Facilities Management, Waste, Housing, Culture and Education as part of the organisational review process but to date none of the workforce plans have been completed.

4. Partnership working and community engagement	Overall auditor judgement:

Recommendation	**In order to make community engagement an integral part of service improvement and delivery, the Council should embed the lessons from effective community engagement activity and clearly communicate the results of, and the Council's response to, community consultation.**
Status and progress to date	A new Consultation and Engagement policy has been approved to formally embed the principles of high-quality engagement and consultation. This came into effect in August 2021. A Consultation Advisory Panel of expertly trained council officers who will evaluate proposed significant consultations and make recommendations to the Corporate Leadership Team has been established. The Consultation Advisory Panel has met successfully to review high-assessed consultation proposals. The first CAP report has been considered and approved by CLT. The Consultation Advisory Panel will ensure that planning for consultation and engagement takes account of and commits to the public reporting of how citizens' views have shaped the decisions of the Council. A 3-year training programme has been developed to upskill colleagues and elected members on consultation practice and funding has been agreed for year one. The Council is considering its approach to empowering communities and the relationship with community councils with partners in the city, under the auspices of the Edinburgh Partnership. Funding has been agreed for a new team to drive community and voluntary sector

4. Partnership working and community engagement	Overall auditor judgement:

	engagement in the development of major new change projects – 20-minute Neighbourhoods and Poverty Prevention.
Audit assessment	In progress The Consultation and Engagement policy was approved in April 2021 and set out a new 12-week standard for consultations. In August the first Consultation Advisory Panel proposals regarding consultations were submitted to CLT. These considered consultations on short-term letting controls, extension of 20mph speed limits and the use of public spaces for filming and events. It is not clear how the work of the CAP and the decisions made by CLT will be communicated more widely across the community as part of the Council's ongoing engagement.
Recommendation	**The Council should work with the Edinburgh Partnership Board to implement its new governance arrangements, effectively involve community representatives and deliver improved outcomes for communities.**
Status and progress to date	Work to progress this recommendation is being taken forward in two parts; i. as a Community Planning Partnership looking at effective partnership working, and, ii. as a Council in support of community capacity and local empowerment. **The Edinburgh Partnership** Following a meeting of the Edinburgh Partnership Board on 15 December 2020, a working group of key partners led by the Council's Executive Director of Place was established to consider the Accounts Commission's recommendations and formulate a partnership response. Progress on delivering the BV improvement Plan was reported to the Edinburgh Partnership Board in September. **The Council** The Council Business Plan has clearly articulated how the Council's priorities and key strategic programmes of work align with the Community Planning Partnership priorities and, in response to committee agreement to give further consideration of genuine local

4. Partnership working and community engagement	Overall auditor judgement:

	community empowerment, the Council is carrying out a review of the Localities teams. A new Local Outcome Improvement Plan (LOIP) Delivery Plan with corresponding performance measures was approved in September 2021.
Audit assessment	**In progress** The Council has acknowledged that not enough capacity and resource had been allocated to establish the new governance arrangements successfully in all parts of the city and committed to strengthening the resourcing and capacity to support Neighbourhood Networks and the LCPPs through the establishment of new Community Empowerment teams. Work is in progress.
Recommendation	**The council should work with the Edinburgh Partnership Board to produce progress reports with clear targets, accountable leads and links between the actions taken and the impact on performance.**
Status and progress to date	Officers worked with community planning partners to agree clear performance measures and a reporting framework. These were incorporated in a LOIP Delivery Plan. Further work will be carried out to revise the LOIP and to develop refreshed 10 year outcome measures to align with the reframed priorities. Account will be taken of the outcome measures contained within the city's strategic framework to ensure appropriate alignment and specifically incorporate the End Poverty Edinburgh targets set by the Poverty Commission
Audit assessment	**In progress** A new LOIP delivery plan including priorities, proposed actions, timescales and measures for success was approved by the Edinburgh Partnership Board in September 2021. The LOIP does not yet reflect a full performance reporting matrix with clear targets and accountable leads. The report notes that further work will be carried out to revise the LOIP and to develop refreshed 10 year outcome measures. This will be a mix of existing and new performance metrics to align with the reframed priorities.

5. Continuous improvement	Overall auditor judgement:

Recommendation	**The Council should implement a strategic approach to self-evaluation and continuous improvement. This should include better demonstrating how it responds to feedback and scrutiny findings.**
Status and progress to date	Continuous improvement is central to the Council's approach for an integrated planning and performance framework aligned to the Council's new business plan. This integrated framework is underpinned by the 'plan, do, check, review/act' model and methodology. To ensure delivery of the draft business plan outcomes and service priorities the Council will introduce the development of annual service plans at all levels in the Council (from Directorate to Service Team level). Plans will be aligned to Key Performance Indicator (KPI) scorecards and underpinned by trend dashboards which will be monitored and actioned regularly. Each year service teams will undertake a detailed review of their plans and associated performance to assess the progress made in delivering outcomes and improving performance. This review will inform service planning for the next year which will ensure that continuous improvement is embedded at all levels. To ensure effective scrutiny of our performance a regular cycle of performance reporting will be developed for Elected Members as well as the wider public. The Council also plans to engage with the Improvement Service to look at the options open to the Council to implement a strategic approach to self-evaluation.
Audit assessment	**In progress** The Performance and Planning Framework provides an overview of the strategic and performance framework together with a suite of KPI's to support the Council's key priorities. There are targets for some but not all of these KPIs. Annual Service Plans in the form of a "Plan on a Page" are being developed. A template has been devised and workshops have been held with CLT, Directors and senior managers to develop these plans at Directorate and Service level. Final approval from Directors for these plans is awaited. Once approved a corporate action tracker will be used alongside the Business Plan together with a KPI scorecard and dashboard.

Appendix 4: 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.

Rating	Assessment rationale
Critical	A finding that could have a: • **Critical** impact on operational performance; or • **Critical** monetary or financial statement impact; or • **Critical** breach in laws and regulations that could result in material fines or consequences; or • **Critical** impact on the reputation or brand of the organisation which could threaten its future viability.
High	A finding that could have a: • **Significant** impact on operational performance; or • **Significant** monetary or financial statement impact; or • **Significant** breach in laws and regulations resulting in significant fines and consequences; or • **Significant** impact on the reputation or brand of the organisation.
Medium	A finding that could have a: • **Moderate** impact on operational performance; or • **Moderate** monetary or financial statement impact; or • **Moderate** breach in laws and regulations resulting in fines and consequences; or • **Moderate** impact on the reputation or brand of the organisation.
Low	A finding that could have a: • **Minor** impact on the organisation's operational performance; or • **Minor** monetary or financial statement impact; or • **Minor** breach in laws and regulations with limited consequences; or • **Minor** impact on the reputation of the organisation.
Advisory	A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.

Current year action plan

1. Communication with valuer	Medium
Observation	We identified the following examples of communication and collaboration between the valuer and the Finance team where further improvements could be made: • One asset where incomplete cost information was provided to the valuer; • The valuer provided one consolidated valuation for two assets which was not made clear to the Finance team and incorrectly recognised in the fixed asset register; • Management allocating the assets valuation as provided by the valuer between individual asset components without initially engaging with the valuer over the reasonableness of this estimated split; • Valuations provided by the valuer for assets under construction when the Finance team correctly intend to continue holding these assets at cost.
Implication	Valuation of assets may be misstated within the annual accounts if the valuation exercise is not based on fully clear, complete or timely information.
Recommendation	A more collaborative approach should be taken to the valuation exercise to ensure valuations are based on complete information, are only obtained when both the Finance team and the valuer deem it necessary, and the valuer's expertise is used to inform all key estimates where appropriate.
Management response	In 2020/21 a total of 559 valuations were completed, equating to 19% of asset records and over 30% of the portfolio by value, with a further 15 deletions or additions meaning that 574 assets were reviewed before componentisation is considered. In addition, there were 500 lines of capital expenditure reviewed and capitalised as part of the year end process over the course of several weeks. Finance and Estates maintain strong communication throughout the year, with the valuation process underway in October through to completion of the unaudited accounts in May. The first bullet point relates to one asset that had been primarily constructed under a Design, Build, Finance, Maintain (DBFM) contract but there was a minor element of largely historic capital expenditure incurred by the Council on the same asset. This had

been treated as one asset as it was all under one AIS reference, however, following the audit it became clear that we should treat the two elements separately based on their respective funding arrangements and this has now been reflected in the Audited Accounts. This issue should be a one-off and was the reason for the gap in the process this financial year.

The second bullet point relates to two assets which were held as one asset due to their having the same AIS reference as they are located on the same land, however, during the audit it became clear that we should treat the two elements separately and that has now been reflected in the Audited Accounts.

Finance will continue to work collaboratively with the valuer on asset componentisation in future years, following audit advice on the matter this year.

Finance will make it clear to the valuer that any asset which isn't completed by the end of the financial year will be carried at cost in Assets Under Construction, subject to the impairment review recommended at Action 2. As a result of this impairment review, as well as purposes such as insurance, valuations may still be required on Assets Under Construction. On completion, they would be transferred to the correct asset categorisation, most likely Other Land and Buildings.

Responsible officer: Senior Accountant (Capital Accounts), Finance and Procurement

Implementation date: March 2022

2. Impairment of assets under construction	Medium
Observation	Assets under construction are not considered as part of the Council's impairment assessment.
Implication	There is a risk that assets under construction may be overstated as at 31 March if indicators of impairment are not appropriately considered and acted upon.
Recommendation	The Council should ensure their assessment of impairment adequately considers events and changes in circumstance that may indicate an impairment to assets under construction. This includes, but is not limited to, evidence of obsolescence, physical damage or a change in the way that asset is expected to be used by the Council.
Management response	All assets under construction will be reviewed for impairment during the financial year to ensure that there is no evidence of obsolescence, physical damage or a change in the way that asset is expected to be used by the Council. **Responsible officer**: Senior Accountant (Capital Accounts), Finance and Procurement **Implementation date**: March 2022

3. Provision for doubtful debts	Medium
Observation	The Council provides for a specific percentage of doubtful debt based on the age of the sundry debtor and housing rent arrears. Whilst we deem the provision for doubtful debt to be free from material misstatement as at 31 March 2021, the key assumptions applied should be subject to regular review.
Implication	The provision for doubtful debts may be materially misstated if the method and assumptions applied do not appropriately reflect the expected recovery rate of debt over the next 12 months.
Recommendation	The Council should reflect on any significant changes in recovery rates of sundry debtors and housing rent arrears when calculating their provision for doubtful debts and adjust the percentages provided for as appropriate.
Management response	The Council will review any significant factors that affect the likely recovery of sundry debts and house rents on an annual basis and ensure these are considered when determining the appropriate impairment level. **Responsible officer:** Head of Corporate Finance, Finance and Procurement **Implementation date:** March 2022

4. Common good – accounting estimates	Medium
Observation	Improvements have been noted relating to accounting estimates in common good expenditure recognition. While we have gained reasonable assurance that the estimates are materially correct, the council should ensure going forward that all relevant assets are considered, and the estimates are based on timely and relevant data.
Implication	There is a risk that expenditure on assets held in the common good does not reflect all information known at year end due to improvements which could be made to the quality of data used.
Recommendation	The Council should review processes to ensure that Common Good expenditure is complete and estimates are based on complete and relevant information.
Management response	The Council will review relevant processes with a view to ensuring the completeness and robustness of expenditure-related Common Good disclosures. **Responsible officer:** Senior Accountant (Common Good), Finance and Procurement **Implementation date:** March 2022

5. Payroll reconciliations	Medium
Observation	While the Council undertakes monthly payroll reconciliation focused on the Balance Sheet, a year-end reconciliation of employee expenditure to the payroll system is not undertaken by management. Procedures have been undertaken to gain assurance that the accounts materially reflect the payroll system. We further identified issues in relation to inaccurate employer pension contribution percentages, which are set by the Pension Fund actuary, for a small number of employees. While we have gained assurance that the impact is trivial, action should be taken to ensure that employer pension contributions are set appropriately.
Implication	There is a risk that inappropriate adjustments to employee expenses, including payroll costs, are not identified due to a lack of appropriate management processes.
Recommendation	The Council should undertake a year-end reconciliation of employee expenses to the payroll system.
Management response	"A year-end reconciliation of employee expenses to the payroll system will be undertaken going forward **Responsible officer:** Principal Accountant (Corporate Accounts), Finance and Procurement **Implementation date**: June 2022

6. Implementation of BVAR recommendations	High
Observation	While, overall, progress has been made against all of the recommendations in the Best Value Assurance Report, further detailed work is now required to support the agreed approaches and overarching strategies.
Implication	The BVAR noted that the Council needs to quickly increase the pace of improvement to help it demonstrate that it is achieving Best Value. Implementation of these recommendations will help the Council address the improvement areas as identified in the BVAR. The Commission will monitor the pace and depth of implementing these actions.
Recommendation	In particular, the Council should: 1. Develop detailed savings plans to address the significant funding gaps identified in the medium-term financial plan. 2. Develop detailed workforce plans for service teams to support the strategic workforce plan. 3. Develop annual service plans for directorates and teams that support the delivery of key performance targets. Targets should be set for all KPIs agreed within the new Planning and Performance Framework. 4. Continue to progress approved Community Asset Transfer requests as a matter of priority. 5. Progress the framework drawn up for collaboration with community councils and ensure this delivers the real involvement of community representatives in delivering community outcomes. Specific timescales should be documented over implementation of these actions.
Management response	**Action 1** A detailed update and response on this recommendation is included within the prior year's action follow-up section of the report. **Responsible officer:** Service Director: Finance and Procurement **Implementation date**: December 2022 **Action 2** The Council's Strategic Workforce Plan 2021/24 was approved at the Policy and Sustainability Committee in April 2021 (in conjunction with an approved People Strategy 2021/24) and aligned to the Business Plan 2021/24.

6. Implementation of BVAR recommendations	High

We have developed an approach to workforce planning and this is currently being piloted within Human Resources. This will then be taken to the Corporate Leadership Team in December 2021 for approval before implementation within identified teams.

Responsible officer: Service Director: Human Resources
Implementation date: June 2022

Action 3

A detailed update and response on this recommendation is included within the prior year's action follow-up section of the report.

Responsible officer: Change and Delivery Manager (Data, Performance and Business Planning), Strategic Change and Delivery, Corporate Services

Implementation date: March 2022

Action 4

Community Asset Transfers continue to be actively encouraged across all property service areas as part of business as usual. In the past twelve months, there has been a sizeable increase in interested parties who are at the pre-application stage and the service continues to support and advise these aspirations.

Responsible officer: Investments Senior Manager, Sustainable Development, Place Directorate

Implementation date: The original recommendation has been implemented but work in this area is, by its nature, on-going

Action 5

A working group comprising senior Council officers and members of the Edinburgh Association of Community Councils (EACC) has been established to discuss the areas the community councils identified as requiring improvement. Following on from this, a draft improvement plan has been produced which is due to be considered at a further meeting being held on 10 November. The plan responds directly to the asks of the EACC and covers actions to improve the immediate ways of working, together with longer-term structural changes. The work to date has focused on the relationship between the Council and community councils and further work is required to address the collaborative working with members of the Edinburgh Partnership. A report on this is anticipated to be presented to the Edinburgh Partnership Board in December 2021.

6. Implementation of BVAR recommendations	High
	Responsible officer: Head of Policy and Insight, Corporate Services Directorate **Implementation date**: December 2021 (for identification of proposed improvements), followed by period of implementation, timescales for which will be dependent upon these agreed actions

Appendix 5: Follow up of prior year recommendations

We have followed up on progress in implementing actions raised in the prior year/s. The table below summarises progress made by the Council in implementing these actions.

		Year recommendation raised			
	Rating	2016/17	2017/18	2018/19	2019/20
Ongoing	**High**	1	3	2	-
	Medium	-	-	1	2
Closed	**High**	-	1	-	-
	Medium	-	-	-	1
Total		**1**	**4**	**3**	**3**

Actions outstanding or in progress from previous years

2019/20 recommendations which are in progress in 2020/21

Long term financial plan	Medium

Recommendation	Management comments
The agreement of a three year revenue budget and long term capital budget was a positive achievement, particularly given the delays in the announcement of UK and Scottish Government budgets. We note however that a three-year revenue budget is at the lower end of what Audit Scotland would consider as adequate medium-term financial planning and would recommend that the council agrees a longer term financial planning framework for its revenue budget.	In recognising the continuing uncertainty resulting from both the pandemic's longer-term impacts and a succession of one-year financial settlements, the primary focus will remain on setting a balanced, three-year revenue budget. Once greater certainty is obtained in these areas, opportunities to plan over a longer timescale will be considered and reported to the Finance and Resources Committee. At this stage, however, it is difficult to state with accuracy when this might be. **Responsible officer:** Head of Finance **Implementation date:** TBC

Current status	Update
Superseded by Best Value recommendations	An update on the revenue budget framework, based on a five-year planning timeframe, was presented to the Finance and Resources Committee on 7 October 2021, highlighting a projected annual savings requirement of some £126million in 2026/27. Recognising the lead-in time for the scale of change likely to be required to address this requirement, the report emphasised the need for early consideration and a corresponding comprehensive and sustainable savings plan, rooted in the Council's priorities as set out in the Business Plan, to be initiated by Autumn 2021 to address the projected funding gap in 2022/23 and, in particular, the significant shortfalls in subsequent years. The provision by the Scottish Government of three-year high-level budgets in spring 2022 will assist in the development of a longer-term plan.

Long term financial plan	**Medium**
Revised implementation date	December 2022 (for the development of savings plan for the medium term financial plan to 2026/27 and an indicative longer term financial plan)
Responsible officer	Service Director: Finance and Procurement

Public Performance Reporting	**Medium**
Recommendation	Management comments
The information reported in the Annual Performance Report and the Local Government Benchmarking Framework is one of the main ways the Council provides updates to the public on how it is performing and demonstrating Best Value. It is not clear however how the Council has addressed the SPI 2 requirements regarding performance against Best Value responsibilities. We recommend that annual performance is mapped against the 7 Best Value themes.	The Council is developing a new business plan and performance framework which will be in place by the next financial year. As part of this process we will consider how we demonstrate our performance against Best Value responsibilities and in particular compliance with the SPI 2 requirements. In the interim we will map our existing KPIs against the seven best value themes as part of our annual review of the Councils KPIs. **Responsible officer:** Change and Delivery Manager (Data, Performance and Business Planning), Strategy and Communications **Implementation date:** March 2021

Current status	Update
Superseded by Best Value recommendations	The Council's new Business Plan was approved by Council in February 2021. Thereafter, a new Planning and Performance Framework including a new suite of key performance indicators aligned to the business plan was developed and approved by the Policy and Sustainability Committee in June 2021 (both papers are available on the Council's website). The framework details our approach to planning and performance including Elected Members' scrutiny of performance as well as performance updates for the public. We have commenced the implementation of the framework and expect our annual service plans to be completed by the end of September 2021. We will provide performance updates to the Policy and Sustainability Committee in November 2021 and February 2022. A detailed annual performance report and an LGBF report will be submitted to Committee in June 2022. All reports will be published on the Council website for members of the public to access. The Business Plan KPIs have been mapped against the National Performance Framework and the seven Best Value themes. Additionally, we are reviewing the Performance and Data section of our website to simplify public access to our performance data and ensure performance and data reports are collated under a single

Public Performance Reporting	**Medium**
	section. Our current pages include all performance reports to Committee, but we will expand what is available to include a quarterly performance update report and a range of data analytic reports, for example; Edinburgh by Numbers, SIMD, Locality profiles and the Annual Complaints report will also be located with the performance and data section. The redesign of our performance web pages will be completed by the end by March 2022.
Revised implementation date	March 2022
Responsible officer	Change and Delivery Manager (Data, Performance and Business Planning), Strategic Change and Delivery, Corporate Services

2018/19 recommendations which are in progress in 2020/21

Elected member and officer protocols	Medium
Recommendation	**Management comments**
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.	A review was carried out on the Member/Officer Protocol in 2019 and this included workshops with the Governance, Risk and Best Value Committee and officers separately and then a facilitated workshop (by the Improvement Service) with a cross-section of elected members and officers. The protocol was then to be taken back to committee before approval. This has, however, been paused whilst the Council awaits the review of the Councillors' Code of Conduct and associated appendix on member/officer relations so as to ensure it is consistent.

Current status	Update
Ongoing	This will now form part of the wider review of political management arrangements following the Local Government Election.
Revised implementation date	August 2022
Responsible officer	Head of Democracy, Governance and Resilience, Legal and Assurance Division, Corporate Services

Implementation of audit recommendations	**High**
Recommendation	Management comments
In August 2019 internal audit reported that 47 internal audit findings (those overdue where management action had not been actioned or evidenced) were outstanding. Of these 26 were more than one year old. 118 management actions were also identified as overdue. There were high rated findings in both overdue management actions and internal audit findings. Whilst we are satisfied that audit is seen as an important element of the internal control framework by senior management and Councillors there needs to be a greater prioritisation of addressing issues raised by internal audit across the Council.	As at July 2020 there were 82 open internal audit findings across the Council. This was a significant deterioration in performance in comparison with previous quarters as a result of the impact of Covid-19. The Council agreed an approach whereby management would assess the significance of the risks of open internal audit findings and then prioritise the most significant risks for closure with extensions applied to the remainder of findings. We recognise the impact of the pandemic on council services however it is essential that in future all internal audit findings are closed in line with the revised protocol.

Current status	Update
Ongoing	In recognising the crucial importance of implementing internal audit recommendations on a timely basis, approval has recently been granted to recruit to a number of dedicated posts across Directorates. These posts have a specific remit to oversee progress in reducing the number of higher-risk actions beyond their agreed implementation dates, as well as heightening wider awareness around the importance of internal control.
Revised implementation date	On-going
Responsible officer	Chief Executive and all Executive Directors

Service performance	**High**
Recommendation	2019/20 Management comments
Whilst there has been some improvement in some of the Councils key indicators we are disappointed to note that there is a continuation of areas of poor performance within Adult Social Care Services, Environmental Services and Homelessness. Significant improvements are required, including the pace of change in implementing such improvements	The Council in 2019/20 has demonstrated improvements in performance in several areas including waste and cleaning, school education and processing times for benefits and grant claims. Performance has however declined in five of the nine adult social care indicators.

Current status	Update
Ongoing	**Homelessness** - During the course of the last financial year we have secured an additional 390 temporary furnished flats and continue to progress with actions set out in the Rapid Rehousing Transition Plan to secure alternative forms of accommodation. Given the ongoing COVID-19 pandemic we have not been able to reduce the amount of emergency accommodation. Work continues to ensure a high percentage of social rented homes are let to homeless households and increased access to the Private Rented Sector and mid-market rent properties, along with an increase in preventative work. **Adult Social Work** - In the 2020/21 Annual Performance Report, 7 out of 10 adult social care indicators were on or ahead of target, with a further one not comparable to previous years due to COVID. The EIJB continues to work with partners to deliver sustained improvement across adult social care services.
Revised implementation date	On-going
Responsible officer	Interim Homelessness and Housing Support Senior Manager, Place Directorate Chief Officer, Edinburgh Health and Social Care Partnership

2017/18 recommendations which are in progress in 2020/21

Common good asset register	**High**
Recommendation	2019/20 Management comments
The Council, in preparing the 2018/19 common good fund annual accounts should review the accounting policies for property, plant and equipment and heritage assets to ensure that: The assets are classified correctly; The appropriate valuation basis has been applied; and Depreciation is applied dependent on the accounting policy and classification of the asset.	Work on categorising civic regalia and artefacts that are assets of the Common Good fund is advancing well but has been delayed by the COVID-19 lockdown and the changes to working practices. This workstream will not be able to proceed until it is safe to return to the office to catalogue the items. Once this work has been completed, we will subsequently need to value the assets to be transferred. While one further workstream remains outstanding, this does not, however, alter the land and property assets as listed in the Common Good Asset Register as published. This work comprises larger assets that are "split", having been acquired at different times under different titles, some being deemed Common Good and others not so, being held on other accounts. This workstream had commenced but will also not be able to be completed until it is safe to return to the office to review the title deeds and plans. Those categorised as assets of the Common Good will be added to the register which is live on the Council's webpage.

Current status	Update
Ongoing	The above commentary is still current and until there is access back to the office, we will be unable to finalise an action plan to resolve progress on the outstanding items.
Revised implementation date	June 2022 (access permitting)

Common good asset register	**High**
Responsible officer	Senior Accountant (Common Good), Finance and Procurement

Financial sustainability – health and social care	**High**
Recommendation	2019/ 20 Management comments
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, remained unbalanced by £7.1million as at 31 August 2019. The financial and service performance of the EIJB remains a high risk issue and the Council needs to work together with the EIJB and NHS Lothian to reach an agreed financial settlement.	The EIJB continues to face significant financial pressures despite significant investment. Development of the EIJB medium term financial plan has been delayed and ongoing work halted as a result of the emerging pressures and impact of COVID-19. The EIJB has committed to developing their medium term strategy by December 2020 and the Council needs to work together with the EIJB and NHS Lothian to deliver this.

Current status	**Update**
Ongoing	The EIJB continues to face significant financial pressures. In March 2021, the Integration Joint Board (IJB) agreed the 2021/22 financial plan and associated savings and recovery programme. Recognising that the impact of the additional measures which would be required to balance the plan would have a significant negative impact on performance gains and, ultimately, on outcomes for people, the board made the difficult decision to support a budget which did not deliver financial balance. At this point the plan had a deficit of £9.3m and, following the allocation of £2.5m of additional funding from the Council, this has reduced to £6.8m. Discussions are continuing with the Scottish Government to explore the extent to which additional funding for the financial impact of Covid-19 can be applied to support the range of financial pressures and challenges faced. The EIJB savings and recovery programme has been adversely impacted by the pandemic. The EIJB Chief Finance Officer has reported that the Senior Responsible Officers for the purchasing savings scheme (with total approved savings of £11.2m in 2021/22)

Financial sustainability – health and social care	High
	are agreeing recovery and mitigation actions with the Partnership's Executive Management Team as a matter of urgency. In December 2020 the IJB considered the draft financial outlook for 2021-24 which set out the projected financial gap for the 3 year period. This paper introduced the EIJB Integration and Sustainability Framework (ISF), developed in response to the longer term financial challenges and advised that the ISF will be aligned to and underpinned by the EIJB's strategic plan. Urgent work is required to develop a detailed medium-term revenue budget savings and prioritisation programme, guided by the EIJB strategic plan, to address the estimated revenue funding gaps in future years
Revised implementation date	On-going
Responsible officer	Chief Finance Officer, Edinburgh Integration Joint Board

Health and Social Care performance	High
Recommendation	2019/20 Management comments
Whilst there has been some improvement in performance, it remains too early to conclude whether this can be sustained. The approval of a new Strategic Plan should provide a framework for delivering real improvement however there is a danger that this is compromised by the significant financial challenges faced by the IJB in reaching a balance position.	The committee conducted its first meeting in September 2019 and met bi-monthly until all committee meetings were suspended in April 2020. A performance report is presented at each Performance and Delivery committee, providing an overview of performance against the seven key local indicators and national Ministerial Strategic Group measures. Detailed dashboards are supported by a narrative report which highlights key risks and noteworthy changes to performance. Performance reports are significant in length with the most recent committee report in excess of 60 pages. Whilst the

Health and Social Care performance	High
	level of detail may be beneficial to some members, this does not support efficient scrutiny. Members should focus discussions on area of concern or underperformance and the current reporting format does not succinctly summarise or highlight these areas. Performance reports would benefit from the inclusion of a performance scorecard that summarises for each indicator whether performance has improved, declined or remained constant and how this compares against targets or thresholds. A RAG rating could be used to draw members' attention to areas of underperformance or concern

Current status	Update
Ongoing	The EHSCP's Performance and Evaluation Manager has been in post since February 2021. Performance reports to the Performance and Delivery Committee have evolved since this point to include more upfront narrative outlining the key aspects of performance that committee members should be aware of. This is specifically done in an overarching rather than indicator by indicator approach to allow the committee to be aware of performance issues and pressures that are impacting across a range of measures. It also allows explanations of the links between performance across indicators to be explained. The P&E Manager is working on a performance framework that will review the performance information included in the performance report to the Performance and Delivery Committee. Consideration of whether a scorecard and RAG dashboard is appropriate will be considered at that stage, however this is likely to be based on progress towards achieving our strategic priorities rather than at an indicator by indicator level for the reasons outlined above and to support an outcomes-based approach to performance. More detail on the process for preparing this performance report is set out below. • The partnership's overall performance report is prepared on a triannual basis to align with the Performance and Delivery Committee meeting schedule. This process is now led by

Health and Social Care performance	High
	the Performance and Evaluation Manager who started in February 2021. Once the report is prepared, the P&E Manager meets with the four locality managers to discuss the content of the report, any factors that are influencing performance and trends to be highlighted to the EMT and P&D committee. Additional commentary and insight is then added to the report by the P&E Manager. • The report first goes to our Executive Management Team (EMT) who have a half hour slot on their agenda to discuss it. The P&E Manager will present EMT with a summary of the report, including any areas of significant positive or negative trends. EMT discuss the report, raising any particular pieces of data they have concerns about and discussing the general context of the trends. Where EMT deem it necessary, further pieces of work ('deep dives') into particular indicators are commissioned, for example, we are currently undertaking a deep dive into the readmissions rate in Edinburgh. These deep dives are reported back to EMT and the P&D Committee at future meetings either as part of the performance report or as separate papers. • Following EMT, the paper is updated to incorporate any additional insights then circulated for the Performance and Delivery Committee. Again the P&E Manager presents a summary of the report at the P&D meeting before opening for discussion and questions. Committee members review the report carefully prior to the meeting and will raise questions about particular pieces of data. As at EMT, the Committee will ask for deep dives to be done on particular indicators where they need more information.
Revised implementation date	On-going
Responsible officer	Chief Officer, Edinburgh Integration Joint Board

2016/17 recommendations which are in progress in 2020/21

Delayed discharges	**High**
Recommendation	2019/20 Management comments
Edinburgh has regularly had the highest number of delayed discharges of any Integration Authority in Scotland. We recommend that improving performance in this area remains a priority.	The IJB has historically underperformed against its delayed discharges target (the number of days people spend in hospital when they are ready to be discharged) but reported a significant improvement in the 2019/20 annual performance report. In March 2020 partnerships were asked to prepare mobilisation plans in response to the COVID-19 pandemic with the aim of creating capacity and space within hospitals. As associated target to reduced delayed discharges was set across Scotland. The partnership identified a number of actions to reduce delays, free up beds in acute services and develop capacity within the community. This had a significant impact on performance and the IJB reported an improvement of 27% compared to 2018/19. However, the IJB continues to significantly underperform compared to the Scottish average (50% higher) and remains in the bottom quartile, ranking 27th compared to other integration authorities (2018/19: ranked 31st). Partnerships across Scotland managed to reduce delayed discharges, A&E attendances and hospital admissions in March and April as the pandemic hit. A national lessons learned exercise was completed in July 2020 highlighting local initiatives and examples of good practice that could support a sustainable improvement in performance.

Delayed discharges	High
Current status	**Update**
Ongoing	The rate of bed days lost due to delayed discharged for those over 75 has decreased sharply in 2020/21 for both Edinburgh and Scotland. The 2020/21 figures will be affected by the pandemic both due to the lower number of people being admitted to hospital and the focus on this area to free up beds to increase hospital capacity. However, between 2019/20 and 2020/21, this figure decreased by 51% in Edinburgh compared to a 37% decrease in the figure for Scotland. We remain higher than the national level, but the gap has closed over the last few years. The 2020/21 figure for Edinburgh was 579 compared to 488 in Scotland. This is a decrease in Edinburgh from 1,175 days in 2019/20. In 2020/21 we were ranked 22nd out of 31 partnerships, an improvement from our ranking of 27th in 2019/20. We continue to work to reduce the levels of delayed discharges in Edinburgh, however we are seeing these increase again as our services remobilise and system-wide pressures on capacity increases following the removal of pandemic restrictions. However, the trend in Edinburgh follows the same pattern as the national trend (see below graphs). Our bed-based strategy and market shaping projects will implement changes that support increased capacity in care at home, intermediate care and nursing homes, which will facilitate timelier hospital discharges. Ongoing work through the Home First project on implementing a Planned Date of Discharge will also support more proactive discharge planning.

Delayed discharges	**High**

Figure 1: Number of delays across Scotland

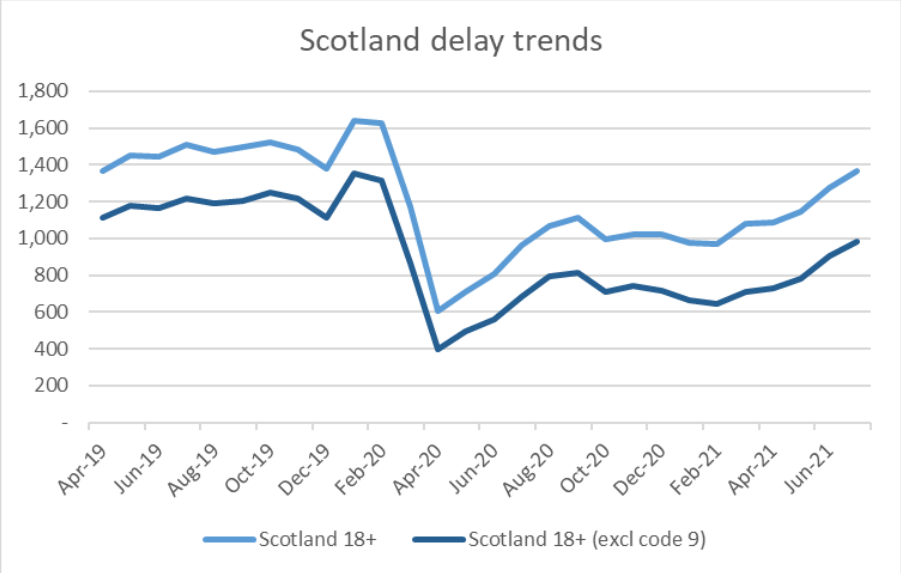
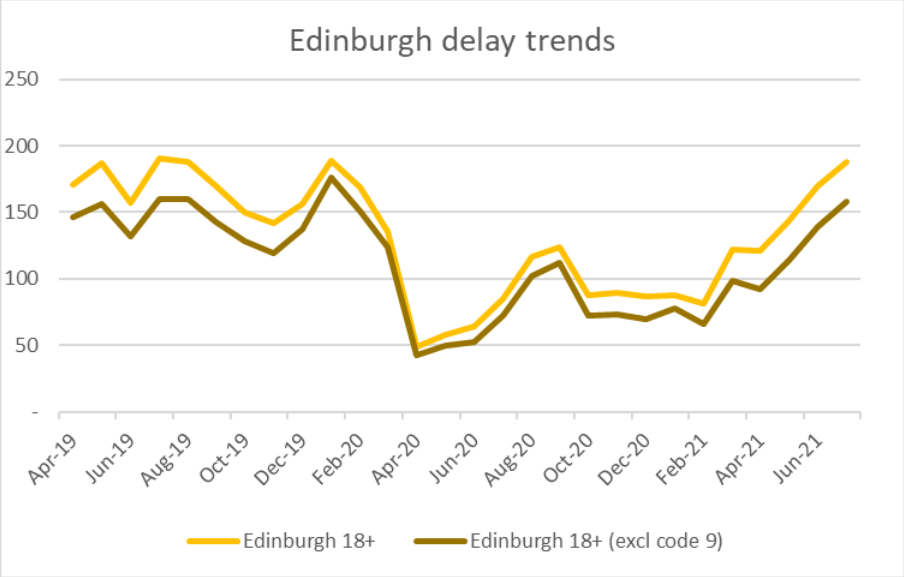


Figure 2: Number of delays across Edinburgh



Revised implementation date	On-going
Responsible officer	Chief Officer, Edinburgh Integration Joint Board

Appendix 2

2020/21

AUDITED ANNUAL ACCOUNTS

The City of Edinburgh Council

Annual Accounts

Year to 31 March 2021

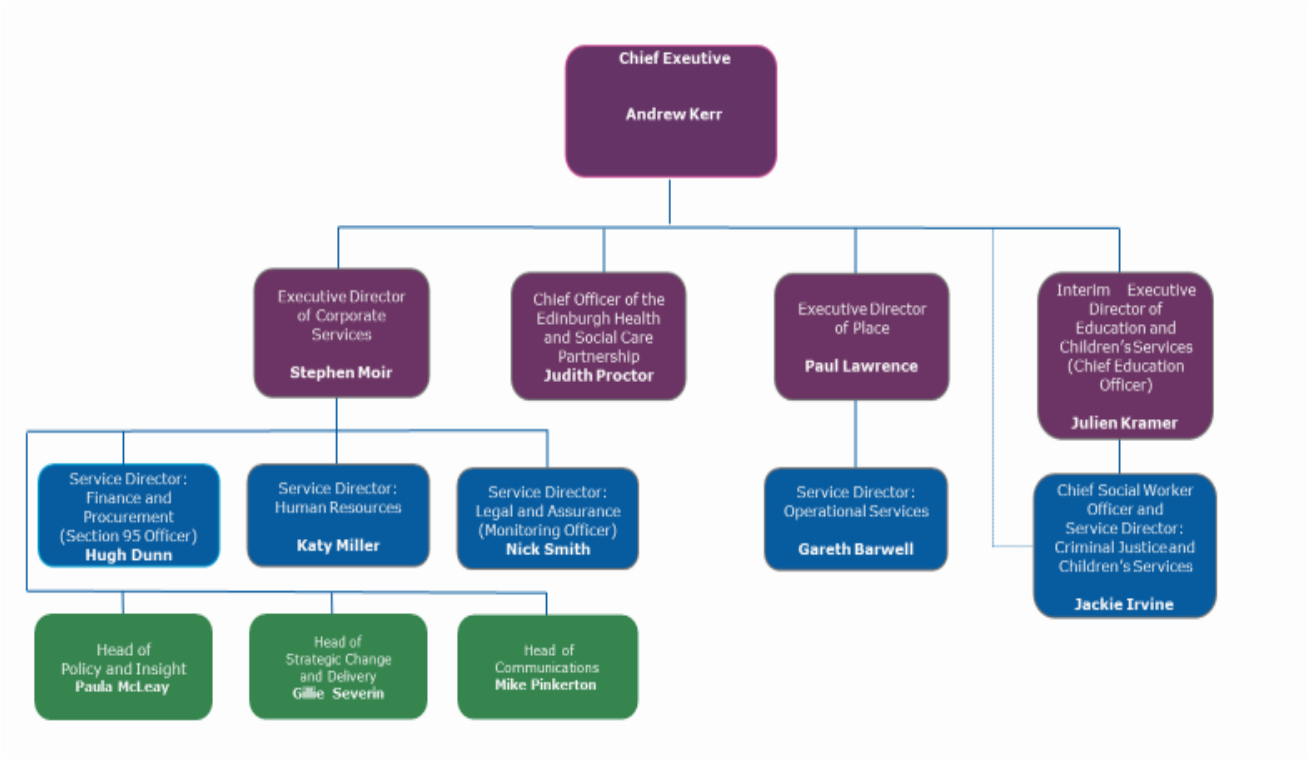
MANAGEMENT COMMENTARY

Introduction

The Audited Annual Accounts present the financial position and performance of the Council, together with the wider Council Group, for the year to 31 March 2021. They have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 using the Council's management structure as a reporting basis, the same 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 some 527,000 citizens across the 102 square mile Council area. As of March 2021, the Council employed 14,898 FTE staff, compared to 14,754 FTE as of March 2020.

The structure of the Council continues to evolve but the Corporate Leadership Team (CLT) organisational chart and tables below indicate the position at the date the accounts were approved.



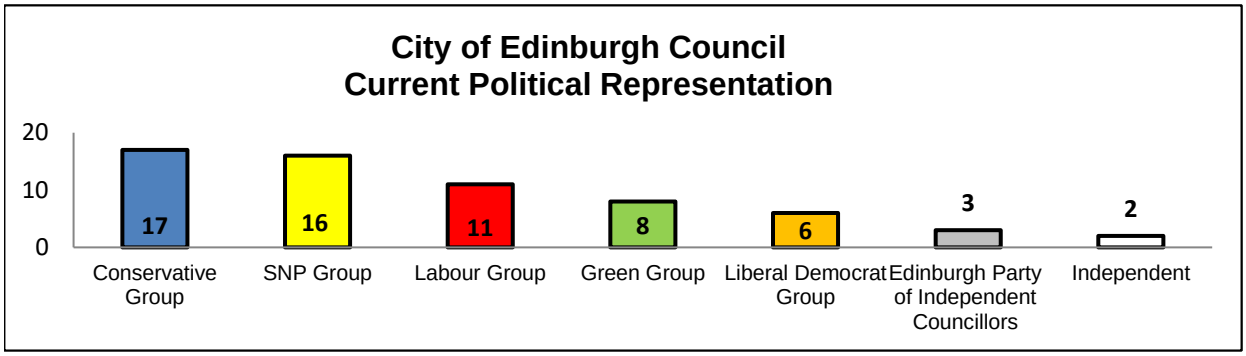
Corporate Services	Health and Social Care	Place
Customer and Digital Services	Edinburgh Integration Joint Board	Environment (inc. waste and parks)
Finance and Procurement	Older people's services	Transport (inc. parking)
Legal and Assurance	Learning and Physical disabilities	Roads, bridges and flood prevention
Human Resources	Mental Health	Housing and Regulatory Services
Strategy and Communications	Substance Misuse	Planning and building standards
	Education and Children's Services	Culture, Museums and Galleries
	Schools and Lifelong Learning	Property and Facilities Management
	Children's social work	Libraries and Sports
	Community education	Homelessness services
	Early Years	
	Community Justice	

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

MANAGEMENT COMMENTARY

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. Taking into account subsequent by-elections and other changes, current representation is 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 132 of these financial statements.

Edinburgh and the Council's Role

2020/2021 has been a year like no other and throughout the pandemic, we have worked hard to keep services running, and to deliver vital help to those citizens and businesses who need it most.

To enable this response, several groups were established, including the Council Incident Management Team (CIMT) and Directorate Incident Management Teams (with escalation to CIMT). These groups have provided a clear, easy to understand and effective governance structure for organising services during the emergency. They have met with differing frequency during the pandemic, operating flexibly to ensure the Council could react rapidly to any arising issues. Full details of these decision-making arrangements are outlined in the Annual Governance Statement.

Edinburgh continues to see significant population growth, with a 8.5% increase between 2010 and 2020 compared to a national rise of 4.7% over the same period. The majority of this growth is due to net overseas migration. Analysis of population trends suggests that the total number of residents will increase by at least 64,000 people by 2043, with a 72% increase in those aged 75 and over. It is also projected that by 2030 the number of pupils in our primary and secondary schools will increase by 9%. This growth will place further demands on a range of frontline services and as a result, 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.

City of Edinburgh Council's Corporate Strategy and Vision

In February 2021, the Council approved **a new Business Plan** which sets out the Council's priorities and how the aims set out in the **Community Plan** would be taken forward.

The Business Plan covers a three-year period and provides an overarching focus for the Council in terms of its priorities and the delivery of its aims. It provides an opportunity to deliver a future organisation to meet the changing needs of citizens.

The Business Plan sets out the three main priorities the Council will focus on in the coming years:

1. Ending poverty by 2030;
2. Becoming a sustainable and net zero city; and
3. Enhancing wellbeing and equalities

The Business Plan describes the approach the Council will take to deliver its priorities in the form of 15 outcomes with 55 actions. This plan stands as one part of a golden thread linking and guiding operations through to the shared goals and commitments of the Edinburgh Partnership and towards the long term ambitions for Edinburgh to be a fair, welcoming, pioneering, and thriving city, as outlined in the **2050 Edinburgh City Vision**.

The Business Plan also meets the Accounts Commission's Best Value Report recommendations on aligning the Council's strategic direction.

MANAGEMENT COMMENTARY

The 15 outcomes of the Business Plans are as follows:

Ending poverty by 2030

1 On track to end poverty in Edinburgh by 2030 by meeting the targets set by the **Edinburgh Poverty Commission**
2 On track to deliver new prevention service models
3 More residents experience fair work and receive the living wage
4 Intervene before the point of crisis to prevent homelessness
5 Ongoing delivery of our 20,000 affordable homes programme
6 Increasing attainment for all and reducing the poverty-related attainment gap
7 Edinburgh's economy recovers from recession and supports businesses to thrive

Becoming a sustainable and net zero city

8 On track to deliver our 2030 net zero target
9 Citizens are engaged and empowered to respond to the climate emergency
10 Develop key strategic sites and projects to meet the needs of a diverse and growing city
11 The city has a well-connected and sustainable transport and active travel network

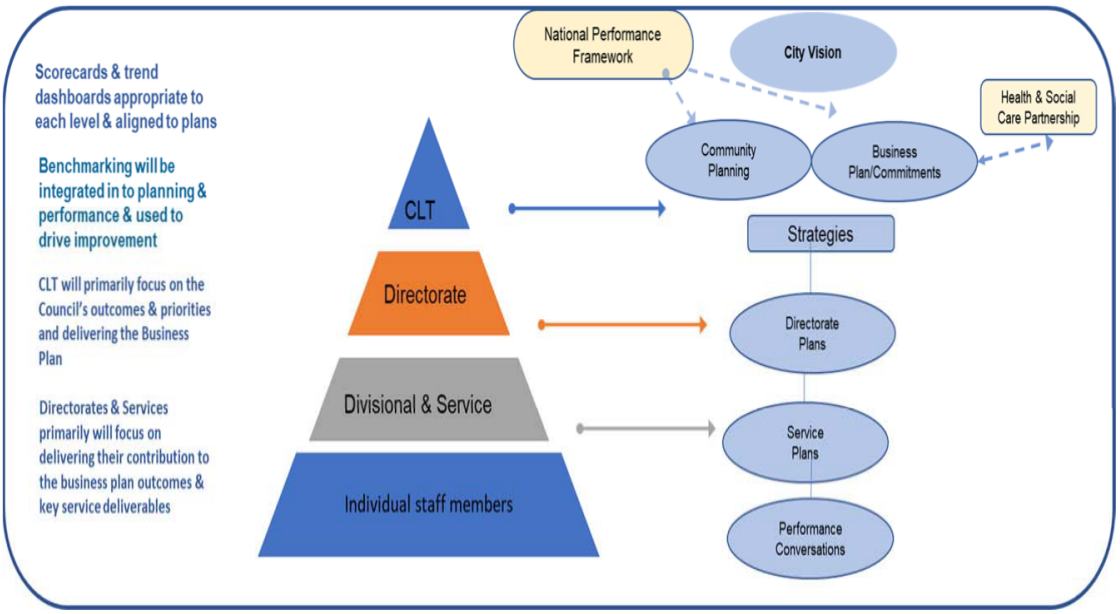
Enhancing Wellbeing and equalities

12 People can access the support they need in the place they live and work
13 Improved safety and wellbeing for vulnerable citizens
14 Core services are maintained or improved
15 Make better use of the Council estate and resources to meet our strategic priorities

The Business Plan forms the central part of the strategic Planning and Performance Framework and sits within the wider ecosystem of strategic planning for the Council as shown in the diagram below.

The framework has been designed to ensure that our priorities and outcomes are translated into clear actions and performance measures which are appropriately monitored, actioned and delivered. It will be underpinned by the "Plan, Do, Check, Act/Review" continuous improvement model and delivered though a robust annual cycle.

The approach embeds a "golden thread" between the three-year Council Business Plan, strategies, annual Directorate/ Divisional plans and colleague annual performance conversations, ensuring a clear understanding of our key deliverables across all our services.



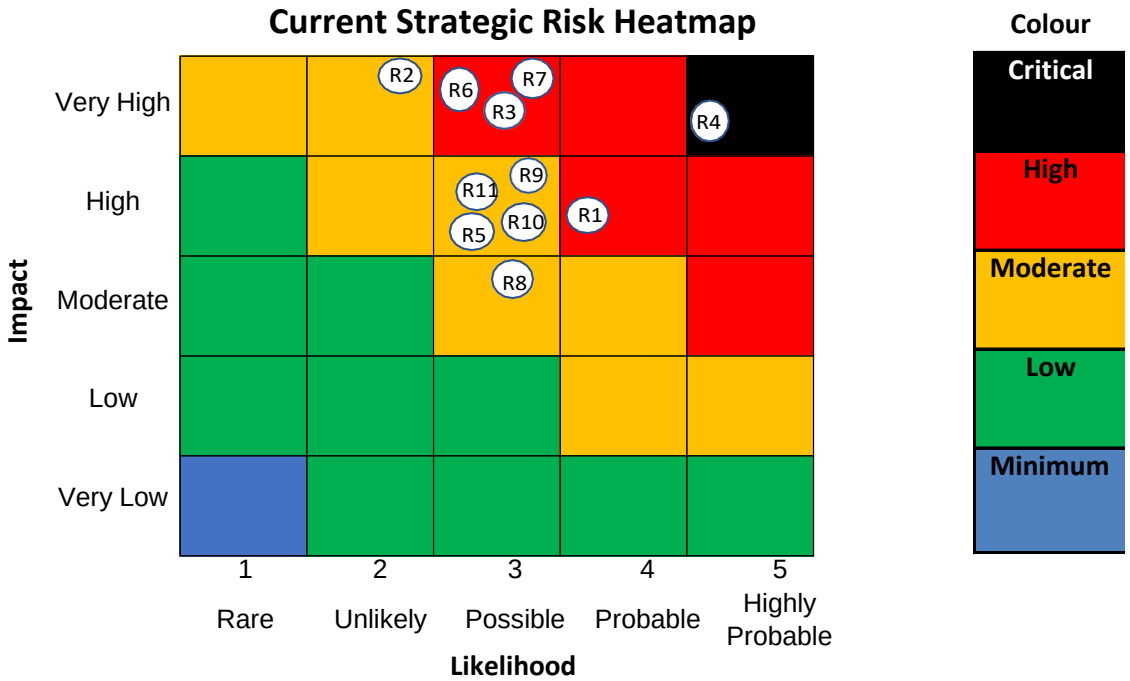
Risks and Uncertainty

The Corporate Leadership Team's (CLT) highest-prioritised risks as reported to the Governance, Risk and Best Value Committee (GRBV) on 8 June 2021 are outlined below, along with the key controls in place to mitigate them.

In light of the COVID-19 pandemic, the Council developed a detailed risk management plan that identifies and tracks key risks, along with associated mitigating actions. These have been discussed at weekly risk forum meetings with cross-Directorate representation, and fortnightly at the Council Incident Management Team (CIMT).

MANAGEMENT COMMENTARY

Risks and Uncertainty - continued



R1	Strategic Delivery	R7	Technology and Information
R2	Financial and Budget Management	R8	Governance and Decision Making
R3	Programme and Project Delivery	R9	Service Delivery
R4	Health and Safety (including Public Safety)	R10	Regulatory and Statutory Compliance
R5	Resilience	R11	Reputational
R6	Supplier, Contractor and Partnership Management		

Five of the Council's eleven strategic risks are currently outwith approved risk appetite ranges, mainly due to the ongoing impacts of Covid-19, with Health and Safety (including public safety) remaining the most significant current risk for the Council, which continues to be assessed as critical. The following mitigating actions are in progress in respect of these five risks, with further details available in **Appendix 2 of the plan**:

R1	Strategic Delivery	- Develop and implement new performance framework
R3	Programme and Project Delivery	- Consolidation of all major projects into the Adaptation and Renewal Programme
R4	Health and Safety (including Public Safety)	- Implementation of Life Safety audit actions - Corporate (2nd Line) Health and Safety recruitment
R6	Supplier, Contractor, and Partnership Management	- Understand impacts of the new Brexit legislation on significant (Tier 1 and 2) contracts
R7	Technology and Information	- Resolution of vulnerability scanning outcomes

Quarterly CLT and Directorate risk committees were paused during Covid-19 to enable focus on the Council's Covid-19 resilience response. Both CLT and Directorate risk quarterly committees have now been reinstated.

Appropriate risk management arrangements have been established to support ongoing identification; assessment; recording; and management of the new Covid-19 risks faced by the Council. These new risks are recorded together with mitigating actions in the Covid-19 Risk Management Plan (RMP) that is regularly reviewed and refreshed and presented monthly to the CIMT for review and discussion.

The Council's **Enterprise Risk Management Policy** is reviewed and approved annually by the Policy and Sustainability Committee.

Once approved by the Committee, the Policy is shared and communicated across the Council, with the refreshed version published on the policy register maintained on the Council's website. The next review will be carried out in October 2021.

The Council's **Risk Appetite Statement** (covering its attitude to service delivery, infrastructure, compliance and financial risks) was approved at the meeting of the Policy and Sustainability Committee on 6 October 2020.

MANAGEMENT COMMENTARY

Other Risks, Challenges and Uncertainties

On 27 May 2021, the Accounts Commission published its annual **Local Government in Scotland Overview.** This report sets out a number of challenges common to all councils in Scotland, mainly relating to the impact of the pandemic, and the key characteristics of the response:

Communities and people. Community wellbeing and the role of communities in responding to the crisis: differing impacts of Covid-19 on demographic groups; the impact of the pandemic on inequalities; communities' contributions in responding to the crisis.

- Service delivery and partnership working. The adaption of service provision and working with partners: reduced service provision and prioritised services; innovation and digital delivery; enhanced collaboration and more positive working relationships.
- Resources and governance. The financial impact of responding to Covid-19, use of resources and changes to governance arrangements: challenging financial outlook– additional spending and lost income; new funding and financial flexibilities; staff redeployed to fulfil essential roles; virtual decision-making; changes to governance arrangements.

On 1 December 2020, in response to the Poverty Commission's final report, the City of Edinburgh Council became the first UK local authority to set a target date for ending poverty by agreeing the proposals set out in the **End Poverty in Edinburgh Delivery Plan 2020-30**.

The Edinburgh Partnership has also published a **paper** setting out how partners will collectively work towards the aim of ending poverty in the city by 2030.

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 measures is reported quarterly to the Corporate Leadership Team, using a balanced scorecard approach analysing performance across a complementary range of service outcome, delivery, capability and financial sustainability perspectives.

An **Adaptation and Renewal Programme** update report, outlining the Council's on-going response to the pandemic, was considered by the Policy and Sustainability Committee on 5 October 2021 including a Covid-19 Response Dashboard detailing Edinburgh case numbers, vaccinations, Public Health and Safety, vulnerable groups and economic indicators.

Edinburgh specific performance data has also been provided through a range of other channels, including the **Capital Residents Survey** which took place between 12 October and 2 December 2020. The survey was jointly funded with NHS Lothian and focused on resident experience of services during Covid-19 and areas of mutual interest to both organisations, such as alternative service delivery mechanisms. Since March 2020, when the UK first went into lockdown, 80% of Edinburgh residents said they were satisfied with the services provided by the Council.

Council Performance and Best Value

The Council's **2020/21 Annual Performance Report**, along with a progress assessment against the 52 commitments underpinning the Council's Business Plan, was considered by the Policy and Sustainability Committee on 10 June 2021. A separate report included an analysis of the comparative indicators comprising the 2019/20 Local Government Benchmarking Framework (LGBF). Initial analysis points to a slight improvement in the Council's performance compared to other local authorities in both relative and absolute terms, particularly in Environmental services.

The Council's **2019/20 Annual Audit Report** concluded that the Council had appropriate arrangements in place for managing its financial position during 2019/20 despite reporting an unplanned net overspend of £4.9million due to the impact of COVID-19, which was met from a drawdown of earmarked reserves. It was noted that the Council's three-year revenue budget strategy and 10 year capital budget strategy were developed prior to the impact of COVID-19 becoming known, and that these strategies therefore required to be updated given the significant cost impact of COVID-19 on council services and income levels over the short and medium term.

It was found that the Council had demonstrated improvements in performance in several areas including waste and cleaning, school education and processing times for benefits and grant claims. Performance declined in five of the nine adult social care indicators however the 2018/19 Local Government Benchmarking Framework information showed that the Council performed better than other councils in around half of national benchmarking indicators in overall terms.

The Council's **Best Value Assurance Report** was considered by the Accounts Commission on 12 November 2020. The Accounts Commission accepted the Controller of Audit's report and endorsed his recommendations. The final report was published by the Accounts Commission on 26 November 2020.

The report noted that mixed progress had been made since the 2016 Best Value report but that services continued to perform relatively well. Much of the work for the Best Value audit was undertaken before the Covid-19 pandemic and did not consider the additional and sizeable pressure that Covid-19 has placed on the Council, especially on its finances, however, it was recommended that the Council implement a longer-term financial plan to show how it will address such future pressures. The Council was commended for its commitment to reducing inequalities, including the work of the Edinburgh Poverty Commission.

Actions were agreed at the Edinburgh Partnership Board on 23 March 2021 in response to the partnership working and empowerment findings of the Council Best Value Assurance Audit and updates are reported to the **Policy and Sustainability Committee**.

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 and outcome information that councils must publish locally in the following financial year with a view to facilitating comparison over time within, and across, authorities, including their effectiveness in working with partners and communities. Councils also require to assess how they are performing against the duty of best value, including actions taken in response to audit recommendations for improvement.

The Council's **2020/21 Annual Performance Report** provides an overview of council performance in 2020/21 against the Change Strategy themes, drawing on corporate performance indicators and benchmarking data including the Local Government Benchmarking Framework. The report provides a detailed analysis of performance in the year of the COVID-19 pandemic using a Red Amber Green (RAG) assessment. The impact of COVID-19 has varied across Council services so a Blue RAG status has been added to indicate where comparison with performance in previous years or against targets is not appropriate (37 out of 87 indicators). Of the remaining indicators where a RAG status has been assigned, 37 show improved or maintained performance and nine show a decline. The indicators that show a decline in performance in 2020/21 were spread across a number of services rather than being focused in a single service area.

Revenue - General Fund

The Council's financial performance is presented in the Comprehensive Income and Expenditure Statement, which can be seen on page 22. This statement has been prepared as interpreted and adpated by the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21. 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 19).

An Expenditure and Funding Analysis has been provided to reconcile adjustments between the Council's financial performance under the funding position and the surplus on the Provision of Services in the Comprehensive Income and Expenditure Statement. The Expenditure and Funding Analysis can be found in Note 5 and the Expenditure and Income Analysed by Nature in Note 6.

The outturn position for the General Fund, excluding accounting practice adjustments, compared to budget is summarised below. This basis of presentation is the main one adopted for reporting purposes as it is consistent with both budget-setting and in-year monitoring and also best aligned to the Council's statutory responsibilities.

	Revised Budget 2020/21 £000	Actual 2020/21 £000	(Under) / Over Spend £000
General Fund services	**989,618**	**985,119**	**(4,499)**
Non-service specific areas			
Loans charges / interest on revenue balances	90,650	79,064	(11,586)
Other non-service specific costs	63,584	33,376	(30,208)
Council Tax Reduction Scheme*	28,470	28,075	(395)
Net Cost of Benefits	(127)	(127)	0
Dividend and other interest received	(7,021)	(2,638)	4,383
Non-service specific areas total	**175,556**	**137,750**	**(37,806)**
Movements in Reserves			
Net contribution to / (from) earmarked funds	17,167	56,362	39,195
Contribution to / (from) Capital Fund	(885)	(885)	0
Movements in Reserves total	**16,282**	**55,477**	**39,195**
Sources of funding			
General Revenue Grant	(635,771)	(635,771)	0
Distribution from Non-Domestic Rate pool	(238,922)	(238,922)	0
Council Tax **	(306,763)	(311,571)	(4,808)
Sources of funding total	**(1,181,456)**	**(1,186,264)**	**(4,808)**
Transfer (to) / from earmarked reserves	**0**	**(7,918)**	**(7,918)**

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 £0.395m were transferred to an earmarked reserve.
** gross Council Tax (*excluding Council Tax Reduction Scheme*)

MANAGEMENT COMMENTARY

Financial Performance - continued

Budget performance - General Fund - continued

On 20 February 2020, the Council set a **balanced budget for 2020/21** but with the delivery of approved savings and the prompt identification and management of underlying or emerging pressures key to maintaining financial stability in the year. In total, the approved budget was predicated on the delivery of some £35.845m of directorate-specific and corporate savings.

Covid-19 Financial Impact

While the initial financial impacts of the pandemic were felt in 2019/20, the extent of this additional expenditure, and in particular loss of income, increased greatly in 2020/21. By the end of the year, the net cost to the Council, including exposure through its Arm's-Length External Organisations (ALEOs), had reached nearly £80m, with some £69m of this relating to 2020/21. The largest single contributors during the year were loss of parking income, net of reduced enforcement costs, of £13.4m, additional homelessness expenditure of £8.8m, loss of commercial rental income of £7.1m, loss of £6m of dividend income from Lothian Buses; £6m of financial support for Edinburgh Trams and reduced income from cultural venues of £3.9m.

Given the unprecedented scale of these impacts, elected members considered detailed financial reports on a monthly basis during 2020/21 and through a combination of savings identified in corporate budgets and significant additional grant funding received late in the financial year, expenditure and income were brought back into balance, with an overall underspend of £7.9m recorded.

Looking forward, in order to provide resilience against the longer-lasting financial impacts of the pandemic and other budget framework risks, the 2021/22 budget set aside further monies for these impacts and almost doubled the size of the Council's unallocated reserves. Significant additional service investment was also approved across a number of priority areas in February 2021, with these sums supplemented by further targeted service funding following approval by Council in May 2021.

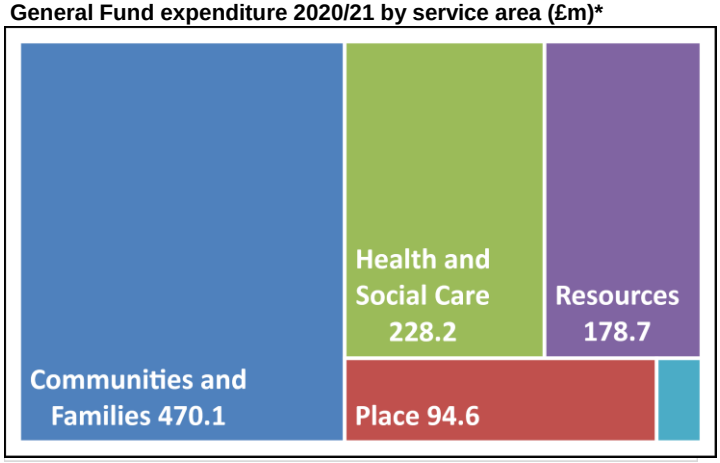
In overall terms, 82% of approved savings were delivered during the year. This marked a continuing improvement on the equivalent figures for 2019/20 (77%) and 2018/19 (60%).

Principal Sources of Funding - General Fund

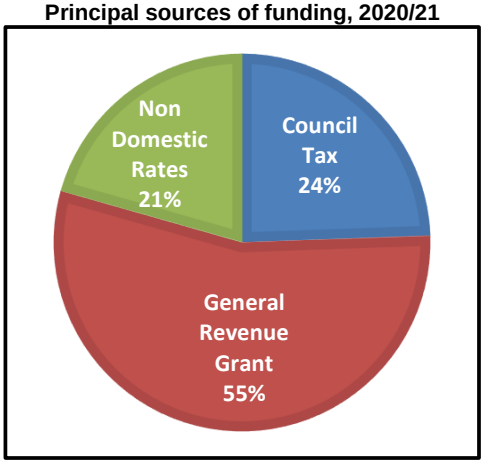
The principal sources of funding used by the Council during the year were:

	£000
Council Tax, net of Council Tax Reduction Scheme (CTRS) *(property-related tax from households)*	283,496
General Revenue Grant *(Government revenue grant funding based on city's relative needs assessment)*	635,771
Distribution from Non-Domestic Rates pool *(property-related tax primarily from businesses)*	238,922
Total	1,158,189

General Fund expenditure 2020/21 by service area (£m)*



Principal sources of funding, 2020/21



* - The light blue-shaded box on the expenditure diagram represents Other Expenditure of £13.5m, comprising the net cost of the Chief Executive's Service and the Council's requisition for the Lothian Valuation Joint Board.

Following the onset of the pandemic and recognising significant in-year relief granted to affected businesses, the Scottish Government revised the relative balance of funding between General Revenue Grant and Non-Domestic Rates and thus the proportions are significantly different from past years.

MANAGEMENT COMMENTARY

Financial Performance - continued

Reserves

General Fund

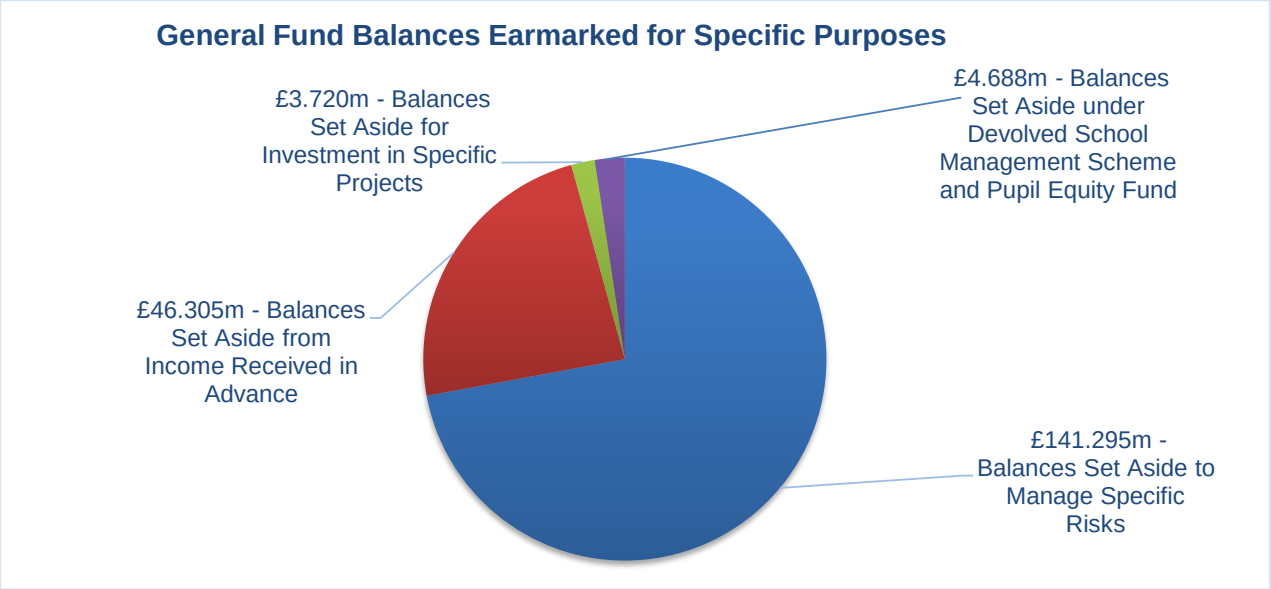
The Council's General Fund reserves comprise two elements:

- 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-setting 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 2021, as part of the 2021/22 budget-setting process. The unallocated General Fund balance at 31 March 2021 was £25.025m, which equates to 2.115% of the annual budgeted net expenditure.

In addition, the Council has a further £196.008m (2019/20 £106.185m) 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. The sums shown above include £78.473m of non-service specific COVID-related funding received or earmarked in-year to be applied against expenditure and income losses in future years;
- 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. The sums above include £22.382m of service-specific COVID-related funding carried forward to be offset against expenditure in 2021/22;
- 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 replenish 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.

As noted above, the most recent review of the Council's earmarked and unallocated reserves resulted in a realignment and reprioritisation of these sums based on the risks it faces. In addition to increasing the size of the Council's unallocated reserve to a level closer to that of other Scottish local authorities, a £16m dedicated reserve was created to provide an additional contingency against the on-going financial impacts of the pandemic. This reserve, when combined with additional COVID-related grant funding received late in 2020/21, allowed the Council to increase from £18m to £39m the level of provision made for these impacts in 2021/22, as well as increasing the corresponding sum in 2022/23 whilst still addressing the majority of that year's residual funding gap. Receipt of these sums also allowed the Council to defer use of the planned loans fund repayment financial flexibility, with the position to be reviewed in the autumn.

Other Reserves

The Council holds other usable reserves; these are the Capital Grants Unapplied Account with a balance of £47.949m, the Capital Fund with a balance of £49.731m and the Renewal and Repairs Fund with a balance of £41.162m, including £3.293m 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	2020/21	Re-stated 2019/20	Notes on interpretation of ratios
In-year collection rate	95.96%	96.95%	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, adjusted for the impact of water-only debt in the joint collection of Council Tax and water charges. The indicator shows that the in-year collection levels dropped slightly, which reflects the economic impact of the COVID-19 pandemic on Council Tax collection, including rescheduling of recovery actions.
Council Tax income as a percentage of overall funding	24.48%	27.18%	This shows the proportion of total funding that is derived from Council Tax, net of Council Tax Reduction Scheme (CTRS) support. While Council Tax levels increased by 4.79% in 2020/21, this was outweighed by the provision of significant additional (mainly COVID-related) funding during the year.
Debt and Borrowing - Prudence			**Notes on interpretation of ratios**
Capital Financing Requirement	£1,773.0m	£1,676.2m	The capital financing requirement represents the underlying need to borrow to fund expenditure on assets and shows an increase of around 6% 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	£1,594.5m	£1,591.1m	External debt levels include long-term commitments in respect of finance leases (mainly schools provided through PPP schemes) together with borrowing undertaken to finance capital expenditure. External debt levels are lower than the capital financing requirement as the Council has adopted a position of under borrowing, as set out in the Treasury Strategy.
Debt and Borrowing - Affordability			**Notes on interpretation of ratios**
Financing costs to net revenue stream - General Fund	6.83%	10.50%	These ratios show the proportion of total revenue funding that is used to meet financing costs. In each case, the impact of the Loans Fund review and other treasury-related savings has reduced the nominator whilst, particularly in the case of the General Fund, receipt of additional funding has resulted in a significant increase in the denominator.
Financing costs to net revenue stream - HRA	32.92%	37.65%	
Impact of capital investment on Council Tax	-8.23%	-0.95%	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	-4.59%	-0.02%	

MANAGEMENT COMMENTARY

Financial Performance - continued

Treasury Management Strategy

The **Annual Treasury Management Strategy 2021/22** was approved on 11 March 2021. The key points are:

- the Council's total capital expenditure is forecast to be £1.987 billion between 2020/21 and 2024/25;
- the Council's underlying need to borrow at 31 March 2025 is forecast to be £2.327 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
- the Council will continue to fund its Capital Financing Requirement from temporary investment balances over the next year.

Capital Strategy

The **Sustainable Capital Strategy 2021-31 - Annual Report** was approved at Full Council on 11 March 2021. 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.

The Capital Budget Strategy has been reviewed in light of COVID-19 and the Council's priorities and approach proposed under the Adaptation and Renewal Programme outlined in the new Council Business Plan.

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 2020/21 outturn position for capital expenditure is summarised below:

Capital expenditure	Budget 2020/21 £000	Actual 2020/21 £000	(Slippage) / Acceleration* £000
General Fund services	341,182	316,551	(24,631)
Housing Revenue Account	56,969	41,456	(15,513)
Total capital expenditure	398,151	358,007	(40,144)
Capital receipts and other contributions			
- General Fund services	(50,059)	(52,887)	(2,828)
- Housing Revenue Account	(26,100)	(36,674)	(10,574)
Government and other grants			
- General Fund services	(119,331)	(113,058)	6,273
- Housing Revenue Account	(6,933)	(6,361)	572
Total capital income	(202,423)	(208,980)	(6,557)
Balance to be funded through borrowing			
- General Fund services	171,792	150,606	(21,186)
- Housing Revenue Account	23,936	(1,579)	(25,515)
Total advances from loans fund	195,728	149,027	(46,701)

* - in the case of income, a positive figure indicates an under-recovery relative to budget, a negative figure an over-recovery.

Expenditure on General Fund services slipped in total by £24.631m. The majority of slippage was caused by COVID-19 related delays, including the construction lockdown and restrictions on internal works. Within Place, the main slippage was from On-Lending for the provision of mid-market homes (£11.760m) which is offset by a delay in the need to borrow. Within Communities and Families, the main slippage was on construction of learning estates, such as Canaan Lane and Leith Victoria Primary Schools and Darroch Refurbishment.
Expenditure on Housing Revenue Account slipped in total by £15.513m, primarily as a result of the acquisition of Liberton Hospital for £12m not completing in the financial year. HRA capital income also exceeded budget by £10.002m for the financial year, primarily from capital receipts from sales to Edinburgh Living LLP, Scottish Government grant and disposals through the Acquisitions and Disposals Programme resulting in a negative net requirement of £1.579m in loans fund advance. This will result in a revenue benefit in 2021/22 from lower than expected loan charges with this benefit offset with the capital expenditure reprofiled and incurred in later years.

MANAGEMENT COMMENTARY

Financial Performance - continued

Capital Expenditure

The Council received £38.129m of general capital grant during 2020/21. The support provided through general capital grant enables the Council to direct resources to its own priorities.

Capital expenditure for the year totalled £358.007m. Major capital projects undertaken during the year included:

- Creation and expansion of educational properties - £67.639m;
- Trams to Newhaven project - £53.071m;
- Social housing through the housing development fund - £49.143m;
- Roads, carriageways and other transport infrastructure - £44.353m;
- Investing in new council homes and enhancing existing assets through the Housing Revenue Account programme - £41.456m;
- Millerhill Recycling and Energy Recovery Centre (RERC) capital contribution - £29.520m;
- Providing funding for homes for mid-market rent from the Housing Revenue Account through the Edinburgh Living LLP - £19.313m;
- Sports facilities - £17.229m; and
- Asset Management Works at operational properties - £14.517m.

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. The HRA is entirely self-financing and receives no funding from the general Council budget. All expenditure is funded through the tenants' rent, related service charges, and interests gained through HRA assets.

The Council approved the Housing Revenue Account Budget Strategy 2020 – 2030 in February 2020 (pre-Covid 19). It set out an ambitious strategy to deliver £2.5 billion investment over ten years in building and improving Council homes to deliver our commitments on affordable housing and net zero carbon. The aspiring capital investment was accompanied by the Housing Service Improvement Plan (HSIP), which aims to improve customer satisfaction, operating performance and ensure value for money.

The HRA revenue account secured £104.823 million of income in 2020/21. HRA rent arrears increased in 2020/21, this is partly due to the financial impact of the Covid pandemic on households and restrictions on formal actions for rent arrears recovery (courts closure and increased notice period for new court actions under the Coronavirus legislation).

Around £160 million has been invested to improve existing homes and estates over the last five years, resulting in over 20,000 improvement measures delivered. The capital programme was paused for most of the first quarter in 2020/21 during the first lockdown but resumed as soon as government restrictions allowed to do so. As a result, the programme was revised down by 41% to £56.969 million and mainly focused on the improvements on the wider estates and external fabric and communal areas of buildings.

The year-end outturn for 2020/21 was £41.456 million; £12.000m of the £15.513 million slippage was due to the delay in concluding the land acquisition of Liberton Hospital. The land acquisition was previously expected to take place in the last quarter of 2020/21 but is now expected to conclude in early 2021/22. Improvements requiring access to tenants' homes were postponed for most of the year, with the suspended works to be carried out over the next two years, as restrictions are lifted.

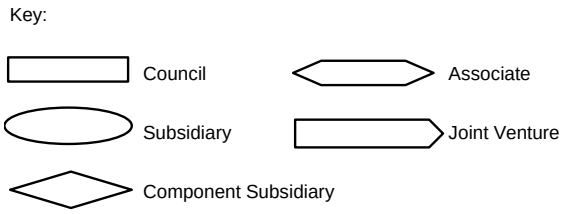
The Housebuilding Programme delivered over 270 affordable homes completed in 2020/21 at Craigmillar Town Centre, Crewe Road Gardens, and North Sighthill. This included 149 mid-market rented homes that were purchased by Edinburgh Living LLP. Handovers were delayed in both Pennywell and North Sighthill; and will now take place up until autumn 2021.

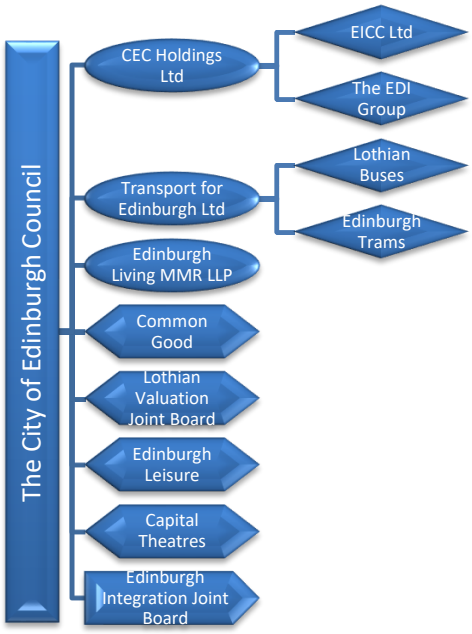
MANAGEMENT COMMENTARY

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 115.





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 2021 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 1.5 million delegates from more than 120 countries, generating £660m of economic impact for the city region.

At the outset of 2020, the Centre anticipated a strong financial year and continuation of the growth shown in the previous five years, however, due to the global Covid-19 pandemic the Centre closed on 18th March 2020 which had a negative impact on the Centre's traditional client base. To retain as much business as possible, the Centre developed an alternative virtual events platform "Make it Edinburgh Live" and delivered 15 virtual events during the year. This together with robust client contracts had a significant impact on the Centre's revenue which amounted to £3.188m, which was a significant decrease from the previous year of £9.359m but revenues generated were much greater than expected earlier in the year.

In the first half of 2021 the Conference Centre secured a large contract with NHS Lothian to use the Conference Centre as a covid mass vaccination centre between January and July. The company is pleased to be part of the solution in the country's vaccination rollout whilst allowing the Centre to be operational in a covid secure manner.

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 decreased by 22.6% from the previous year to £143.6m although this was in line with expectations due to the significant downturn in patronage due to Covid-19 restrictions on travel. The Group continued to face significant operating and cost pressures in 2020, with the Covid-19 outbreak in March 2020 and the ongoing restrictions meaning the Group had to be extremely proactive to address and mitigate the impact of the revenue decline and cost pressures in order to maintain its business.

With Government advice to avoid Public Transport during the pandemic, in July 2020, Transport Scotland awarded TfE financial support as a means of allowing services to be maintained for essential key workers and those still needing to use public transport. Edinburgh Trams also received £6m of in-year support from the Council.

MANAGEMENT COMMENTARY

Financial Performance - Group Accounts - continued

Edinburgh Living MMR LLP

Edinburgh Living MMR LLP was established as a housing delivery partnership to address housing needs in Edinburgh. The initiative is a partnership between The Council and Scottish Futures Trust. The partnership delivers homes for mid-market rent to let to households in housing need.

Edinburgh Living MMR LLP bought its first homes in January 2019 and over the course of 2020/21 purchased 149 homes across three developments in the city, bringing the total number of homes the LLP owns to 299.

Lothian Valuation Joint Board (LVJB)

The Board reported core expenditure of £6.208m for 2020/21 which was within the approved budget. The approved revenue budget included a planned drawdown of reserves of £0.657m to meet both Transformation Programme severance costs and running costs. Due mainly to underspends in employee, property, transport and supplies costs and additional Scottish Government funding received during 2020/21, a contribution of £0.051m was made to unallocated reserves to achieve a balanced budget. The reserve will be retained as part of the Board's Unallocated Reserve to support Transformation Programme costs in future years.

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.

During 2020/21, the Covid-19 pandemic had a significant impact on Edinburgh Leisure income, particularly when all venues and services were closed during lockdown from 20 March 2020. The Coronavirus Job Retention Scheme provided support to 92% of the workforce who were furloughed under the Scheme and alongside £3m of additional in-year support received from the City of Edinburgh Council has enabled the charity to continue and report an underlying surplus on unrestricted funds of £1.524m.

Edinburgh Leisure continued to work with the Council and other stakeholders on a range of projects during the year, including Active Communities which encouraged communities to keep active during the pandemic as a way to benefit physical and mental health and Get Active classes which were livestreamed during Level 3 and 4 restrictions.

Capital Theatres

Due to the Covid-19 pandemic, all Capital Theatre's buildings were closed on 20th March 2020 and at the end of 2020/21 they remained closed, although awaiting clearance to hold performances in the near future.

On closing on 20th March, 90% of Capital Theatre's regular income disappeared overnight, however, support has been available from the Coronavirus Job Retention Scheme, the City of Edinburgh Council, the Scottish Government, Creative Scotland and the National Lottery Heritage Fund together with donated funds from many hundreds of audience members.

The Trust's Learning and Participation work has continued in 2020/21, with much of the Creative Learning activities moving to a virtual world. Additionally the Life Changes Trust, which ensures people with dementia and their carers can continue to be part of the theatre-going community, continues to hold events remotely including the popular Tea Party.

Edinburgh Integration Joint Board

The Edinburgh Integration Joint Board (EIJB) 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 2021, see note 9.4.

The Edinburgh Integration Joint Board agreed its strategic plan for 2019-22 in August 2019. The Board is now engaged in the next planning cycle, remaining focussed on four key areas: redefining the Edinburgh Pact, embracing the three conversations approach, adopting the principle of home first and advancing our transformation programme. A comprehensive programme of redesign and transformation was designed to deliver the vision set out in the strategic plan, working in tandem with other core strategies such as Carers, Thrive Edinburgh (mental health) and the Primary Care Improvement Plan. The transformation programme remains a key element of the strategy, and is a wide-ranging and ambitious programme of change and innovation which aims to deliver high quality and sustainable health and social care services for our citizens.

For the year to 31 March 2021, the EIJB reported a surplus of £22.2m in the annual accounts, largely as a result of the additional funding made available by the Scottish Government. All funding received during the year but not yet spent has been transferred to reserves, bringing total reserves to £25.4m. The vast majority of these reserves is ‘ring fenced’ for specific purposes, with the balance of £1.0m being held in general reserve.

MANAGEMENT COMMENTARY

Financial Performance - Group Accounts - continued

Group Summary

Net assets for 2020/21 include a combined group pension liability of £701.122m (2019/20 £462.327m), 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 2021. 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.

COVID-19

Council and its Group's role and response

The Council continues to provide ongoing support to communities and businesses during the pandemic. In the first weeks of the initial lockdown, the Contact Centre team handled 12,000 calls, providing guidance and support to vulnerable and shielded residents. Council Resilience Centres meant appropriate face to face services could be continued, with almost 6,000 citizens making use of these essential services between April and September. Over 8,000 applications for crisis support were processed, which was a 76% increase on the same period in 2019 and there was a 100% increase in the take-up of free school meals, with direct payments made to families throughout lockdown and school holidays. During 2020/21, over £188 million of grants were also processed, to support the city's businesses, individuals and the economy, including Strategic Framework grants, Business Support Grants, Taxi and Private Hire Support, Self Employed Grants, Retail and Hospitality Support, and Hardship Grants. In addition, the Council administered the full range of additional COVID-related Non-Domestic Rates reliefs mandated by the Scottish Government, including full-year relief totalling well over £100m for leisure, hospitality and recreation businesses within the city. The Council continues to respond to new challenges quickly, to ensure that services are maintained, businesses are supported and the most vulnerable people in the city get the help they need. This work can only be done in close partnership with the third sector, volunteers and our communities. Locality Operation Groups have been set up to provide practical and professional support to the children and families most in need of assistance. Barriers that have prevented collaboration in the past have been overcome in the face of a crisis. As plans are made for recovery, these changes will be embraced, be that in working in new ways with the third and voluntary sector, or simply equipping and supporting residents and local businesses to play a more active role in maintaining their local environment and helping each other out.

The Council's Arm's-Length External Organisations (ALEOs) have also been severely impacted, with the closure of all of Edinburgh Leisure's sports facilities and the Edinburgh International Conference Centre for much of the year, and passenger numbers on buses and trams running at a fraction of normal levels whilst adhering to strict guidelines on social distancing.

Immediate and on-going financial impacts

Given the unprecedented nature and scale of the financial challenges facing the Council in 2020/21, the frequency of reporting to the Corporate Leadership Team and elected members (through the Leadership and Advisory Panel, Policy and Sustainability Committee and Finance and Resources Committee) was greatly increased, with a focus not only on the immediate in-year position but estimated implications for the budget framework in future years.

A series of assessments of the financial position has been reported to elected members. The **most recent** of these was considered by the Finance and Resources Committee on 7 October 2021.

While an unprecedented level of overspend had been forecast early in the year, through a combination of savings in corporate budgets and the receipt of additional grant funding late in the year, an in-year underspend of £7.9m was achieved. An element of this underspend relates to an IFRS9-related gain and, as such, is not available for spending on frontline services. This sum, alongside additional carried-forward COVID-related funding and a COVID contingency created through re-alignment of the Council's reserves, has been used to increase the budget framework's provision for the pandemic's on-going impacts. Despite the impacts of the pandemic, it was also encouraging to note the continuing increase in the in-year proportion of savings delivered.

The financial impact of Covid-19 in 2020/21 is estimated at £69m comprising income losses of £39m, additional expenditure of £21m and £9m of support for ALEOs.

MANAGEMENT COMMENTARY

COVID-19 - continued

A preliminary assessment has been undertaken as to the extent to which the Council's financial management arrangements comply with the principles set out within the CIPFA Financial Management (FM) Code. The Code is designed to support good practice and assist councils in demonstrating their financial sustainability and resilience by setting out expected standards of financial management. While 2020/21 is only a "shadow" year for implementation of the Code, all councils are encouraged to undertake an early assessment in preparation for full adoption during 2021/22. This assessment has highlighted a number of recent improvements contributing positively to the Council's financial resilience and stability, including:

- realigning and reprioritising the Council's reserves to enable the creation of a £16m COVID-specific contingency whilst also increasing the level of the unallocated general reserve to £25m;
- incorporating within the budget framework explicit provision for underlying service pressures and anticipated shortfalls in savings delivery, all based on detailed discussion with members of the Corporate Leadership Team;
- reflecting within the budget framework, insofar as is practicable at this stage given the on-going nature of the pandemic, increased provision for its continuing impacts, particularly for losses of income; and
- dedicated investment in prevention-related resource which, if used effectively, should make a contribution towards future years' savings requirements, as well as improving outcomes for service users.

While the above position reflects a number of positive aspects, it has been impressed upon elected members that there is a need for additional savings proposals to be brought forward if the Council's financial sustainability is to be maintained. With this in mind, the revenue budget update report considered by Council on 27 May 2021 pointed to an anticipated incremental savings requirement of more than £50m in 2023/24 with, at this stage, no specific proposals as to how this gap will be bridged. This savings requirement has subsequently increased to more than £54m, re-emphasising the need to initiate by the autumn of 2022 a comprehensive savings programme, rooted in the priorities set out within the Council's Business Plan, to address this gap.

The case will therefore continue to be made for greater use of service prioritisation aligned to the three principles within the **Business Plan**:

- ending poverty and preventing adverse outcomes such as homelessness and unemployment
- becoming a net zero city
- ensuring wellbeing and equalities are enhanced for all

The **Sustainable Capital Budget Strategy 2021 - 2031** details the priorities for council capital investment in alignment with the Business Plan, over the medium to long-term and sets out a plan on how they could be funded. The Capital Budget Strategy is expected to come under significant financial pressure as a result of higher tender prices caused by social distancing requirements and associated construction industry changes arising from COVID-19 guidance. There is also renewed focus on embedding the ambitions of a net-zero carbon City contribution from the Council by 2030 into the restart of major capital investment projects, which has had further financial consequences on previous assumptions. The capital budget strategy can only be funded if the Council is able to balance its revenue budget over the medium to long-term to comply with the terms of the Prudential Code. Moreover, the strategy assumes that some priorities, such as the City Centre Transformation and wider transport initiatives, will be funded from a combination of external funding and realignment of existing budgets.

Changing for the future

Steps are being made to implement new ways of working as elected members approved **'Our Future Work'** strategy at Policy and Sustainability Committee. The first hybrid Committee meeting has taken place with some elected members joining in person and some virtually. Teams will also take part in a trial at Waverley Court and City Chambers from the end of October, and their experiences will be used to shape what a return to our buildings could look like.

Adaptation and Renewal Programme

In recognising the need for a fundamental re-assessment of service operating models as the city emerges from the pandemic, an **Adaptation and Renewal programme** was established, co-ordinating all aspects of the Council and city's response. Five officer working groups were established, four of which continue to be active as follows:

MANAGEMENT COMMENTARY

COVID-19 - continued

Adaptation and Renewal Programme - continued

- **Public Health - Triage Oversight Group** – bringing together Council, NHS Lothian and Edinburgh Health and Social Care Partnership colleagues to ensure effective communication and implementation of national advice concerning public health within an Edinburgh context;
- **Service Operations: Wellbeing Programme** – facilitating cross-Council co-ordination to enable a phased and prioritised plan for resumption and adaptation where possible, guided by the Scottish Government's route map;
- **Change, People and Finance** – enabling the adaptation and renewal of the Council as an organisation and ensuring that clear direction for the Council's own requirements for change in a post COVID-19 world is aligned with the resources available to deliver these changes. This group has recently reached conclusion and delivered against its original scope so has now been stepped down;
- **Sustainable Economic Recovery** – allowing key sectors of the city to survive and thrive thereafter, with a focus on investment and development, employability, business support and resilience, our future cultural capital and fostering innovation; and
- **Life Chances** – aligning the Council's recovery activity to the key themes of addressing poverty, promoting sustainability and improving well-being.

Progress on this complex but vital programme continues to be reported to elected members, wider stakeholders and to the **Policy and Sustainability Committee**.

Change Strategy and Business Plan

A Best Value Assurance Audit was carried out by a team from Audit Scotland and the Council's external auditor, Azets. The resulting **Best Value Assurance Report (BVAR)** was published by the Accounts Commission on 26 November 2020.

As recommended in the report, the Council amalgamated its Change Strategy into its **Business Plan**.

The other recommended improvement actions included in the BVAR were also addressed in the Business Plan.

The report highlighted a number of key achievements and areas for the Council to improve since the 2016 Best Value Audit, and reflects on this as mixed progress.

The key achievements include:

- The Council's ambitious plans for the City. Specifically, referencing the Council's Sustainability Programme, approach to tackling poverty, major housing and community regeneration projects in Fountainbridge, Meadowbank and at Granton Waterfront; retail, hospitality and cultural developments, such as the St James Quarter; and extending the tram network;
- The Council's long track record of maintaining revenue expenditure within budget;
- Aspects of leadership and service performance. Specifically, referencing improved performance across many KPIs – schools and education, waste and cleansing and time taken to process benefit and grant claims; and
- Improvements in asset management, procurement and risk management.

The report also notes areas where further progress is required:

- Alignment of strategic priorities;
- Implementation of effective community planning governance arrangements, the pace of change within the CPP and community empowerment;
- The Council's approach to self-assessment, continuous improvement and public performance reporting; and
- Long-term financial planning and workforce planning.

ANDREW KERR
Chief Executive

STEPHEN S. MOIR
Executive Director of Corporate Services

ADAM MCVEY
Council Leader

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 Service Director: Finance and Procurement.
- 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 18 November 2021.

ADAM MCVEY
Council Leader

Date

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 2021.

HUGH DUNN, CPFA
Service Director: Finance and Procurement
Section 95 Officer

MOVEMENT IN RESERVES STATEMENT

This statement shows the movement from the start of the year to the end on the different reserves held by the authority, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other 'unusable reserves'. The Movement in Reserves Statement shows how the movements in year of the authority's reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return to the amounts chargeable to Council Tax or rents for the year. The net increase/decrease line shows the statutory General Fund balance and Housing Revenue Account balance movements in the year following those adjustments.

Council 2020/21 **2020/21**	**General Fund Balance £000**	**Housing Revenue Account Balance £000**	**Renewal and Repairs Fund £000**	**Capital Grants Unapplied Account £000**	**Capital Fund £000**	**Total Usable Reserves £000**	**Total Unusable Reserves £000**	**Total Reserves £000**
Balance at 31 March 2020 (Re-stated)	121,346	0	29,748	28,452	48,934	228,480	2,653,457	2,881,937
Movement during 2020/21								
Total Comprehensive Income and Expenditure	72,059	8,674	0	0	0	80,733	309,016	389,749
Adjustments to Usable Reserves permitted by accounting standards	32,090	17,922	0	0	0	50,012	(50,012)	0
Adjustments between accounting basis and funding basis under regulations (Note 11)	(3,552)	(16,092)	0	19,497	797	650	(650)	0
Net increase / (decrease) before transfers to statutory reserves	100,597	10,504	0	19,497	797	131,395	258,354	389,749
Transfer (to) / from other statutory reserves (Note 12.3)	(910)	(10,504)	11,414	0	0	0	0	0
Increase / (decrease) in year	99,687	0	11,414	19,497	797	131,395	258,354	389,749
Balance at 31 March 2021	**221,033**	**0**	**41,162**	**47,949**	**49,731**	**359,875**	**2,911,812**	**3,271,687**

Group - 2020/21 **2020/21**	**Total Usable Reserves £000**	**Total Unusable Reserves £000**	**Council Total Reserves £000**	**Group Reserves £000**	**Minority Interest £000**	**Total Reserves £000**
Balance at 31 March 2020 (Re-stated)	228,480	2,653,457	2,881,937	203,643	14,944	3,100,524
Movement during 2020/21						
Total Comprehensive Income and Expenditure	80,733	309,016	389,749	(35,940)	0	353,809
Adjustments to Usable Reserves permitted by accounting standards	50,012	(50,012)	0	0	0	0
Adjustments between accounting basis and funding basis under regulations	650	(650)	0	0	0	0
Net increase / (decrease) before transfers to statutory reserves	131,395	258,354	389,749	(35,940)	0	353,809
Transfer (to) / from other statutory reserves	0	0	0	0	0	0
Minority interest and other consolidation adjustments	0	0	0	3,662	(3,757)	(95)
Increase / (decrease) in year	131,395	258,354	389,749	(32,278)	(3,757)	353,714
Balance at 31 March 2021	**359,875**	**2,911,812**	**3,271,687**	**171,365**	**11,187**	**3,454,238**

MOVEMENT IN RESERVES STATEMENT

Re-stated Council	General Fund Balance £000	Housing Revenue Account Balance £000	Renewal and Repairs Fund £000	Capital Grants Unapplied Account £000	Capital Fund £000	Total Usable Reserves £000	Total Unusable Reserves £000	Total Reserves £000
2019/20 Comparative Data								
Balance at 31 March 2019	144,845	0	26,346	15,784	55,908	242,883	2,386,886	2,629,769
Movement during 2019/20								
Total Comprehensive Income and Expenditure	(98,139)	17,694	0	0	0	(80,445)	332,612	252,167
Adjustments between accounting basis and funding basis under regulations (Note 11)	93,496	(33,149)	0	12,668	(6,974)	66,041	(66,041)	0
Net increase / (decrease) before transfers to statutory reserves	(4,643)	(15,455)	0	12,668	(6,974)	(14,403)	266,571	252,168
Transfer (to) / from other statutory reserves (Note 12.3)	(18,856)	15,455	3,402	0	0	0	0	0
Increase / (decrease) in year	(23,499)	0	3,402	12,668	(6,974)	(14,403)	266,571	252,168
Balance at 31 March 2020	**121,346**	**0**	**29,748**	**28,452**	**48,934**	**228,480**	**2,653,457**	**2,881,937**

Re-stated Group - 2019/20	Total Usable Reserves £000	Total Unusable Reserves £000	Council Total Reserves £000	Group Reserves £000	Minority Interest £000	Total Reserves £000
Balance at 31 March 2019	242,883	2,386,886	2,629,769	193,248	13,301	2,836,318
Movement during 2019/20						
Total Comprehensive Income and Expenditure	(80,445)	332,612	252,167	12,038	0	264,205
Adjustments between accounting basis and funding basis under regulations	66,041	(66,041)	0	0	0	0
Net increase / (decrease) before transfers to statutory reserves	(14,404)	266,571	252,167	12,038	0	264,206
Transfer (to) / from other statutory reserves	0	0	0	0	0	0
Minority interest and other consolidation adjustments	0	0	0	(1,643)	1,643	0
Increase / (decrease) in year	(14,404)	266,571	252,167	10,395	1,643	264,206
Balance at 31 March 2020	**228,480**	**2,653,457**	**2,881,937**	**203,643**	**14,944**	**3,100,524**

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 2021

Re-stated 2019/20 £000		Notes	Gross Expend. £000	Income £000	Net Expend. £000
	SERVICES				
436,054	Communities and Families		596,882	(135,655)	461,227
136,414	Place		336,161	(167,482)	168,679
(15,308)	Housing Revenue Account		102,940	(104,828)	(1,888)
228,111	Health and Social Care		584,015	(349,000)	235,015
279,536	Resources		246,262	(41,309)	204,953
10,588	Chief Executive		13,479	(2,787)	10,692
3,678	Lothian Valuation Joint Board		3,805	0	3,805
(277)	Net cost of benefits		176,736	(178,210)	(1,474)
(9,539)	Other non-service specific costs		14,967	1,752	16,719
25,183	Subsidiary Companies		165,521	(138,542)	26,979
1,094,440	**COST OF SERVICES**		2,240,768	(1,116,061)	1,124,707
(5,331)	Gains on disposal of non-current assets				(6,525)
121,603	Financing and Investment Income and Exp.	13.			84,365
(1,124,640)	Taxation and Non-Specific Grant Income	14.			(1,267,227)
86,072	**(SURPLUS) / DEFICIT ON PROVISION OF SERVICES**				(64,680)
4,782	Associates and Joint Ventures Accounted for on an Equity Basis				(12,410)
374	Taxation of Group entities	14.			(325)
91,228	**GROUP (SURPLUS) / DEFICIT**				(77,415)
(147,821)	Surplus on Revaluation of Non-Current Assets			(410,549)	
195,313	Return on assets excluding amounts incl. in Financing and Investment Inc / Exp			(399,005)	
(379,337)	Changes in Financial and Demographic Assumptions / Other Experience			500,620	
(23,588)	Other Unrealised (Gains) / Losses			32,540	
(355,433)	Other Comprehensive Income				(276,394)
(264,205)	**TOTAL COMPREHENSIVE INCOME**				(353,809)

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 2021

Re-stated 2019/20 £000	SERVICES	Notes	Gross Expend. £000	Income £000	Net Expend. £000
436,054	Communities and Families		596,882	(135,655)	461,227
136,414	Place		336,161	(167,482)	168,679
(15,308)	Housing Revenue Account		102,940	(104,828)	(1,888)
228,111	Health and Social Care		584,015	(349,000)	235,015
279,536	Resources		246,262	(41,309)	204,953
10,588	Chief Executive		13,479	(2,787)	10,692
3,678	Lothian Valuation Joint Board		3,805	0	3,805
(277)	Net cost of benefits		176,736	(178,210)	(1,474)
(1,208)	Other non-service specific costs		14,967	12,675	27,642
1,077,588	**COST OF SERVICES**		2,075,247	(966,596)	1,108,651
(5,464)	Gains on disposal of non-current assets				(6,499)
132,961	Financing and Investment Income and Exp.	13.			84,342
(1,124,640)	Taxation and Non-Specific Grant Income	14.			(1,267,227)
80,445	**(SURPLUS) / DEFICIT ON PROVISION OF SERVICES**				(80,733)
(147,821)	Surplus on Revaluation of Non-Current Assets			(410,549)	
195,313	Return on assets excluding amounts incl. in Financing and Investment Inc / Exp			(399,005)	
(379,337)	Changes in Financial and Demographic Assumptions / Other Experience			500,620	
(767)	Other Unrealised (Gains) / Losses			(82)	
(332,612)	Other Comprehensive Income				(309,016)
(252,167)	**TOTAL COMPREHENSIVE INCOME**				(389,749)

RECONCILIATION OF THE COUNCIL'S POSITION TO THE GROUP POSITION

£000		£000
(252,167)	Total Comprehensive Income on the Council's Comprehensive Income and Expenditure Statement (CIES)	(389,749)
(21,319)	Subsidiary and associate transactions included in the Council's CIES	(10,841)
7,462	(Surplus) / deficit arising from other entities included in the Group Accounts Subsidiaries	57,547
1,819	Associates and Joint Ventures	(10,766)
(264,205)	Group total Comprehensive Income for the year	(353,809)

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'.

Re-stated 31 March 2020 Group £000	Re-stated 31 March 2020 Council £000		Notes	31 March 2021 Group £000	31 March 2021 Council £000
444	444	Intangible Assets	17.	296	296
4,908,111	4,769,127	Property, Plant and Equipment	15.	5,349,212	5,221,797
47,221	19,225	Investment Properties	16.	65,631	19,239
32,077	32,077	Heritage Assets	18.	31,391	31,391
1,254	1,254	Assets Held for Sale	23.	59	59
66,190	0	Other Long-Term Assets (Pension)		23,743	0
11,698	23,690	Long-Term Investments	22.	9,461	21,455
29,531	0	Investments in Associates and Joint Ventures		41,055	0
137,293	158,755	Long-Term Debtors	20.	156,332	190,594
5,233,819	5,004,572	**Long-Term Assets**		5,677,180	5,484,831
45,798	45,563	Short-Term Investments	22.	31,571	31,571
21,139	21,139	Assets Held for Sale	23.	6,135	6,135
67,936	67,936	Financial Assets	43.	85,691	85,691
13,472	3,451	Inventories	19.	13,569	3,448
137,395	123,276	Short-Term Debtors	20.	143,503	126,929
110,204	81,177	Cash and Cash Equivalents	21.	195,977	165,558
395,944	342,542	**Current Assets**		476,446	419,332
(77,396)	(75,288)	Short-Term Borrowing	43.	(70,695)	(68,588)
(247,704)	(203,393)	Short-Term Creditors	24.	(284,854)	(228,719)
(36,960)	(34,512)	Provisions	25.	(12,446)	(7,380)
(362,060)	(313,193)	**Current Liabilities**		(367,995)	(304,687)
(1,270,552)	(1,285,886)	Long-Term Borrowing	43.	(1,287,954)	(1,303,005)
(313,995)	(300,484)	Other Long-Term Liabilities	40.1	(302,967)	(288,615)
0	0	Long-Term Provisions	25.	(25,703)	(25,703)
(10,932)	0	Deferred Tax		(247)	0
(44,865)	(42,079)	Deferred Liability	43.	(39,964)	(39,964)
(3,300)	0	Liabilities in Associates and Joint Ventures		(4,056)	0
(523,535)	(523,535)	Other Long-Term Liabilities (Pensions)	27.5	(670,502)	(670,502)
(2,167,179)	(2,151,984)	**Long-Term Liabilities**		(2,331,393)	(2,327,789)
3,100,524	**2,881,937**	**Net Assets**		**3,454,238**	**3,271,687**
2,779,110	2,653,457	**Unusable Reserves**	27.	3,037,011	2,911,812
321,414	228,480	**Usable Reserves**	12.	417,227	359,875
3,100,524	**2,881,937**	**Total Reserves**		**3,454,238**	**3,271,687**

The audited accounts were issued on 18 November 2021.

HUGH DUNN, CPFA
Service Director: Finance and Procurement

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.

Re-stated Year to 31 March 2020 Group £000	Re-stated Year to 31 March 2020 Council £000		Notes	Year to 31 March 2021 Group £000	Year to 31 March 2021 Council £000
		Operating Activities			
86,072	80,445	Surplus on the Provision of Services		(64,680)	(80,733)
374	0	Adjustment to Surplus / (Deficit) for Taxation of Group entities		(325)	0
(244,864)	(203,814)	Adjustments to Surplus on the Provision of Services for non-cash movements		(246,415)	(214,543)
5,762	(5,597)	Adjustments for items included in the Surplus on the Provision of Services that are investing or Financing Activities		97,570	97,594
(152,656)	(128,966)	Net cash flows from operating activities	28.	(213,850)	(197,682)
		Investing Activities			
303,438	268,656	Net cash flows from investing activities	30.	140,459	119,947
		Financing Activities			
(125,142)	(114,188)	Net cash flows from financing activities	31.	(12,382)	(6,646)
25,640	25,502	**Net decrease / (increase) in cash and cash equivalents**		(85,773)	(84,381)
(135,844)	(106,679)	Cash and cash equivalents at 1 April		(110,204)	(81,177)
(110,204)	(81,177)	Cash and cash equivalents at 31 March	21.	(195,977)	(165,558)
25,640	25,502	**Net decrease / (increase) in cash and cash equivalents**		(85,773)	(84,381)

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting Policies

The Annual Accounts summarise the authority's and the authority's group transactions for the 2020/21 financial year and its position at the year-end of 31 March 2021. 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. The Accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (the Code) and supported by International Financial Reporting Standards (IFRS).

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, misstatement or obscuring of information. Materiality is an expression of the relative significance of a matter in the context of the annual accounts as a whole.

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. 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 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 Going Concern

The Council's Statement of Accounts for 2020/21 have been prepared on a going concern basis. The concept of a going concern assumes that the Councils functions and services will continue in operational existence for the foreseeable future. The provisions in respect of going concern reporting requirements reflect the economic and statutory environment in which local authorities operate. These provisions confirm that, as authorities cannot be created or dissolved without statutory prescription, they must prepare their financial statements on a going concern basis of accounting. In accordance with the CIPFA Code of Local Government Accounting (2020/21), the Council is required to prepare its financial statements on a going concern basis unless informed by the relevant national body of the intention for dissolution without transfer of services or function to another entity. The accounts are prepared on the assumption that the Council will continue in operational existence for the foreseeable future.

1. Accounting Policies - continued

1.6 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

- 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.

1.7 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.

1.8 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), 8.197% (James Gillespie's High School), 4.36% (Queensferry High School) and 6.84% (Millerhill Residual Waste Facility) 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.

1.9 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

1.9 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.

1.10 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 £10,000 on individual assets is charged to revenue.

  A change in accounting policy was approved at Finance and Resources Committee on 21 January 2021, enabling interest costs with qualifying assets to be capitalised to better match costs to income streams. A de minimis limit of £2m for interest costs has been approved.

- **Measurement**

  Infrastructure, community assets and assets under construction are initially measured at historic cost, comprising their purchase price and any costs attributable to bringing the assets into use for their intended purpose.

  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

1.10 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. Changes in the market are monitored throughout the year and any property which has a material change during the year that impacts its value is revalued at the time of the change. This includes extensions, improvements, demolitions, new construction and property damage.

- **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

1.10 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.

1.11 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.

1.12 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 unless highlighted below.
- The following methods of consolidation have been used:
  - Subsidiaries - line-by-line basis;
  - Associates and Joint Ventures - equity method.
- Transport for Edinburgh Limited's, CEC Holdings Limited's and Edinburgh Living MMR LLP's reporting periods are to 31 December. As this is within three months of the Council's reporting period (to 31 March) a review was undertaken to establish the potential impact of the different reporting periods and of the COVID-19 pandemic on the financial position of the companies. Adjustments have been made for the pension valuation and the B Shares issue of Transport for Edinburgh, as a result of this review, but no other consolidation adjustments have been assessed as being required.
- Transport for Edinburgh Limited and CEC Holdings Limited have adopted Accounting Standard IFRS 16 Finance Leases for the year to 31 December 2020. The Council is not required to adopt this standard until 1 April 2022 and therefore consolidation adjustments have been made.
- Edinburgh Living MMR LLP accounts for government grants for acquisition of properties on a deferred income basis, which is not aligned to the Council's income recognition policy requirements. The relevant balances in Edinburgh Living's accounts in 2020/21 is £5.233m (2019/20 £2.859m), which have not been adjusted on consolidation.
- Inter-company transactions have been eliminated on consolidation.
- Group members' financial statements have been prepared on an accruals basis.

NOTES TO THE FINANCIAL STATEMENTS

2. 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 2021/22 Code:

The Code requires implementation from 1 April 2021 and there is therefore no impact on the 2020/21 financial statements.

- Definition of a Business: Amendments to IFRS 3
- Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)
- Interest Rate Benchmark Reform - Phase 2 (Amendments to IAS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)

3. Judgements Made in Applying Accounting Policies

In applying the accounting policies set out in Note 1 and elsewhere in the notes 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:

3.1 Provision of School Buildings and Waste Facility

The Council has entered into Public Private Partnership (PPP) and Design, Build, Finance and Maintain (DBFM) agreements for provision of school buildings and waste facilities. For each of these contracts the Council has considered the tests under IFRIC12 and concluded these to be service concessions.

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 (JHGS) and Queensferry High School (QHS), for the provision of school buildings, maintenance and other facilities with Edinburgh Schools Partnership (PPP1), Axiom Education Limited (PPP2), Hub South East Scotland (JGHS) and QHS DBFMCO Ltd (QHS).
The Council is deemed to control 80% of the services provided under the DBFM for Millerhill Residual Waste Facility (20% controlled by Midlothian Council).

The accounting policies for public private partnerships have been applied to these arrangements and the schools and waste facility (valued at net book value of £527.216m and £97.488m respectively at 31 March 2021) are recognised as Property, Plant and Equipment on the Council's Balance Sheet.

3.2 Group Membership

The Council has an interest in a number of subsidiary and associate companies and trusts. The most significant of these companies in terms of the size of trading operations, shareholding and board representation and other factors have been assessed and where deemed material to the Council, are included in the Group Accounts. Full details of these interests are shown in note 9 to the Financial Statements.

3.3 Materiality

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 the Housing Revenue Account. The Housing Revenue Account has been assessed on 1% of gross expenditure.

Group	Council	HRA
£m	£m	£m
22.454	20.818	0.887

3.4 Agency Arrangements

The Council is in receipt of funding which it administers on behalf of other bodies. The Council has assessed the nature of these transactions to determine if it is acting as a Principal or Agent in the process. Under the Code an Agent is acting as an intermediary, whereas a Principal is acting on its own behalf. Details of those arrangements which have been assessed as agency are disclosed in Note 34.

NOTES TO THE FINANCIAL STATEMENTS

4. 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.

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. Estates have used data available on repairs and maintenance to improve the identification of impairments as part of the valuation process. A formal procedure has been put in place in accordance with that procedure and included within the Checklist for Asset Valuation Process. The valuation process also includes a material changes spreadsheet which includes both impairments from unexpected events, the scrutiny of the repairs and maintenance data and the condition score data, as well as changes from capital expenditure on assets, demolitions, etc. In addition, facilities management have now retendered their repairing contracts and have two new suppliers that cover the whole city between them. The works orders will now be raised through a new IT solution and it is anticipated that the repairing data will be easier to scrutinise in future as a result. The new contracts come into force on 1 October 2021. No estimations and assumptions about the estimated cost of dismantling, removing or restoring items of property, plant and equipment have been included in the Capital Expenditure in the Accounts. The Council has reviewed the potential for indexation of the Other, Land and Buildings within our asset base but it was deemed by our senior surveyors and external advisors that in their professional judgement this would make values less accurate and move away from professionally prepared valuations to figures calculated without due attention to all the relevant factors that would influence a valuation and inevitably be a more time consuming exercise.	If the useful life of assets is reduced, depreciation increases and the carrying value of the assets falls. It is estimated that the annual depreciation charge would increase and the carrying value would fall by £10.942m for each year that useful lives were reduced.
	Council dwellings are valued using the Beacon Method under which the values of groups of similar properties are calculated by assessing the capital value of one of them (a beacon) then extrapolating the value across the rest of the group. The beacon discount factor is determined by comparing levels of private rent with social rent for each beacon property and calculating the average to apply across the whole portfolio to take account of the difference between private stock (the source of the comparable sales data) and social rented stock. This methodology takes account of regional variations in capital values, stock condition, rent arrears and voids. The discount factor applied in the 2020-21 revaluations is 38% with a 4.5% uplift (38% previously).	If the discount factor is increased by 1%, this would lead to a corresponding reduction in the total value of council dwellings of £26.210m.
	Per Accounting Policy 1.9, 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. We have also introduced a new system for calculating the remaining useful lives for each property rather than using an assumed useful life and are part way through the five-year programme to calculate them all. In any given financial year, we also calculate useful lives for each property we revalue. This is used as the basis for the useful life of the building component. The Council use the table below as the basis for their standard apportionments of components;	If the assumption of £5 million building carrying value increased to £10 million then the number of assets included would decrease from 21 to nine. As a result, depreciation in-year would decrease by £2.147m.

Standard Apportionments

Type	B - Structural	D - Finishes	F - Fittings	R – Non-Traditional Roof	S – Services
High School	38%	17%	3%	6%	36%
Primary School	38%	17%	3%	6%	36%
Care Home	36%	19%	4%	3%	38%
Sport Centre	39%	17%	4%	6%	34%
Waverley Court	43%	16%	2%	3%	36%
City Chambers	46%	16%	2%	0%	36%
Offices, Galleries and Other	44%	16%	2%	2%	36%
Millerhill Residual Waste	38%	16%	4%	5%	37%
		25 Years	**15 Years**	**35 Years**	**20 Years**

This table and the relevant splits will be reviewed annually by the valuer.

4. Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty - continued

Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.	The effects on the net pensions liability of changes in individual assumptions can be measured. Note 42.6 provides further information on the Council's pension liability.
	The interim solution to avoid inequalities between men and women's benefits following the introduction of the Single Status Pension in 2016 has resulted in a recalculation of pension liabilities related to the estimated impact of Guaranteed minimum pension (GMP) indexation changes.	The increased liability has been reflected in the pension liability as a past service cost.
	A further recent ruling on GMP has been made, in relation to past transfers.	The Council's actuary has not included any allowance for this as they deem it unlikely to have a significant impact on the pension obligations of a typical Employer.
	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).	The Council's actuary has included an estimate within the pension liability as a past service cost.
	The Goodwin case judgement, in respect of deemed discrimination in spousal transfer on death of a member, may also result in the potential increasing of the pension liabilities.	The Council's actuary has not included an estimate of the impact of the Goodwin case in the valuation due to the uncertainty of the final outcome. The estimated impact on the Employer's future obligations may be around 0.13% higher.
	The Walker and O'Brien cases, may impact LGPS benefits in the future, in respect of retrospective discrimination in spousal transfer of benefits for same sex couples.	The Council's actuary has not included an estimated of the impact of these cases as they are unlikely to result in significant impact on the pension obligations.
Arrears	At 31 March, the Council had a balance of sundry debtors of £43.984m. A review of significant balances suggested that an impairment of doubtful debts of £9.1m (20.7%) 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 £2.199m to be set aside as an allowance.
House Rent Arrears	At 31 March, the Council had a balance of housing rent arrears of £10.447m. A review of significant balances suggested that an impairment of doubtful debts of £9.035m (86.5%) 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 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.

NOTES TO THE FINANCIAL STATEMENTS

5. 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 22.

2020/21	Net Expend. Chargeable to the General Fund and HRA Balances £000	Adjustments £000	Net Expenditure in the CIES £000
Communities and Families	470,063	(8,836)	461,227
Place	94,630	74,049	168,679
Housing Revenue Account	0	(1,888)	(1,888)
Health and Social Care	228,156	6,859	235,015
Resources	178,740	26,213	204,953
Chief Executive	9,725	967	10,692
Lothian Valuation Joint Board	3,805	0	3,805
Cost of Services	**985,119**	**97,364**	**1,082,483**
Other income and expenditure			
Net cost of benefits	(127)	(1,347)	(1,474)
Other non-service specific costs	33,376	(5,734)	27,642
Net income and changes in relation to investment properties and changes in their fair value	0	(811)	(811)
Interest and investment income	(2,638)	(1,173)	(3,811)
Interest payable and similar charges *(loan charges in management reporting)*	79,064	(2,353)	76,711
Net pension interest cost	0	12,410	12,410
Gains on disposal of assets	0	(6,499)	(6,499)
Gains on derecognition or revaluation of financial assets	0	(156)	(156)
Contribution from Capital Fund	(885)	885	0
Contribution to General Fund	56,362	(56,362)	0
Income from Council Tax	(283,496)	0	(283,496)
Government Grants	(635,771)	0	(635,771)
Distribution from NDRI pool	(238,922)	0	(238,922)
Movement in donated assets	0	1,008	1,008
Capital grants and contributions	0	(110,047)	(110,047)
(Surplus) / Deficit on the provision of services	**(7,918)**	**(72,815)**	**(80,733)**

Opening General Fund and HRA Balance	121,346
Contributions to / (from) reserves, including those within services *(see notes 12.1 and 12.3 for detail)*	91,769
Surplus on the provision of services	7,918
Closing General Fund and HRA Balance at 31 March	221,033

For a split of the balance between the General Fund and the HRA, see the Movement in Reserves Statement on page 19.

NOTES TO THE FINANCIAL STATEMENTS

5. Expenditure and Funding Analysis - Council - continued
Re-stated

2019/20 Comparative Data	Net Expend. Chargeable to the General Fund and HRA Balances	Adjustments	Net Expenditure in the CIES
	£000	£000	£000
Communities and Families	423,570	12,484	436,054
Place	53,269	83,145	136,414
Housing Revenue Account	0	(15,308)	(15,308)
Health and Social Care	218,472	9,639	228,111
Resources	167,555	111,981	279,536
Chief Executive	9,050	1,538	10,588
Lothian Valuation Joint Board	3,678	0	3,678
Cost of Services	**875,594**	**203,479**	**1,079,073**
Other income and expenditure			
Net cost of benefits	(277)	0	(277)
Other non-service specific costs	25,112	(26,320)	(1,208)
Net deficit on trading activities	0	48	48
Net income and changes in relation to investment properties and changes in their fair value	0	(1,967)	(1,967)
Interest and investment income	(3,204)	(1,433)	(4,637)
Interest payable and similar charges *(loan charges in management reporting)*	104,710	18,487	123,197
Net pension interest cost	0	16,410	16,410
Gains on disposal of assets	0	(5,464)	(5,464)
Gains on derecognition or revaluation of financial assets	0	(90)	(90)
Contribution from Capital Fund	(334)	334	0
Contribution from General Fund	581	(581)	0
Income from Council tax	(271,044)	0	(271,044)
Government Grants	(360,206)	0	(360,206)
Distribution from NDRI pool	(366,025)	0	(366,025)
Movement in donated assets	0	441	441
Capital grants and contributions	0	(127,806)	(127,806)
Surplus on the provision of services	**4,907**	**75,538**	**80,445**

Opening General Fund and HRA Balance	144,845
Contributions to / (from) reserves, including those within services *(see notes 12.1 and 12.3 for detail)*	(18,592)
Deficit on the provision of services	(4,907)
Closing General Fund and HRA Balance at 31 March	121,346

For a split of the balance between the General Fund and the HRA, see the Movement in Reserves Statement on page 20.

NOTES TO THE FINANCIAL STATEMENTS

5. Expenditure and Funding Analysis - Council

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

2020/21	Adjusts. For Capital Purposes £000	Net Change for Pensions Adjusts. £000	Other Differences £000	Total Statutory Adjusts. £000
Communities and Families	(10,943)	12,270	953	2,280
Place	81,004	7,301	444	88,749
Housing Revenue Account	8,478	975	(838)	8,615
Health and Social Care	111	6,661	525	7,297
Resources	48,020	6,100	412	54,532
Chief Executive	0	667	47	714
Cost of Services	**126,670**	**33,974**	**1,543**	**162,187**
Other income and expenditure				
Net cost of benefits	0	0	0	0
Other non-service specific costs	275	(1,031)	(11)	(767)
Net income and changes in relation to investment properties and changes in their fair value	0	0	(13)	(13)
Interest and investment income	(1,164)	0	0	(1,164)
Interest payable and similar charges	(25,821)	0	(2,129)	(27,950)
Net pension interest cost	0	12,410	0	12,410
Gains on disposal of assets	(6,499)	0	0	(6,499)
Gains on derecognition or revaluation of financial assets	0	0	0	0
Capital grants and contributions	(110,047)	0	0	(110,047)
Income from donated assets	1,008	0	0	1,008
Total Adjustments	**(15,578)**	**45,353**	**(610)**	**29,165**

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

5. Expenditure and Funding Analysis - Council - continued

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

2020/21	Total Statutory Adjusts. b/fwd £000	Presentation Adjusts. £000	Use of Reserves £000	Total Adjusts. £000
Communities and Families	2,280	(26)	(11,090)	(8,836)
Place	88,749	25	(14,725)	74,049
Housing Revenue Account	8,615	0	(10,503)	(1,888)
Health and Social Care	7,297	(438)	0	6,859
Resources	54,532	(18,666)	(9,653)	26,213
Chief Executive	714	0	253	967
Cost of Services	**162,187**	**(19,105)**	**(45,718)**	**97,364**
Other income and expenditure				
Net cost of benefits	0	0	(1,347)	(1,347)
Other non-service specific costs	(767)	(5,529)	562	(5,734)
Net income and changes in relation to investment properties and changes in their fair value	(13)	(798)	0	(811)
Interest and investment income	(1,164)	(9)	0	(1,173)
Interest payable and similar charges	(27,950)	25,597	0	(2,353)
Net pension interest cost	12,410	0	0	12,410
Gains on disposal of assets	(6,499)	0	0	(6,499)
Gains on derecognition or revaluation of financial assets	0	(156)	0	(156)
Use of reserves	0	0	(55,477)	(55,477)
Capital grants and contributions	(110,047)	0	0	(110,047)
Income from donated assets	1,008	0	0	1,008
Total Adjustments	**29,165**	**0**	**(101,980)**	**(72,815)**

Notes -

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

5. Expenditure and Funding Analysis - Council - continued

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

Re-stated

2019/20 Comparative Data	**Adjusts. For Capital Purposes £000**	**Net Change for Pensions Adjusts. £000**	**Other Differences £000**	**Total Statutory Adjusts. £000**
Communities and Families	(5,735)	17,964	(311)	11,918
Place	75,240	10,873	(842)	85,271
Housing Revenue Account	(44,544)	811	12,970	(30,763)
Health and Social Care	72	9,981	26	10,079
Resources	116,946	9,050	(898)	125,098
Chief Executive	1	1,046	(81)	966
Cost of Services	**141,980**	**49,725**	**10,864**	**202,569**
Other income and expenditure				
Other non-service specific costs	(3,153)	(18,046)	(1)	(21,200)
Net income and changes in relation to investment properties and changes in their fair value	0	0	(309)	(309)
Interest and investment income	(1,189)	0	0	(1,189)
Interest payable and similar charges	(35,114)	0	31,346	(3,768)
Net pension interest cost	0	16,410	0	16,410
Gains on disposal of assets	(5,464)	0	0	(5,464)
Gains on derecognition or revaluation of financial assets	0	0	0	0
Capital grants and contributions	(127,806)	0	0	(127,806)
Income from donated assets	441	0	0	441
Total Adjustments	**(30,305)**	**48,089**	**41,900**	**59,684**

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

5. Expenditure and Funding Analysis - Council - continued

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

Re-stated

2019/20 Comparative Data	**Total Statutory Adjusts. b/fwd £000**	**Presentation Adjusts. £000**	**Use of Reserves £000**	**Total Adjusts. £000**
Communities and Families	11,918	(81)	647	12,484
Place	85,271	53	(2,179)	83,145
Housing Revenue Account	(30,763)	0	15,455	(15,308)
Health and Social Care	10,079	(440)	0	9,639
Resources	125,098	(16,586)	3,469	111,981
Chief Executive	966	0	572	1,538
Cost of Services	**202,569**	**(17,054)**	**17,964**	**203,479**
Other income and expenditure				
Other non-service specific costs	(21,200)	(3,469)	(1,651)	(26,320)
Net deficit on trading activities	0	48	0	48
Net income and changes in relation to investment properties and changes in their fair value	(309)	(1,658)	0	(1,967)
Interest and investment income	(1,189)	(32)	(212)	(1,433)
Interest payable and similar charges	(3,768)	22,255	0	18,487
Net pension interest cost	16,410	0	0	16,410
Gains on disposal of assets	(5,464)	0	0	(5,464)
Gains on derecognition or revaluation of financial assets	0	(90)	0	(90)
Use of reserves	0	0	(247)	(247)
Capital grants and contributions	(127,806)	0	0	(127,806)
Income from donated assets	441	0	0	441
Total Adjustments	**59,684**	**0**	**15,854**	**75,538**

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

5. Expenditure and Funding Analysis - Council

5.2 Segmental Analysis of Expenditure and Income included in Expenditure and Funding Analysis

2020/21	Communities and Families	Place	Housing Revenue Account	Health and Social Care
Expenditure	**£000**	**£000**	**£000**	**£000**
Employee expenses	362,517	86,561	11,220	88,029
Other service expenses	251,463	189,009	42,093	269,282
Support service recharges	0	18	6,893	0
Interest payments	21	0	17,414	0
Debt repayments *(HRA only)*	0	0	17,130	0
Total Expenditure	**614,001**	**275,588**	**94,750**	**357,311**
Income				
Revenues from external customers	(56,187)	(111,913)	(91,461)	(17,925)
Income from recharges for services	0	(165)	(254)	0
Government grants and other contribs.	(87,751)	(68,880)	(1,871)	(111,230)
Interest and investment income	0	0	(1,164)	0
Total Income	**(143,938)**	**(180,958)**	**(94,750)**	**(129,155)**
Cost of Services	**470,063**	**94,630**	**0**	**228,156**

	Resources	Chief Executive	Lothian Valuation Joint Board	Council Total
Expenditure	**£000**	**£000**	**£000**	**£000**
Employee expenses	75,510	8,034	0	631,871
Other service expenses	129,012	4,847	3,805	889,511
Support service recharges	(873)	0	0	6,038
Interest payments	19,464	0	0	36,899
Debt repayments *(HRA only)*	0	0	0	17,130
Total Expenditure	**223,113**	**12,881**	**3,805**	**1,581,449**
Income				
Revenues from external customers	(18,292)	(574)	0	(296,352)
Income from recharges for services	(8,772)	(477)	0	(9,668)
Government grants and other contribs.	(17,309)	(2,105)	0	(289,146)
Interest and investment income	0	0	0	(1,164)
Total Income	**(44,373)**	**(3,156)**	**0**	**(596,330)**
Cost of Services	**178,740**	**9,725**	**3,805**	**985,119**

	Subsidiaries	Associates and Joint Ventures	Group Total
Expenditure	**£000**	**£000**	**£000**
Employee expenses	97,733	0	729,604
Other service expenses	43,677	0	933,188
Support service recharges	0	0	6,038
Depreciation, amortisation and impairment	24,111	0	24,111
Interest payments	0	0	36,899
Debt repayments *(HRA only)*	0	0	17,130
Net expend from Associates and Joint Ventures	0	300	300
Total Expenditure	**165,521**	**300**	**1,747,270**
Income			
Revenues from external customers	(176,590)	0	(472,942)
Income from recharges for services	0	0	(9,668)
Government grants and other contribs.	38,048	0	(251,098)
Interest and investment income	0	0	(1,164)
Net income from Associates and Joint Ventures	0	(12,710)	(12,710)
Total Income	**(138,542)**	**(12,710)**	**(747,582)**
Cost of Services	**26,979**	**(12,410)**	**999,688**

NOTES TO THE FINANCIAL STATEMENTS

5. Expenditure and Funding Analysis - Council - continued

5.2 Segmental Analysis of Expenditure and Income included in Expenditure and Funding Analysis

2019/20 Comparative Data	**Communities and Families**	**Place**	**Housing Revenue Account**	**Health and Social Care**
Expenditure	**£000**	**£000**	**£000**	**£000**
Employee expenses	343,850	84,015	10,242	87,256
Other service expenses	199,027	179,689	42,509	232,390
Support service recharges	0	0	7,023	0
Interest payments	77	0	18,001	0
Debt repayments *(HRA only)*	0	0	43,695	0
Total Expenditure	**542,954**	**263,704**	**121,470**	**319,646**
Income				
Revenues from external customers	(53,075)	(141,768)	(98,098)	(19,432)
Income from recharges for services	(16)	(435)	(166)	0
Government grants and other contribs.	(66,293)	(68,232)	(22,018)	(81,742)
Interest and investment income	0	0	(1,188)	0
Total Income	**(119,384)**	**(210,435)**	**(121,470)**	**(101,174)**
Cost of Services	**423,570**	**53,269**	**0**	**218,472**

	Resources	**Chief Executive**	**Lothian Valuation Joint Board**	**Council Total**
Expenditure	**£000**	**£000**	**£000**	**£000**
Employee expenses	73,940	7,966	0	607,269
Other service expenses	133,520	5,576	3,678	796,389
Support service recharges	37	0	0	7,060
Interest payments	18,196	0	0	36,274
Debt repayments *(HRA only)*	0	0	0	43,695
Total Expenditure	**225,693**	**13,542**	**3,678**	**1,490,687**
Income				
Revenues from external customers	(29,342)	(780)	0	(342,495)
Income from recharges for services	(9,938)	(475)	0	(11,030)
Government grants and other contribs.	(18,858)	(3,237)	0	(260,380)
Interest and investment income	0	0	0	(1,188)
Total Income	**(58,138)**	**(4,492)**	**0**	**(615,093)**
Cost of Services	**167,555**	**9,050**	**3,678**	**875,594**

	Subsidiaries	**Associates and Joint Ventures**	**Group Total**
Expenditure	**£000**	**£000**	**£000**
Employee expenses	119,178	0	726,447
Other service expenses	62,144	0	858,533
Support service recharges	0	0	7,060
Depreciation, amortisation and impairment	24,433	0	24,433
Interest payments	0	0	36,274
Debt repayments *(HRA only)*	0	0	43,695
Net expend from Associates and Joint Ventures	0	5,243	5,243
Total Expenditure	**205,755**	**5,243**	**1,701,685**
Income			
Revenues from external customers	(146,504)	0	(488,999)
Income from recharges for services	0	0	(11,030)
Government grants and other contribs.	(34,068)	0	(294,448)
Interest and investment income	0	0	(1,188)
Net income from Associates and Joint Ventures	0	(461)	(461)
Total Income	**(180,572)**	**(461)**	**(796,126)**
Cost of Services	**25,183**	**4,782**	**905,559**

NOTES TO THE FINANCIAL STATEMENTS

6. Expenditure and Income Analysed by Nature

Group

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

	2020/21	2019/20
Expenditure	**£000**	**£000**
Employee expenses	772,712	764,758
Other service expenses	1,254,853	1,213,316
Support service recharges	6,038	7,059
Depreciation, amortisation and impairment	206,840	255,785
Interest payments	167,044	226,798
Net Interest in the (profit) / loss of associates and joint ventures	(12,410)	4,782
Total Expenditure	**2,395,077**	**2,472,498**
Income		
Fees, charges and other service income	(874,617)	(868,012)
Gain on the disposal of assets	(6,525)	(5,331)
Movement on donated assets	1,008	441
Interest and investment income	(80,020)	(105,152)
Income from Council Tax and Non-Domestic Rates	(522,419)	(637,069)
Government grants and other contributions	(877,371)	(638,341)
Recognised capital income	(112,548)	(127,806)
Total Income	**(2,472,492)**	**(2,381,270)**
Group (Surplus) / Deficit	**(77,415)**	**91,228**

Council

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

		Re-stated
Re-stated	**2020/21**	**2019/20**
Expenditure	**£000**	**£000**
Employee expenses	674,979	645,580
Other service expenses	1,211,501	1,150,799
Support service recharges	6,038	7,059
Depreciation, amortisation and impairment	182,729	231,352
Interest payments	154,369	210,865
Total Expenditure	**2,229,616**	**2,245,655**
Income		
Fees, charges and other service income	(687,103)	(713,178)
(Gain) / Loss on the disposal of assets	(6,499)	(5,464)
Interest and investment income	(69,871)	(77,861)
Income from Council Tax and Non-Domestic Rates	(522,419)	(637,069)
Government grants and other contributions	(915,419)	(604,273)
Recognised capital income	(110,046)	(127,806)
Donated asset income	1,008	441
Total Income	**(2,310,349)**	**(2,165,210)**
(Surplus) / Deficit on the Provision of Services	**(80,733)**	**80,445**

NOTES TO THE FINANCIAL STATEMENTS

7. Material Items of Income and Expense

There has been material income and expense during this financial year related to the Covid 19 pandemic, further details of this are contained in the Management Commentary page 8.

8. Events After the Balance Sheet Date

There have been no material events to disclose after the Balance Sheet date.

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%	
● Edinburgh Living MMR LLP	99.999%	
Associates:		
● Edinburgh Leisure	33.33%	Board representation
● Capital Theatres	33.33%	Board representation
● Lothian Valuation Joint Board	61.29%	Funding percentage
● Common Good	100.00%	
Joint Venture	**Interest**	
● Edinburgh Integration Joint Board	50.00%	Board representation

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 MR LLP	99.00%	(dormant to 31.12.20)
● Telford NHT LLP	> 75% controlling interest	

In January 2019 the Council bought out the developer's share in Telford NHT LLP and held majority control of this associate during the financial year, in conjunction with the Scottish Futures Trust. The properties held were sold on 4 May 2021, however the controlling interest has been retained.

LFPE Limited and LPFI Limited are consolidated in the annual accounts of Lothian Pension Fund.

Unless otherwise stated, the accounts of these bodies may be accessed, as they become available, through **the Council's website**.

NOTES TO THE FINANCIAL STATEMENTS

9. Subsidiaries and Associates - continued

9.1 Analysis of Minority Interest Shares in the Group Comprehensive Income and Expenditure Statement

Attributable shares of income and expenditure	Authority	Minority Interest	Total
2020/21	**£000**	**£000**	**£000**
(Surplus) or Deficit on the Provision of Services	(82,903)	5,263	(77,640)
Other Comprehensive Income and Expenditure	(274,887)	(1,506)	(276,393)
	(357,790)	3,757	(354,033)
2019/20	**£000**	**£000**	**£000**
(Surplus) or Deficit on the Provision of Services	90,068	1,107	91,175
Other Comprehensive Income and Expenditure	(352,683)	(2,750)	(355,433)
	(262,615)	(1,643)	(264,258)

9.2 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:	31.12.20	Re-stated 31.12.19
	£000	**£000**
Net assets	13,837	20,493
Net (profit) / loss before taxation	4,941	(3,135)
Retained profit / (loss) carried forward	(56,107)	(49,420)

  The Council inherited its interest in CEC Holdings Limited following the local government reorganisation in 1996. It is considered that this was on an acquisition basis, however, as no consideration was given for these interests, there was no goodwill involved in these transactions.

- **Transport for Edinburgh Limited**

  The principal activities of the company are as a holding company for the City of Edinburgh Council's interest in public transport companies; Lothian Buses Limited and Edinburgh Trams Limited. The company is wholly owned by the City of Edinburgh Council.

  The Council's major shareholding in Lothian Buses of 5,824,139 (91.01%) £1 ordinary shares (fully paid) was transferred to Transport for Edinburgh Limited in 2014.

  The Council inherited its interest in Lothian Buses Limited, following the reorganisation of local government in 1996. It is considered that this was on an acquisition basis, however, as no consideration was given for these interests, there was no goodwill involved in these transactions.

  Edinburgh Trams Limited commenced a fare paying revenue service on 31 May 2014.

  The most recent audited results of the company are as follows:

Transport for Edinburgh Limited (Consolidated Group)	31.12.20 £000	31.12.19 £000
Net assets	70,310	129,486
Net loss before taxation	21,271	16,873
Retained earnings	(38,230)	22,223
Dividend paid in March 2020 and March 2019	0	7,000

  A copy of the latest accounts can be obtained by writing to the Finance Director, Lothian Buses Limited, Annandale Street, Edinburgh, EH7 4AZ.

- **Edinburgh Living MMR LLP**

  The limited liability partnership (LLP) members are the City of Edinburgh Council and Scottish Futures Trust (SFT). The principal activities of the partnership are to acquire and manage homes for mid-market rent.

The most recent audited results of the partnership are as follows:	31.12.20	Re-stated 31.12.19
	£000	**£000**
Net assets	40,268	24,848
Net profit before taxation	(2,627)	(8,252)
Retained profit carried forward	2,627	8,252

9. Subsidiaries and Associates - continued

9.3 Associates

- **Edinburgh Leisure**

  This is a non-profit-distributing company limited by guarantee and registered as a Charity. Each member has undertaken to contribute an amount not exceeding £1 towards any deficit arising in the event of the company being wound up.

  The principal activity of the company is the provision of recreation and leisure facilities.

  The City of Edinburgh Council is represented on the company's Board of Directors and contributes a substantial sum to the company towards the cost of operating sport and leisure facilities.

  The City of Edinburgh Council leases its sport and leisure centres to the company.

The most recent audited results of the company are as follows:	**31.03.21 £000**	**31.03.20 £000**
Net assets / (liabilities)	892	(1,223)
Net operating (profit) / loss	(2,115)	4,901
Earnings / (Losses) carried forward	892	(1,223)

  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**

  This is a non-profit-distributing company limited by guarantee and registered as a Charity.

  The City of Edinburgh Council is represented on the trust's board of directors and gives substantial financial assistance. The City of Edinburgh Council leases the King's Theatre and the Festival Theatre to the trust.

The most recent audited results of the company are as follows:	**31.03.21 £000**	**31.03.20 £000**
Net assets	5,626	5,323
Net operational (profit) / loss	82	(561)
Fund balances carried forward	5,626	5,323

  Although Capital Theatres is included in the Group Accounts, due to its activities being a core part of the Council's policy, the Council has no legal interest in the assets or liabilities of the company.

- **Lothian Valuation Joint Board**

  The Lothian Valuation Joint Board provides Valuation Appeals, Lands Valuation, Electoral Registration and Council Tax Valuation Services.

  The Board comprises 16 members of whom nine are elected by the City of Edinburgh, three by West Lothian and two each by East and Midlothian Councils. Costs incurred by the Lothian Valuation Joint Board are apportioned in accordance with the non-domestic rateable subjects and dwellings valued for Council Tax within the areas of each constituent authority.

	31.03.21 £000	**Re-stated 31.03.20 £000**
Deficit for the year	490	565
Net Liabilities	(6,620)	(4,718)
Usable reserves	1,231	1,181
Unusable reserves	(7,851)	(5,899)
Total reserves	(6,620)	(4,718)

9.4 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 therefore commission services from the parent bodies based on the approved strategic plan.

The most recent audited results of the Board are as follows:	**31.03.21 £000**	**31.03.20 £000**
Gross expenditure	850,054	762,032
(Surplus) / Deficit for the year	(22,244)	6,528
Usable reserves	25,410	3,166

9.5 Audit Opinions noted on the Accounts of the Companies
Unless otherwise indicated, the companies' accounts are audited.

9.6 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), Transport for Edinburgh Ltd - (including Lothian Buses and Edinburgh Trams Ltd), Capital Theatres and Edinburgh Leisure.

9.7 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 £182.551m (2019/20 £218.587m) 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 work of the Scottish Child Abuse Inquiry, which began in 2015, is continuing under Lady Smith. With the imminent introduction of the Redress scheme for survivors of historical child abuse and the introduction of Qualified One-Way Costs Shifting (QOCS) from June 2021, there will be increased avenues for survivors to seek compensation for abuse which took place whilst in the care of an organisation. The Council’s project team continues to support the inquiry, review historic records and respond to requests from the Inquiry for information. Local authorities across Scotland will be presented with claims, however the extent of the exposure remains unknown in 2021 as there is no time bar on the presentation of claims.

The Inquiry has identified a number of Council operated or commissioned facilities which it wishes to review as part of their investigation. Separately, some civil litigation claims have been submitted to the City of Edinburgh Council, as successor authority to Lothian Regional Council. Where claims are ongoing, it is impossible to confirm the likely cost to the Council as reserves change regularly and accurate costs are only known when a claim is settled. The total cost to the Council will include any settlement amount, fees (both first and third party), which may be offset by the insurance coverage in force at the time of the alleged abuse. It is worth noting that discussions are due to take place to ensure an equitable distribution of legacy claims across all Lothian councils which will further impact the exposure to the Council.

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		
2020/21	**General Fund Balance £000**	**Housing Revenue Account Balance £000**	**Capital Receipts Reserve £000**
Adjustments primarily involving the Capital Adjustment Account			
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement (CIES)			
Charges for depreciation and impairment of non-current assets	109,538	23,031	0
Movements in the market value of investment properties	(14)	0	0
Amortisation and impairment of intangible assets	148	0	0
Capital grants and contributions applied	(87,797)	(22,249)	0
Capital funded from revenue	(13,658)	0	0
Donated assets	1,008	0	0
Capital fund used to finance new capital expenditure	0	0	0
Revenue expenditure funded from capital under statute	51,107	0	0
Insertion of items not debited or credited to the CIES			
Statutory provision for the financing of capital investment	(50,778)	(17,130)	0
Capital expenditure charged against General Fund and HRA balances	(51,107)	0	0
Adjustments primarily involving the Capital Grant Unapplied Account			
Application of grants to capital financing transferred to the Capital Adjustment Account	0	0	0
Adjustments primarily involving the Capital Receipts Reserve			
Net (gain) / loss on sale of property, plant and equipment and assets held for sale	(6,251)	(248)	27,388
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	(27,388)
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	(2,129)	(906)	0
Adjustments primarily involving the Pensions Reserve			
Reversal of items relating to retirement benefits debited or credited to the CIES	115,521	3,063	0
Employer's pension contributions and direct payments to pensioners payable in the year	(71,511)	(1,721)	0
Adjustments primarily involving the Employee Statutory Adjustment Account			
Amount by which officer remuneration charges to the CIES are different from remuneration chargeable in the year in accordance with statutory requirements	2,371	68	0
Total Adjustments	(3,552)	(16,092)	0

NOTES TO THE FINANCIAL STATEMENTS

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

2020/21	Usable Reserves Capital Grants Unapplied Account £000	Capital Fund £000	Movement in Unusable Reserves £000
Adjustments primarily involving the Capital Adjustment Account			
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement (CIES)			
Charges for depreciation and impairment of non-current assets	0	0	(132,569)
Movements in the market value of investment properties	0	0	14
Amortisation of intangible assets	0	0	(148)
Capital grants and contributions applied	19,645	0	90,401
Capital funded from revenue	0	0	13,658
Donated assets	0	0	(1,008)
Capital fund used to finance new capital expenditure	0	2,000	(2,000)
Revenue expenditure funded from capital under statute	0	0	(51,107)
Insertion of items not debited or credited to the CIES			
Statutory provision for the financing of capital investment	0	(1,203)	69,111
Capital expenditure charged against General Fund and HRA balances	0	0	51,107
Adjustments primarily involving the Capital Grant Unapplied Account			
Application of grants to capital financing transferred to the Capital Adjustment Account	(148)	0	148
Adjustments primarily involving the Capital Receipts Reserve			
Net gain / (loss) on sale of property, plant and equipment and assets held for sale	0	0	(20,889)
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	27,388
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	3,035
Adjustments primarily involving the Pensions Reserve			
Reversal of items relating to retirement benefits debited or credited to the CIES	0	0	(118,584)
Employer's pension contributions and direct payments to pensioners payable in the year	0	0	73,232
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	(2,439)
Total Adjustments	19,497	797	(650)

NOTES TO THE FINANCIAL STATEMENTS

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

Re-stated 2019/20 Comparative Data	Usable Reserves		
	General Fund Balance £000	Housing Revenue Account Balance £000	Capital Receipts Reserve £000
Adjustments primarily involving the Capital Adjustment Account			
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement (CIES)			
Charges for depreciation and impairment of non-current assets	202,216	29,078	0
Movements in the market value of investment properties	(351)	42	0
Amortisation of intangible assets	58	0	0
Capital grants and contributions applied	(98,544)	(29,262)	0
Capital funded from revenue	(6,581)	(23,000)	0
Donated assets	441	0	0
Capital fund used to finance new capital expenditure	0	0	0
Revenue expenditure funded from capital under statute	52,778	0	0
Insertion of items not debited or credited to the CIES			
Statutory provision for the financing of capital investment	(77,890)	(20,695)	0
Capital expenditure charged against General Fund and HRA balances	(52,778)	0	0
Adjustments primarily involving the Capital Grant Unapplied Account			
Application of grants to capital financing transferred to the Capital Adjustment Account	0	0	0
Adjustments primarily involving the Capital Receipts Reserve			
Net loss / (gain) on sale of property, plant and equipment and assets held for sale	(1,910)	(3,554)	9,640
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	(9,640)
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	31,346	13,113	0
Adjustments primarily involving the Pensions Reserve			
Reversal of items relating to retirement benefits debited or credited to the CIES	114,743	2,803	0
Employer's pension contributions and direct payments to pensioners payable in the year	(67,925)	(1,530)	0
Adjustments primarily involving the Employee Statutory Adjustment Account			
Amount by which officer remuneration charges to the CIES are different from remuneration chargeable in the year in accordance with statutory requirements	(2,107)	(144)	0
Total Adjustments	93,496	(33,149)	0

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

Re-stated 2019/20 Comparative Data	Usable Reserves: Capital Grants Unapplied Account £000	Usable Reserves: Capital Fund £000	Movement in Unusable Reserves £000
Adjustments primarily involving the Capital Adjustment Account			
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement (CIES)			
Charges for depreciation and impairment of non-current assets	0	0	(231,293)
Movements in the market value of investment properties	0	0	309
Amortisation of intangible assets	0	0	(58)
Capital grants and contributions applied	13,473	0	114,333
Capital funded from revenue	0	0	29,581
Donated assets	0	0	(441)
Capital fund used to finance new capital expenditure	0	(6,311)	6,311
Revenue expenditure funded from capital under statute	0	0	(52,778)
Insertion of items not debited or credited to the CIES			
Statutory provision for the financing of capital investment	0	(663)	99,248
Capital expenditure charged against General Fund and HRA balances	0	0	52,778
Adjustments primarily involving the Capital Grant Unapplied Account			
Application of grants to capital financing transferred to the Capital Adjustment Account	(805)	0	805
Adjustments primarily involving the Capital Receipts Reserve			
Net (loss) / gain on sale of property, plant and equipment and assets held for sale	0	0	(4,176)
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	9,640
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	(44,459)
Adjustments primarily involving the Pensions Reserve			
Reversal of items relating to retirement benefits debited or credited to the CIES	0	0	(117,546)
Employer's pension contributions and direct payments to pensioners payable in the year	0	0	69,455
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	2,251
Total Adjustments	12,668	(6,974)	(66,041)

NOTES TO THE FINANCIAL STATEMENTS

12. Usable Reserves

12.1 Transfers to and from Usable Reserves

This note sets out the amounts set aside in the Group's and the Council's usable reserves and the amounts posted back from these reserves to meet expenditure during the year.

Group Reserves	Balance at 01.04.20 £000	Net Transfers Out 2020/21 £000	Net Transfers In 2020/21 £000	Balance at 31.03.21 £000
Subsidiaries				
CEC Holdings Limited				
Revenue reserves	(49,323)	(6,707)	0	(56,030)
Capital grants unapplied account	1,305	(92)	0	1,213
Transport for Edinburgh Limited				
Revenue reserves	119,653	(37,114)	0	82,539
Minority interests	14,944	(3,757)	0	11,187
Edinburgh Living MMR LLP				
Revenue reserves	17	0	125	142
Total Usable Reserves - Subsidiaries	**86,596**	**(47,670)**	**125**	**39,051**
Associates and Joint Ventures				
Common Good Fund - Reserves	2,665	0	4	2,669
Edinburgh Leisure - Reserves	(408)	0	705	297
Capital Theatres - Reserves	1,774	0	101	1,875
Lothian Valuation Joint Board - Reserves	724	0	31	755
Edinburgh Integration Joint Board - Reserves	1,583	0	11,122	12,705
Total Usable Reserves - Associates and Joint Ventures	**6,338**	**0**	**11,963**	**18,301**
Total Usable Reserves - Subsidiaries, Associates and Joint Ventures	**92,934**	**(47,670)**	**12,088**	**57,352**

NOTES TO THE FINANCIAL STATEMENTS

12. Usable Reserves - continued

12.1 Transfers to and from Usable Reserves - continued

	Balance at 01.04.19 £000	Net Transfers Out 2019/20 £000	Net Transfers In 2019/20 £000	Balance at 31.03.20 £000
Group Reserves				
Subsidiaries				
CEC Holdings Limited				
Revenue reserves	(51,059)	0	1,736	(49,323)
Capital grants unapplied account	1,521	(216)	0	1,305
Transport for Edinburgh				
Revenue reserves	127,518	(7,865)	0	119,653
Minority interests	13,301	(1,107)	2,750	14,944
Edinburgh Living MMR LLP				
Revenue reserves	0	0	17	17
Total Usable Reserves - Subsidiaries	**91,281**	**(9,188)**	**4,503**	**86,596**
Associates and Joint Ventures				
Common Good Fund - Reserves	2,352	0	313	2,665
Edinburgh Leisure - Reserves	203	(611)	0	(408)
Capital Theatres - Reserves	1,626	0	148	1,774
Lothian Valuation Joint Board - Reserves	775	(51)	0	724
Edinburgh Integration Joint Board - Reserves	4,847	(3,264)	0	1,583
Total Usable Reserves - Associates and Joint Ventures	**9,803**	**(3,926)**	**461**	**6,338**
Total Usable Reserves - Subsidiaries, Associates and Joint Ventures	**101,084**	**(13,114)**	**4,964**	**92,934**

NOTES TO THE FINANCIAL STATEMENTS

12. Usable Reserves - continued

12.1 Transfers to and from Usable Reserves - continued

Council's Usable Reserves	Balance at 01.04.20 £000	Transfers Out 2020/21 £000	Transfers In 2020/21 £000	Balance at 31.03.21 £000
General Fund				
Balances Set Aside to Manage Financial Risks and for Specific Investment				
Balances set aside for specific inv.	44,690	(36,815)	20,130	28,005
Council Priorities Fund	757	(757)	0	0
Contingency funding, Workforce Transformation	13,589	(2,500)	148	11,237
Dilapidations Fund	3,228	(778)	1,550	4,000
Insurance Funds*	20,097	(1,572)	1,055	19,580
Covid Funds	0	0	78,473	78,473
	82,361	(42,422)	101,356	141,295
Balances Set Aside from Income Received in Advance				
Licensing Income*	2,982	0	991	3,973
Revenue grants and contributions received in advance of planned expenditure	6,801	(2,420)	7,297	11,678
Council Tax Discount Fund*	4,304	(520)	2,279	6,063
Other earmarked balances	204	(29)	0	175
City Strategic Investment Fund	2,795	(906)	145	2,034
Covid advance funding	0	0	22,382	22,382
	17,086	(3,875)	33,094	46,305
Balances Set Aside for Investment in Specific Projects which will Generate Future Savings				
Energy Efficiency Fund	295	(28)	44	311
Spend to Save Fund and similar projects	3,006	(148)	551	3,409
	3,301	(176)	595	3,720
Balances Set Aside under Devolved School Management Scheme and Pupil Equity Fund				
Balances held by schools under Devolved School Management (DSM) and Pupil Equity Fund (PEF)*	4,671	(4,671)	4,688	4,688
Unallocated General Fund	13,927	0	11,098	25,025
Total General Fund	121,346	(51,144)	150,831	221,033
Housing Revenue Account Balance	0	0	0	0
Renewal and Repairs Fund	29,748	(3,537)	14,951	41,162
Capital Fund	48,934	(1,203)	2,000	49,731
Capital Receipts Reserve	0	(27,388)	27,388	0
Capital Grants Unapplied Account	28,452	(148)	19,645	47,949
Total Usable Reserves - Council	**228,480**	**(83,420)**	**214,815**	**359,875**
Total Usable Reserves - Group	**321,414**	**(131,090)**	**226,903**	**417,227**

* - mandatory earmarked General Fund balances

NOTES TO THE FINANCIAL STATEMENTS

12. Usable Reserves - continued

12.1 Transfers to and from Usable Reserves - continued

Re-stated	Balance at 01.04.19 £000	Transfers Out 2019/20 £000	Transfers In 2019/20 £000	Balance at 31.03.20 £000
General Fund				
Balances Set Aside to Manage Financial Risks and for Specific Investment				
Balances set aside for specific inv.	42,296	(10,876)	13,270	44,690
Council Priorities Fund	6,625	(9,154)	3,286	757
Contingency funding, Workforce Transformation	18,194	(7,160)	2,555	13,589
Dilapidations Fund	5,721	(2,493)	0	3,228
Insurance Funds*	19,585	(841)	1,353	20,097
	92,421	(30,524)	20,464	82,361
Balances Set Aside from Income Received in Advance				
Licensing Income*	2,584	(118)	516	2,982
Revenue grants and contributions received in advance of planned expend.	5,394	(1,680)	3,087	6,801
Council Tax Discount Fund*	18,631	(18,000)	3,673	4,304
Other earmarked balances	203	0	1	204
City Strategic Investment Fund	3,552	(902)	145	2,795
	30,364	(20,700)	7,422	17,086
Balances Set Aside for Investment in Specific Projects which will Generate Future Savings				
Energy Efficiency Fund	244	0	51	295
Spend to Save Fund and similar projects	2,718	(245)	533	3,006
	2,962	(245)	584	3,301
Balances Set Aside under Devolved School Management Scheme				
Balances held by schools under Devolved School Management (DSM) and Pupil Equity Fund (PEF)*	6,073	(6,034)	4,632	4,671
Unallocated General Fund	13,025	0	902	13,927
Total General Fund	144,845	(57,503)	34,004	121,346
Housing Revenue Account Balance	0	0	0	0
Renewal and Repairs Fund	26,346	(5,123)	8,525	29,748
Capital Fund	55,908	(8,453)	1,479	48,934
Capital Receipts Reserve	0	(279,048)	279,048	0
Capital Grants Unapplied Account	15,784	(805)	13,473	28,452
Total Usable Reserves - Council	**242,883**	**(350,932)**	**336,529**	**228,480**
Total Usable Reserves - Group	**343,967**	**(364,046)**	**341,493**	**321,414**

* - mandatory earmarked General Fund balances

12. Usable Reserves - continued

12.2 Devolved School Management and Pupil Equity Funding

A net credit balance of £4.688m (2019/20 £4.671m) is held within the General Fund in accordance with the Devolved School Management scheme and permitted carry forward of the 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

2020/21	**General Fund £000**	**HRA Balance £000**	**Renewal / Repairs Fund £000**	**Capital Receipts Reserve £000**
Transfers out	(51,144)	0	(3,537)	(27,388)
Transfers in	150,831	0	14,951	27,388
Total movements in fund	99,687	0	11,414	0
Recognised in Comprehensive Income and Expenditure Statement	100,597	10,504	0	0
Transfers to other earmarked reserves	(910)	(10,504)	11,414	0
Total movements in fund	99,687	0	11,414	0

	Capital Grants Unapplied £000	**Capital Fund £000**	**Group Usable Reserves £000**	**Total £000**
Transfers out	(148)	(1,203)	(47,670)	**(131,090)**
Transfers in	19,645	2,000	12,088	**226,903**
Total movements in fund	19,497	797	(35,582)	**95,813**
Recognised in Comprehensive Income and Expenditure Statement	19,497	797	(35,791)	**95,604**
Transfers to other earmarked reserves	0	0	0	**0**
Group account adjustments unusable reserves	0	0	209	**209**
Total movements in fund	19,497	797	(35,582)	**95,813**

2019/20 Comparative Data	**General Fund £000**	**HRA Balance £000**	**Renewal / Repairs Fund £000**	**Capital Receipts Reserve £000**
Transfers out	(57,503)	0	(5,123)	(279,048)
Transfers in	34,004	0	8,525	279,048
Total movements in fund	(23,499)	0	3,402	0
Recognised in Comprehensive Income and Expenditure Statement	(4,643)	(15,455)	0	0
Transfers to other earmarked reserves	(18,856)	15,455	3,402	0
Total movements in fund	(23,499)	0	3,402	0

NOTES TO THE FINANCIAL STATEMENTS

12. Usable Reserves - continued

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

2019/20 Comparative Data	Capital Grants Unapplied £000	Capital Fund £000	Re-stated Group Usable Reserves £000	Total £000
Transfers out	(805)	(8,453)	(13,114)	**(364,046)**
Transfers in	13,473	1,479	4,964	**341,493**
Total movements in fund	12,668	(6,974)	(8,150)	**(22,553)**
Recognised in Comprehensive Income and Expenditure Statement	12,668	(6,974)	(3,612)	**(18,015)**
Transfers to other earmarked reserves	0	(0)	(4,538)	**(4,538)**
Total movements in fund	12,668	(6,974)	(8,150)	**(22,553)**

13. Financing and Investment Income and Expenditure

	2020/21		Re-stated 2019/20	
	Group £000	Council £000	Group £000	Council £000
Interest payable and similar charges	79,236	76,711	76,334	76,253
Premiums arising from refinancing	0	0	46,943	46,943
Interest cost on defined benefit obligation	87,808	77,658	103,520	87,668
Interest receivable and similar income	(3,394)	(3,812)	(5,792)	(4,636)
Interest income on plan assets	(75,815)	(65,248)	(89,130)	(71,258)
Net income in relation to investment properties and changes in their fair value	(3,314)	(811)	(10,230)	(1,967)
Net income in relation to financial assets derecognised or revalued	(156)	(156)	(90)	(90)
Net deficit from trading activities	0	0	48	48
	84,365	84,342	121,603	132,961

14. Taxation and Non-Specific Grant Income

	2020/21		2019/20	
	Group £000	Council £000	Group £000	Council £000
Council Tax income	(283,496)	(283,496)	(271,044)	(271,044)
Non-domestic rates	(238,922)	(238,922)	(366,025)	(366,025)
Non-ring fenced government grants	(635,771)	(635,771)	(360,206)	(360,206)
Capital grants and contributions	(110,046)	(110,046)	(127,806)	(127,806)
Movement on donated assets	1,008	1,008	441	441
Taxation expenses / (refund)	(325)	0	374	0
	(1,267,552)	(1,267,227)	(1,124,266)	(1,124,640)

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	Up to 120 years as advised by the valuer (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 - Millerhill Residual Waste Facility	30 years
PPP - Schools	40 years (PPP1 schools) and 35 years (PPP2 schools) 50 years (JGHS and QHS)
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 2021, the Council had entered into a number of contracts for the construction or enhancement of property, plant and equipment. These are budgeted to cost £250.801m. A number of these amounts relate to contract retentions, as projects are now complete. Similar commitments at 31 March 2020 were £192.129m.

	£000	Expected Completion Date
Trams to Newhaven	81,583	23/24
St James Redevelopment - Growth Accelerator Model	61,400	21/22
Picardy Place Public Realm *	1,500	21/22
General Fund - Asset Management Works Programme	13,967	21/22
Trinity High School Phase 1 - Bangholm	13,590	21/22
Castlebrae High School	11,117	21/22
HRA - Pennywell Town Centre	10,345	22/23
Darroch School Refurbishment	8,853	22/23
New South Edinburgh Primary School	7,939	21/22
General Fund - Other	15,175	22/23
HRA - Other	6,840	23/24
North Bridge Refurbishment	6,240	23/24
Energy Efficiency Street Lighting Project	3,904	21/22
St Crispin's Special School	3,511	21/22
HRA - Pennywell Phase 3	3,481	22/23
Meadowbank Sports Centre	1,356	21/22
	250,801	

* The Picardy Place public realm payment will be made following the completion of the wider St James Redevelopment.

15. Property, Plant and Equipment - continued

15.3 Movements on Balances - Group

Movements in 2020/21

	Council Dwellings £000	Other Land and Buildings £000	Vehicles, Plant, Furniture and Equipment £000	Infrastructure Assets £000
Cost or Valuation				
At 1 April 2020	1,569,110	2,338,814	359,048	1,543,665
Additions	21,437	22,462	12,350	99,085
Revaluation increases / (decreases) recognised in the Revaluation Reserve	46,591	290,902	0	0
Revaluation increases / (decreases) recognised in the Surplus on the Provision of Services	(17)	(7,378)	0	0
Derecognition - disposals	(2,849)	(442)	(18,602)	0
Derecognition - other	0	0	0	0
Assets reclassified (to) / from held for sale	0	406	0	0
Other increases / (decreases) in cost or valuation	20,875	39,408	0	0
At 31 March 2021	1,655,147	2,684,172	352,796	1,642,750
Accumulated Depreciation and Impairment				
At 1 April 2020	(9,012)	(151,526)	(172,255)	(771,663)
Depreciation charge	(31,651)	(71,695)	(27,970)	(73,851)
Depreciation charge written out to Revaluation Reserve	49,849	47,971	0	0
Depreciation written out to the Surplus on the Provision of Services	(9,219)	(360)	0	0
Derecognition - disposals	75	0	17,207	0
Derecognition - other	0	0	0	0
Impairment losses recognised in the Surplus on the Provision of Services	0	0	0	0
Depreciation on assets transferred to Held for Sale	0	0	0	0
At 31 March 2021	42	(175,610)	(183,018)	(845,514)
Net book value				
At 31 March 2021	1,655,189	2,508,562	169,778	797,236
At 31 March 2020	1,560,098	2,187,288	186,793	772,002

15. Property, Plant and Equipment - continued

15.3 Movements on Balances - Group

Movements in 2020/21

	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	Total Property Plant and Equipment £000
Cost or Valuation				
At 1 April 2020	7,195	20	194,715	**6,012,567**
Additions	601	0	77,890	**233,825**
Revaluation increases / (decreases) recognised in the Revaluation Reserve	(145)	0	225	**337,573**
Revaluation increases / (decreases) recognised in the Surplus on the Provision of Services	(32)	0	0	**(7,427)**
Derecognition - disposals	0	0	(17,763)	**(39,656)**
Derecognition - other	0	0	0	**0**
Assets reclassified (to) / from held for sale	0	15,799	225	**16,430**
Other increases / (decreases) in cost or valuation	0	0	(60,283)	**0**
At 31 March 2021	7,619	15,819	195,009	**6,553,312**
Accumulated Depreciation and Impairment				
At 1 April 2020	0	0	0	**(1,104,456)**
Depreciation charge	0	0	0	**(205,167)**
Depreciation charge written out to Revaluation Reserve	0	0	0	**97,820**
Depreciation written out to the Surplus on the Provision of Services	0	0	0	**(9,579)**
Derecognition - disposals	0	0	0	**17,282**
Derecognition - other	0	0	0	**0**
Impairment losses recognised in the Surplus on the Provision of Services	0	0	0	**0**
Depreciation on assets transferred to Held for Sale	0	0	0	**0**
At 31 March 2021	0	0	0	**(1,204,100)**
Net book value				
At 31 March 2021	7,619	15,819	195,009	**5,349,212**
At 31 March 2020	7,195	20	194,715	**4,908,111**

15. Property, Plant and Equipment - continued

15.4 Movements on Balances - Group Accounts

2019/20 Comparative Data

	Council Dwellings £000	Other Land and Buildings £000	Vehicles, Plant, Furniture and Equipment £000	Infrastructure Assets £000
Cost or Valuation				
At 1 April 2019	1,484,507	2,155,479	335,320	1,465,451
Additions	35,034	180,542	37,627	78,214
Revaluation increases / (decreases) recognised in the Revaluation Reserve	39,167	92,703	0	0
Revaluation decreases recognised in the Surplus on the Provision of Services	137	(52,597)	0	0
Derecognition - disposals	(2,684)	(1,540)	(13,899)	0
Derecognition - other	0	0	0	0
Assets reclassified (to) / from held for sale	0	0	0	0
Other increases / (decreases) in cost or valuation	12,949	(35,773)	0	0
At 31 March 2020	1,569,110	2,338,814	359,048	1,543,665
Accumulated Depreciation and Impairment				
At 1 April 2019	(141)	(97,601)	(160,162)	(701,660)
Depreciation charge	(29,510)	(70,128)	(24,895)	(70,003)
Depreciation charge written out to Revaluation Reserve	20,604	14,627	0	0
Depreciation written out to the Surplus on the Provision of Services	0	1,576	0	0
Derecognition - disposals	35	0	12,802	0
Derecognition - other	0	0	0	0
Impairment losses recognised in the Surplus on the Provision of Services	0	0	0	0
At 31 March 2020	(9,012)	(151,526)	(172,255)	(771,663)
Net book value				
At 31 March 2020	1,560,098	2,187,288	186,793	772,002
At 31 March 2019	1,484,366	2,057,878	175,158	763,791

15. Property, Plant and Equipment - continued

15.4 Movements on Balances - Group

2019/20 Comparative Data

	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	Total Property Plant and Equipment £000
Cost or Valuation				
At 1 April 2019	8,987	1,421	109,161	**5,560,326**
Additions	2,055	0	76,756	**410,228**
Revaluation increases / (decreases) recognised in the Revaluation Reserve	347	0	0	**132,217**
Revaluation decreases recognised in the Surplus on the Provision of Services	(4,195)	0	0	**(56,655)**
Derecognition - disposals	0	0	(14,986)	**(33,109)**
Derecognition - other	0	0	0	**0**
Assets reclassified (to) / from held for sale	0	0	0	**0**
Other increases / (decreases) in cost or valuation	1	(1,401)	23,784	**(440)**
At 31 March 2020	7,195	20	194,715	**6,012,567**
Accumulated Depreciation and Impairment				
At 1 April 2019	0	0	0	**(959,564)**
Depreciation charge	0	0	0	**(194,536)**
Depreciation charge written out to Revaluation Reserve	0	0	0	**35,231**
Depreciation written out to the Surplus on the Provision of Services	0	0	0	**1,576**
Derecognition - disposals	0	0	0	**12,837**
Derecognition - other	0	0	0	**0**
Impairment losses recognised in the Surplus on the Provision of Services	0	0	0	**0**
At 31 March 2020	0	0	0	**(1,104,456)**
Net book value				
At 31 March 2020	7,195	20	194,715	**4,908,111**
At 31 March 2019	8,987	1,421	109,161	**4,600,762**

15. Property, Plant and Equipment - continued

15.5 Movements on Balances - Council

Movements in 2020/21

	Council Dwellings £000	Other Land and Buildings £000	Vehicles, Plant, Furniture and Equipment £000	Infrastructure Assets £000
Cost or Valuation				
At 1 April 2020	1,569,110	2,265,909	169,398	1,536,995
Additions	21,437	22,433	6,301	99,085
Revaluation increases / (decreases) recognised in the Revaluation Reserve	46,591	290,902	0	0
Revaluation increases / (decreases) recognised in the Surplus on the Provision of Services	(17)	(7,378)	0	0
Derecognition - disposals	(2,849)	(362)	(419)	0
Derecognition - other	0	0	0	0
Assets reclassified (to) / from held for sale	0	402	0	0
Other increases / (decreases) in cost or valuation	20,875	39,412	0	0
At 31 March 2021	1,655,147	2,611,318	175,280	1,636,080
Accumulated Depreciation and Impairment				
At 1 April 2020	(9,012)	(119,845)	(80,290)	(765,068)
Depreciation charge	(31,651)	(71,459)	(12,109)	(73,776)
Depreciation charge written out to Revaluation Reserve	49,849	47,971	0	0
Depreciation written out to the Surplus on the Provision of Services	(9,219)	(360)	0	0
Derecognition - disposals	75	0	419	0
Derecognition - other	0	0	0	0
Impairment losses recognised in the Surplus on the Provision of Services	0	0	0	0
Other increases / (decreases) in cost or valuation	0	0	0	0
At 31 March 2021	42	(143,693)	(91,980)	(838,844)
Net book value				
At 31 March 2021	1,655,189	2,467,625	83,300	797,236
At 31 March 2020	1,560,098	2,146,064	89,108	771,927

Included within Other Land and Buildings is £1.833m for donated assets related to timing of PPP lifecycle maintenance spend by the contract provider, ahead of the planned programme.

15. Property, Plant and Equipment - continued

15.5 Movements on Balances - Council

Movements in 2020/21

Cost or Valuation	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	Total Property Plant and Equipment £000	PPP and similar Assets £000
At 1 April 2020	7,195	20	194,715	**5,743,342**	634,123
Additions	601	0	77,890	**227,747**	1,574
Revaluation increases / (decreases) recognised in the Revaluation Reserve	(145)	0	225	**337,573**	0
Revaluation decreases recognised in the Surplus on the Provision of Services	(32)	0	0	**(7,427)**	40,588
Derecognition - disposals	0	0	(17,763)	**(21,393)**	0
Derecognition - other	0	0	0	**0**	0
Assets reclassified (to) / from held for sale	0	15,799	225	**16,426**	0
Other increases / (decreases) in cost or valuation	0	0	(60,283)	**4**	337
At 31 March 2021	7,619	15,819	195,009	**6,296,272**	676,622
Accumulated Depreciation and Impairment					
At 1 April 2020	0	0	0	**(974,215)**	(21,839)
Depreciation charge	0	0	0	**(188,995)**	(14,264)
Depreciation charge written out to Revaluation Reserve	0	0	0	**97,820**	8,656
Depreciation written out to the Surplus on the Provision of Services	0	0	0	**(9,579)**	0
Derecognition - disposals	0	0	0	**494**	0
Derecognition - other	0	0	0	**0**	0
Impairment losses recognised in the Surplus on the Provision of Services	0	0	0	**0**	0
Other increases / (decreases) in cost or valuation	0	0	0	**0**	0
At 31 March 2021	0	0	0	**(1,074,475)**	(27,447)
Net book value					
At 31 March 2021	7,619	15,819	195,009	**5,221,797**	649,175
At 31 March 2020	7,195	20	194,715	**4,769,127**	612,284

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'.

15. Property, Plant and Equipment - continued

15.6 Movements on Balances - Council

2019/20 Comparative Data

Cost or Valuation	Council Dwellings £000	Re-stated Other Land and Buildings £000	Vehicles, Plant, Furniture and Equipment £000	Infrastructure Assets £000
At 1 April 2019	1,484,507	2,093,576	163,562	1,458,781
Additions	35,034	179,458	7,069	78,214
Revaluation increases / (decreases) recognised in the Revaluation Reserve	39,167	83,677	0	0
Revaluation decreases recognised in the Surplus on the Provision of Services	137	(53,489)	0	0
Derecognition - disposals	(2,684)	(1,540)	(1,233)	0
Derecognition - other	0	0	0	0
Assets reclassified (to) / from held for sale	0	0	0	0
Other increases / (decreases) in cost or valuation	12,949	(35,773)	0	0
At 31 March 2020	1,569,110	2,265,909	169,398	1,536,995
Accumulated Depreciation and Impairment				
At 1 April 2019	(141)	(66,106)	(72,866)	(695,177)
Depreciation charge	(29,510)	(69,942)	(8,656)	(69,891)
Depreciation charge written out to Revaluation Reserve	20,604	14,627	0	0
Depreciation written out to the Surplus on the Provision of Services	0	1,576	0	0
Derecognition - disposals	35	0	1,232	0
Derecognition - other	0	0	0	0
Impairment losses recognised in the Surplus on the Provision of Services	0	0	0	0
At 31 March 2020	(9,012)	(119,845)	(80,290)	(765,068)
Net book value				
At 31 March 2020	1,560,098	2,146,064	89,108	771,927
At 31 March 2019	1,484,366	2,027,470	90,696	763,604

Included within Other Land and Buildings is £1.833m for donated assets related to timing of PPP lifecycle maintenance spend by the contract provider, ahead of the planned programme.

15. Property, Plant and Equipment - continued

15.6 Movements on Balances - Council

2019/20 Comparative Data

	Community Assets £000	Surplus Assets £000	Total Assets Under Construction £000	Total Property Plant and Equipment £000	Re-stated PPP and similar Assets £000
Cost or Valuation					
At 1 April 2019	8,987	1,421	109,161	**5,319,995**	520,170
Additions	2,055	0	76,756	**378,586**	129,974
Revaluation increases / (decreases) recognised in the Revaluation Reserve	347	0	0	**123,191**	0
Revaluation decreases recognised in the Surplus on the Provision of Services	(4,195)	0	0	**(57,547)**	(16,021)
Derecognition - disposals	0	0	(14,986)	**(20,443)**	0
Derecognition - other	0	0	0	**0**	
Assets reclassified (to) / from held for sale	0	0	0	**0**	0
Other increases / (decreases) in cost or valuation	1	(1,401)	23,784	**(440)**	0
At 31 March 2020	7,195	20	194,715	**5,743,342**	634,123
Accumulated Depreciation and Impairment					
At 1 April 2019	0	0	0	**(834,290)**	(8,542)
Depreciation charge	0	0	0	**(177,999)**	(13,297)
Depreciation charge written out to Revaluation Reserve	0	0	0	**35,231**	0
Depreciation written out to the Surplus on the Provision of Services	0	0	0	**1,576**	0
Derecognition - disposals	0	0	0	**1,267**	0
Derecognition - other	0	0	0	**0**	0
Impairment losses recognised in in the Surplus on the Provision of Services	0	0	0	**0**	0
At 31 March 2020	0	0	0	**(974,215)**	(21,839)
Net book value					
At 31 March 2020	7,195	20	194,715	**4,769,127**	612,284
At 31 March 2019	8,987	1,421	109,161	**4,485,705**	511,628

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'.

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.

In 2019/20, the Valuation Certificate that accompanied the asset valuations contained a Material Valuation Uncertainty clause in line with RICS guidance. The RICS has set up a Material Valuation Uncertainty Leaders Forum (UK) in response to the COVID-19 Pandemic. On 9 September 2020, the forum recommended a general “lifting” of material valuation uncertainty excluding assets valued with reference to trading potential. This recommendation was reaffirmed on 3 November 2020 and 5 January 2021. On 11 May 2021, the recommendation was amended to lift the exclusion of assets valued with reference to trading potential.

In line with the RICS recommendations, no material valuation uncertainty declaration is made for the asset valuations this year. The Valuation Certificate contains a statement to this effect in line with the RICS Covid 19 practice alert supplement “Impact of Covid 19 on Valuation” dated 6 November 2020.

The significant assumptions applied in estimating fair value are:

- Unless otherwise stated, all properties with a greater than de minimis value were taken into account based on the actual condition of the property and its actual residual useful life. 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; and
- Not all properties were inspected.

The following statement shows the progress of the Council's five-year rolling programme for the revaluation of property, plant and equipment.

Council assets	**Council Dwellings £000**	**Other Land and Buildings £000**	**Vehicles, Plant, Furniture and Equipment £000**	**Infrastructure Assets £000**
Carried at historical cost	204	199,461	175,280	1,636,080
Valued at fair value as at:				
31 March 2021	1,653,448	689,156	0	0
31 March 2020	630	245,658	0	0
31 March 2019	363	700,593	0	0
31 March 2018	502	590,195	0	0
31 March 2017	0	186,255	0	0
Total cost or valuation	1,655,147	2,611,318	175,280	1,636,080

Council assets	**Community Assets £000**	**Surplus Assets £000**	**Assets Under Construction £000**	**Total £000**
Carried at historical cost	7,619	15,799	195,009	2,229,452
Valued at fair value as at:				
31 March 2021	0	0	0	2,342,604
31 March 2020	0	0	0	246,288
31 March 2019	0	0	0	700,956
31 March 2018	0	0	0	590,697
31 March 2017	0	20	0	186,275
Total cost or valuation	7,619	15,819	195,009	6,296,272

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 2021
	£000	£000	£000	£000
Surplus assets	0	15,819	0	15,819
Investment properties - advertising hoardings	0	19,239	0	19,239
Total cost or valuation	0	35,058	0	35,058

- 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 £0.798m (£1.658m 2019/20) and expense £Nil (£Nil 2019/20) have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

There are no restrictions on the Council's ability to realise the value inherent in its investment properties or on the Council's right to the remittance of income and the proceeds of disposal.

16. Investment Properties - continued

16.2 Movement in Fair Value - continued

The following table summarises the movement in the fair value of investment properties over the year.

	2020/21		2019/20	
	Group £000	Council £000	Group £000	Council £000
Value at 1 April	47,221	19,225	19,136	18,916
Additions	15,894	0	19,513	0
Disposals	0	0	0	0
Net (loss) / gain from fair value adjustments	2,516	14	8,572	309
Value at 31 March	65,631	19,239	47,221	19,225

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 £0.296m in 2020/21 (£0.444m in 2019/20).

The carrying amount of intangible assets is amortised on a straight-line basis. The amortisation of £0.148m in 2020/21 (2019/20 £0.58m) was charged to Resources.

18. Heritage Assets

Policy

Heritage assets comprise the following:

Monuments and statues	Civic regalia and artefacts
Archival collections	Libraries' special collections
Museum and gallery collections	

Intangible heritage assets represent three private vehicle registration plates.

It has not been practical or possible to split out all heritage assets belonging to the common good fund, charities or trusts. Therefore, the Council's Balance Sheet may hold elements of heritage assets that belong to other entities. Work is on-going to establish and maintain a common good register, in accordance with the Community Empowerment (Scotland) Act 2015.

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

Heritage asset valuations may be made by any method that is appropriate and relevant. Furthermore valuations need not be carried out by external valuers and there is no prescribed period between valuations.

18. Heritage Assets - continued

Heritage assets are deemed to have indeterminate lives and a high residual value; hence it is not considered appropriate to charge depreciation.

Reconciliation of the Carrying Value of Heritage Assets
Note

Movements in 2020/21	**Monuments and Statues £000**	**Civic Regalia and Artefacts £000**	**Archival Collections £000**
Cost or Valuation			
At 1 April 2020	1,615	2,047	6,797
Additions	672	0	0
Revaluation decreases recognised in the Surplus / Deficit on the Provision of Services	(1,358)	0	0
At 31 March 2021	929	2,047	6,797
Net book value			
At 31 March 2021	929	2,047	6,797
At 31 March 2020	1,615	2,047	6,797

	Libraries' Special Collections £000	**Museum and Gallery Collections £000**	**Total Heritage Assets £000**
Cost or Valuation			
At 1 April 2020	1,975	19,643	32,077
Additions	0	0	672
Revaluation decreases recognised in the Surplus / Deficit on the Provision of Services	0	0	(1,358)
At 31 March 2021	1,975	19,643	31,391
Net book value			
At 31 March 2021	1,975	19,643	31,391
At 31 March 2020	1,975	19,643	32,077

18. Heritage Assets - continued

18.1 Reconciliation of the Carrying Value of Heritage Assets - continued

2019/20 Comparative Data

Cost or Valuation	Monuments and Statues £000	Civic Regalia and Artefacts £000	Archival Collections £000
At 1 April 2019	842	2,047	6,797
Additions	773	0	0
At 31 March 2020	1,615	2,047	6,797
Net book value			
At 31 March 2020	1,615	2,047	6,797
At 31 March 2019	842	2,047	6,797

Cost or Valuation	Libraries' Special Collections £000	Museum and Gallery Collections £000	Total Heritage Assets £000
At 1 April 2019	1,975	19,643	31,304
Additions	0	0	773
At 31 March 2020	1,975	19,643	32,077
Net book value			
At 31 March 2020	1,975	19,643	32,077
At 31 March 2019	1,975	19,643	31,304

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.
- 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. It is also almost certain they are below the materiality threshold for the Council.

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	2020/21		2019/20	
	Group	Council	Group	Council
Total	£000	£000	£000	£000
Balance at 1 April	13,472	3,451	13,285	2,984
Purchases	60,675	13,901	62,285	15,437
Held by a third party	169	169	62	62
Recognised as an expense in the year	(60,745)	(14,071)	(62,127)	(14,999)
Stock written off	(2)	(2)	(33)	(33)
Balance at 31 March	13,569	3,448	13,472	3,451

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

	2020/21		2019/20	
	Group £000	Council £000	Group £000	Council £000
Council Tax	99,556	99,556	87,063	87,063
Trade Debtors	54,607	54,607	44,516	44,516
Other Debtors	132,226	166,488	119,626	141,088
Total long-term debtors before provision for impairment	286,389	320,651	251,205	272,667
Less: Provision for impairment	(130,057)	(130,057)	(113,912)	(113,912)
Total net long-term debtors	156,332	190,594	137,293	158,755

Long-term debtors include £10.123m (2019/20 £10.667m) for sums recoverable from Police Scotland. These sums relate to monies advanced to the former joint board for capital expenditure.

20.2 Short-term Debtors

	2020/21		2019/20	
	Group £000	Council £000	Group £000	Council £000
Council Tax	120,691	120,691	120,416	120,416
Trade Debtors	50,923	47,266	35,260	32,092
Prepayments	7,534	4,470	6,265	3,469
Other Debtors	86,119	76,266	97,911	89,756
Total current debtors before provision for impairment	265,267	248,693	259,852	245,733
Less: Provision for impairment	(121,764)	(121,764)	(122,457)	(122,457)
Total net current debtors	143,503	126,929	137,395	123,276

20.3 Provision for Impairment

	2020/21		2019/20	
	Group	Council	Group	Council
Long-term provision for impairment	£000	£000	£000	£000
Council Tax	(91,685)	(91,685)	(81,340)	(81,340)
Trade Debtors	(28,520)	(28,520)	(25,856)	(25,856)
Other Debtors	(9,852)	(9,852)	(6,716)	(6,716)
Total long-term provision for impairment	(130,057)	(130,057)	(113,912)	(113,912)
Current provision for impairment	£000	£000	£000	£000
Council Tax	(108,562)	(108,562)	(109,827)	(109,827)
Trade Debtors	(12,621)	(12,621)	(12,451)	(12,451)
Other Debtors	(581)	(581)	(179)	(179)
Total current provision for impairment	(121,764)	(121,764)	(122,457)	(122,457)

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.

	2020/21		2019/20	
	Group £000	Council £000	Group £000	Council £000
Cash held	352	352	351	351
Bank current accounts	8,244	(22,175)	14,022	(15,005)
Short-term deposits:				
With banks or building societies	112,212	112,212	28,364	28,364
With other local authorities	75,169	75,169	67,467	67,467
	195,977	165,558	110,204	81,177

22. Investments

22.1 Long-Term Investments

	2020/21		2019/20	
	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	7,874	14,044	7,876	14,044
Telford NHT	1,236	1,236	3,471	3,471
	9,461	21,455	11,698	23,690

22.2 Short-Term Investments

	2020/21		2019/20	
	Group £000	Council £000	Group £000	Council £000
Local Authority Loans	31,571	31,571	45,563	45,563
Other short-term investments	0	0	235	0
	31,571	31,571	45,798	45,563

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	2020/21		2019/20	
	Group	Council	Group	Council
23.1 Non-Current Assets - Held for Sale	£000	£000	£000	£000
Balance at 1 April	1,254	1,254	1,586	1,586
Additions	17	17	2	2
Revaluation gains/(losses) recognised in the revaluation reserve	0	0	(316)	(316)
Revaluation gains/(losses) recognised in Surplus on the Provision of Services	0	0	(18)	(18)
Assets Declassified as held for sale	(1,212)	(1,212)	0	0
Balance at 31 March	59	59	1,254	1,254

23.2 Current Assets - Held for Sale

	2020/21		2019/20	
	Group £000	Council £000	Group £000	Council £000
Balance at 1 April	21,139	21,139	17,606	17,606
Additions	210	210	296	296
Revaluation gains/(losses) recognised in the revaluation reserve	0	0	2,631	2,631
Revaluation gains/(losses) recognised in Surplus on the Provision of Services	0	0	606	606
Assets declassified as held for sale	(15,214)	(15,214)	0	0
Balance at 31 March	6,135	6,135	21,139	21,139

24. Creditors

	2020/21		Re-stated 2019/20	
	Group £000	Council £000	Group £000	Council £000
Trade Creditors	(121,355)	(118,594)	(101,372)	(98,434)
Council Tax refundable to taxpayer	(6,958)	(6,958)	(5,029)	(5,029)
Other Tax payable	(13,924)	(11,239)	(13,068)	(10,282)
Other Creditors	(118,696)	(78,067)	(78,073)	(48,318)
PPP Creditor (Note 40.1)	(11,924)	(11,924)	(39,462)	(39,462)
Finance Leases (non PPP - Note 39.1)	(11,997)	(1,937)	(10,700)	(1,868)
	(284,854)	(228,719)	(247,704)	(203,393)

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. An assessment of long and short-term provisions has been made at the 31 March 2021 year end and provisions disclosed separately.

Note	2020/21		2019/20	
Long-Term	Group £000	Council £000	Group £000	Council £000
Balance at 1 April	0	0	0	0
Transfers	(25,925)	(25,925)	0	0
Additional provisions made in year	(1,952)	(1,952)	0	0
Amounts used during the year	2,174	2,174	0	0
Unused amounts reversed during year	0	0	0	0
Balance at 31 March	(25,703)	(25,703)	0	0

	2020/21		2019/20	
Short-Term	Group £000	Council £000	Group £000	Council £000
Balance at 1 April	(36,960)	(34,512)	(36,710)	(33,810)
Transfers	25,925	25,925	0	0
Additional provisions made in year	(7,398)	(3,805)	(7,755)	(5,878)
Amounts used during the year	2,445	1,470	4,397	2,067
Unused amounts reversed during year	3,542	3,542	3,108	3,109
Balance at 31 March	(12,446)	(7,380)	(36,960)	(34,512)

The Council provisions 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.

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.

27. Unusable Reserves

Note

Movements in the Group and the Council's usable reserves are detailed in the Movement in Reserves Statement (on pages 19 to 20) and Note 12.

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.
- Available for sale financial assets - provides a mechanism to recognise the unrealised gains and losses on the revaluation of financial assets (such as investment bonds).
- 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 2021 £000	**31 March 2020 £000**
Revaluation Reserve	2,117,198	1,758,446
Capital Adjustment Account	1,564,291	1,518,318
Financial Instruments Adjustment Account	(82,929)	(85,965)
Pensions Reserve	(670,502)	(523,535)
Employee Statutory Adjustment Account	(16,246)	(13,807)
Total Council Unusable Reserves	2,911,812	2,653,457
Subsidiaries, Associates and Joint Ventures	125,199	125,653
Total Group Unusable Reserves	3,037,011	2,779,110

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.

		2020/21 £000		**2019/20 £000**
Balance at 1 April		1,758,446		1,666,037
Upward revaluation of assets	469,879		178,646	
Downward revaluation of assets and impairment losses not charged to the Surplus on the Provision of Services	(59,330)		(30,825)	
Surplus on revaluation of non-current assets not posted to the Surplus on the Provision of Service		410,549		147,821
Difference between fair value depreciation and historical cost depreciation		(50,011)		(53,963)
Accumulated gains on assets sold written off to the capial adjustment acccount		(1,786)		(1,449)
Balance at 31 March		2,117,198		1,758,446

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.

		2020/21 £000		2019/20 £000
Balance at 1 April		1,518,318		1,437,923
Reversal of items relating to capital expenditure debited or credited to the CIES				
Charges for depreciation and impairment of non-current assets	(132,569)		(231,293)	
Amortisation and impairment of intangible assets	(148)		(58)	
Capital funded from revenue	13,658		29,581	
Revenue exp. funded from capital under statute	(51,107)		(52,778)	
Amounts of non-current assets written off on disposal or sale as part of the gain / loss on disposal to the CIES	(20,889)		(3,847)	
	(191,055)		(258,395)	
Adjusting amounts written out of the revaluation reserve	1,786		55,412	
Net written out amount of the costs of non-current assets consumed in the year		(189,269)		(202,983)
Capital financing applied in the year:				
Use of the capital receipts reserve to finance new capital expenditure	27,388		9,640	
Donated assets	(1,008)		(440)	
Use of capital fund for new capital expenditure	(2,000)		6,311	
Capital grants and contributions credited to the CIES that have been applied to capital financing	90,401		114,333	
Application of grants from the capital grants unapplied account / capital fund	148		805	
Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	69,111		99,247	
Capital expenditure charged against the General Fund and HRA balances	51,107		52,778	
		235,147		282,674
Movements in the market value of investment properties credited to the CIES		14		309
Other unrealised losses debited to the CIES		81		395
Balance at 31 March		1,564,291		1,518,318

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.

		2020/21 £000		2019/20 £000
Balance at 1 April		(85,965)		(41,548)
Proportion of premiums incurred in previous financial years to be charged against the General Fund and HRA balances in accordance with statutory requirements	3,010		2,375	
Premium on refinancing of loans	0		(46,900)	
Proportion of equivalent interest rate calculation on lender option / borrower option loans (LOBOs)	26		108	
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in accordance with statutory requirements		3,036		(44,417)
Balance at 31 March		(82,929)		(85,965)

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.

27. Unusable Reserves - continued

27.5 Pensions Reserve - continued

The debit balance on the pension reserve therefore shows a substantial shortfall between 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.

	2020/21 £000	2019/20 £000
Balance at 1 April	(523,535)	(659,468)
Actuarial gains or (losses) on pension assets and liabilities	(101,615)	184,024
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	(118,584)	(117,546)
Employer's pension contributions and direct payments to pensioners payable in the year	73,232	69,455
Balance at 31 March	(670,502)	(523,535)

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.

		2020/21 £000		2019/20 £000
Balance at 1 April		(13,807)		(16,058)
Settlement or cancellation of accrual made at the end of the preceding year	13,807		16,058	
Amount accrued at the end of the current year	(16,246)		(13,807)	
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		(2,439)		2,251
Balance at 31 March		(16,246)		(13,807)

27. Unusable Reserves - continued

27.7 Unusable Reserves - Group Members

Subsidiaries	Balance as at: 31 March 2021 £000	Re-stated Balance as at: 31 March 2020 £000
CEC Holdings Limited	77,040	77,009
Transport for Edinburgh	18,725	20,516
Edinburgh Living MMR LLP	10,737	8,235
Associates and Joint Ventures		
Common Good	23,509	23,509
Lothian Valuation Joint Board	(4,812)	(3,616)
Total Unusable Reserves - Subsidiaries, Associates and Joint Ventures	125,199	125,653

28. Cash Flow Statement - Operating Activities

The cash flows for operating activities include the following items:

	2020/21		2019/20	
	Group £000	Council £000	Group £000	Council £000
Cash paid to and on behalf of employees	646,146	646,146	641,666	641,666
General Revenue Grant	(635,771)	(635,771)	(360,206)	(360,206)
Non-Domestic Rates receipts from national pool	(238,922)	(238,922)	(366,025)	(366,025)
Other net operating cash payments / (receipts)	30,865	30,865	(44,401)	(44,401)
Net cash flows from subsidiary companies	(16,168)	0	(23,691)	0
Net cash flows from operating activities	(213,850)	(197,682)	(152,657)	(128,966)

29. Cash Flow Statement - Operating Activities - continued

The cash flows for operating activities include the following items:

	2020/21		2019/20	
	Group £000	Council £000	Group £000	Council £000
Interest received	(2,129)	(2,062)	(4,219)	(4,093)
Interest paid	77,565	76,267	78,156	77,504
Investment income received	(1,750)	(1,750)	(1,047)	(1,047)
The surplus or deficit on the provision of services has been adjusted for the following items that are investing and financing activities:				
Proceeds from short-term and long-term investments	(9,272)	(11,443)	(127,518)	(132,962)
Proceeds from the sale of property, plant and equipment, investment property and intangible assets				
Recognised Capital Income	110,046	110,046	127,806	127,806
Income from Donated Assets	(1,008)	(1,008)	(441)	(441)
	99,766	97,595	(153)	(5,597)

NOTES TO THE FINANCIAL STATEMENTS

29. Cash Flow Statement - Operating Activities - continued

	2020/21		2019/20	
	Group £000	Council £000	Group £000	Council £000
Depreciation	(209,280)	(186,335)	(201,516)	(176,505)
Impairment	3,606	3,606	(45,228)	(53,294)
Increase/(decrease) in impairment for bad debts	(14,112)	(14,392)	(21,631)	(4,773)
Increase/(decrease) in creditors	(37,031)	(17,927)	24,030	22,203
Increase/(decrease) in debtors	34,209	29,184	32,225	34,303
Increase/(decrease) in inventories	97	(3)	188	468
Carrying amount of non-current assets and non-current assets held for sale, sold or de-recognised	9,001	6,499	13,726	5,464
Other non-cash items charged to the net surplus or deficit on the provision of services	(43,671)	(35,176)	(60,293)	(31,681)
	(257,181)	(214,544)	(258,499)	(203,815)

30. Cash Flow Statement - Investing Activities

	2020/21		2019/20	
	Group £000	Council £000	Group £000	Council £000
Purchase of Property, Plant and Equipment, Investment Property and Intangible Assets	346,033	324,026	308,038	279,213
Proceeds from the Sale of Property, Plant and Equipment, Investment Property and Intangible Assets	(26,835)	(25,384)	(77,873)	(76,910)
Net purchase of Short-Term and Long-Term Investments	3,763	3,763	70,439	70,439
Other payments for investing activities	(555)	(555)	53,510	46,510
Other receipts from investing activities	(181,947)	(181,903)	(50,676)	(50,596)
Net cash flows from investing activities	140,459	119,947	303,438	268,656

31. Cash Flow Statement - Financing Activities

	2020/21		2019/20	
	Group £000	Council £000	Group £000	Council £000
Cash Receipts of Short- and Long-Term Borrowing	(68,250)	(70,000)	(236,129)	(236,348)
Other Receipts for Financing Activities	(5,422)	(5,422)	11,199	11,199
Cash Payments for the Reduction of the Outstanding Liability relating to Finance Leases and on-Balance Sheet PPP Contracts	23,288	9,650	26,575	12,323
Repayment of short-term and long-term borrowing	38,002	59,126	73,213	98,638
Net cash flows from financing activities	(12,382)	(6,646)	(125,142)	(114,188)

32. Trading Operations

Edinburgh Catering Services - Other Catering no longer meets the definition of a significant trading operation under the terms of the Local Government in Scotland Act 2003, as amended. It ceased to operate as such from 1 April 2020, with formal "de-badging" **approved by the Finance and Resources Committee** on 4 March 2021.

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).

	2020/21 £000 Spartans Community Football Academy	2019/20 £000 Spartans Community Football Academy
Opening Balance	58	57
New Loans	0	0
Increase in the Discounted Amount	5	4
Fair Value Adjustment	0	0
Loan Repayment	(3)	(3)
Balance Carried Forward	60	58
Nominal Value Carried Forward	90	93

Adjustments have been made under the requirements of IFRS 9 Financial Instruments, as required by the Code.

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 Fund on behalf of Edinburgh Leisure.

From 1 April 2018 Lothian Pension Fund introduced a new investment strategy, whereby those employers closed to new entrants but who do not meet the criteria for the Fund's 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.

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.

Phase 1 NHT developments are now in the latter stages of their investment, and in accordance with the scheme, are now making arrangements to repay their borrowing.

The Telford NHT LLP with Miller Homes was bought over by the Council in January 2019. The Council agreed, in October 2020, to approve the sale of the homes in the Telford North LLP to LAR Housing Trust. The sale took place in May 2021.

NHT Phase 3 is to deliver up to 368 mid-market rent homes across three separate sites. The total required budget for NHT3 is £50.1m for the three projects. Fruitmarket NHT3 has completed, with investment totalling £9.153m and delivery of 80 homes. Western Harbour has also completed, with investment totalling £17.284m and 138 homes delivered. The final project under NHT Phase 3 (Shrubhill) commenced in 2018/19 and 93 homes have been delivered to date, with an investment of £14.923m. The final two phases at Shrubhill (57 homes in total) will no longer be part of the NHT Programme, as works are due to be completed outwith the approved timeframe. There will therefore be no further Council investment in NHT Phase 3.

33. Financial Support and Guarantees - continued

33.4 National Housing Trust - continued

The Council has advanced and had repaid the following sums through the NHT scheme:

Developer	Development Site	Phase	Total No. of Units	Advanced 2020/21 £000	Repaid 2020/21 £000	Prior Years £000	Total £000
Places for People	Lochend North	1	79	0	(4,692)	9,751	5,059
Places for People	Lighthouse Court	1	44	0	(2,021)	5,396	3,375
Teague Homes Limited	Salamander Place / Leith Links	1	145	0	0	15,551	15,551
City of Edinburgh Council	Telford North	1	89	0	0	10,299	10,299
FP Newhaven Ltd	Sandpiper Road	2	96	0	0	11,908	11,908
Ediston Homes Ltd	Fruitmarket	3	80	0	0	9,153	9,153
Cruden Homes	Western Harbour	3	138	0	0	17,284	17,284
Places for People	Shrubhill	3	93	0	0	14,923	14,923
			764	**0**	**(6,713)**	**94,265**	**87,552**

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 £284.898m (2019/20 £101.877m) and Agency Expenditure £276.450m (2019/20 £96.167m).

During the financial year the Council undertook the administration of several Covid-19 related funding streams on behalf of the Scottish Government, on an agency basis. During the year income and expenditure, amounted to £213.473m, of which £188m was paid out as grants, with the remainder due to be paid out in the new financial year or repaid to the Scottish Goverment.

The council also undertakes, on an agency basis, the financial administration on behalf of the Scottish Cities Alliance. During the year £0.231m (2019/20 £0.323m) 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 and Edinburgh West End. During the year income of £1.071m (2019/20 £1.195m) was collected and £0.401m (2019/20 £1.240m) 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. During the year income and expenditure amounted to £58.659m (2019/20 £89.159m).

35. Audit Costs

The fees payable to Azets Audit Services in respect of external audit services undertaken in accordance with the Code of Audit Practice are £0.638m (2019/20 £0.623m).

In addition, the Council paid audit fees to Azets Audit Services for the audit of CEC Recovery Limited's (formerly tie Limited) accounts. The Council paid £0.002m during 2020/21 (2019/20 £0.003m) for the audit of the 2019/20 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:

	2020/21		2019/20	
	£000	£000	£000	£000
Credited to taxation and non-specific grant income				
General revenue funding	(635,771)		(360,206)	
Non-domestic rates	(238,922)		(366,025)	
Capital grants and contributions	(110,046)		(127,806)	
		(984,739)		(854,037)
Credited to services				
Central Government Bodies	(285,120)		(225,700)	
Other Local Authorities	(3,059)		(2,907)	
NHS bodies	(75,403)		(78,050)	
Other entities and individuals	(14,269)		(23,419)	
		(377,851)		(330,076)
Total		(1,362,590)		(1,184,113)

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.

	2020/21 Expenditure £000	2020/21 Income £000	2020/21 Debtor / (Creditor) £000	2019/20 Net Expenditure / (Income) £000	2019/20 Debtor / (Creditor) £000
Capital City Partnership	4,484	(47)	225	3,377	(7)
Capital Theatres	588	(279)	0	(482)	0
CEC Holdings (incl. EDI Group, EICC)	76	(292)	5,985	(184)	4,723
Edinburgh Leisure Limited	13,395	(269)	2,299	8,065	99
Edinburgh Living MMR	19,313	(21)	38,089	16,348	19,212
Edinburgh Trams Ltd	1,403	(24,076)	(117)	(31,595)	4,110
Edinburgh Integration Joint Board	252,021	(251,744)	(27,898)	(28,434)	(3,992)
HMRC	0	0	6,071	0	1,862
Lothian Buses	1,033	(62)	(6)	1,443	5,911
Lothian Pension Fund	2	(339)	(6,081)	(346)	(4,943)
Lothian Valuation Joint Board	3,806	(394)	(1,695)	3,632	(1,437)
NHS Bodies	3,815	(31,687)	29,852	(24,067)	1,527
Other Local Authorities	2,458	(2,205)	93	1,550	76
Scottish Government	468	(77,330)	40,984	10,002	59,826
Scottish Police Authority	1,206	(1)	0	2,245	0
Scottish Qualifications Authority	1,504	0	0	1,523	0
Telford NHT	0	(11)	17	0	3
Other					
Audit Scotland	606	0	(448)	652	(388)
Autism Initiative UK	5,219	0	0	4,423	0
Bethany Christian Trust	979	0	(72)	969	0
Criminal Justice Bodies	590	0	0	591	0
Dean and Cauvin Charitable Trust	906	(1)	(4)	1,028	0
Edinburgh International Festival Society	2,026	0	0	2,133	0
Edinburgh Military Tattoo	0	(401)	0	(406)	0
Edinburgh School Partnership	17,778	0	(46,894)	14,359	(49,475)
Edinburgh Vol. Org. Council	810	0	(62)	526	0
Festivals Edinburgh Ltd	125	0	0	149	0
Handicab	499	0	248	620	248
Hubco	10,482	0	(1,635)	3,223	0
Lifecare Edinburgh	404	0	0	388	0
Marketing Edinburgh	374	0	0	695	0
Police Scotland	38	(1,058)	10,138	(1,040)	10,684
Port of Leith Housing	2,190	(1)	0	10,525	0
Royal Blind Asylum and School	1,142	(159)	0	1,186	0
Royal Lyceum Theatre Co Ltd	329	(88)	0	356	0
Scottish Fire and Rescue Service	0	0	(86)	93	0
Scottish Water	7	(12)	73	794	70
SESTRAN	0	(12)	483	(15)	163
Spartans	150	(5)	0	89	0
SUSTRANS	0	(7,981)	6,212	3,566	2,746
Transport Scotland	0	(14)	635	2	1,811
Total	**350,226**	**(398,489)**	**56,406**	**7,983**	**52,829**

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.

	2020/21		Re-stated 2019/20	
	£000	£000	£000	£000
Opening capital financing requirement		1,676,228		1,567,368
Capital Investment				
Property, plant and equipment	257,267		349,066	
Heritage Assets	672		773	
Assets held for sale	227		298	
Intangible assets	0		168	
Capital Receipts transferred to Capital Fund	2,000		0	
National Housing Trust - Consent to borrow (see note 33.4)	0		11,789	
Edinburgh Living LLP - Consent to borrow	19,313		16,348	
Revenue expenditure funded from capital under statute	51,107		52,778	
PPP Lease Agreements Recognised In-Year	1,983		16,691	
		332,569		447,911
Sources of Finance				
Capital receipts	(27,388)		(9,640)	
Capital Funded from Current Revenue	(13,658)		(29,581)	
Government grants and other contributions	(138,389)		(179,164)	
PPP schools -				
- under construction and lifecycle additions	(1,983)		(16,691)	
Loans fund / finance lease repayments	(54,332)		(103,975)	
		(235,750)		(339,051)
Closing capital financing requirement		1,773,047		1,676,228
Explanation of movements in year				
(Decrease) / increase in underlying need to borrow or fund from credit arrangements		94,695		55,956
Assets acquired under finance leases		2,124		52,904
(Decrease) / Increase in capital financing requirement		96,819		108,860

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.

The Group subsidiaries Edinburgh Trams Ltd and CEC Holdings Ltd have adopted the new standard IFRS 16 - Finance Leases, from 1 January 2019, in accordance with company accounting standards. The Council is not required to adopt IFRS 16 until 1 April 2022, therefore consolidation adjustments have been made to the finance lease disclosures to adjust for right of use assets and related lease liabilities in connection with all former operating leases.

	2020/21		2019/20	
	Group	Council	Group	Council
	£000	£000	£000	£000
Value at 1 April	37,906	9,986	17,867	8,683
Additions during the year	141	141	23,506	2,856
Depreciation charge for the year	(4,435)	(1,887)	(3,467)	(1,553)
Value at 31 March	33,612	8,240	37,906	9,986
Vehicles, plant, equipment and furniture	33,612	8,240	37,906	9,986
Value at 31 March	33,612	8,240	37,906	9,986
Analysed by:	**£000**	**£000**	**£000**	**£000**
Current	11,997	1,937	10,700	1,868
Non-Current	13,535	6,303	21,302	8,118
Finance costs payable in future years	1,390	774	1,615	985
	26,922	9,014	33,617	10,971
Finance Lease Liabilities	**£000**	**£000**	**£000**	**£000**
Within one year	12,526	2,117	11,167	2,082
Between 2 and 5 years	11,050	3,550	18,618	5,057
Over 5 years	3,347	3,347	3,832	3,832
Total liabilities	26,923	9,014	33,617	10,971

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.

39. Leases - continued

39.2 Assets Leased in - Operating Leases - continued

Note

The Group subsidiaries Edinburgh Trams Ltd and CEC Holdings Ltd adopted the new accounting standard IFRS 16 - Finance Leases, from 1 January 2019, in accordance with company accounting standards. The Council is not required to adopt IFRS 16 until 1 April 2022, therefore consolidation adjustments have been made to the operating lease disclosures to adjust for right of use assets and related lease liabilities in connection with all former operating leases.

The Group leases in property, vehicles and copying equipment. The amount charged to the Comprehensive Income and Expenditure Statement under these arrangements and the value of future payments under operating leases is shown below.

Under these operating leases, the Group and Council is committed to paying the following sums:

	2020/21		2019/20	
	Group	Council	Group	Council
Future Repayment Period	**£000**	**£000**	**£000**	**£000**
Not later than one year	10,072	845	9,910	870
Later than one year and not later than five years	38,372	1,590	37,949	1,977
Later than five years	62,963	915	71,897	1,190
	111,407	**3,350**	**119,756**	**4,037**
Value at 31 March				
Other land and buildings	13,460	2,919	13,691	3,637
Vehicles, plant, equipment and furniture	97,947	431	106,065	400
	111,407	**3,350**	**119,756**	**4,037**
Recognised as an expense during the year	10,576	1,313	10,252	1,216

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.
- an 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:

	2020/21	2019/20
	£000	£000
Not later than one year	21,133	22,486
Later than one year and not later than five years	74,149	78,534
Later than five years	324,515	339,362
Total liabilities	419,797	440,382

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, Finance Lease and Other Liabilities

		2020/21		Re-stated 2019/20	
		Group	Council	Group	Council
Short Term Creditors	**Note**	**£000**	**£000**	**£000**	**£000**
PPP Residual Waste	40.2	2,606	2,606	30,039	30,039
PPP Education	40.3	9,318	9,318	9,423	9,423
Finance Leases	39.1	11,997	1,937	10,700	1,868
		23,921	13,861	50,162	41,330
Other Long-Term Liabilities					
PPP Residual Waste	40.2	23,987	23,987	24,300	24,300
PPP Residual Waste Donated Asset	40.2	52,745	52,745	55,038	55,038
PPP Education	40.3	203,597	203,597	213,028	213,028
PPP Queensferry High School - Phase 2		1,983	1,983	0	0
Finance Leases	39.1	13,535	6,303	21,302	8,118
Group other liabilities		7,120	0	327	0
		302,967	288,615	313,995	300,484

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. The Council's 80% share of the facility value is included in the Fixed Assets on the balance sheet.

Under the agreements the Council is committed to paying the following sums as detailed in the contractor's final bid model:

	Payment for Services £000	Reimburse. of Capital Expenditure £000	Interest £000	Total £000	Donated Asset £000
Payable in 2021/22	4,102	313	3,737	8,152	2,293
Within two to five years	17,827	1,247	14,482	33,556	9,173
Within six to ten years	25,372	1,913	16,969	44,254	11,466
Within eleven to fifteen years	28,161	4,120	14,853	47,134	11,466
Within sixteen to twenty years	31,941	8,027	10,424	50,392	11,466
Within twenty one to twenty five years	21,816	8,680	2,546	33,042	9,174
	129,219	24,300	63,011	216,530	55,038

Payments due under the scheme have been inflated by 1.06% per annum, reflecting the terms of the contracts.

40. Public Private Partnerships and Similar Contracts - continued

40.3 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.

In June 2018, the Council entered in to an agreement with QHS DBFMCO Ltd for the provision of a new building for Queensferry High School. This has been procured using a Design, Build, Finance and Maintain (DBFM) agreement with QHS DBFMCO Ltd. The concession is due to terminate in March 2045. Capital expenditure of £1.983m related to Phase 2 of the school project is reported as Assets Under Construction within the balance sheet and as a future finance lease liability.

Under the agreements the Council is committed to paying the following sums as detailed in the contractor's final bid model:

	Payment for Services £000	Reimburse. of Capital Expenditure £000	Interest £000	Total £000
Payable in 2021/22	21,296	9,318	19,769	50,383
Payable within two to five years	98,198	36,053	73,910	208,161
Payable within six to ten years	137,230	56,828	81,844	275,902
Payable within eleven to fifteen years	119,051	60,560	60,731	240,342
Payable within sixteen to twenty years	50,370	38,944	24,168	113,482
Payable within twenty one to twenty five years	2,929	11,212	2,917	17,058
	429,074	212,915	263,339	905,328

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:

	2020/21 £000	2019/20 £000
Balance at 1 April	187,859	196,065
Additions during the year	34,594	0
Repayments during the year	(9,538)	(8,206)
Balance at 31 March	212,915	187,859

40. Public Private Partnerships and Similar Contracts - continued

40.4 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. During the financial year a seven year contract extension was approved to 31 March 2029.

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
2021/22	25,531	0.4%
2022/23 - 2028/29	156,613	2.0%
	182,144	

40.5 Provision of Parking Enforcement

The Council entered into a five year contract with NSL for the provision of parking enforcement on 1 October 2014 which ended on 30 September 2019. There was a five year extension clause which has been approved with the contract extended to 30 September 2024.

The Council is committed to paying the following sums in cash terms (renegotiated annually):

Future Repayment Period	£000
2021/22	7,000
2022/23 - 2024/25	17,500
	24,500

40.6 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 £33.404m.

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.

	2020/21		2019/20	
	£000	%	£000	%
Amount paid to Scottish Government in respect of teachers' pension costs	36,657		31,974	
As a percentage of teachers' pensionable pay Apr - Aug		23.00		17.20
As a percentage of teachers' pensionable pay Sep - Mar		23.00		23.00
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 2018/19	15,012		15,978	

At 31 March 2021, creditors include £4.292m (2019/20 £4.166m) in respect of teachers' superannuation.

42. Defined Pension Schemes

42.1 Participation in Pension Scheme

The Council is operating as an administering authority for the Local Government Pension Scheme.

The Council also makes contributions towards the cost of its own employees' 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.

42. Defined Pension Schemes - continued

42.1 Participation in Pension Scheme - continued

In terms of this scheme, in 2020/21 the Council paid an employer's contribution of £66.934m (2019/20 £63.062m) into the Lothian Pension Fund, representing 22.7% (2019/20 22.3%) 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 valuations as at March 2020, at which point the funding level (i.e. the percentage of assets to past service liabilities) was 106%.

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.

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.

	2020/21		2019/20	
Comprehensive Income and Expenditure Statement	**£000**	**£000**	**£000**	**£000**
Cost of services:				
Service cost, comprising:				
Current service costs	103,848		117,983	
Past service costs	2,326		(16,847)	
		106,174		101,136
Financing and investment income:				
Net interest expense		12,410		16,410
Total post employee benefit charged to the surplus on the provision of services		118,584		117,546
Other post-employment benefits charges to the Comprehensive Income / Expenditure Statement				
Re-measurement of the net defined liability, comprising:				
Return on plan assets, excluding the amount incl. in the net interest expense above.	(399,005)		195,313	
Actuarial (gains) and losses arising on changes in financial assumptions	712,967		(354,198)	
Actuarial (gains) and losses arising on changes in demographic assumptions	(167,174)		0	
Other experience	(45,173)		(25,139)	
		101,615		(184,024)
Total post-employment benefits charged to the Comprehensive Income / Expenditure Statement		220,199		(66,478)
Movement in Reserves Statement				
Reversal of net charges made to the surplus on the provision of services for post-employment benefits in accordance with the Code.		(118,584)		(117,546)
Actual amount charged against the General Fund Balance for pensions in the year:				
Employer's contributions payable to the scheme		68,031		64,097
Contributions in respect of unfunded benefits		5,201		5,358
		73,232		69,455

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:

	2020/21 £000	2019/20 £000
Fair value of employer assets	3,250,790	2,843,437
Present value of funded liabilities	(3,853,353)	(3,296,740)
Present value of unfunded liabilities	(67,939)	(70,232)
Net liability arising from defined benefit obligation	(670,502)	(523,535)

42.4 Reconciliation of the Movements in the Fair Value of Scheme Assets

	2020/21 £000	2019/20 £000
Opening fair value of scheme assets	2,843,437	2,970,647
Effect of settlements	0	0
Interest income	65,250	71,258
Re-measurement gain / (loss):		
Return on plan assets, excluding the amount included in the net interest expense	399,005	(195,313)
Contributions from employer	68,031	64,097
Contributions from employees into the scheme	18,249	17,430
Contributions in respect of unfunded benefits	5,201	5,358
Other Experience	(47,851)	0
Benefits paid	(95,331)	(84,682)
Unfunded benefits paid	(5,201)	(5,358)
Closing fair value of scheme assets	3,250,790	2,843,437

Reconciliation of Present Value of the Scheme Liabilities	2020/21 £000	2019/20 £000
Present value of funded liabilities	(3,296,740)	(3,548,983)
Present value of unfunded liabilities	(70,232)	(81,132)
Opening balance at 1 April	(3,366,972)	(3,630,115)
Current service cost	(103,848)	(117,983)
Interest cost	(77,660)	(87,668)
Contributions from employees into the scheme	(18,249)	(17,430)
Re-measurement gain / (loss):		
Change in financial assumptions	(712,967)	354,198
Change in demographic assumptions	167,174	0
Other experience	93,024	25,139
Past service (cost) / gain	(2,326)	16,847
Benefits paid	95,331	84,682
Unfunded benefits paid	5,201	5,358
Closing balance at 31 March	(3,921,292)	(3,366,972)

42. Defined Pension Schemes - continued

42.5 Fair Value of Employer Assets

The following asset values are at bid value as required under IAS19.

	2020/21 £000	%	2019/20 £000	%
Consumer *	406,173	12	271,003	10
Manufacturing *	474,653	15	410,093	15
Energy and Utilities *	175,030	5	181,357	6
Financial Institutions *	221,518	7	184,931	7
Health and Care *	221,555	7	196,766	7
Information technology *	155,331	5	122,907	4
Other *	260,975	8	207,594	7
Sub-total Equity Securities	1,915,234		1,574,651	
Debt Securities:				
UK Government *	196,096	6	175,051	6
Corporate Bonds (investment grade) *	0	0	47,625	2
Corporate Bonds (investment grade)	1,767	0	104,649	4
Sub-total Debt Securities	197,863		327,325	
Private Equity				
All	509,731	16	24,740	1
Sub-total Private Equity	509,731		24,740	
Real Estate:				
UK Property *	0	0	32,704	1
UK Property	169,910	5	153,614	5
Overseas Property	1,218	0	2,505	0
Sub-total Real Estate	171,127		188,823	
Investment Funds and Unit Trusts:				
Equities *	46,753	1	34,815	1
Bonds	72,141	2	12,205	0
Infrastructure	2,608	0	399,797	14
Sub-total Investment Funds and Unit Trusts	121,502		446,817	
Derivatives:				
Foreign Exchange *	(346)	0	5,801	0
Sub-total Derivatives	(346)		5,801	
Cash and Cash Equivalents				
All *	335,679	10	275,280	10
Sub-total Cash and Cash Equivalents	335,679		275,280	
Total Fair Value of Employer Assets	3,250,790	100	2,843,437	100

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

42. Defined Pension Schemes - continued

42.6 Basis for Estimating Assets and Liabilities

Hymans Robertson, the independent actuaries to Lothian Pension Fund, have advised that the financial assumptions used to calculate the components of the pension expense for the year ended 31 March 2021 were those from the beginning of the year (i.e. 31 March 2020) and have not been changed during the year. The main assumptions in the calculations are:

Investment returns

Actual return for period from 31 March 2020 to 31 March 2021	(16.40%)
Total return for period from 1 April 2020 to 31 March 2021	(16.40%)

Average future life expectancies at age 65:		**31.03.21**	**31.03.20**
Current pensioners	male	20.5 years	21.7 years
Current pensioners	female	23.3 years	24.3 years
Future pensioners	male	21.9 years	24.7 years
Future pensioners	female	25.2 years	27.5 years

Period ended	**31.03.21**	**31.03.20**
Pension increase rate	2.85%	1.90%
Salary Increase rate	3.35%	3.50%
Discount rate	2.00%	2.30%

As at the date of the most recent valuation, the duration of the Employer's funded obligations is 19 years.

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 2021 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 2021	**Approximate % Increase to Employer**	**Approximate Monetary Amount £000**
0.1% decrease in Real Discount Rate	2%	71,662
1 year increase in member life expectancy	4%	156,852
0.1% increase in the Salary Increase Rate	0%	7,330
0.1% increase in the Pension Increase Rate	2%	63,529

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 2024. The rate will be increased by 1.1% from 1 April 2021 and thereafter, for the remainder of the actuarial valuation period, rates will remain fixed.

42.8 Information about the defined benefit obligation

	£000	**%**
Active members	1,749,800	45.4%
Deferred members	598,084	15.5%
Pensioner members	1,505,469	39.0%
Total	3,853,353	100.0%

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 of 31 March 2020.

The unfunded pensioner liability at 31 March 2021 comprises approximately £52.927m (2019/20 £54.254m) in respect of LGPS unfunded pensions and £15.012m (2019/20 £15.978m) in respect of teachers' unfunded pensions. For unfunded liabilities as at 31 March 2021, 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 Lothian Valuation Joint Board are included in unusable reserves. Pension reserves for other companies in the group are included in usable reserves. The value of the pension reserves is shown separately below;

Unusable Reserves	**2020/21 Pension Reserve £000**	**2019/20 Pension Reserve £000**
Council	(670,502)	(523,535)
Lothian Valuation Joint Board	(4,934)	(3,750)
	(675,436)	(527,285)

Usable Reserves	**2020/21 £000**	**2019/20 £000**
Edinburgh Leisure	(2,172)	(1,232)
Transport for Edinburgh Ltd	(23,514)	66,190
	(25,686)	64,958
Net Pension Reserves	(701,122)	(462,327)

42.10 Analysis of projected amount to be charged to profit or loss for the period to 31 March 2022

	Assets £000	**Obligations £000**	**Net (liability) / asset £000**	**% of pay**
Current service cost	0	(117,983)	(117,983)	(51.4%)
Past service cost including curtailments	0	16,847	16,847	0.0%
Effect of settlements	0	0	0	0.0%
Total Service Cost	0	(101,136)	(101,136)	(51.4%)
Interest income on plan assets	71,258	0	71,258	23.1%
Interest cost on defined benefit obligation	0	(87,668)	(87,668)	(28.2%)
Total Net Interest Cost	71,258	(87,668)	(16,410)	(5.1%)
Total included in Profit or Loss	71,258	(188,804)	(117,546)	(56.5%)

The Council's estimated contribution to Lothian Pension Fund for 2021/22 is £63.712m.

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 £1.194m, including accrued payments (2019/20 £1.186m).

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,
- PPP contracts detailed in note 40, and
- trade payables for goods and services received.

Financial Assets

A financial asset is a right to future economic benefits controlled by the Council that is represented by cash, equity instruments or a contractual right to receive cash or other financial assets or a right to exchange financial assets and liabilities with another entity that is potentially favourable to the Council. The financial assets held by the Council during the year are accounted for under the following classifications:

Amortised cost (where cash flows are solely payments of principal and interest and the Council's business model is to collect those cash flow) comprising:

- cash in hand,
- current, call and notice accounts with banks
- fixed term deposits with banks and building societies,
- loans to other local authorities,
- certificates of deposit and covered bonds issued by banks and building societies,
- treasury bills and gilts issued by the UK Government,
- trade receivables for goods and services provided.

Fair value through other comprehensive income (where cash flows are solely payments of principal and interest and the Council's business model is to both collect those cash flows and sell the instrument; and equity investments that the Council has elected into this category) comprising:

- money market funds

Financial assets held at amortised cost are shown net of a loss allowance reflecting the statistical likelihood that the borrower or debtor will be unable to meet their contractual commitments to the Council.

43. Financial Instruments - continued

43.1 Categories of Financial Instruments

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

	2020/21		2019/20	
	Long-Term	Current	Long-Term	Current
Assets	£000	£000	£000	£000
At amortised cost				
- Bank Call Accounts (Note 21)	0	112,212	0	28,364
- Local Authority Loans - S-T (Note 22)	0	31,571	0	45,563
- Local Authority Loans - S-T (Note 21)	0	75,169	0	67,467
		218,952		141,394
At fair value through profit and loss				
- Money Market Funds	0	85,691	0	67,935
Total Financial Instruments - Assets	0	304,643	0	209,329

The Investment total does not include £21.1m (2019/20 £23.34m) in unquoted equity in subsidiary companies which are not deemed to be Financial Instruments.

Debtors				
At amortised cost	209,994	85,677	160,515	103,164
Total debtors	209,994	85,677	160,515	103,164
Borrowings				
- Public Works Loans Board	(1,000,544)	(62,672)	(1,041,404)	(71,783)
- Salix	(454)	(268)	(722)	(302)
- Market debt	(302,007)	(5,648)	(243,760)	(3,203)
Total borrowings	(1,303,005)	(68,588)	(1,285,886)	(75,288)
Other Liabilities				
Financial liabilities at amortised cost	0	(19,217)	0	(19,008)
PPP and finance lease liabilities	(235,870)	(11,568)	(245,446)	(39,037)
PPP and finance lease liabilities (donated assets)	(52,745)	(2,293)	(55,038)	(2,293)
Deferred liability	(39,964)	0	(42,078)	0
Total other long-term liabilities	(328,579)	(33,078)	(342,562)	(60,338)

In August 2018, the Council undertook a fixed rate forward starting loan transaction. The Council drew 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.

43. Financial Instruments - continued

43.1 Categories of Financial Instruments - continued

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.

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	59,083	0	0	59,083
Interest on leases	21,111	0	0	21,111
Total expense in Surplus on the Provision of Services	80,194	0	0	80,194
Interest income	0	(491)	(119)	(610)
Total Interest and investment income	0	(491)	(119)	(610)
Net (gain) / loss for the year	80,194	(491)	(119)	79,584

In addition to the above interest expense, £3.008m (2019/20 £2.419m) 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. The increase relates to the charging of premiums incurred on the restructuring of the Council's Inverse LOBO loans. It also excludes £0.118m (2019/20 £0.232m) of loans fund expenses charged to the Council.

Dividend income of £1.75m (2019/20 £1.047m) 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 2021, using the following methods and assumptions:

- Loans, including PWLB loans, borrowed by the Council have been valued by discounting the contractual cash flows over the whole life of the instrument at the appropriate market rate for local authority loans.
- The value of “Lender’s Option Borrower’s Option” (LOBO) loans has been increased by the value of the embedded options.
- The fair values of other long-term loans and investments have been discounted at the market rates for similar instruments with similar remaining terms to maturity on 31 March.
- The fair values of finance lease assets and liabilities and of PFI scheme liabilities have been calculated by discounting the contractual cash flows (excluding service charge elements) at the appropriate AA-rated corporate bond yield.

43. Financial Instruments - continued

43.3 Fair Value of Assets and Liabilities - continued

- The fair value of soft loan assets has been calculated using the cash flows implied by the appropriate market interest rate which has been deemed to be the appropriate PWLB rate plus a credit spread of between 2% and 5% depending on the party to whom the advance has been made.
- The fair value of short-term instruments, including trade payables and receivables, is assumed to approximate to the carrying amount.

Fair values are shown in the table below, split by their level in the fair value hierarchy:

- Level 1 – fair value is only derived from quoted prices in active markets for identical assets or liabilities, e.g. bond prices.
- Level 2 – fair value is calculated from inputs other than quoted prices that are observable for the asset or liability, e.g. interest rates or yields for similar instruments.
- Level 3 – fair value is determined using unobservable inputs, e.g. non-market data such as cash flow forecasts or estimated creditworthiness.

The fair values are calculated as follows:		2020/21			2019/20	
	Fair Value Level	Principal Outstanding £000	Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000
Public Works Loans Board	2	(1,051,404)	(1,063,216)	(1,345,200)	(1,113,186)	(1,400,813)
Salix	2	(741)	(722)	(736)	(1,024)	(1,003)
Market debt	2	(294,900)	(307,655)	(513,134)	(246,964)	(456,213)
Borrowings		(1,347,045)	(1,371,593)	(1,859,070)	(1,361,174)	(1,858,029)
Other long-term liabilities	n/a	(39,964)	(39,964)	(39,964)	(42,078)	(42,078)
Trade creditors	n/a	(19,217)	(19,217)	(19,218)	(19,008)	(19,008)
PPP and Finance Leases	3	(302,476)	(302,476)	(391,022)	(341,814)	(357,321)
Financial liabilities		(1,708,702)	(1,733,250)	(2,309,274)	(1,764,074)	(2,276,436)

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.

		2020/21		2019/20	
	Fair Value Level	Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000
Investments held at Fair Value through Profit and Loss					
Money Market Funds	1	85,691	85,691	67,936	67,936
		85,691	85,691	67,936	67,936
Investment held at Amortised Cost					
Bank Call Accounts	n/a	112,212	112,211	28,364	28,361
Local Authority Loans	2	106,740	106,749	113,030	113,125
		218,952	218,960	141,394	141,486
Debtors					
Loan Stock	n/a	2,240	2,240	2,240	2,240
Soft Loans	3	58	58	56	56
Other trade debtors	n/a	85,677	85,677	103,164	103,164
		87,975	87,975	105,460	105,460
Total Investments		392,618	392,626	314,790	314,882

43. Financial Instruments - continued

43.4 Financial Assets classified as Fair Value through Profit and Loss

		2020/21		2019/20	
Investments held at Fair Value through Profit and Loss	**Fair Value Level**	**Carrying Amount £000**	**Fair Value £000**	**Carrying Amount £000**	**Fair Value £000**
Money Market Funds	1	85,691	85,691	67,936	67,936
		85,691	85,691	67,936	67,936

There was no unrealised gain on the available for sale financial assets (2019/20 £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 11 March 2021 and is available on the Council website. The key issues within the strategy are:

- The authorised limit for 2021/22 has been set at £2.814bn. This is the maximum limit for external borrowings and other short and long term liabilities.
- The operational boundary for 2021/22 has been set at £2.207bn. This is the expected upper level of borrowing and other short and long term liabilities during the year.

The prudential indicators are reported and approved as part of the Council's annual budget setting process. Actual performance is also reported annually to members of the Council.

44.2 Key Risks

The Council's activities expose it to a variety of financial risks, the key risks are:

- Credit risk – the possibility that other parties might fail to pay amounts due to the Council;
- Liquidity risk – the possibility that the Council might not have funds available to meet its commitments to make payments;
- Re-financing risk – the possibility that the Council might be requiring to renew a financial instrument on maturity at disadvantageous interest rates or terms;
- Market risk - the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates movements.

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

44.3 Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers. Deposits are with banks, building societies, and other institutions in line with the Council's prevailing counterparty limits as set out in the Council's treasury policy statement. Investment decisions are considered daily as part of the daily cash flow management by the Council's Treasury Team who can, and do, restrict the list further in light of market conditions.

The Council's funds are managed along with those of Lothian Pension Fund and some other related organisations which are pooled for investment purposes as a treasury cash fund. Management of the cash fund is on a low risk, low return basis, with security of the investments the key consideration while at the same time seeking innovative and secure cash investment opportunities. This arrangement has allowed a better management of the Council's risk in the exceptional financial and market circumstances in recent years.

As well as lending monies to other local authorities, the Council purchases UK Government Treasury Bills and has previously purchased Bonds and Floating Rate Notes with an explicit UK Government Guarantee. At 31 March 2021, the Council had £31.6m in short term investments, all of which were loans to other local authorities. Of the net Cash and Cash Equivalents, 27.5% were loans to other local authorities, a further 31.4% was held in three AAA rated Money Market Funds, leaving only 41.1% with banks. All of the monies held on deposit with banks at 31 March 2021 were in call or near call accounts.

The principal outstanding on monies held by the Council under its treasury management arrangements at 31 March 2021 was £255.0m (31 March 2020: £209.3m). This was held with the following institutions:

Summary	Standard and Poor's Rating	Principal Outstanding 31.03.21 £000	Carry Value 31.03.21 £000	Fair Value 31.03.21 £000	Carry Value 31.03.20 £000
Money Market Funds					
Deutsche Bank AG, London	AAAm	39,523	39,523	39,523	25,141
Goldman Sachs	AAAm	3	3	3	15,022
Standard Life	AAAm	2,868	2,870	2,870	27,772
Bank Call Accounts					
Bank of Scotland	A+	30,575	30,576	30,576	5,789
Royal Bank of Scotland	A-	23,473	23,473	23,473	11,630
Santander UK	A	30,579	30,581	30,581	1
Barclays Bank	A	16	16	16	14
Svenska Handelsbanken	AA-	0	0	0	7
HSBC Bank Plc 31 dn	AA-	27,561	27,561	27,561	10,918
HSBC Bank Plc	AA-	5	5	5	5
UK Pseudo-Sovereign Risk Instruments					
Local Authorities (see below)	n/a	106,720	106,740	106,749	113,030
	Total	261,323	261,348	261,357	209,329

Local Authorities are generally assumed to have a pseudo-sovereign credit rating (which in the UK at 31 March 2021 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 £112.2m 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 2021 that this risk was likely to crystallise.

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 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 2021 meeting. The papers are available on the Council's website. A full list of the deposits outstanding at 31 March 2021 is contained in the Treasury Cash Fund Investment Report for Quarter 1 2021. This is available on request from corporate.finance2@edinburgh.gov.uk, marked for the attention of Treasury.

All Council invoices become due for payment on issue. Excluding pre-payments of £4.088m (2019/20 £0.569m), trade debtors past due date can be analysed by age as follows:

	2020/21 £000	2019/20 £000
Less than two months	20,330	15,170
Two to four months	3,498	1,662
Four to six months	2,360	699
Six months to one year	5,164	1,609
More than one year	9,919	7,212
Total	41,271	26,352

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. The Council will continue to take appropriate and proportionate action to recover what is due even where the related debts are written off for the purposes of the financial statements.

Debtors are collectively assessed for credit risk in the following groups:

		31.03.21	
	Range	Gross Receivable	Loss Allowance
Council Tax	3% - 100%	220,246	(200,246)
Non Domestic Rates	1% - 100%	4,579	(3,122)
HRA tenants and other debtors	5% - 95%	10,432	(7,424)
Housing Benefits	75% - 80%	27,785	(21,863)
Trade and Other Debtors	10% - 100%	61,299	(19,166)
Total		324,341	(251,821)

44.4 Liquidity risk

The Council carries out short and medium term cash flow management to ensure that it will have sufficient liquidity to cover all of its payment obligations. This includes monitoring the maturity profile of investments to ensure sufficient liquidity is available for the Council’s day to day cash flow needs. The Council also has ready access to borrowings from the money markets to cover any day to day cash flow needs. It is anticipated that some short to medium term borrowing may be required within the next financial year to meet cashflow and working capital requirements. This will be managed as part of the Council's short- and medium-term cashflow monitoring as required.

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

44.4 Liquidity risk - continued

Whilst the PWLB provides access to longer term funds, it also acts as a lender of last resort to the Council. The Council is also required by statute to achieve a balanced budget, which ensures sufficient monies are raised to cover annual expenditure. There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

The Council manages its liquidity position through the risk management procedures above (the setting and approval of prudential indicators and the approval of the treasury and investment strategy reports), as well as through cash flow management procedures required by the Code of Practice.

44.5 Re-financing and Maturity Risk

The Council maintains significant debt and investment portfolios. The re-financing risk to the Council relates to managing the exposure to replacing financial instruments as they mature. As shown in the chart in 44.6, the majority of the Council's debt portfolio consists of fixed rate longer term loans, and as such, the Council has a relatively low re-financing risk on its liabilities. However, the Council has market debt which allows the lender the option to ask for a rate increase at set dates and at that point the Council may choose to repay the loan at no additional cost. This gives a potential re-financing risk which the Council monitors and manages.

The Council's approved treasury strategy addresses the main risks and the treasury team address the operational risks within approved parameters. This includes monitoring the maturity profile of financial liabilities and amending the profile through either new borrowing or the rescheduling of the existing debt. With the margin on new borrowing rates and a separate rate for the premature 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. In 2019/20 the Council repaid its £40m Inverse LOBO loans and replaced them with a £40m fixed rate loan from the PWLB.

The maturity analysis of the principal outstanding on the Council's debt is as follows:

	2020/21 £000	2019/20 £000
Less than one year	(66,726)	(100,457)
Between one and two years	(65,057)	(65,051)
Between two and five years	(191,282)	(173,330)
Between five and ten years	(236,341)	(270,803)
More than ten years	(1,090,115)	(1,068,344)
Financial Liabilities	(1,649,521)	(1,677,985)

All trade and other payables are due to be paid in less than one year and trade creditors of £19.218m (2019/20 £19.008m) are not shown in the table above. The above figures show the principal outstanding, therefore, neither accrued interest of £15.733m (2019/20 £16.176m) nor net equivalent interest rate (EIR) adjustments of £8.834m (2019/20 £8.825m) to the carrying amounts of market debt shown in the financial liabilities are included.

The only investment which the Council has with a maturity of greater than one year is £2.24m in EDI loan stock.

44.6 Market risk

Interest rate risk

The Council is exposed to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council, depending on how variable and fixed interest rates move across differing financial instrument periods. For instance, a rise in variable and fixed interest rates would have the following effects:

- borrowings at variable rates – the interest expense charged to the Comprehensive Income and Expenditure Statement will rise;
- borrowings at fixed rates – the fair value of the borrowing liability will fall;
- investments at variable rates – the interest income credited to the Comprehensive Income and Expenditure Statement will rise; and
- investments at fixed rates – the fair value of the assets will fall.

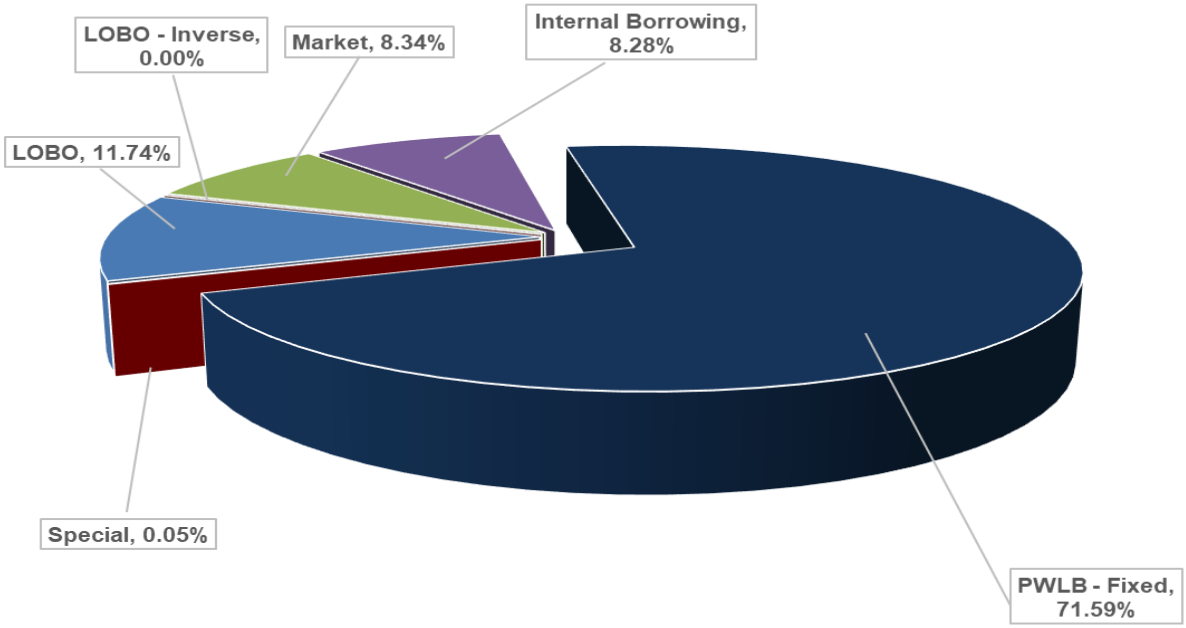
44. Nature and Extent of Risks Arising from Financial Instruments - continued

44.6 Market risk - continued

Borrowings are not carried at fair value on the Balance Sheet, so nominal gains and losses on fixed rate borrowings would not impact on the Comprehensive Income and Expenditure Statement or Movement in Reserves Statement. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Comprehensive Income and Expenditure Statement and affect the General Fund Balance, subject to influences from Government grants. Movements in the fair value of fixed rate investments will be reflected in the Movement in Reserves Statement, unless the investments have been designated as fair value through the Comprehensive Income and Expenditure Statement.

The Council has a number of strategies for managing interest rate risk. The annual treasury management strategy includes a forecast for short and longer term interest rates. The treasury team continue to monitor market and forecast interest rates during the year and adjust investment policies accordingly. For instance during periods of falling interest rates, and where economic circumstances make it favourable, fixed rate investments may be taken for longer periods to secure better long term returns. Any such strategy is run within the short and medium term liquidity requirements of the Council.

The following chart shows the source of the Council's borrowing. Most of the Council's borrowings are from the Government by way of the Public Works Loans Board (PWLB). As interest rates are historically low, none of the PWLB borrowing was variable rate.



Sources of Borrowing 2020/21

In addition to the borrowing in the chart above, in August 2018, the Council undertook a fixed rate forward starting loan transaction. The Council drew 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.

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 receivable on variable rate investments	(1,718)
Impact on Comprehensive Income and Expenditure Statement	(1,718)
Decrease in fair value of fixed rate borrowings liabilities	(280,242)

Price Risk

The Council does not generally invest in equity shares but does have shareholdings of £21.105m (2019/20 £23.340m) 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.

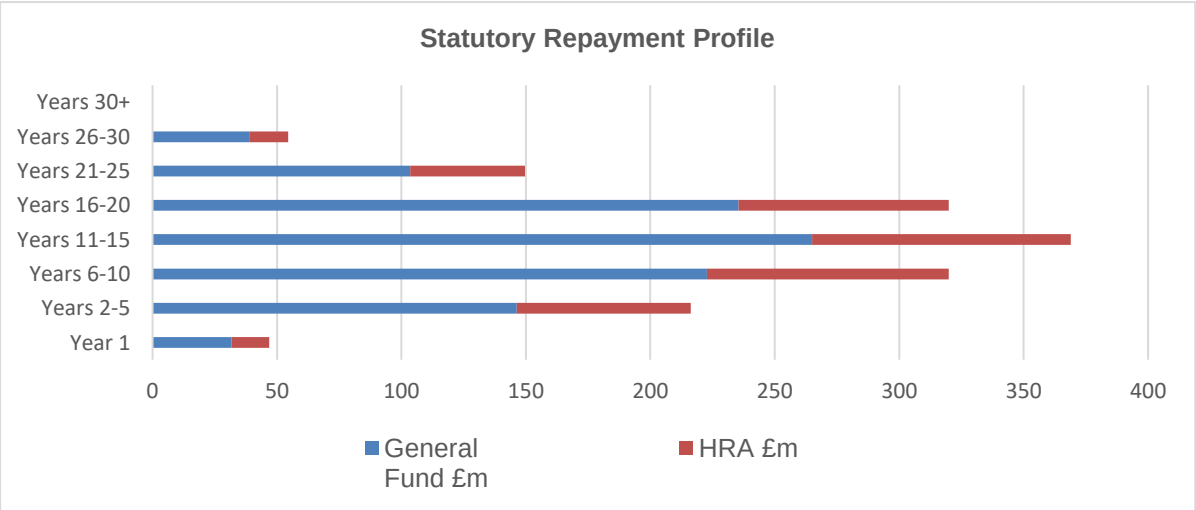
Foreign exchange risk

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. As part of the 2019/20 budget process the Council received a report on the review carried out on the loans fund. The report recommended changes in the method of calculating loans fund repayments for current and historical capital advances. Those changes mean that the repayments for both historical and new capital advances (with the exception of those detailed below) will be calculated using the Asset Life method. For capital advances relating to loans to the Edinburgh Living LLPs and capital advances for the “Trams to Newhaven” project, all advances from the loans fund in the current year have a repayment profile set out using the funding/income method and these capital advances will be repaid using an annuity structure with fixed interest rate and principal repayments. The business cases brought forward for other projects involving major capital expenditure funded by borrowing will consider the appropriate repayment method depending on the structure of the business case. 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 approval also granted to wind up the Boyd Anderson Trust.

45.1 The funds are:

Scottish Registered Charities	Scottish Charity Registration Number	Market Value 31.03.21 £000	Market Value 31.03.20 £000
Lauriston Castle	SC020737	7,673	7,043
Jean F. Watson	SC018971	6,641	6,450
Edinburgh Education Trust	SC042754	1,191	1,012
Nelson Halls	SC018946	271	235
The Royal Scots Trust	SC018945	33	35
Boyd Anderson	SC025067	96	100
Total market value		15,905	14,875

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

Re-stated 2019/20 £000	Income and Expenditure Account	2020/21 £000
	Income	
71	Investment income	71
356	Other non-investment income	295
427		366
	Expenditure	
(347)	Prizes, awards and other expenses	(306)
(15)	Governance Costs	(16)
(362)		(322)
65	Surplus / (Deficit) for the year	44

2019/20 £000	Balance Sheet	2020/21 £000
	Long-Term Assets	
2,143	Investments	2,505
5,374	Artworks - Jean F Watson Trust	5,383
7,021	Heritable property	7,645
14,538	**Total Long-Term Assets**	15,533
	Current Assets	
361	Cash and bank	387
16	Debtors	15
377		402
	Current Liabilities	
(40)	Creditors	(30)
(40)		(30)
14,875	**Total Assets less Liabilities**	15,905
	Funds	
3,490	Capital at 1 April	3,497
65	Surplus / (Deficit) for the year	44
0	Unrealised gains on investments	361
(58)	Unrealised losses on investments	0
3,497		3,903
11,378	Revaluation reserve	12,002
14,875	**Funds at 31 March**	15,905

Separate Trustee's Reports 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 on the **Council's website**.

NOTES TO THE FINANCIAL STATEMENTS

46. Prior Period Adjustment

Capitalisation of Tram Interest
The Finance and Resources Committee on 21 January 2021 approved the adoption of a retrospective change in accounting policy to enable the capitalisation of interest on qualifying assets, detailed at Note 1.10. The 2019/20 financial statements have been restated to reflect this change.

Accounting treatment of Residual Waste Facility donated asset
The residual waste facility at Millerhill became operational during 2019/20 and was accounted for as a PPP service concession with the inclusion of an element of a donated asset. The accounting treatment for the donated asset element and a deferred capital payment has subsequently been reviewed and amended to better reflect the nature of these transactions. In addition the change in accounting treatment has impacted on the financial repayment profile on the asset.

	2019/20 Statements £000	Tram Interest £000	Residual Waste PPP £000	Presentational Adjustment £000	2019/20 Re-stated £000
Movement in Reserves Statement					
Total Comprehensive Income and Expenditure					
General Fund	(42,749)	1,234	(70,477)	13,853	(98,139)
HRA	31,547	0	0	(13,853)	17,694
Total Usable Reserves	(11,202)	1,234	(70,477)	0	(80,445)
Total Reserves	321,411	1,234	(70,477)	0	252,168
Adjustments between accounting basis and funding basis					
General Fund	23,019	0	70,477	0	93,496
Donated Asset Fund	61,893	0	(61,893)	0	0
Total Usable Reserves	57,457	0	8,584	0	66,041
Net increase / (Decrease) before transfers to statutory reserves					
Total Usable Reserves	46,256	1,234	(61,893)	0	(14,403)
Total Reserves	321,411	1,234	(70,477)	0	252,168
Balance at 31 March 2020					
General Fund	120,112	1,234	0	0	121,346
Total Usable Reserves	289,140	1,234	(61,893)	0	228,481
Total Reserves	2,951,180	1,234	(70,477)	0	2,881,937
Council Comprehensive Income and Expenditure Statement					
Resources	270,917	0	8,619	0	279,536
Cost of Services	1,068,969	0	8,619	0	1,077,588
Financing and Investment Income and Expenditure	134,230	(1,234)	(35)	0	132,961
Taxation and Non-Specific Grant Income	(1,186,533)	0	61,893	0	(1,124,640)
(Surplus) / Deficit on Provision of Services	11,202	(1,234)	70,477	0	80,445
Total Comprehensive (Income) / Expenditure	(321,410)	(1,234)	70,477	0	(252,167)
Council Balance Sheet					
Property, Plant and Equipment	4,776,512	1,234	(8,619)	0	4,769,127
Long-Term Assets	5,011,957	1,234	(8,619)	0	5,004,572
Net Assets	2,951,180	1,234	(70,477)	0	2,881,937
Short Term Creditors	(200,580)	0	(2,813)	0	(203,393)
Other Long-Term Liabilities	(241,440)	0	(59,044)	0	(300,484)
Unusable Reserves	2,662,041	0	(8,584)	0	2,653,457
Usable Reserves	289,139	1,234	(61,893)	0	228,480
Total Reserves	2,951,180	1,234	(70,477)	0	2,881,937

46. Prior Period Adjustment - Continued

Lothian Valuation Joint Board

Deferred Individual Electoral Registration grant funding has been restated in accordance with IAS20. Grant income has been removed from short-term creditors and recognised as an earmarked reserve.

	2019/20 Statements £000	Council Adj. £000	Lothian Valuation Joint Board £000	Sub-total £000
Movement in Reserves Statement				
Total Comprehensive Income and Expenditure				
Total Usable Reserves	(11,202)	(69,243)	0	(80,445)
Total Reserves	321,410	(69,243)	0	252,167
Group Total Reserves	342,104	(69,243)	(53)	272,808
Adjustments between accounting basis and funding basis				
General Fund	23,019	70,477	0	93,496
Donated Asset Fund	61,893	(61,893)	0	0
Total Usable Reserves	57,457	8,584	0	66,041
Net increase / (Decrease) before transfers to statutory reserves				
Total Usable Reserves	46,256	(60,659)	0	(14,403)
Total Reserves	321,411	(69,243)	0	252,168
Group Total Reserves	342,105	(69,243)	(53)	272,809
Balance at 31 March 2020				
General Fund	120,112	1,234	0	121,346
Total Usable Reserves	289,139	(60,659)	0	228,480
Total Reserves	2,951,180	(69,243)	0	2,881,937
Group Total Reserves	3,160,596	(69,243)	174	3,091,527
Group Comprehensive Income and Expenditure Statement				
Resources	270,917	8,619	0	279,536
Non-Department Specific Income	(1,208)	0	0	(1,208)
Subsidiary Companies	16,980	0	0	16,980
Cost of Services	1,085,949	8,619	0	1,094,568
Financing and Investment Income and Expenditure	131,178	(1,269)	0	129,909
Taxation and Non-Service Specific Grant income	(1,186,533)	61,893	0	(1,124,640)
(Surplus) / Deficit on Provision of Services	25,261	69,243	0	94,504
Associates and Joint Ventures	4,729	0	53	4,782
Group Surplus / Deficit	30,364	69,243	53	99,660
Other unrealised Gains and losses	(40,623)	0	0	(40,623)
Total Comprehensive (Income) / Expenditure	(342,104)	69,243	53	(272,808)
Group Balance Sheet				
Property, Plant and Equipment	4,916,532	(7,385)	0	4,909,147
Long-Term Debtors	128,493	0	0	128,493
Long-Term Assets	5,233,440	(7,385)	0	5,226,055
Short-Term Creditors	(244,990)	(2,813)	0	(247,803)
Other Long-Term Liabilities	(255,990)	(59,044)	0	(315,034)
Deferred Liability	(44,960)	0	0	(44,960)
Liabilities in Associates and Joint Ventures	(3,472)	0	174	(3,298)
Net Assets	3,160,596	(69,243)	174	3,091,527
Unusable Reserves	2,799,888	(8,584)	0	2,791,304
Usable Reserves	360,708	(60,659)	174	300,223
Minority Interest	0	0	0	0
Total Reserves	3,160,596	(69,243)	174	3,091,527

46. Prior Period Adjustment - Continued

Transport for Edinburgh

A prior year adjustment has been included in the group accounts as a consolidation adjustment to reflect the transactions post Transport for Edinburgh's year end date of December for the acquisition of B Shares. Additionally, the minority interest has been removed from unusable reserves and presented separately on the Balance Sheet.

Edinburgh Living

The Scottish Government provided grant funding towards the costs of acquiring properties, the accounting treatment for the government grant has been reviewed and now treated as deferred income. Additionally the revaluation gain is now included in financing and investment income.

CEC Holdings

The CEC Holdings Ltd accounts contained a lease for use of assets under IFRS16 which was not identified in the City of Edinburgh Council audited accounts. The City of Edinburgh Council is not required to adopt IFRS 16 until 1 April 2022 a consolidation adjustment has therefore been recognised for this. A misstatement relating to an accrual in EDI Market Street has been also been restated.

	Sub-total £000	Transport for Edin. £000	Edinburgh Living £000	CEC Holdings £000	2019/20 Re-stated £000
Movement in Reserves Statement					
Total Comprehensive Income and Expenditure					
Total Usable Reserves	(80,445)	0	0	0	(80,445)
Total Reserves	252,167	0	0	0	252,167
Group Total Reserves	272,808	(8,800)	23	174	264,205
Adjustments between accounting basis and funding basis					
General Fund	93,496	0	0	0	93,496
Donated Asset Fund	0	0	0	0	0
Total Usable Reserves	66,041	0	0	0	66,041
Net increase / (Decrease) before transfers to statutory reserves					
Total Usable Reserves	(14,403)	0	0	0	(14,403)
Total Reserves	252,168	0	0	0	252,168
Group Total Reserves	272,809	(8,800)	23	174	264,206
Balance at 31 March 2020					
General Fund	121,346	0	0	0	121,346
Total Usable Reserves	228,480	0	0	0	228,480
Total Reserves	2,881,937	0	0	0	2,881,937
Group Total Reserves	3,091,527	8,800	23	174	3,100,524
Group Comprehensive Income and Expenditure Statement					
Resources	279,536	0	0	0	279,536
Non-Department Specific Income	(1,208)	(8,331)	0	0	(9,539)
Subsidiary Companies	16,980	8,331	(23)	(105)	25,183
Cost of Services	1,094,568	0	(23)	(105)	1,094,440
Financing and Investment Income and Expenditure	129,909	0	(8,235)	(70)	121,604
Taxation and Non-Service Specific Grant income	(1,124,640)	0	0	0	(1,124,640)
(Surplus) / Deficit on Provision of Services	94,504	0	(8,258)	(174)	86,072
Associates and Joint Ventures	4,782				
Group Surplus / Deficit	99,660	0	(8,258)	(174)	91,228
Other unrealised Gains and losses	(40,623)	8,800	8,235	0	(23,588)
Total Comprehensive (Income) / Expenditure	(272,808)	8,800	(23)	(174)	(264,205)
Group Balance Sheet					
Property, Plant and Equipment	4,909,147	0	0	(1,036)	4,908,111
Long-Term Debtors	128,493	8,800	0	0	137,293
Long-Term Assets	5,226,055	8,800	0	(1,036)	5,233,819
Short-Term Creditors	(247,803)	0	(72)	171	(247,704)
Other Long-Term Liabilities	(315,034)	0	0	1,039	(313,995)
Deferred Liability	(44,960)	0	95	0	(44,865)
Liabilities in Associates and Joint Ventures	(3,298)				
Net Assets	3,091,527	8,800	23	174	3,100,524
Unusable Reserves	2,791,304	(12,194)	0	0	2,779,110
Usable Reserves	300,223	6,050	23	174	306,470
Minority Interest	0	14,944	0	0	14,944
Total Reserves	3,091,527	8,800	23	174	3,100,524

HOUSING REVENUE ACCOUNT

INCOME AND EXPENDITURE STATEMENT
for the year ended 31 March 2021

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.

2019/20 £000		2020/21 £000	£000
	EXPENDITURE		
29,616	Repairs and maintenance	24,749	
20,993	Supervision and management	22,706	
29,078	Depreciation and impairment of non-current assets	40,953	
7,133	Other expenditure	10,347	
613	Impairment of debtors	2,662	
87,433			101,417
	INCOME		
(99,592)	Dwelling rents	(100,924)	
(22)	Non-Dwelling rents (gross)	(29)	
(4,366)	Other income	(3,870)	
(103,980)			(104,823)
(16,547)	Net income for HRA Services (as included in the Council's Comprehensive Income and Expenditure Statement)		(3,406)
166	HRA share of corporate and democratic core		253
1,073	HRA share of other amounts included in the Council's Net Cost of Services but not allocated to specific services		1,265
(15,308)	Net income for HRA Services		(1,888)
	HRA share of other operating expenditure included in the Council's Comprehensive Income and Expenditure Statement		
(3,554)	(Gain) / loss on sale of HRA fixed assets	(248)	
42	Investment Property changes in fair value	0	
31,114	Interest payable and similar charges	16,509	
2,467	Interest cost on defined benefit obligation *(pension-related)*	2,299	
(1,188)	Interest and investment income	(1,164)	
(2,005)	Interest income on plan assets *(pension-related)*	(1,933)	
(29,262)	Capital grants and contributions	(22,249)	
(2,386)			(6,786)
(17,694)	Surplus for the year on HRA services		(8,674)

HOUSING REVENUE ACCOUNT

MOVEMENT ON THE HRA STATEMENT

2019/20 £000		2020/21 £000
0	Balance on the HRA at the end of the previous year	0
17,694	Surplus for the year on the HRA Income and Exp Account	8,674
(33,149)	Adjustments between accounting basis and funding basis under statute	1,830
(15,455)	**Net increase before transfers to reserves**	10,504
15,455	Contribution (to) / from renewal and repairs fund, via the General Fund	(10,504)
0	**Balance on the HRA at the end of the current year**	0

Adjustments Between Accounting Basis and Funding Basis Under Regulations

£000		£000
	Adjustments primarily involving the Capital Adjustment Account	
	Reversal of items debited or credited to the Income and Expenditure Statement	
29,078	Charges for depreciation and impairment of non-current assets	40,953
(29,262)	Capital grants and contributions applied	(22,249)
42	Movement in the market value of investment properties	0
	Insertion of items not debited or credited to the Income and Expenditure Statement	
(20,695)	Statutory provision for the financing of capital investment	(17,130)
(23,000)	Capital funded from revenue	0
	Adjustments primarily involving the Capital Receipts Reserve	
(3,554)	Transfer of cash sale proceeds credited as part of the gain / loss on disposal of assets	(248)
	Adjustments primarily involving the Financial Instruments Adjustment Account	
13,113	Amount by which finance costs charged are different from finance costs chargeable in the year in accordance with statutory requirements	(906)
	Adjustments primarily involving the Pensions Reserve	
2,803	Reversal of items relating to retirement benefits debited or credited to the Income and Expenditure Statement	3,063
(1,530)	Employer's pension contributions and direct payments to pensioners payable in the year	(1,721)
	Adjustments primarily involving the Employee Statutory Adjustment Account	
(144)	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	68
(33,149)		1,830

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 2021 are as follows:

	2021		2020	
Types of Houses	**Number**	**Annual Average Rent (£)**	**Number**	**Annual Average Rent (£)**
Main provision Council dwellings				
1 Apartment	286	4,132.00	285	4,051.00
2 Apartment	5,633	4,619.00	5,610	4,532.00
3 Apartment	10,249	5,353.00	10,207	5,262.00
4 Apartment	3,526	6,168.00	3,512	6,069.00
5 Apartment	523	6,655.00	521	6,496.00
6 Apartment	10	6,672.00	10	6,557.00
7 Apartment	4	6,463.00	4	6,336.00
8 Apartment	1	6,463.00	1	6,336.00
Mid-market rent dwellings				
2 Apartment	23	6,005.00	23	5,896.00
3 Apartment	84	7,378.00	84	7,240.00
4 Apartment	22	9,307.00	22	9,125.00
	20,361		20,279	

The stock figure represents all types of residential properties, including furnished tenancies, sheltered housing and homelessness units. The housing types and numbers at 31 March 2021 have been established on a pro-rated basis to the 2019/20 mix of housing types.

2. The amount of rent arrears included as debtors in the Council's Consolidated Balance Sheet was £10.447m (£7.569m 2019/20) against which a provision amounting to £9.035m (£6.386m 2019/20), has been created in respect of non collectable debts.

3. The total value of uncollectable void rents for main provision properties was £0.948m (2019/20 £0.648m). 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.

2019/20 £000			2020/21 £000	£000
(366,569)	Gross council tax levied and contributions in lieu			(387,802)
58,696	Less:	- Exemptions and other discounts	62,682	
9,207		- Provision for bad debts	11,344	
24,070		- Council Tax Reduction Scheme	28,075	
4,457		- Other reductions	5,044	
96,430				107,145
(270,139)				(280,657)
(905)	Previous years' adjustments			(2,839)
(271,044)	**Total transferred to General Fund**			**(283,496)**

Notes to the Council Tax Income Account

The in-year collection rate for Council Tax was 96.0% (2019/20 97.0%).

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 4.79% increase applied to Council Tax in 2020/21 (2019/20 3%).

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 2020/21

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	24,417	79	3,882	3,522	17,092	6/9	11,395	£892.39
B	£27,001 - £35,000	48,226	60	3,747	7,056	37,483	7/9	29,153	£1,041.12
C	£35,001 - £45,000	45,320	(2)	2,896	5,667	36,755	8/9	32,671	£1,189.86
D	£45,001 - £58,000	41,159	71	2,609	4,574	34,047	9/9	34,047	£1,338.59
E	£58,001 - £80,000	43,141	(16)	3,588	3,909	35,628	473/360	46,811	£1,758.76
F	£80,001 - £106,000	26,054	(32)	1,518	2,035	22,469	585/360	36,512	£2,175.20
G	£106,001 - £212,000	22,429	(127)	491	1,334	20,477	705/360	40,101	£2,621.40
H	Over £212,000	4,183	(33)	134	205	3,811	882/360	9,337	£3,279.54
					Total			240,027	
				Add:	Contributions in Lieu			500	
				Less:	Provision for Non-Payment			(8,418)	
					Council Tax Base			**232,109**	

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.

2019/20 £000		2020/21 £000	£000
(477,545)	Gross rates levied and contributions in lieu		(478,952)
104,041	Less: - Reliefs and other deductions	290,727	
5,095	- Uncollectable debt written off and provision for impairment	2,644	
109,136			293,371
(368,409)			(185,581)
25,591	Previous years' adjustments		17,665
(342,818)	**Net Non-Domestic Rates Income**		(167,916)
775	Non-domestic rate income retained by authority		0
(342,043)	**Non-Domestic Rate Income**		**(167,916)**
	Allocated to:		
(342,740)	Contribution to Non-Domestic Rate Pool		(168,636)
697	City of Edinburgh Council		720
(342,043)			**(167,916)**

Notes to the Non-Domestic Rates Income Account

Rateable Values as at 1 April 2020	**Number**	**Rateable Value £000**
Shops, offices and other commercial subjects	16,108	637,703
Industrial and freight transport	2,797	80,549
Telecommunications	6	23
Public service subjects	361	50,217
Miscellaneous	3,955	170,732
	23,227	939,224

1. The amount distributed to the council from the national non-domestic rate income pool in the year was £238.922m (2019/20 £365.250m).

2. 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 49.8p per £ in 2020/21 (2019/20 49.0p per £).

   Properties with a rateable value between £51,001 and £95,000 (2019/20 greater than £51,000) had their rate charges calculated using the poundage of 51.1p per £ (2019/20 51.6p per £). Properties with rateable value greater than £95,000 had their rate charges calculated using the poundage of 52.4p per £ (2019/20 51.6p).

3. From 1 April 2008, the Scottish Government introduced the small business bonus scheme. Business properties with a rateable value of £18,000 or less may 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

   * Businesses with multiple properties whose combined rateable value is £35,000 or less will be eligible for relief of 25% for each property with a rateable value of £18,000 or less.

4 Due to Covid-19 a number of sectors including retail, hospitality, aviation and leisure were given additional rates reliefs and this accounts for the significant increase in the above figures.

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. £123,000 of this funding has been used to fund Scott Monument lighting work and surveys, £33,000 on surveys and work at the City Observatory, £16,400 on engineering consultancy at the Queensferry Harbour, and £12,600 on surveys and work for the Portobello Municipal Clock.

The balance of the Common Good Fund is £2.669m as at 31 March 2021 (£2.665m 2019/20). This is split £0.854m in the fund and £1.815m in the planned property maintenance fund.

During 2020/21, the Common Good made a surplus of £0.003m.

The lease of 329 High Street was completed in January 2020 with a lease premium of £3.036m received in the Common Good. The lease premium is being amortised over the lease term of 125 years. The in-year surplus, as mentioned above, includes a lease premium of £0.024m for 2020/21. Recommendations for the use of the funds from the lease will be presented to the Finance and Resources Committee for approval.

The Common Good Annual Performance Report will be considered by the Finance and Resources Committee in November 2021, along with the Audited Annual Accounts.

COMMON GOOD FUND - INCOME AND EXPENDITURE ACCOUNT

2019/20 £000		2020/21 £000	£000
	Income		
(24)	Investment income	(13)	
(1,160)	Rent Income	(271)	
(71)	Capital Funding	(142)	
(338)	Sale of Fixed Assets	0	
(5)	Lease Premium	(24)	
(2,175)	Recharges Income	(2,566)	
(3,773)	**Total Income**	(3,016)	
	Expenditure		
67	Common Good Fund	30	
3,394	Common Good Property Costs	2,983	
3,461	**Total Expenditure**		3,013
(312)	**(Surplus) / Deficit for the Year**		(3)

COMMON GOOD FUND - BALANCE SHEET

31 March 2020 £000		31 March 2021 £000	£000
2,558	Community Assets	2,558	
2,558	**Property, Plant and Equipment**		2,558
17,798	Long-Term Debtors	17,823	
146	Heritage Assets	146	
17,944	**Long-Term Assets**		17,969
1,616	Short-Term Investments	989	
4	Debtors	9	
4,052	Cash and Cash Equivalents	4,653	
5,672	**Current Assets**		5,651
26,174	**Net Assets**		**26,178**
23,522	Capital Contribution	23,522	
(13)	Capital Adjustment Account	(13)	
23,509	**Unusable Reserves**		23,509
842	Common Good Fund	854	
1,823	Earmarked Reserve	1,815	
2,665	**Usable Reserves**		2,669
26,174	**Total Reserves**		**26,178**

The audited accounts were issued on 18 November 2021.

HUGH DUNN, CPFA
Service Director: Finance and Procurement

COMMON GOOD FUND - NOTES TO FINANCIAL STATEMENTS

1. Property, Plant and Equipment and Heritage Assets

1.1 Movements on Balances

	Community Assets £000	Total Property, Plant and Equipment £000	Heritage Assets £000
Cost or Valuation			
At 1 April 2020	2,558	2,558	146
At 31 March 2021	2,558	2,558	146
Net Book Value			
At 31 March 2021	2,558	2,558	146
At 31 March 2020	2,558	2,558	146
Cost or Valuation			
At 1 April 2020	2,558	2,558	146
At 31 March 2020	2,558	2,558	146
Net Book Value			
At 31 March 2020	2,558	2,558	146
At 31 March 2019	2,558	2,558	146

These asset categories are not depreciated.

1.2 Developing a Common Good Register

Significant progress has been made to collate information regarding properties considered by the Council to be 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 relevant provisions came into force on 27 June 2018, and the Scottish Government published the accompanying guidance in July 2018. 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.

The first version of the Common Good Register was published on the Council’s Common Good webpage on 28 June 2019, complying with Scottish Government guidance. The Register was subsequently presented and approved by the Finance and Resources Committee on 26 September 2019 as part of the 2018-19 Common Good Annual Performance Report.

The Council maintains a **web page** with a link to the latest Common Good Register on its website.

A further updated draft of the Common Good Asset Register is yet to be finalised because work had to be put on hold due to the imposed COVID-19 lockdown. Therefore, at the balance sheet date, the Council's balance sheet may hold heritage assets that belong to the Common Good and vice versa.

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:

- transferred 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.

	2020/21		2019/20	
	£000	£000	£000	£000
Balance at 1 April		23,522		23,523
Movement of assets	0		(1)	
Downward revaluation of assets and impairment losses not charged to the Surplus on the Provision of Services	0		0	
Surplus / (Deficit) on revaluation of non-current assets not posted to the Surplus on the Provision of Service		0		(1)
Derecognition of asset disposals		0		0
Balance at 31 March		23,522		23,522

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.

	2020/21	2019/20
	£000	£000
Balance at 1 April	(13)	(13)
Movement in Year	0	0
Balance at 31 March	(13)	(13)

ANNUAL GOVERNANCE STATEMENT

Introduction

2020/21 has been an unprecedented year for the City of Edinburgh Council, responding to the demands of a global pandemic and fundamental changes to people's freedoms and way of life. As a direct consequence of the Council's response to Covid-19, governance, both political and operational, had to adapt and evolve rapidly to ensure that the Council fulfilled its statutory duties arising from the Civil Contingencies Act and was able to work directly and with partners to address the safety of vulnerable people, the continuity of essential public services and the safety of our employees alike. Recognising the importance of democratic leadership and oversight of the Council's response to the pandemic, a rapid transition back to the full operation of our executive committees as soon as practicable was also managed. The past year has been challenging for elected members and officers alike and has placed a significant strain upon Council finances, the workforce, digital and physical assets, along with our supply chain and partners. Through robust and effective governance, the Council has been able to respond well to these challenges, to adapt and evolve the provision of its services and, importantly, to take on additional responsibilities to support local and national responses to Covid-19.

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 demonstrated by 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.

This statement also covers the organisations included in the Council's Group Accounts, a list of which is included on page 42 of the Accounts.

Council's Strategy and Vision

In February 2021 the Council approved a new Council Business Plan: Our Future Council, Our Future City which set out the Council's strategic priorities and how the aims set out in the Community Plan would be taken forward over the next 3 years.

The Business Plan covers a three year period and provides an overarching focus for the Council in terms of its priorities and the delivery of its aims. It provides an opportunity to deliver a future organisation to meet the changing needs of citizens.

The Business Plan set out the three main priorities the Council would focus on in the coming years:

- Ending poverty by 2030;
- Becoming a sustainable and net zero city; and
- Wellbeing and Equalities

The Business Plan describes the approach the Council will take to deliver its priorities in the form of 15 outcomes with actions. This plan stands as one part of a golden thread linking and guiding operations, through to the shared goals and commitments of the Edinburgh Partnership and towards the long term ambitions for Edinburgh to be a fair, welcoming, pioneering, and thriving city, as outlined in the 2050 Edinburgh City Vision.

The Business Plan addressed the Accounts Commission's Best Value Report recommendations on aligning the Council's strategic direction.

Decision making structures

Political Governance Arrangements

The Council operates an executive committee structure (see figure 1.1). 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, Homelessness and Fair Work; and Transport and Environment.

The Governance, Risk and Best Value Committee seeks assurance over the adequacy of governance and risk management frameworks and the internal control environment. It also scrutinises the Council's financial and nonfinancial performance, approves and monitors progress against the internal audit risk-based plan, and monitors performance of the internal audit service.

The Council also operates 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.

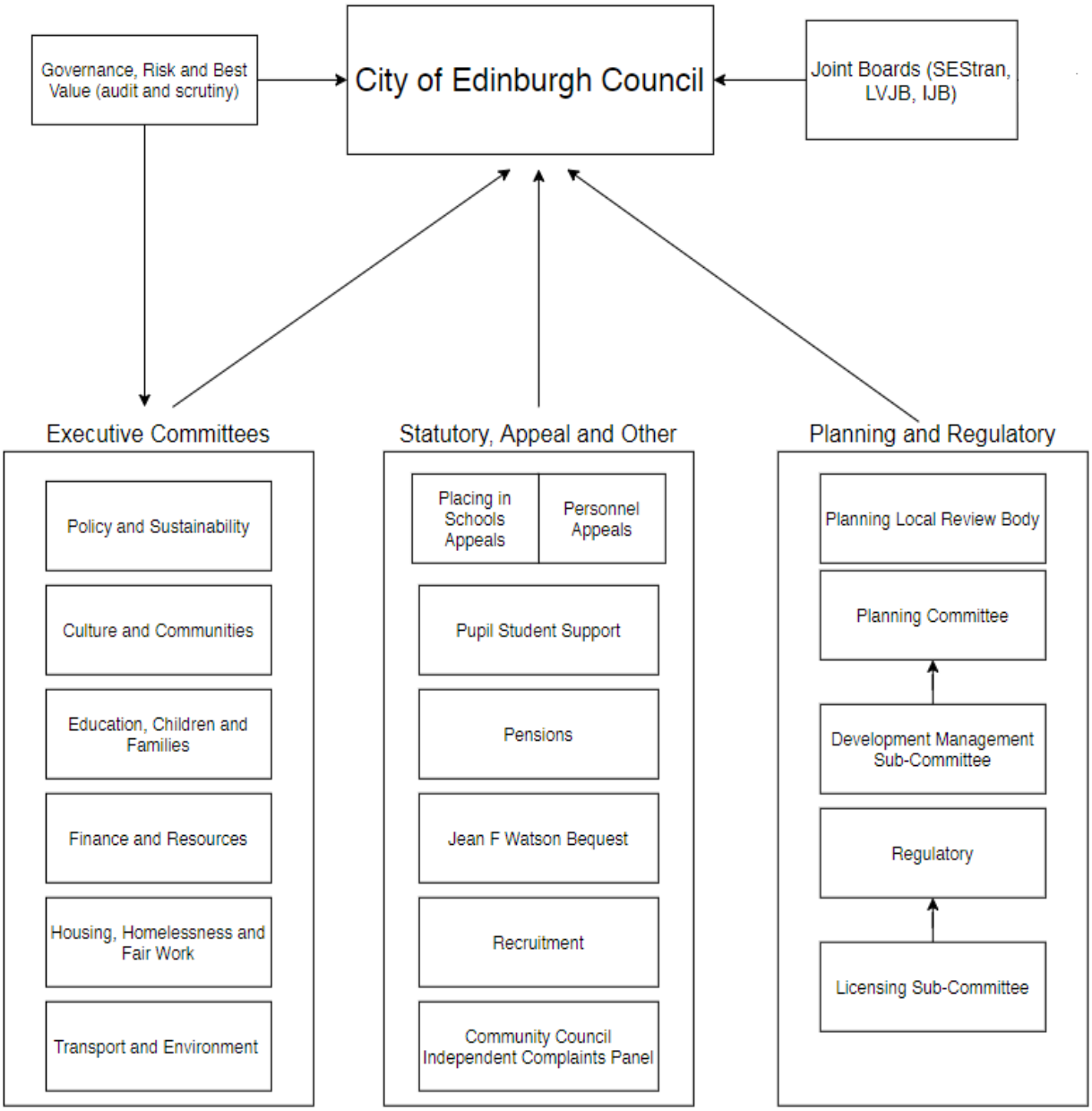


Figure 1.1 Executive Committee Structure

Political Decision Making in Covid-19

To date the Council has implemented three phases of political governance arrangements in response to the Covid-19 emergency. The first phase, agreed by the Chief Executive under emergency powers, was to extend the recess period of the City of Edinburgh Council from Friday 20 March 2020 to Sunday 29 March 2020 inclusive and from Monday 20 April 2020 to Sunday 26 April 2020 inclusive. The Leadership Advisory Panel was an existing committee that had the authority to take all decisions during recess periods. This was stood up and met twice during this period.

The second phase followed a report considered by the Leadership Advisory Panel on 23 April 2020 and agreed that the Policy and Sustainability Committee would meet every two weeks from May 2020 and would have the authority to make decisions on all matters of business. This committee has a larger number of elected members, includes a number of the executive committee conveners and is chaired by the Council Leader. All business, with the exception of quasi-judicial matters, was submitted to this committee. The Development Sub-Committee and the Local Review Bodies met from May 2020 as required and the Governance, Risk and Best Value Committee met again from 9 June 2020. This re-established independent committee scrutiny and allowed audit activity to re-commence.

The third phase from 7 August 2020 re-introduced the Finance and Resources Committee to provide financial scrutiny and then all other executive committees from 1 September 2020; meaning the Council's political management arrangements were back operating normally (and remotely) from that date.

ANNUAL GOVERNANCE STATEMENT

Officer Decision Making

The Corporate Leadership Team (CLT) meets weekly, led by the Chief Executive, and includes all Executive Directors and key statutory officers including the Section 95 Officer, Monitoring Officer and Chief Social Work Officer.

It is supported by a range of groups covering key matters such as risk, health and safety and programme management. There is a robust health and safety reporting structure which includes directorate health and safety groups, a quarterly Council health and safety group and a quarterly consultative forum involving the trade unions. Health and safety working groups are in place for key life safety issues including: fire; water safety; and, asbestos. All directorates have risk and assurance committee meetings at least quarterly and ensure escalation of risks. The CLT also has a specific risk committee meeting which reviews the corporate risk register on a quarterly basis.

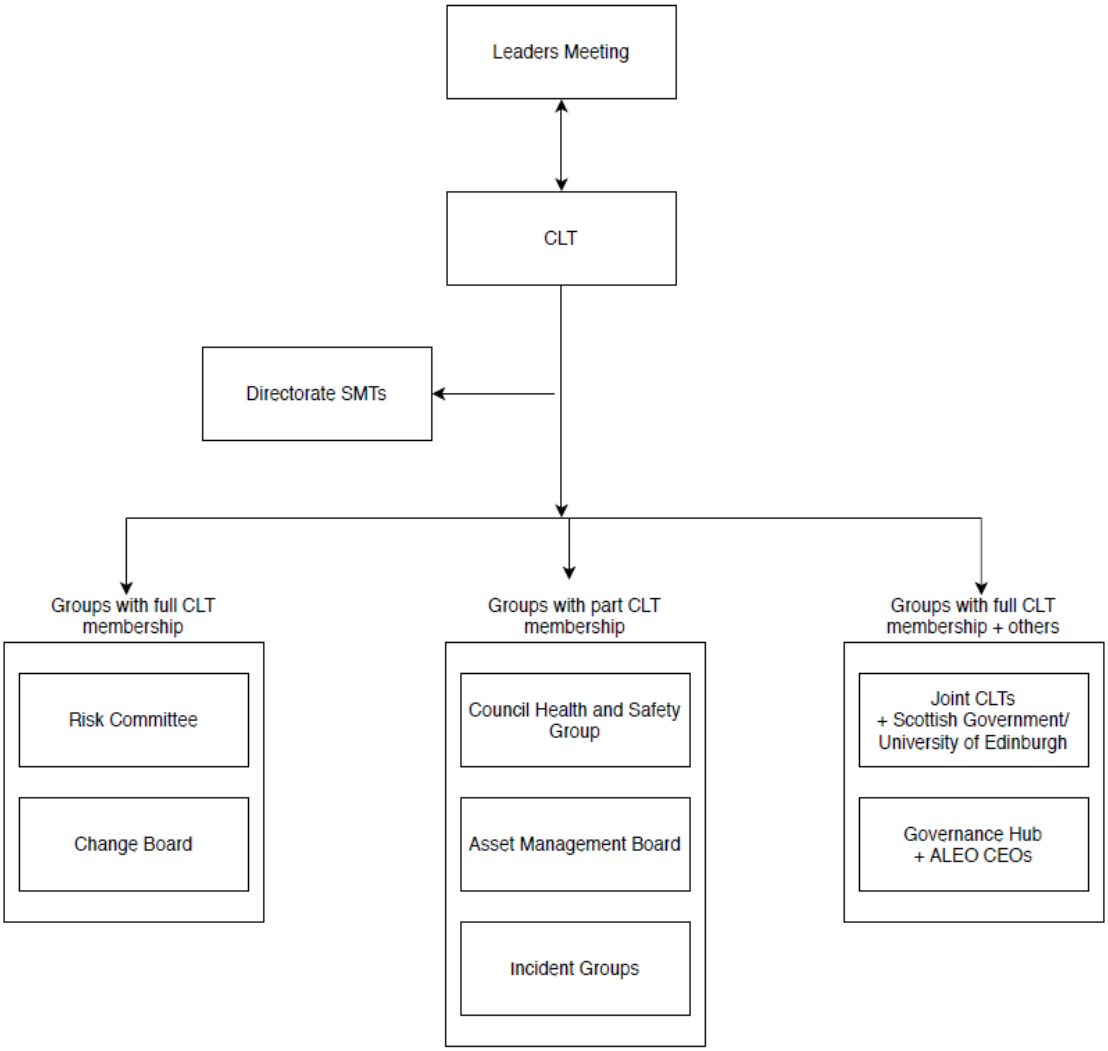


Figure 1.2 - CLT and Senior Management Team (SMTs) Structure

A key area of governance for the Council is its involvement in national, regional and city wide bodies. The Chief Executive and members of CLT represent the Council on a number of groups. Examples of these include SOLACE, Scottish Government Directors, City Deal Executive, Edinburgh Guarantee and Edinburgh Chamber of Commerce Council. Partnership working has increased during the Pandemic, building on strong relationships and the need to work together to provide holistic solutions for the City and its region.

Arm's Length External Organisations (ALEOs) reporting in terms of the Annual Governance Statement is reported through assurance schedules being submitted to the relevant directorate. The Executive Director then determines whether they feel it is appropriate for any issues highlighted to be included in their assurance schedules and reported in the Annual Governance Statement.

ANNUAL GOVERNANCE STATEMENT

Covid-19 Officer Decision Making

The groups below were all established to respond to Covid-19:

- Council Incident Management Team (CIMT), chaired by the Chief Executive
- Directorate Incident Management Teams, with escalation to CIMT
- Specialist Incident Management Teams:
  - Health and Social Care Command, chaired by Edinburgh Health and Social Care Partnership
  - (EHSCP) Head of Operations
  - Personal Protective Equipment (PPE), chaired by the Chief Procurement Officer
  - Shielding, chaired by the Executive Director of Resources
  - Vulnerable and Volunteering, chaired by the Executive Director of Communities and Families
- Cross-Council Risk Forum, convened and chaired by the Head of Legal and Risk
- Weekly meetings with the Trade Unions, including on specialist subjects such as PPE

The CIMT and directorate IMTs have provided a clear, easy to understand and effective governance structure for organising services during the emergency. They have met with differing frequency during the pandemic, operating flexibly to ensure the Council could react rapidly to any arising issues.

The three principles that were set out at the beginning of the response have been the framework for every decision taken:

- to protect the most vulnerable in our city;
- to minimise the risks to our colleagues; and
- to continue to provide services in challenging circumstances.

The Chief Executive established measures to ensure that decision making was as transparent as possible and that decisions were taken only by officers where absolutely necessary. The following principles were applied:

- The Chief Executive would be the only officer to take decisions in response to the Covid-19 emergency using powers outlined in the Scheme of Delegation to Officers;
- The Chief Executive would consult on all these decisions with the Leader and Depute Leader;
- Decisions would be considered and discussed at the Council's Incident Management Team;
- If possible, Executive Directors would discuss matters at their directorate incident management teams before escalating to the CIMT;
- Decisions would only be taken by the Chief Executive where urgent and where they could not be considered in good time by the Leadership Advisory Panel;
- Decisions would be reported to the Leadership Advisory Panel for information; and
- When making decisions, the potential risk and impact of those decisions, whether existing controls are effective and what new measures or controls may be required should be considered. This process should be as efficient and streamlined as possible.

The Council has reduced both the number and frequency of its Covid-19 meetings, but the Council's Incident Management Team continues to meet twice a week and other meetings have been stood back up depending on the changing situation of the pandemic.

In May 2020 the Council, recognising the significant long term impact and challenges caused by the pandemic, commenced a programme of work titled Adaptation and Renewal, focussed on post-Covid new ways of working. It aimed to set a clear long term vision, feeding into the business plan, on how the City would recover while retaining the flexibility to adapt to the changing public health situation.

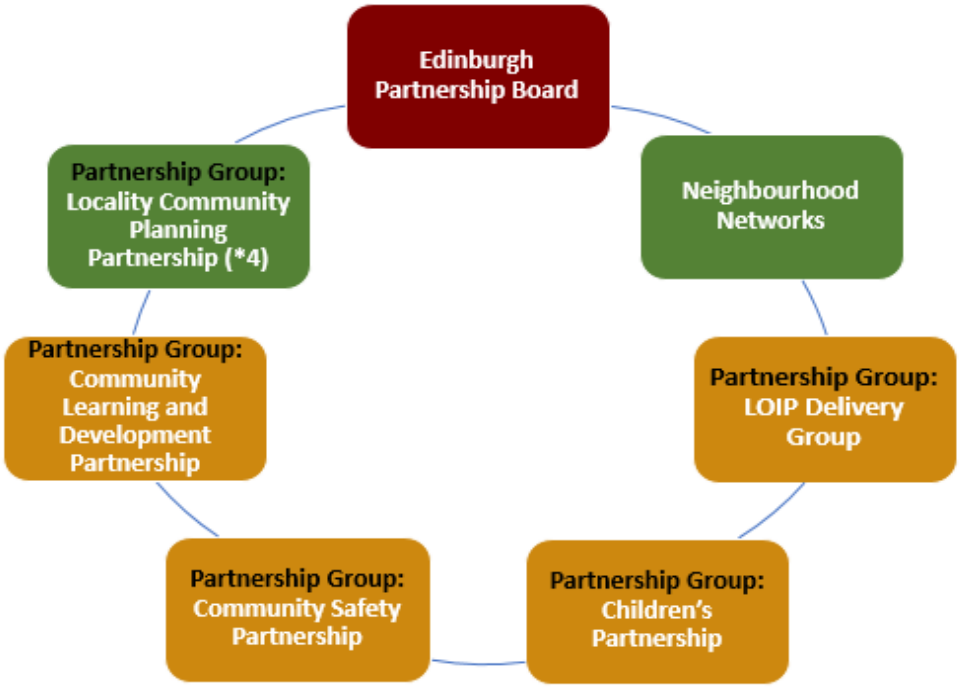
Its five work programmes were as follows:

- **Public Health Advisory Board** - This board brought together NHS Lothian and the Edinburgh Health and Social Care Partnership (EHSCP) to ensure the effective communication and implementation of national advice concerning public health.
- **Service Operations** – To consider how to reintroduce services and adapt to new ways of working.
- **Change, People and Finance** – To evolve the Council's current Change Strategy and financial framework and the impact of the pandemic on our workforce, our digital strategy and governance arrangements.
- **Sustainable Economic Recovery** – To work closely with the Scottish and UK Governments, the business community and the third sector, to respond to the challenging economic circumstances facing the city and the nation.
- **Life Chances** - To consider the provision of education and to ensure the Council is supporting people who are vulnerable or need support because of the impact of Covid-19.

ANNUAL GOVERNANCE STATEMENT

Partnership Working

The Council plays an important role in the Edinburgh Partnership, the Community Planning Partnership in Edinburgh, and its new 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 new 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 Council, NHS Lothian and the Edinburgh Integration Joint Board work closely together to work towards a more caring, healthier and safer Edinburgh. The responsibility for the budget does not sit with the Council but it plays a key role in supporting the processes in place to ensure sound financial management and budget control.

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 has adopted a local Corporate Governance Code (CGC). The CGC is based on the Chartered Institute of Public Finance and Accountancy (CIPFA) and Society of Local Authority Chief Executives and Senior Managers (SOLACE) model framework Delivering Good Governance in Local Government. The CGC outlines how the Council embeds good governance throughout the organisation and is available on the Council's website.

Review of Effectiveness

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 and Directors of Finance of the Council's group companies;
- council officers' management activities;
- the Chief Internal Auditor's annual report and internal audit reports, risk-based, across a range of Council services;
- reports from the Council's external auditor; and
- reports by external, statutory inspection agencies.

The Accounts Commission in November 2020 published their Best Value Assurance report into the City of Edinburgh Council. The report highlights a number of key achievements and areas for the Council to improve since the 2016 Best Value Audit and reflects on this as mixed progress.

ANNUAL GOVERNANCE STATEMENT

Review of Effectiveness - continued

Best Value and Strategy and Vision

The key achievements outlined in the Best Value Assurance report include:

- The Council's ambitious plans for the City. Specifically, referencing the Council's Sustainability Programme, approach to tackling poverty, major housing and community regeneration projects in Fountainbridge, Meadowbank and at Granton Waterfront; retail, hospitality and cultural developments, such as the St James Quarter; and extending the tram network;
- The Council's long track record of maintaining revenue expenditure within budget;
- Aspects of leadership and service performance. Specifically, refencing improved performance across many of KPIs – schools and education, waste and cleansing and time taken to process benefit and grant claims;
- Improvements in asset management, procurement and risk management.

The Best Value Assurance report also notes areas where further progress is required:

- To align strategic priorities;
- The implementation of effective community planning governance arrangements, the pace of change within the CPP and community empowerment;
- The Council's approach to self-assessment, continuous improvement and public performance reporting; and
- Long-term financial planning and workforce planning.

The Chief Executive put into place an improvement plan for all the areas of improvement outlined in the Best Value Assurance report. As outlined above the Business Plan has been created to ensure strategic priorities are aligned under a set of key priorities. Changes have been made to ensure the Council is working to the business plan including senior management structural change and work will continue throughout 2021 to align work streams and governance with the business plan and the priorities within.

As outlined earlier the Best Value report highlighted that the Council and its partners had not established effective community planning governance arrangements. The report acknowledged that it was too early to conclude if the review undertaken in 2019 would effectively support the Partnership to deliver the Local Outcome Improvement Plan (LOIP). There was further commentary on the Partnership not delivering effective Local Improvement Plans. The Edinburgh Partnership has considered the recommendations outlined in the Best Value report and has agreed a series of actions to address the concerns, with a number of these being led by the Council. This includes a partnership plan to deliver the 20 minute neighbourhood model, strengthening the resourcing and capacity to support neighbourhood networks and developing a framework for collaboration with the Edinburgh Association of Community Councils and Community Councils themselves.

Following approval of the Council Business Plan in February 2021, work was outlined to develop a new integrated planning and performance framework. This aims to ensure that the Council's priorities and outcomes are translated into clear actions and performance measures which are monitored, actioned and delivered. This is expected to be delivered in June 2021.

The Council agreed a new People Strategy in April 2021, supporting the new Business Plan and aligned to the key priorities. The Plan sets out what employees should expect from the Council as their employer and what the Council expects from its workforce. The Plan has three strategic themes:

- Living our behaviours;
- Maximising our capacity and performance; and
- Enhancing our colleague experience.

The People Strategy should also be cross-referenced with the Strategic Workforce Plan 2021-2024 which sets out how the Council addresses the gaps between its current workforce and the future workforce needed to meet the priorities of the Business Plan.

Decision Making

The impact of the Council's review of its political management arrangements was disrupted by the Covid-19 pandemic but had been in place six months before committees were paused. The full committee system did re-commence in September 2020 and has operated remotely during that period. Meetings have taken longer than pre-Covid but the system has continued to run effectively, with meetings continuing to be filmed and available to the public in the archive. To reduce the impact on staff and elected members, changes were made to Standing Orders to manage the time taken at committee whilst still ensuring that effective scrutiny could take place.

ANNUAL GOVERNANCE STATEMENT

Review of Effectiveness - continued

The Council was faced with having to make important decisions quickly in response to the pandemic but also ensure good governance was still being applied. An example of this is support to local businesses that was approved in August 2020. This streamlined the process to allow businesses to apply to use outdoor space, created a champions network and waived fees. This work was done quickly with the first report going to Council on 28 July and then followed up on 6 August. It showed the Council could make urgent decisions efficiently but also still with full democratic oversight and transparency.

The Council's political management arrangements consider a significant amount of business and that puts pressure on resources in terms of elected members and officers. The system could potentially be improved by freeing up more time for the most significant items of business and by reducing reports on more straightforward business matters. However, as a whole, current arrangements provide a transparent and robust decision-making structure with clear democratic accountability. The Best Value report by the Accounts Commission highlighted that the Council had been able to make important decisions despite there being a difficult political environment, demonstrating the effectiveness of the structure.

Covid-19 has created, and continues to set, a very challenging environment for the Council which has resulted in decisions being made at pace but never without efficient and effective governance at the core. Although there was a reduction in the number of committee meetings for a period at the start of the pandemic, the Chief Executive tried to ensure that delegated decisions taken by him under emergency powers were kept to a minimum and that the democratic decision making structures were re-instated as soon as they could safely be re-introduced. External Audit concluded in the annual report that the Council had responded promptly and effectively in its political management arrangements during the Covid-19 pandemic.

The Council undertook an audit carried out externally into the effectiveness of its Governance, Risk and Best Value Committee. A number of weaknesses were found, and these findings will be built into the review of the Council's political management arrangements for the new Council. Councillors from the committee and across the Council embraced the audit and saw it as a real opportunity to look at the strengths and weaknesses of its scrutiny and improve the committee structure.

The Council has extensive governance at officer level to support operational decision making. The current system has evolved through custom and practice and can be sometimes be unwieldy and difficult to navigate. Although it can be resource intensive, it does ensure that there is sufficient oversight of major decisions. However, improvements should be made to ensure there is a structure in place that is more efficient and encourages cross-directorate working. Work is ongoing to create a new officer governance structure that will align with the business plan and the new senior management structures.

In August 2021 the Council agree to take forward reforms with its Transport ALEOs. This would reconstitute Lothian Buses to be responsible for multi modal public transport delivery, with Edinburgh Trams now being a subsidiary of Lothian Buses. The Board of Transport for Edinburgh would be stood down with the assets or liabilities transferred into the Council or reconstituted company.

Internal Controls

The Internal Audit team operates in accordance with CIPFA's Code of Practice for Internal Audit and the Public Sector Internal Audit Standards (PSIAS). The team 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 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 their 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 will be subject to regular monitoring. In reviewing the overall governance framework, the Council has also considered relevant third party reviews and recommendations. Assurance has also been taken from each organisation's most recent audited accounts, together with the Council's detailed knowledge of these organisations as a consequence of their continued involvement.

ANNUAL GOVERNANCE STATEMENT

Review of Effectiveness - continued

The Council carries out a review each year of the Corporate Governance Code which is then scrutinised by the Governance, Risk and Best Value Committee. The Corporate Governance Code outlines the Council's internal controls and is aligned with the questions in the annual assurance schedules that are issued to directorates. In addition to the Code a self-assessment is carried out which scores the design on the controls in place. The aim is to provide a subjective picture of the quality of the design of controls which can then inform the full picture when looking at whether directorates have implemented said controls. There is also a benefit of senior officers discussing, reflecting and rating the Council's controls.

External Audit had previously highlighted the importance of adhering to approved member-officer protocols in respect of sensitive information and the importance of all Councillors and senior officers having a clear understanding of their respective rights and responsibilities in relation to information held by the Council. A review of the Member/Officer protocol had commenced but completion of the revised document was delayed by Covid-19 and a subsequent delay to the revised Councillors' Code of Conduct. Work has recommenced on the document and is expected to be considered by the Council in Summer 2021.

The Council agreed a new Consultation Policy in April 2021, recognising the need to strengthen community engagement but also introduce more robust controls to manage significant consultations. The policy strengthens the management and governance of consultation activity by introducing a sign off process to ensure oversight and challenge at an early stage.

External Audit concluded that the Council's arrangements in relation to standards of conduct and the prevention of bribery and corruption were adequate.

In compliance with standard accounting practice, the Section 95 Chief Financial 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 2021. It is the Chief Financial Officer's opinion that that although a degree of assurance can be placed upon the adequacy and effectiveness of the Group's systems of internal financial control, further improvements, including some embedding of actions taken in response to previous recommendations, are still required. This said, while some aspects of the financial control framework have had to be adapted to a home-working environment following the COVID-19 pandemic, the emphasis has consistently been on obtaining assurance in a different way rather than compromising or relaxing existing controls. Responsible managers have also worked closely with Internal Audit colleagues in developing a proportionate system of internal control for payment of business grants with a view to detecting fraudulent claims.

While full implementation of the CIPFA Financial Management (FM) Code does not fall due until the 2021/22 reporting year, the Chief Financial Officer has also undertaken a preliminary assessment of the extent to which the Council's arrangements comply with its principles. This assessment, carried out with reference to the 2021/22 budget process and involving interviews with a range of key stakeholders including service directors, elected members and colleagues within partner services, has highlighted a number of improvements contributing positively to the Council's financial resilience and stability, including realignment of its reserves (including significantly increasing the size of the unallocated General Fund reserve), additional investment in preventative services and explicit recognition within the budget framework of underlying service pressures and assessments of likely savings delivery. While the unprecedented current level of uncertainty has been widely acknowledged to make planning much more difficult, the assessment also highlighted steps undertaken thus far to adopt a longer financial planning timeframe, the detail of which will be added once the likely recurring implications of the pandemic become clearer.

The Chief Internal Auditor's Annual Opinion for the year ended 31 March 2021 stated that significant improvement was required as significant and/or numerous control weaknesses were identified in the design and/effectiveness of the control environment and/or governance and risk management frameworks across the Council. This was a limited opinion, recognising that the plan had not been substantially completed due to the Covid pandemic. The Chief Internal Auditor noted that this was the Council's fourth 'red' rated opinion although progress had been made with the move from the middle towards the lower end of the category. The Chief Internal Auditor noted that whilst all 26 historic findings that were reopened in June 2018 have now been closed, an increase in the percentage of overdue IA findings as at 31 March 2021 is evident, together with a deterioration in their ageing profile. Consequently, further focus is required to ensure that the Council consistently addresses the risks associated with open IA findings by implementing agreed management actions within agreed timeframes.

ANNUAL GOVERNANCE STATEMENT

Review of Effectiveness - continued

Meeting the demands of new data protection legislation has led to significant increases in the volume of data protection work. The work necessary to deal with complex subject access requests has increased significantly reducing the number of staff working on Freedom of Information requests. This has resulted in several resource and operational challenges which have had a detrimental effect on statutory obligations and associated timescales. Remedial plans continue to be maintained to reduce risks in this area and to ensure that statutory obligations are met.

The Council's whistleblowing arrangements continue to operate with oversight from an independent external service provider with the autonomy to decide who investigates the concerns raised, the Council or the service provider. The Governance, Risk and Best Value Committee receives a quarterly update on whistleblowing and the whistleblowing policy is reviewed annually by committee. In October 2020, the Council agreed to commission an independent review of its whistleblowing culture. At the time of writing this review is in progress but has not yet been published.

Work is still outstanding on reviewing how the Council works with its ALEOs, in particular examining the shareholder agreements and Service Level Agreements in place to ensure a greater degree of consistency, alignment with key outcomes and clarity of relationship.

Following concerns raised at committee, the Council began looking into its governance arrangements regarding the Trusts where it is sole trustee. This is expected to report later in 2021.

Each directorate's assurance schedule is scrutinised by the Governance, Risk and Best Value Committee.

There are established, well exercised, resilience incident management processes and protocols in place to effectively plan for and respond to emergencies. The Council Resilience Group and Council Counter Terrorism Group are the two main groups that drive and monitor the Council Resilience Management Programme, reporting to CLT, with the flexibility to convene working groups as required, for example, for Brexit planning. In the event of an incident there is a flexible framework, including directorate and Council-wide levels, that can be stood up as required, reporting to CLT and the appropriate committee(s). The Council feeds into Scotland's resilience structures on a multi-agency basis, through the Lothian and Borders Local Resilience Partnership and East of Scotland Regional Resilience Partnership. The incident management used for Covid-19 is a good example of the effectiveness and agility of these structures.

The Council is aligning its operational risk management arrangements with the 'three lines of defence' model and good practice. A series of phased improvements over a three-year period were set out in November 2020. It was specifically highlighted that to ensure the ongoing effectiveness of the Council risk management framework, it was essential that there was sufficient capacity with the skills and experience to support the changes. These arrangements are supported by a refreshed enterprise risk management policy and risk appetite statement approved in September 2020.

Work has been ongoing to address previously identified control weaknesses in the Council's policy management framework. Renewed processes, responsibilities and definitions have been agreed by CLT and a review of the public facing policy register was undertaken. Software solutions are currently being explored that could be used to assist with the communication of policies to the Council's workforce.

ANNUAL GOVERNANCE STATEMENT

Review of Effectiveness - continued

The Council has adapted how it works on some of its key priorities enabling it to work flexibly with its partners with a view to achieving its ambitious objectives. An example of this is the Poverty Commission where the Council has worked with a newly created independent body and chair and agreed that recommendations proposed by the Commission will be used to inform future Council policies and actions to prevent, reduce, and mitigate poverty in Edinburgh. A further example is the partnership with the University of Edinburgh to appoint a climate commission. The flexible governance approach taken in these two examples has allowed the Council to be informed by external experts from across a range of sectors with the aim of achieving better outcomes, however final decision making remains with the Council and partner organisations.

Although partnership working has strengthened over the pandemic, engagement with local communities has been more challenging. The Council is though aware of the need to improve how it empowers communities and is reviewing its locality arrangements.

During the Covid-19 emergency, the Council's role in providing governance oversight and support for Community Councils has included the provision of guidance on key issues including the submission of accounts, the use of meetings software and Annual General Meeting responsibilities. A consultation was conducted on the Community Councillors' Code of Conduct Complaints Procedure and a revised version was approved by the Culture and Communities Committee in March 2021.

The status of the previous year's actions is outlined below. Where actions are incomplete, they will be rolled forward and their progress will be monitored alongside the new actions.

	Governance Issue	Mitigation Action / Proposed Action	Responsible Party	Status
1	I have internal controls and procedures in place throughout my directorate that are proportionate, robust, monitored and operate effectively	Development of Business Forums for Finance/ Property/HR to provide a risk based approach to business management	Executive Director for Communities and Families	Completed except for the Property Group which is to be established.
2	I have risk management arrangements in place to identify the key risks to my directorate (and the Council).	Roll out risk management framework across wider leadership teams and Partnership teams	Chief Officer, Edinburgh Health and Social Care Partnership (EHSCP)	Started - This work has been delayed as Partnership Services were and continue to be impacted by Covid19, however, the Partnership have now agreed their integrated risk framework and risk governance structure and are starting to develop plans to roll this across the Partnership.
3	I have robust controls in place to manage new starts, movers and leavers, including induction and mandatory training, IT systems security (access and removal) and access to buildings and service users' homes.	The creation of the Edinburgh Learns Risk Board is to involve school colleagues in the management of relevant risks. It will act as a gatekeeper in terms of what is included in risk management and will provide isomorphic learning here the Service learns from within to manage the risks jointly, efficiently and effectively.	Executive Director for Communities and Families	Managed through Headteacher Executive Lite weekly meetings

ANNUAL GOVERNANCE STATEMENT

	Governance Issue	Mitigation Action / Proposed Action	Responsible Party	Reporting Date
4	I have arrangements in place for the annual review of policies owned by my directorate, via the relevant executive committee, to ensure these comply with the Council's policy framework.	All Edinburgh Health and Social Care Partnership and Place policies on the Policy Register will be reviewed with the support of the Governance team. A review framework will be introduced to ensure that the register is updated, and relevant changes are applied accordingly.	Executive Director of Place and Chief Officer, EHSCP	Started – This work has been delayed as Partnership Services were and continue to be impacted by Covid19. The Partnership have started to develop an approach to developing their policy framework.
5	I have competencies, processes and controls in place to ensure that all service areas in my directorate, and other areas of responsibility, operate in compliance with all applicable Health & Safety laws and regulations.	Directorate to review SHE and the Essential Learning matrix and mechanism within the Service to be undertaken with Corporate Health and Safety to ensure that the portal is being used efficiently, effectively and necessary improvements are made.	Executive Director for Communities and Families	HR reviewing essential learning system Council wide
6		To ensure that the Health and Safety Team Professional Advisor roles are recruited to a sufficient level, with posts filled by individuals with appropriate competency and qualification levels during the course of the next financial year.	Executive Director of Resources	Complete
7	I have appropriate arrangements in place throughout my service area for recording, monitoring and managing customer service complaints and customer satisfaction.	Development of a carbon scenario tool with ECCI as part of the sustainability programme	Chief Executive	Complete
8	All projects and programmes have a clear business justification, as a minimum this should articulate outcomes and benefits; have appropriate governance in place to support delivery; effective controls in place to track delivery progress and to take corrective action if required; have a robust benefits management framework in place; and ensure that a formal closure process is undertaken.	There will be a development of a new Roads and Transport Infrastructure Improvement Plan. This will require the realignment of roads and transport services to implement the plan. This will ensure clear accountability for all programmes and projects.	Executive Director of Place	The Roads and Transport Infrastructure Improvement Plan was approved by Transport and Environment Committee on 1 October 2020.
9	The operation of financial controls in my directorate is effective in ensuring the valid authorisation of financial transactions and maintenance of accurate accounting records.	The Finance Service will work with the Schools and Lifelong Learning Service to review the issues with the forecasting spreadsheet used in schools. This review will address the causal effects and seek to mitigate them.	Executive Director for Communities and Families	Being addressed through Finance Group

	Governance Issue	Mitigation Action / Proposed Action	Responsible Party	Reporting Date
10	All outstanding issues or recommendations arising from this exercise, commissioned reviews, committee reports and other initiatives in previous years have been addressed satisfactorily.	A Consolidated decision tracker for ensuring the implementation of Best Value, Assurance and Annual Accounts recommendations is created.	Chief Executive	The additional resource to solve assurance capacity issues is designed to provide the consolidated monitoring, tracking and review of Best Value, Assurance and Annual Accounts
11	All outstanding issues or recommendations arising from this exercise, commissioned reviews, committee reports and other initiatives in previous years have been addressed satisfactorily.	To ensure that a framework is in place for directorates to understand the requirements of the Annual Assurance Schedule and the Corporate Governance Framework.	Chief Executive	Completed

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	Action Owner	Action Deadline
1	To review, design and implement an officer governance structure for the Council aligned to the Council Business Plan.	Head of Democracy, Governance and Resilience/Head of Strategic Change and Delivery	August 2021
2	To review and propose a revised Scheme of Delegation to take into account senior management restructures.	Head of Democracy, Governance and Resilience	October 2021
3	To create a revised planning and performance framework linked to the Business Plan	Head of Strategic Change and Delivery	June 2021
4	To report on the progress with the first year's implementation of the new Equality and Diversity Framework 2021-2025	Chief Executive	June 2022
5	Review of the governance arrangements regarding the Council's trusts	Executive Director of Corporate Services	December 2021
6	Initiate development of a cross-Council savings programme, aligned to the priorities set out within the Business Plan, to address significant estimated funding gaps in 2023/24 and 2024/25	Service Director: Finance and Procurement and Head of Strategic Change and Delivery	November 2021
7	Review of the Council's service level agreements and shareholder agreements with its ALEOs	Executive Director of Corporate Services	August 2022
8	Review of the political management arrangements of the Council	Chief Executive	August 2022

ANNUAL GOVERNANCE STATEMENT

Conclusion

In conclusion, the Council's governance and controls framework provides a satisfactory level of assurance. The Council understands its areas for improvement and there are robust arrangements to deal with issues when they do arise. Improvements are needed in certain areas to ensure that the Council's controls are implemented and embedded fully and in particular capacity issues in services has to be overcome. Covid-19 has put considerable strain on services but the Council has put in strong processes to manage these pressures. However, the Council must continue to be ambitious and committed to improving its governance to ensure that it continues to operate effectively.

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, assurance can be placed upon the adequacy and effectiveness of City of Edinburgh Council and its Group's systems of governance. The annual review demonstrates sufficient evidence that the Code is operated effectively, and the Council and its Group comply with the Local Code of Corporate Governance in all significant respects.

ANDREW KERR Chief Executive	ADAM MCVEY Council Leader	STEPHEN S. MOIR Executive Director of Corporate Services
Date	Date	Date

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 2020/21, the remuneration for the Leader of the City of Edinburgh Council was £53,567. 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 2020/21 this was £40,175. 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 £696,351. The Council is able to exercise local flexibility in the determination of the precise number of Senior Councillors and their remuneration within these maximum limits. The Council's current policy is summarised below:

	No. of Posts	% of amount payable to Leader of the Council
Depute Leader of the Council	1	75%
Depute Convener	1	50%
Conveners of Culture and Communities, Housing, Homelessness and Fair Work, Education, Children and Families, Finance and Resources, Planning, Regulatory, Transport and Environment, Licensing Board and Integration Joint Board Committees	9	62.5%
Convener of Governance, Risk and Best Value	1	50%
Vice-Conveners of Culture and Communities, Housing, Homelessness and Fair Work, Education, Children and Families, Finance and Resources, Planning, Regulatory and Transport and Environment Committees	7	50%
Opposition Group Leaders - Conservative, Green and Liberal Democrat Groups	3	50%

In addition, the Council has an arrangement with the Joint Boards to reimburse the Council for any additional costs for councillors that arise from their being a Convener or Vice Convener of the Joint Boards.

REMUNERATION REPORT

Remuneration Paid

The following tables provide details of the remuneration paid to the Council's Senior Councillors, Senior Employees and the remuneration paid to the Chief Executive (or the most senior manager of that body) of each of the Council's subsidiary bodies. Where a Councillor has held more than one post during the year, he/she is only included once within the following table. Salary, fees and allowances represents the total amount received during the year, where the individual was a Senior Councillor for part or all of the year.

Council's Leader, Civic Head and Senior Councillors	Salary, Fees and Allowances £	Taxable Expenses £	Non-Cash Expenses / Benefits--in-kind £	Total Remun. 2020/21 £	Total Remun. 2019/20 £
A. McVey, Leader of the Council	53,567	0	722	54,289	53,234
F. Ross, Lord Provost	40,175	0	117	40,292	44,063
C. Day, Deputy Leader of the Council	40,175	0	117	40,292	39,426
J. Griffiths, Depute Convener	26,785	0	116	26,901	26,424
Conveners					
D. Wilson, Convener Culture and Communities	33,480	0	116	33,596	33,293
I. Perry, Convener Education, Children and Families	33,480	0	123	33,603	33,199
A. Rankin, Convener Finance and Resources (to 25.08.20)	33,480	0	117	33,597	32,929
R. Munn, Convener Finance and Resources *(from 25.08.20)*	27,263	0	717	27,980	17,718
K. Campbell, Convener Housing, Homelessness and Fair Work	33,480	0	117	33,597	33,613
L. Macinnes, Convener Transport and Environment	33,480	0	116	33,596	32,893
J. Mowat, Convener Governance, Risk and Best Value	26,785	0	117	26,902	26,987
N. Work, Convener Licensing Board	33,480	0	131	33,611	32,294
N. Gardiner, Convener Planning	33,480	0	117	33,597	33,520
C. Fullerton, Convener Regulatory	33,480	0	116	33,596	32,880
Vice-Conveners					
A. McNeese-Mechan, Vice Convener Culture and Communities	26,785	0	187	26,971	27,145
A. Dickie, Vice Convener Education, Children and Families	26,785	0	116	26,901	26,408
M. Watt, Vice Convener Housing, Homelessness and Fair Work	26,785	0	717	27,502	26,874
K. Doran, Vice Convener Transport and Environment	26,785	0	117	26,902	26,974
R. Henderson, Vice Chair Edinburgh Integration Joint Board	33,480	0	716	34,196	33,515
M. Child, Vice Convener Planning	26,785	0	142	26,927	26,316
D. Dixon, Vice Convener Regulatory	26,785	0	117	26,902	26,085

REMUNERATION REPORT

Remuneration Paid - continued

Council's Leader, Civic Head and Senior Councillors	Salary, Fees and Allowances £	Taxable Expenses £	Non-Cash Expenses / Benefits--in-kind £	Total Remun. 2020/21 £	Total Remun. 2019/20 £
Opposition Group Leaders					
I. Whyte, Conservative Group Leader	26,785	0	692	27,477	26,121
R. Aldridge, Liberal Democrat Group Leader	26,785	0	0	26,785	25,993
M. Main, Green Group Leader (to 27.07.2020 and from 29.01.2021)	22,295	0	125	22,420	19,819
A. Staniforth, Green Group Leader (from 28.07.2020 to 28.01.2021)	22,343	0	118	22,461	21,974
Councillors					
D. Key, Convener to the Lothian Valuation Joint Board (Note 1)	22,320	0	96	22,416	21,936

Notes:

1. The amount recharged to Lothian Valuation Joint Board in 2020/21 was £4,488.40 (2019/20 £4,391.88). Expenses relate to Councillor role.
2. For Councillors whose role has covered part-year, the Salary, Fees and Allowances disclosed relates to the full year appointment, not just the current appointment.
3. 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):

	2020/21 £	2019/20 £
Salaries	1,455,259	1,422,542
Expenses		
Claimed by councillors	0	387
Paid directly by the Council	13,286	39,635
Total	1,468,544	1,462,564

Remuneration paid to Senior Officers

Council's Senior Officers	Salary, Fees and Allowances £	Compensation for Loss of Office £	Total Remun. 2020/21 £	Total Remun. 2019/20 £
A. Kerr, Chief Executive (Note 1)	179,364	0	179,364	175,740
A. Gaw, Executive Director of Communities and Families (to 13.10.20) (Note 2)	127,072	0	127,072	158,150
(full year equivalent)			*161,247*	
J. Proctor, Integration Joint Board Chief Officer (Note 3)	80,624	0	80,624	79,009
P. Lawrence, Executive Director of Place	161,247	0	161,247	158,150
J. Irvine, Chief Social Work Officer	111,266	0	111,266	109,100
S. Moir, Executive Director of Resources	161,247	0	161,247	158,150
H. Dunn, Head of Finance	117,039	0	117,039	115,230
Total	937,859	0	937,859	953,529

Notes:

1. Remuneration shown above excludes any fees payable in respect of returning officer or other election duties. The approved remuneration for A Kerr for Returning Officer Duties in 2020/21 amounted to £234.
2. A Gaw's remuneration paid for 2020/21 includes a payment in lieu of notice of £37,083.
3. J. Proctor took up the position of Chief Officer of the Integration Joint Board in May 2018. J Proctor is employed by the City of Edinburgh Council and 50% of her salary costs are recharged to the EIJB and NHS Lothian. The above figures therefore show the Council's share.

REMUNERATION REPORT

Remuneration Paid - continued
Remuneration paid to Senior Officers - continued
Council Subsidiary Companies
EICC is a subsidiary company of CEC Holdings Limited. Figures shown for this company, Edinburgh Trams Ltd. and Lothian Buses Ltd. are for the years ended 31 December 2020 and 2019 respectively.

Council's Subsidiary Companies	Salary, Fees and Allowances £	Bonus £	Other Benefits £	Compensation for Loss of Office £	Total Remun. 2020/21 £	Total Remun. 2019/20 £
M. Dallas, Chief Executive, EICC	161,380	0	0	0	161,380	183,779
R. Hunter, Chief Executive, Capital City Partnership	64,240	0	0	0	64,240	58,767
Transport for Edinburgh						
G. Lowder, Chief Executive	150,834	0	1,516	0	152,350	146,441
Lothian Buses Ltd.						
R. Hall, Managing Director (Note 1)	53,446	0	1,071	0	54,517	323,091
N. Serafini, Interim Managing Director (Note 2)	125,498	0	2,120	0	127,618	0
Edinburgh Trams Ltd.						
L. Harrison, Managing Director (Note 3)	150,523	0	16,037	0	166,560	198,920
	705,921	0	20,744	0	726,665	910,998

Notes:

1. Prior-year figure includes compensation for loss of office and contractually-due payment in lieu of six-month notice period agreed at the end of March 2020.
2. N. Serafini was appointed Interim Managing Director on 24 February 2020.
3. L. Harrison's 2019/20 Total Remuneration has been restated.
4. Edinburgh Living MMR LLP is a subsidiary of the Council however there are no employees and therefore no remuneration disclosures.

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.

	2020/21	2019/20		2020/21	2019/20
£50,000 - £54,999	426	410	£115,000 - £119,999	3	2
£55,000 - £59,999	203	218	£120,000 - £124,999	1	1
£60,000 - £64,999	146	134	£125,000 - £129,999	1	1
£65,000 - £69,999	92	70	£130,000 - £134,999	1	1
£70,000 - £74,999	22	16	£135,000 - £139,999	1	0
£75,000 - £79,999	20	34	£140,000 - £144,999	0	0
£80,000 - £84,999	23	20	£145,000 - £149,999	0	0
£85,000 - £89,999	21	17	£150,000 - £154,999	0	0
£90,000 - £94,999	2	2	£155,000 - £159,999	0	4
£95,000 - £99,999	1	2	£160,000 - £164,999	3	1
£100,000 - £104,999	3	2	£165,000 - £169,999	0	0
£105,000 - £109,999	2	11	£170,000 - £174,999	0	0
£110,000 - £114,999	9	1	£175,000 - £179,999	1	1
			Total No. of Employees	**981**	**948**

Notes:

1. The 2019/20 remuneration includes the back dated pay awards for 2018/19 (3.5% for local government employees and 3% for teachers) which were paid in April/May 2019 and the subsequent pay increases for the 2019/20 tax year (3% for local government employees and 7% for teachers).

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	
	2020/21	2019/20	2020/21	2019/20	2020/21	2019/20	2020/21 £000	2019/20 £000
£0 - £20,000								
- Council	0	0	7	30	7	30	60	245
- Group companies	31	0	7	1	38	1	210	6
£20,001 - £40,000								
- Council	0	0	12	28	12	28	366	788
- Group companies	0	1	8	2	8	3	229	88
£40,001 - £60,000								
- Council	0	0	4	13	4	13	223	675
- Group companies	0	0	2	1	2	1	98	50
£60,001 - £80,000								
- Council	0	0	5	5	5	5	350	344
- Group companies	0	0	1	0	1	0	66	0
£80,001 - £100,000								
- Council	0	0	4	3	4	3	360	276
- Group companies	0	0	0	0	0	0	0	0
£100,001 - £150,000								
- Council	0	0	1	3	1	3	123	358
- Group companies	0	0	0	0	0	0	0	0
£150,001 - £200,000								
- Council	0	0	4	1	4	1	702	151
- Group companies	0	0	0	1	0	1	0	157
£200,001 - £250,000								
- Council	0	0	2	2	2	2	466	458
- Group companies	0	0	0	0	0	0	0	0
	31	1	57	90	88	91	3,253	3,596

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 2020/21 were as follows:

Whole Time Pay	**Contribution rate**
On earnings up to and including £22,200 (2019/20 £21,800)	5.50%
On earnings above £22,201 and up to £27,100 (2019/20 £21,801 to £26,700)	7.25%
On earnings above £27,101 and up to £37,200 (2019/20 £26,701 to £36,600)	8.50%
On earnings above £37,201 and up to £49,600 (2019/20 £36,601 to £48,800)	9.50%
On earnings above £49,601 (2019/20 £48,801)	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 2020/21, the equivalent of 7.2 FTE (across 19 individuals) of paid facility time was made available, with an associated cost of £0.22m. This sum equates to 0.05% of the Council's overall paybill.

Of the total time made available, four individuals spent 100% of time during the year on trade union-related activities, one between 51% and 99%, and the remaining fourteen between 1% and 50%.

REMUNERATION REPORT

Pension Rights - continued
Council's Leader, Civic Head and Senior Councillors
The pension entitlements of senior councillors for the year to 31 March 2021 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 31.03.2021	For year to 31.03.2020		As at 31.03.2021	Difference from 31.03.2020
Council's Leader and Civic Head	£	£		£000	£000
A. McVey, Leader of the Council	12,213	11,688	Pension	7	1
			Lump Sum	0	0
F. Ross, Lord Provost	9,160	8,766	Pension	7	1
			Lump Sum	0	0
C. Day, Deputy Leader of the Council	9,160	8,766	Pension	3	1
			Lump Sum	0	0
J. Griffiths, Depute Convener	6,107	5,844	Pension	4	1
			Lump Sum	0	0
Conveners					
D. Wilson, Convener Culture and Communities	7,633	7,305	Pension	8	0
			Lump Sum	2	0
I. Perry, Convener Education, Children and Families	7,633	7,305	Pension	8	1
			Lump Sum	2	0
A. Rankin, Convener Finance and Resources (to 25.08.20)	7,633	7,305	Pension	6	1
			Lump Sum	0	0
R. Munn, Convener Finance and Resources (from 25.08.20)	6,216	3,247	Pension	1	1
			Lump Sum	0	0
K. Campbell, Convener Housing, Homelessness and Fair Work	7,633	7,305	Pension	2	0
			Lump Sum	0	0
L. Macinnes, Convener Transport and Environment	7,633	7,305	Pension	3	1
			Lump Sum	0	0
J. Mowat, Convener Governance, Risk and Best Value	6,107	5,844	Pension	4	0
			Lump Sum	0	0
N. Work, Convener Licensing Board	7,633	7,162	Pension	7	1
			Lump Sum	2	0
N. Gardiner, Convener Planning	7,633	7,305	Pension	2	0
			Lump Sum	0	0
Vice-Conveners					
A. McNeese-Mechan, Vice Convener Culture and Communities	6,107	5,844	Pension	2	1
			Lump Sum	0	0
A. Dickie, Vice Convener Education, Children and Families	6,107	5,844	Pension	2	0
			Lump Sum	0	0
M. Watt, Vice Convener Housing, Homelessness and Fair Work	6,107	5,819	Pension	2	0
			Lump Sum	0	0
K. Doran, Vice Convener Transport and Environment	6,107	5,844	Pension	4	1
			Lump Sum	0	0
R. Henderson, Vice Chair Edinburgh Integration Joint Board	7,633	7,305	Pension	8	1
			Lump Sum	2	0
M. Child, Vice Convener Planning	6,107	5,844	Pension	11	0
			Lump Sum	17	0
D. Dixon, Vice Convener Regulatory	6,107	5,796	Pension	4	1
			Lump Sum	0	0

REMUNERATION REPORT

Pension Rights - continued
Council's Leader, Civic Head and Senior Councillors

	In-year pension contribs.		Accrued Pension Benefits		
	For year to 31.03.2021 £	For year to 31.03.2020 £		As at 31.03.2021 £000	Difference from 31.03.2020 £000
Opposition Group Leaders					
I. Whyte, Conservative Group Leader	6,107	5,796	Pension	7	1
			Lump Sum	2	0
R. Aldridge, Liberal Democrat Group Leader	6,107	5,796	Pension	6	1
			Lump Sum	2	0
M. Main, Green Group Leader (to 27.07.2020 and from 29.01.2021)	5,192	4,399	Pension	3	0
			Lump Sum	0	0
A. Staniforth, Green Group Leader (from 28.07.2020 to 28.01.2021)	5,094	5,373	Pension	2	1
			Lump Sum	0	0
Councillors					
D. Key *(including role as Convener of Lothian Valuation Joint Board)*	5,089	4,870	Pension	4	1
			Lump Sum	0	0

All senior councillors shown in the above table are members of the Local Government Pension Scheme. Not all senior councillors are members of the Local Government Pension Scheme. The pension figures shown relate to the benefits that the person has accrued as a consequence of their total local government service, including any service with a Council subsidiary body, and not just their current position.

Senior Employees
The pension entitlements of senior employees for the year to 31 March 2021 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 31.03.2021 £	For year to 31.03.2020 £		As at 31.03.2021 £000	Difference from 31.03.2020 £000
A. Kerr, Chief Executive	n/a	n/a	Pension	9	0
			Lump Sum	0	0
A. Gaw, Executive Director of Communities and Families *(to 13.10.20)*	19,667	35,267	Pension	80	2
			Lump Sum	150	2
J. Proctor, Integration Joint Board Chief Officer *(Note 1)*	36,764	35,238	Pension	6	6
			Lump Sum	0	0
P. Lawrence, Executive Director of Place	36,764	35,267	Pension	32	3
			Lump Sum	0	0
J. Irvine, Chief Social Work Officer	25,369	24,329	Pension	36	3
			Lump Sum	38	1
S. Moir, Executive Director of Resources	9,191	35,267	Pension	10	1
			Lump Sum	0	0
H. Dunn, Head of Finance	26,685	25,696	Pension	83	4
			Lump Sum	151	0
Total	154,440	191,064			

Notes:
1. J Proctor is employed by the City of Edinburgh Council and 50% of her salary costs are recharged to the EIJB and NHS Lothian. The above Pension figures show the full contributions but only 50% of these are relevant to the City of Edinburgh Council

REMUNERATION REPORT

Pension Rights - continued
Senior Employees - continued

Notes:
The pension figures shown for senior employees 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 2021, or the date of leaving, if that is earlier. Employees contribute towards their pensions in accordance with the rates set out on page 137.

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 2021 are shown below, together with the contribution made to each senior employee's pension during the year.

	In-year pension contribs.		Accrued Pension Benefits		
	For year to 31.03.2021 £	For year to 31.03.2020 £		As at 31.03.2021 £000	Difference from 31.03.2020 £000
M. Dallas, Chief Executive, EICC	5,693	9,617	Pension	n/a	n/a
			Lump Sum	n/a	n/a
Lothian Buses Ltd.					
R. Hall, Managing Director	4,397	17,462	Pension	n/a	n/a
			Lump Sum	n/a	n/a
N. Serafini, Interim Managing Director	35,161	0	Pension	n/a	n/a
			Lump Sum	n/a	n/a
Edinburgh Trams Ltd.					
L. Harrison, Managing Director	19,971	13,203	Pension	n/a	n/a
			Lump Sum	n/a	n/a
Capital City Partnership					
R. Hunter, Chief Executive	14,904	12,929	Pension	16	2
			Lump Sum	13	2
Total	80,126	53,211			

EICC is a subsidiary company of CEC Holdings Limited. Figures shown for this company, Edinburgh Trams Ltd. and Lothian Buses Ltd. are for the years ended 31 December 2020 and 2019 respectively.

R. Hunter and N Serafini are the only current 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 a consequence of their total relevant service and not just their current appointment.

There are no accrued pension benefits included in the table above if the employee has been a member of the pension scheme for less than 2 years.

The in-year pension contributions include pension strain costs where applicable.

ANDREW KERR
Chief Executive

ADAM MCVEY
Council Leader

INDEPENDENT AUDITOR'S REPORT

Independent auditor's report to the members of City of Edinburgh Council and the Accounts Commission

Reporting 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 2021 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 Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Council Tax Income Account, the Non-domestic Rates Income Account, the 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 2020/21 (the 2020/21 Code).

In our opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2020/21 Code of the state of affairs of the council and its group as at 31 March 2021 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 2020/21 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 5 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 concluded that the use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the council's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from when the financial statements are authorised for issue.

Risks of material misstatement

We report in a separate Annual Audit Report, available from the Audit Scotland website, the most significant assessed risks of material misstatement that we identified and our judgements thereon.

Responsibilities of the Service Director: Finance and Procurement and council for the financial statements

As explained more fully in the Statement of Responsibilities, the Service Director: Finance and Procurement 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 Service Director: Finance and Procurement determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

INDEPENDENT AUDITOR'S REPORT

In preparing the financial statements, the Service Director: Finance and Procurement 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 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities outlined above to detect material misstatements in respect of irregularities, including fraud. Procedures include:

- obtaining an understanding of the applicable legal and regulatory framework and how the council is complying with that framework;
- identifying which laws and regulations are significant in the context of the council;
- assessing the susceptibility of the financial statements to material misstatement, including how fraud might occur; and
- considering whether the audit team collectively has the appropriate competence and capabilities to identify or recognise non-compliance with laws and regulations.

The extent to which our procedures are capable of detecting irregularities, including fraud, is affected by the inherent difficulty in detecting irregularities, the effectiveness of the council's controls, and the nature, timing and extent of the audit procedures performed.

Irregularities that result from fraud are inherently more difficult to detect than irregularities that result 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.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Reporting on other requirements

Opinion prescribed by the Accounts Commission on the audited part of the Remuneration Report

We have audited the part of the Remuneration Report described as audited. In our opinion, the audited part of the Remuneration Report has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014.

Statutory other information

The Service Director: Finance and Procurement is responsible for the statutory other information in the annual accounts. The statutory other information comprises the Management Commentary, Annual Governance Statement, Statement of Responsibilities and the unaudited part of the Remuneration Report.

INDEPENDENT AUDITOR'S REPORT

Our responsibility is to read all the statutory other information and, in doing so, consider whether the statutory 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 this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this statutory other information, we are required to report that fact. We have nothing to report in this regard.

Our opinion on the financial statements does not cover the statutory other information and we do not express any form of assurance conclusion thereon except on the Management Commentary and Annual Governance Statement to the extent explicitly stated in the following opinions prescribed by the Accounts Commission.

Opinions prescribed by the Accounts Commission on Management Commentary and Annual Governance Statement

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).

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.

We have nothing to report in respect of these matters.

Conclusions on wider scope responsibilities

In addition to our responsibilities for the annual accounts, our conclusions on the wider scope responsibilities specified in the Code of Audit Practice, including those in respect of Best Value, are set out in our Annual Audit Report.

Use of our report

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 120 of the Code of Audit Practice, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Nick Bennett (for and on behalf of Azets Audit Services)
Exchange Place 3
Semple Street
Edinburgh
EH3 8BL

Date

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Governance, Risk and Best Value Committee

10.00am, Tuesday 9 November 2021

Review of the Effectiveness of Scrutiny of Governance, Risk and Best Value Committee - implementation of findings

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

1. Recommendations

The Committee is recommended to:

1.1 Note the progress made to date to respond to the recommendations of the audit on the Review of the Effectiveness of Scrutiny of the Governance, Risk and Best Value Committee.

Stephen S. Moir
Executive Director Corporate Services

Contact: Hayley Barnett, Corporate Governance Manager
Legal and Assurance Division, Corporate Services Directorate
E-mail: Hayley.barnett@edinburgh.gov.uk | Tel: 0131 523 3996

EDINBVRGH
THE CITY OF EDINBURGH COUNCIL

Report

Review of the Effectiveness of Scrutiny of Governance, Risk and Best Value Committee - implementation of findings

2. Executive Summary

2.1 This report provides an update on the progress made to respond to the recommendations of the audit on the Review of the Effectiveness of Scrutiny of Governance, Risk and Best Value Committee.

3. Background

3.1 The Review of the Effectiveness of Scrutiny of Governance, Risk and Best Value Committee was prepared by the Chartered Institute of Internal Auditors and considered by the Governance, Risk and Best Value (GRBV) committee on 10 August 2021.

4. Main report

4.1 The GRBV Committee Effectiveness Review concluded that the GRBV Committee is fulfilling its core remit, particularly in relation to oversight of the internal and external audit processes, risk management and the operational performance of the Council. The Review further concluded that there is an opportunity to enhance the effectiveness of the scrutiny the Committee performs and the impact it can achieve.

4.2 The Review set out a number of recommendations for consideration when the Council reviews its political management arrangements following the 2022 local government elections, as well as a number of standalone recommendations to enhance the effectiveness of the committee.

4.3 Recommendations were separated into five key areas noted below:

4.3.1 GRBV Remit and Responsibilities;

4.3.2 Skills and Resources available to the GRBV;

4.3.3 Effective Execution of the GRBV's Responsibilities;

4.3.4 The Operation of the GRBV's meetings and activities; and

4.3.5 Other Operational Matters

4.4 The Review also noted positive findings relating to the culture of GRBV and the conduct of the GRBV Committee's business and activities.

4.5 Following a workshop held with GRBV members on 23 June 2021, management responses were developed and are detailed in Appendix 1. A further workshop was held with GRBV members on 6 September 2021 to examine key priority areas and discuss and agree next steps.

4.6 As noted above, many of the recommendations will be considered as part of a wider programme of work in preparation for the 2022 election. A number of other recommendations are being progressed and updates have been set out in Appendix 1.

5. Next Steps

5.1 Officers, in consultation with the GRBV Convener, will continue to progress the actions detailed in Appendix 1 and the Committee will be kept informed of progress.

6. Financial impact

6.1 There is no direct financial impact resulting from the Review of the Effectiveness of Scrutiny of Governance, Risk and Best Value Committee. All improvement actions will be individually costed as appropriate and will be required to be managed through existing revenue budget allocations.

7. Stakeholder/Community Impact

7.1 A series of workshops have already taken place with GRBV Committee members and consultation and engagement will continue as the Council response to the recommendations set out in the Review.

8. Background reading/external references

8.1 Internal Audit Annual Opinion for the year ended 31 March 2021 – Governance, Risk and Best Value Committee, 10 August 2021

9. Appendices

9.1 Appendix 1 – Review of the Effectiveness of Scrutiny of Governance, Risk and Best Value Committee - Status Update Table

Appendix 1

Review of the Effectiveness of Scrutiny of Governance, Risk and Best Value Committee - implementation of findings

GRBV Remit and Responsibilities			
	Recommendation	**Management Action**	**Progress Update**
1	When the Council's committee structure is designed in 2022, following the election, consideration could be given to: • Re-instating the role of Vice Convenor on GRBV with this position allocated to another (non administration) political party. • Independent experts joining GRBV as non-voting members (see section 3.21 below on skills). • A cabinet structure with each Executive Committee having a scrutiny oversight Committee. • The inclusion of an Audit and Risk Committee within the Committee's structure. • Independent experts being included in the membership of such a committee would help ensure the quality of scrutiny over key areas such as the annual accounts.	1.1 The Council usually reviews its political management arrangements in the weeks and months after an election. Consideration will be given at that time to a range of models, including a cabinet model. This review will consider how the GRBV committee is constituted and its remit for governance across the Council. The use of a vice convener and the introduction of independent members for the audit and scrutiny committee will also be considered at that time. Ultimately, it must be recognised that the Council will determine which committee structure is implemented, regardless of officer recommendations. When determining the potential future structure of the committee, it is important to remember that GRBV is a Council committee and that elected members have overall responsibility for scrutiny. **16th December 2022**	As noted above, a workshop was held on 6 September 2021. Members discussed the challenges of recruitment, training and the potential benefits and drawbacks of independent members joining the committee and the option to have 'expert advisers' to call on when required. It was noted that GRBV members can already request specific 'expert advice' from officer(s) as required. Overall, members agreed that the option of independent members joining the committee was not a recommendation that should be progressed at this stage. Further consideration will be given to this post-election 2022 when the overall model of scrutiny will be considered by Council.

		1.2 In the interim, officers in consultation with relevant conveners will prepare a briefing note for all councillors setting out the Council's current scrutiny process. **17th December 2021**	Members were supportive of this action. This briefing note is currently being developed and will be circulated before the agreed action date.
2	Annually GRBV should set a series of objectives and goals for its scrutiny activities during the financial year (which are then evaluated at year end – see (3) below)	2.1 It is proposed to hold a workshop with committee members and key officers to determine GRBV's goals and objectives at the beginning of the new Council. This review will also consider whether a strategic focus for the Committee could potentially result in an increased perception of politicisation of the committee. The effectiveness of the process will be reviewed at the end of the year to confirm whether this or an adapted model should continue for future years. **16th December 2023**	As noted above, a workshop was held on 6 September 2021. Members were supportive of holding an annual planning session/workshop to develop a GRBV annual plan. This would include an opportunity to reflect on the previous year's plan.
		2.2 In the interim officers and committee members will prepare a lessons learned paper that captures the lessons learned relating to GRBV from this iteration of the Council. **27th May 2022**	As noted above, a workshop was held on 6 September 2021. Members were supportive of this action. This would form part of a wider exercise to capture lessons learnt from all Executive Committees and GRBV to inform the political management arrangements post-election. Officers have developed an evaluation approach that will

			address this recommendation and can be used as part of the wider committee effectiveness later in early 2022. This approach has been shared with the GRBV Convener and a workshop is planned for 12 October. Following this session, an evaluation/lessons learnt paper will be drafted and presented to GRBV for approval.
The Skills and Resources available to GRBV Committee			
3	An annual skills assessment should be undertaken by GRBV. The results should be provided to the political groups to inform appointment of members.	It is proposed that we work with elected members in the new Council to identify skills and experience. This can then be provided to political groups to aid all appointments to committees and ALEOs. This skills audit can then be regularly updated. A self-assessment exercise will be carried out in early 2022 with the executive committees and GRBV which will inform the skills needed for each committee. **30th September 2022**	This recommendation will be progressed post-election. As noted above, a workshop was held on 6 September 2021. It was noted that there is an opportunity to identify and use the skills and experience held by members. This will be fed into the skills audit exercise.
4	When the Council's Committee structure is reviewed post the 2022 elections, following the elections, consideration could be given to the GRBV terms of reference: • Allowing for the appointment of independent non-voting members with requisite skills. • Allowing the Committee to appoint independent expertise to advise on specific matters	The Council usually reviews its political management arrangements in the weeks and months after an election. Consideration will include an option to appoint independent non-voting members to GRBV or its successor. This process will involve considering how the appointment of independent	See comments under 1.1

		non-voting members and / or independent expertise could work in practice, and also, any associated financial implications. **16th December 2022**	
5	The Governance team are currently reviewing members' training arrangements. For the 2022 appointments, consideration should be given to: • The phasing of training over a longer period to allow an understanding of individual's roles to firstly develop. • Mandatory training requirements for GRBV members. • Refresher and specialist topic training being provided during the term of appointment. • Specific training for the GRBV Convenor in respective of the technical aspects of their role e.g. attending external training on the role of an Audit and Risk Committee Chair.	5.1 Consideration will be given to all of the recommendations as part of the review of elected member training. The phasing of training is a perennial issue and a balance between getting elected members ready quickly for their duties and that being phased to allow for greater understanding is a key consideration. Specific training for the Convener can be brought in and some refresher and specialist training is carried out over the term, but a more robust programme will be explored. 28th October 2022 5.2 In the interim, training will be arranged prior to the presentation of the Internal Audit annual opinion and the audited financial statements. **29th October 2021**	The work to prepare the training offer for elected members after the election has already commenced and consideration will be given to the bulleted points. As noted above, a workshop was held on 6 September 2021. Members made comments relating to the training offer that have been noted below. Members supported the need for training for GRBV members but there were mixed views on the extent of the training and if it should be mandatory. Comments included: • Initial training plus refresher (after a committee meeting) • A similar approach to the training received by members of the EIJB

			• Need for more online and virtual training • Consideration could be given to spreading training across members e.g. 1-2 members could undertake additional training to become committee 'experts' Members preferred that additional training sessions were held as stand alone sessions rather than before/after a committee meeting. Members noted that doing training, then having a period of actual use, followed by further training and feedback may be beneficial as the second session is then done with the benefit of actual experience.
6	A formal deputising process with set requirements (e.g. completion of mandatory training, understanding of the annual agenda and the goals and objectives for the year) should be established.	This was put into place in the previous Council term but was never sustained. All members would be invited to attend the required training, but it is not proposed that a firm approach is taken to substitute members having attended the required training **Risk Accepted**	This risk has been accepted. Mandatory training and/or a restriction on subs can be challenging for smaller political groups.

7	GRBV should undertake an annual effectiveness review against its objectives and goals for the year. This should inform an annual report of its activities highlighting key observations (including positive achievements) and recommendations for the Council.	This will be incorporated into the self-assessment review of committees in 2022 and then will be part of the committee's annual workplan after the Local Government Elections in 2022. **29th September 2023**	See comments under 2.2. This recommendation will be further progressed in due course.
The Operation of the GRBV Committee's meetings and activities			
8	The GRBV Convenor should agree a protocol with the Executive Committee Convenors for the referral of items from GRBV. This protocol should set out the information which is required to ensure that the referral process works effectively e.g. the specific matters within the report which require attention, the actions recommended to the Executive Committee by GRBV, in relation to the referral.	A protocol for referred items will be drafted following discussions with relevant conveners. This will include provision of covering notes with referral reports that indicate what specific action is required by executive committees and details of any subsequent updates required by GRBV and take account of any additional resource impacts on the Internal Audit team. **17th December 2021**	Officers are currently drafting a protocol for consideration by the GRBV and Executive Committee Conveners.
9	The referral process should be reviewed to ensure only up to date information is referred in relation to internal audit actions and findings. This could involve: • Red audit findings being immediately referred to the Executive Committees by Internal Audit prior to tabling at GRBV (it is accepted that IA would not have resource to attend all meetings). • Directorates preparing their own updates on the status of internal audit actions for the Executive Committees. The Council wide view would then be presented by Internal Audit at GRBV.	A protocol for referred items will be drafted following discussions with relevant conveners. **17th December 2021**	Officers are currently drafting a protocol for consideration by the GRBV and Executive Committee Conveners.
Other operational matters			

10	GRBV could provide further direction to Council Officers in regard to the level of detail the Committee would like included with the papers.	Reporting to committees will be part of the review of political management arrangements and councillors will be able to feed into that process. **16th December 2022**	This recommendation will be progressed as part of the wider political management arrangements review.
11	Consideration could be given to assigning timings to each agenda item.	This has been tried before and has not been successful due to it not being enforceable. It is not recommended that this is pursued. **Risk Accepted**	Risk accepted.

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Governance, Risk, and Best Value Committee

10.00am, Tuesday, 9 November 2021

Capacity to deliver the 2021/22 Internal Audit plan

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

1. Recommendations

1.1 It is recommended that Committee:

1.1.1 notes the challenges detailed in this paper that are currently impacting delivery of the 2021/22 Internal Audit (IA) annual plan and opinion;

1.1.2 approves option 3 detailed in this paper to support completion of the minimum number of audits required to support the IA annual opinion; and,

1.1.3 notes that further action is required to ensure that directorates have the capacity to support future delivery of audit assurance on a scale that is proportionate to the size of the Council in comparison to other Scottish Local Authorities.

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Chief Internal Auditor

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EDINBVRGH
THE CITY OF EDINBURGH COUNCIL

Report

Capacity to deliver the 2021/22 Internal Audit plan

2. Executive Summary

2.1 The purpose of this paper is to highlight a significant challenge with delivery of the 2021/22 IA annual plan and opinion following requests from directorates to either defer audits for completion into the 20212/23 plan year, or delay a number of audits for completion until the last quarter of the year.

2.2 It is the Chief Internal Auditor's opinion that in order to deliver the annual opinion for 2021/22, to provide appropriate coverage of key risk areas and comply with the Public Sector Internal Audit Standards, a minimum of 32 audits require to be delivered across the Council and the Lothian Pension Fund (LPF).

2.3 A review of IA capacity from 1 November 2021 to 31 March 2022 has confirmed that this will not currently be sufficient to support delivery of these 32 audits as a number of ongoing audits are already significantly delayed, and IA capacity has also been impacted by the secondment of two team members into directorates to support actions to improve the management of open and overdue management actions.

2.4 Three potential options have been considered to support delivery of the minimum number of audits required to be able to deliver the annual opinion. These assess IA's capacity to deliver the plan with no backfill resources for seconded team members (option 1); co-source backfill for the two team members currently on secondment from mid-November 2021 to 31 March 2022 (option 2); and the actual backfill resourcing required to support delivery of the annual plan and opinion (option 3).

2.5 It is the Chief Internal Auditor's opinion that the only feasible solution to support delivery of the annual plan and annual opinion is option 3, as options 1 and 2 do not provide sufficient assurance outcomes to support delivery of the annual opinion.

2.6 Option 3 will require a total of five additional backfill resources, with two from mid-November to 31 March, and three from January to March 2022. This option should support delivery of the majority of the plan by 31 March 2022, with circa two audits completed in the first quarter of the new plan year prior to presenting the annual opinion to Committee in August 2022.

2.7 Option 3 would also involve deferring a total of 12 audits into the 2022/23 annual plan, and details of the audits proposed for deferral are included at Appendix 6.

2.8 Option 3 has not yet been fully costed but is estimated to be in the order of £350k.

2.9 If option 3 is agreed, effective delivery will also be heavily dependent on services ensuring that they can support the IA team with delivery of the audits within agreed timeframes.

2.10 Whilst it is acknowledged that the Council continues to operate in an ongoing operational resilience environment, challenges with delivery of the IA annual plan are not new, and action is required to ensure that the Council delivers an appropriate level of IA assurance coverage for its size, and that services have sufficient capacity to support both delivery of the annual plan and ongoing resolution of agreed management actions to address findings raised by both IA and other assurance providers.

2.11 It is acknowledged that the Council is in the process of implementing a new governance and assurance model that should support future delivery of ongoing IA assurance.

3. Background

Public Sector Internal Audit Standards Annual Plan Requirements

3.1 The Public Sector Internal Audit Standards (PSIAS) require Internal Audit to deliver an annual plan of work that is scoped using a risk-based assessment of Council activities. Additional reviews are added to the plan where considered necessary, to address any emerging risks and issues identified during the year.

2021/22 IA Annual Plan

3.2 On 23 March 2021, the Committee approved the 2021/22 IA annual plan that would deliver a total of 46 audits (36 across the Council and 10 for ALEOs), and also included time for ongoing IA follow-up assurance.

3.3 Changes made to the annual plan since approval (including a reduction in the number of audits to be delivered for Lothian Pension Fund (LPF), and carrying forward audits from the 2020/21 annual plan) increased the total number of audits to be delivered to 53, with 12 to be delivered for ALEOs (including four for LPF) and 41 across the Council.

3.4 Consequently, the 2021/22 IA annual opinion would be based on a total of 45 audits, with 41 across the Council and four for LPF.

3.5 Of the 53 audits to be completed, 13 will be delivered by the IA co-source provider (12) and NHS Lothian (1), with the remaining 40 audits delivered by the Council's IA team.

3.6 A full reconciliation of the movements in the IA annual plan is included at Appendix 1.

Previous IA Annual Opinions

3.7 The 2020/21 IA annual opinion for the Council was a limited opinion based on the outcomes of 32 audits (30 across the Council and two for LPF). This represented completion of 80% of the IA annual plan.

3.8 Similarly, the Council's 2019/20 IA annual opinion was a limited opinion based on the outcomes of 34 completed audits (31 across the Council and three for LPF). This represented completion of 72% of the IA annual plan.

3.9 In 2018/19 the annual opinion was based on a total of 37 audits (34 across the Council and 3 for LPF).

Scottish Local Authority Benchmarking Exercises

3.10 In September 2021, IA completed a benchmarking exercise that compared audit coverage across the 23 Scottish Local Authorities who published their IA annual plans for 2020/21 and 2021/22. This assessed the number of audit days included in IA annual plans in comparison to the size of the organisation for both years, using the following measures of scale:

3.10.1 gross income;

3.10.2 gross expenditure;

3.10.3 council tax and non-domestic rates income; and,

3.10.4 net assets

3.11 A similar exercise was also completed in September 2019 to benchmark IA coverage across local authorities in 2018/19. This assessed audit coverage in comparison to gross income, and confirmed that of the 28 authorities included in the benchmarking exercise, the City of Edinburgh Council was towards the lower end of the table, as only five authorities had a lower ratio of audit days in comparison to gross income.

2021/22 IA Annual Plan Delivery

3.12 In October 2021 IA was scheduled to commence seven audits. Following initial engagement with management, requests were received to either remove the audits from the plan, or delay completion until quarter four of the annual plan year.

3.13 As a number of audits were already scheduled for completion in quarter four, and delays have been experienced with audits currently in progress, this presented a significant risk to plan delivery.

3.14 Directorates were then provided with details of the remaining audits to be completed, and asked to confirm whether these could be supported by services to ensure delivery of the IA annual opinion.

3.15 Detailed responses have been received from all Directorates with the Health and Social Care Partnership still due to fully respond.

4. Main report

Minimum Requirements for a Limited IA Annual Opinion

4.1 It is the Chief Internal Auditor's view that in order to deliver the annual opinion for 2021/22, a minimum of 32 audits should be completed comprising 28 across the Council, and four for LPF to ensure that coverage remains broadly aligned with prior years.

Benchmarking Outcomes

4.2 The 2018/19 benchmarking exercise highlighted that audit coverage per £m of gross revenue for the City of Edinburgh Council was 23rd of the 28 Scottish local authorities reviewed.

4.3 The outcomes for Edinburgh in the 2020/21 and 2021/22 comparisons with the 23 authorities assessed are detailed below, and vary slightly depending on the relevant measures of organisational scale considered:

4.3.1 22 or 23 for 2020/21;

4.3.2 20; 21; or 23 for 2021/22.

4.4 This outcomes are aligned with the outcomes of the 2018/19 benchmarking exercise.

4.5 The City of Edinburgh Council would require to increase audit coverage across directorates to somewhere between 2 - 2.5 days per £1m of Council revenue to ensure alignment of audit coverage with the local authorities noted below:

4.5.1 Glasgow (circa £1,300m revenue) - 2.11 days and ranked19th in 2018/19; 2.7 days and 15th in 2020/21; 3.2 days and 12th in 2021/22;

4.5.2 North Lanarkshire (circa £536m revenue) – 1.78 days and ranked 22nd in 2018/19; 2.4 days and 17th in 2020/21; 2.4 days and 18th in 2021/22;

4.5.3 Dundee (£408m income) - 2.42 days and ranked 15th in 2018/19; 2.1 days and 20th in 2020/21; 2.2 days and 19th in 2021/22.

4.5.4 Renfrewshire (circa £307m revenue) - 3.36 days and ranked 5th in 2018/19; 2.9 days and 13th in 2020/21; 2.8 days and 14th in 2021/22.

4.6 Further detail on the outcomes of the benchmarking exercises are included at Appendices 2 – 4.

4.7 Based on the Council's gross annual income of circa £960m, audit coverage of 2.2 days per £1m income would align Edinburgh with current levels of audit coverage in Dundee (circa 19th or 20th in Scottish Local Authority audit coverage benchmark outcomes). This equates to circa 2,100 audit days, which is the equivalent of circa 64 audits.

4.8 Based on IA's current service provision model, 6 of these 64 audits would be provided across Arms' Length External Organisations, with a balance of circa 58 delivered across both the Council and LPF to support the IA annual opinion.

4.9 It is important to note that no comparison of quality of audit can be made in this regard. It is also important to note that what each Chief Internal Auditor considers is required to deliver their annual opinion will differ from authority to authority.

Current IA Capacity

4.10 The IA team currently has capacity to support delivery of circa 1,700 audit days (the equivalent of circa 46 audits plus ongoing follow-up activity), and the option to use co-source resources to increase coverage of specialist areas within currently approved budgets.

Directorate and Service Capacity to Support IA Plan Delivery

4.11 Regardless of IA capacity, it is currently evident that directorates do not currently have sufficient capacity to support both delivery of the IA annual plan and effective ongoing implementation of agreed management actions to address the risks associated with IA findings raised.

4.12 This is supported by the number of audits completed to support the IA annual opinion in previous years:

4.12.1 2017/18 – 32 audits;

4.12.2 2018/19 – 37 audits;

4.12.3 2019/20 – 34 audits; and,

4.12.4 2020/21 – 32 audits.

4.13 Since 2016/17, no IA annual plan has been fully completed, with delivery of the audits noted above usually continuing into the first quarter of the next annual plan year, and a number of audits carried forward into subsequent years.

4.14 It is acknowledged that in 2019/20 and 2020/21 delayed delivery of the annual plan was mainly attributable to the impacts of Covid-19, and that the Council currently continues to deliver services in an operational resilience environment.

4.15 It is also recognised that aspects of delayed delivery of the IA annual plan is attributable to the ongoing effectiveness of the IA team. For example, re-procurement of the IA co-source contract resulted in delayed commencement of the specialist audits included in the 2021/22 IA annual plan.

4.16 Ongoing delivery progress of the IA team is closely monitored, and the effectiveness of this process will likely be considered by the Institute of Internal Auditors as part of their quinquennial IA external quality assessment to be completed by 31 March 2022 in line with PSIAS requirements.

Ongoing Challenges Impacting the Council's Ability to Support IA Annual Plan Delivery

4.17 Capacity to support delivery of audits included in the annual plan and effective implementation of agreed management actions is not included in relevant service delivery plans. Instead, support for audit activity has to be provided in addition to ongoing service delivery responsibilities. This is further exacerbated by the ongoing

resilience environment and the impacts on services which may worsen over the Winter months.

4.18 Consequently, directorates have had limited capacity to meet with the IA team during the course of the audit, and to source and provide evidence in sufficient time to support completion of IA testing.

4.19 This typically results in challenges on the scope and depth of audits to be completed (light touch reviews are often requested); delayed receipt of evidence to support IA testing; and evidence often being presented once draft IA reports have been prepared, resulting in significant rework for IA and senior management, and delayed completion of final IA reports.

4.20 IA is also consistently requested to delay delivery of audits until the last quarter of the plan year which results in a significant volume of IA reports being presented to the Committee for scrutiny either before or with the IA annual opinion, and significant pressure on the IA team in the last quarter of the year.

Current Challenges Associated with Delivery of the 2021/22 IA Annual Plan

4.21 Requests have been received for the delayed completion of seven audits into quarter four of the current plan year.

4.22 Completion of a number of audits in progress has also been significantly delayed as a result of services being unable to provide evidence and management responses within agreed timeframes, although the impacts of Covid are also recognised here.

4.23 IA has seconded two team members into directorates to support their ongoing follow-up activity with effect from mid-October, with co-source resources to backfill these roles available from mid-November.

4.24 Delivery of audits across quarters three and four are usually significantly impacted by the timing of annual leave (within services and the IA team) across Christmas and new year.

4.25 IA will also be required to support their external quality assessment to be completed by the Institute of Internal Auditors in quarter four. Time to support this activity is included in the 2021/22 annual plan and service delivery plan.

4.26 A significant proportion of Chief Internal Auditor time in quarter four is also focused on developing the IA annual plan for the next financial year. This process involves extensive engagement across the Council and with external assurance providers.

4.27 Other ongoing IA activities in quarter four include procurement of a new IA system and completion of other non-delivery related activities such as essential learning (this will also be reviewed as part of our external quality assessment) and other essential activities to ensure ongoing compliance with IA methodology and PSIAS requirements.

Current Capacity to Delivery the 2021/22 IA Annual Plan

4.28 Directorates have requested that two audits are removed from the 2021/22 IA annual plan and carried forward into the 2022/23 plan, subject to approval by the Committee.

4.29 Additionally, the Department for Transport has confirmed that the annual review of Port Facility Security Arrangements is not required in 2021/22, and two ALEOs have confirmed that they do not require audits to be completed in the current plan year.

4.30 Consequently, a total of 5 audits can potentially be removed from the IA annual plan (further detail is included at Appendix 6), and a further 6 audits are either complete, or nearing completion.

4.31 Assuming that these 5 audits are removed from the plan, a total of 42 audits remain to be completed by 31 March 2022, with 34 of these to be delivered across the Council; 4 for LPF; and 4 for other ALEOs. Of these, 38 audits (34 for the Council and 4 for LPF) would form the basis of the 2021/22 IA annual opinion.

4.32 Of the 42 audits to be completed, 12 will be delivered by our external co-source provider or NHS Lothian, leaving a balance of 30 audits to be completed by the IA team.

Options to Support Delivery of the IA Annual Plan

4.33 IA currently does not currently have sufficient capacity to support delayed delivery of the 2021/22 IA annual plan, as highlighted by the options detailed below. Further detail is also included at Appendix 5.

Option 1 - IA Capacity with No Co-Source Backfill for IA Secondees

4.34 Allowing for circa 200 days to support the Council with ongoing follow-up activity, delivery of these audits by the IA team would require a total of 1,092 audit days between 1 November 2021 and 31 March 2022. The IA team currently has capacity (assuming no co-source backfill) to deliver 521 audit days by 31 March 2022, leaving a shortfall of 571 days required to deliver the full annual plan.

4.35 This shortfall is the equivalent of 3.74 FTE team members and 23 audits that would not be delivered, leaving a balance of 15 completed audits (11 for the Council and 4 for LPF) to support the annual opinion.

4.36 If this approach is adopted, it is IA's view that it would not be possible to deliver an annual opinion due to insufficient assurance coverage, as the minimum number of audits currently considered by the Chief Internal Auditor as being required to provide an opinion is 32.

Option 2 - IA Capacity with Two Co-Source Backfill Resources for IA Secondees

4.37 Our co-source provider has confirmed that two secondees can be made available from mid-November through to the end of March 2022 to provide backfill resources for the two IA team members seconded to directorates.

4.38 This reduces the shortfall to 410 days which is the equivalent of 2.69 FTE and 16 audits that would not be delivered, leaving a balance of 22 completed audits (18 for the Council and 4 for LPF) to support the annual opinion.

4.39 If this approach is adopted, it is IA's view that again it would not be possible to deliver an annual opinion due to insufficient assurance coverage.

Option 3 - IA Capacity with Five Co-Source Backfill Resources for IA Secondees

4.40 Use of five co-source backfill resources (two from mid-November to 31 March 2022, and three from the beginning of December to the end of March 2022) would further reduce the shortfall to 184 days, which is the equivalent of 1.24 FTE and 8 audits that would not be delivered by 31 March 2022, leaving a balance of 30 audits (26 for the Council and 4 for LPF) to support the annual opinion.

4.41 This approach would support delivery of the IA annual opinion on the basis that a further two 2021/22 audits could be completed in the first quarter of 2022/23 to support presentation of the annual opinion to the Committee in August 2022 based on 28 audits completed across the Council and 4 for LPF, and is the preferred option.

4.42 If this approach is adopted, a total of 6 audits in addition to those proposed for removal by directorates can be carried forward into the 2022/23 plan. Details of these audits are included at Appendix 6.

5. Next Steps

5.1 IA will continue to focus on annual plan delivery throughout quarters three and four, with support from our co-source provider.

5.2 Delivery of the annual plan and opinion will be heavily dependent on directorates and services ensuing that they have sufficient capacity to support delivery within timeframes agreed and detailed in IA terms of reference.

6. Financial impact

6.1 PwC is currently costing the options, but Option 3 is expected to be around £350k. This budget pressure would need to be corporately funded because the Corporate Services Directorate cannot underwrite this from existing budgets as well as addressing other pressures and ensuring a balanced outturn. This will therefore need to be approved by Finance and Resources Committee.

7. Stakeholder/Community Impact

7.1 Provision of full and effective assurance across the Council's most significant risks following completion of the 2021/22 IA plan and implementation of associated

management actions should have an indirect positive impact on services delivered to citizens, stakeholders, and communities.

7.2 Inability to delivery an annual opinion with result in a breach of Public Sector Internal Audit Standards and will also impact production of the Council's annual financial statements.

8. Background reading/external references

8.1 Internal Audit 2021-22 Annual Plan

9. Appendices

9.1 Appendix 1 - 2021/22 Annual Plan Reconciliation

9.2 Appendix 2 - Appendix 2 – 2018/19 Benchmarking Outcomes

9.3 Appendix 3 – 2020/21 Benchmarking Outcomes

9.4 Appendix 4 – 2021/22 Benchmarking Outcomes

9.5 Appendix 5 – Summary of Options to Deliver the 2021/22 IA Annual Plan and Opinion

9.6 Appendix 6 – Audits Proposed for Removal from the 2021/22 Annual Plan

Appendix 1 - 2021/22 Annual Plan Reconciliation

	Council	ALEO's	Total
Total Audits per 2021/22 Annual Plan	**36**	**10**	**46**
Less:			
Ongoing follow-up activity (covered by quarterly GRBV reporting)	**(1)**	**-**	**(1)**
Audits Combined (Historic Whistleblowing and Child Protection Recommendations)	**(1)**	**-**	**(1)**
Reduction in 2021/22 Lothian Pension Fund Audits	**-**	**(1)**	**(1)**
Add			
2020/21 audits brought forward	**7**	**3**	**10**
Total Audits to be Delivered in 2021/22	**41**	**12**	**53**
Audits to Be Delivered by PwC / NHS Lothian (for EIJB)	**9**	**4**	**13**
Adits to be Delivered by the Council	**32**	**8**	**40**

Appendix 2 – 2018/19 Benchmarking Outcomes

Ref	Council / local Authority	Audit Days Per Annual Plans	Council Revenue for 2017-18	Audit days per £m of revenue
	Aberdeenshire	NA	554	Not published
	Aberdeen	NA	438	Not published
	Orkney	NA	82	Not published
	Shetland	NA	21	Not published
1	Na-h Eileanan Siar	577	106	5.44
2	Midlothian	1005	192	5.23
3	Inverclyde	960	189	5.08
4	West Dunbartonshire	900	212	4.25
5	Renfrewshire	1258	374	3.36
6	East Ayrshire	820	244	3.36
7	East Dunbartonshire	805	241	3.34
8	Argyll & Bute	750	236	3.18
9	South Ayrshire	585	186	3.15
10	Angus	757	248	3.05
11	East Lothian	855	295	2.90
12	Clackmannanshire	341	126	2.71
13	Scottish Borders	653	254	2.57
14	Moray	483	197	2.45
15	Dundee	800	331	2.42
16	East Renfrewshire	741	336	2.21
17	Stirling	419	195	2.15
18	Dumfries and Galloway	655	310	2.11
19	Glasgow	2805	1328	2.11
20	Fife	1612	816	1.98
21	North Ayrshire	610	336	1.82
22	North Lanarkshire	1350	757	1.78
23	**Edinburgh**	**1490**	**950**	**1.57**
24	Falkirk	555	360	1.54
25	West Lothian	505	386	1.31
26	Highland	641	557	1.15
27	South Lanarkshire	335	673	0.50
28	Perth & Kinross	205	434	0.47
	Per Audited Financial Statements (In £ Millions)			

Appendix 3 – 2020/21 Benchmarking Outcomes

Based on 2019/20 financials and 2020/21 annual plans

Audit days vs service expenditure

	Row Labels	Average of Audit days per £1m expenditure 2020/21
1	Na-h Eileanan Siar	3.3
2	West Dunbartonshire	2.5
3	Inverclyde	2.2
4	Argyll & Bute	2.1
5	East Renfrewshire	2.0
6	Midlothian	2.0
7	Scottish Borders	1.8
8	Shetland Islands	1.6
9	Angus	1.6
10	Clackmannanshire	1.6
11	East Ayrshire	1.5
12	Glasgow City	1.2
13	South Ayrshire	1.2
14	Renfrewshire	1.2
15	North Ayrshire	1.1
16	Dumfries and Galloway	1.0
17	North Lanarkshire	1.0
18	Falkirk	0.9
19	Dundee City	0.9
20	Highland	0.6
21	West Lothian	0.6
22	South Lanarkshire	0.5
23	**City of Edinburgh**	**0.5**
24	Aberdeenshire	-
25	Orkney Islands	-
26	Moray	-
27	Stirling	-
28	Perth & Kinross	-
29	East Dunbartonshire	-
30	Aberdeen City	-
31	Fife	-
32	East Lothian	-
	Average	**1.0**

Audit days vs service income

	Row Labels	Average of Audit days per £1m income 2020/21
1	Na-h Eileanan Siar	9.5
2	East Renfrewshire	6.1
3	Inverclyde	5.7
4	Argyll & Bute	5.7
5	Scottish Borders	5.4
6	West Dunbartonshire	4.9
7	Midlothian	4.2
8	Angus	4.1
9	Clackmannanshire	3.9
10	East Ayrshire	3.8
11	Shetland Islands	3.3
12	Dumfries and Galloway	3.2
13	Renfrewshire	2.9
14	South Ayrshire	2.8
15	Glasgow City	2.7
16	North Ayrshire	2.5
17	North Lanarkshire	2.4
18	Highland	2.3
19	Falkirk	2.3
20	Dundee City	2.1
21	West Lothian	1.7
22	South Lanarkshire	1.2
23	**City of Edinburgh**	**1.1**
24	Aberdeen City	-
25	East Lothian	-
26	Stirling	-
27	Aberdeenshire	-
28	Orkney Islands	-
29	East Dunbartonshire	-
30	Perth & Kinross	-
31	Moray	-
32	Fife	-
	Average	**2.6**

Audit days vs citizen contribution (CT & NDR)

	Row Labels	Average of Audit days per £1m citizen contribution 2020/21
1	Na-h Eileanan Siar	28.6
2	Inverclyde	14.2
3	East Ayrshire	12.2
4	East Renfrewshire	10.3
5	Shetland Islands	9.9
6	Argyll & Bute	9.8
7	West Dunbartonshire	9.6
8	Midlothian	9.3
9	Angus	8.8
10	Clackmannanshire	8.5
11	Scottish Borders	8.1
12	North Ayrshire	7.1
13	South Ayrshire	5.8
14	North Lanarkshire	5.6
15	Dundee City	5.4
16	Renfrewshire	4.9
17	Dumfries and Galloway	4.6
18	Falkirk	4.0
19	Glasgow City	3.1
20	West Lothian	2.7
21	Highland	1.8
22	**City of Edinburgh**	**1.6**
23	South Lanarkshire	1.3
24	East Dunbartonshire	-
25	Orkney Islands	-
26	Moray	-
27	Perth & Kinross	-
28	Stirling	-
29	Aberdeen City	-
30	Fife	-
31	East Lothian	-
32	Aberdeenshire	-
	Average	**5.5**

Audit days vs net assets

	Row Labels	Average of Audit days per £1m net assets 2020/21
1	Scottish Borders	6.0
2	Inverclyde	4.5
3	West Dunbartonshire	4.0
4	Dumfries and Galloway	3.4
5	East Ayrshire	3.3
6	Na-h Eileanan Siar	3.2
7	Argyll & Bute	2.7
8	Glasgow City	2.2
9	Clackmannanshire	2.1
10	South Ayrshire	1.7
11	Midlothian	1.5
12	East Renfrewshire	1.5
13	North Ayrshire	1.4
14	Angus	1.3
15	Falkirk	1.1
16	Dundee City	0.9
17	North Lanarkshire	0.8
18	Renfrewshire	0.8
19	Shetland Islands	0.6
20	West Lothian	0.6
21	South Lanarkshire	0.3
22	**City of Edinburgh**	**0.3**
23	Highland	0.3
24	Aberdeen City	-
25	East Lothian	-
26	Perth & Kinross	-
27	Aberdeenshire	-
28	Stirling	-
29	East Dunbartonshire	-
30	Orkney Islands	-
31	Moray	-
32	Fife	-
	Average	**1.4**

Appendix 4 – 2021/22 Benchmarking Outcomes

Based on 2019/20 financials and 2021/22 annual plans

Audit days vs service expenditure

	Row Labels	Average of Audit days per £1m expenditure 2021/22
1	Na-h Eileanan Siar	3.3
2	West Dunbartonshire	2.4
3	Inverclyde	2.2
4	Midlothian	2.0
5	Argyll & Bute	2.0
6	East Renfrewshire	1.8
7	Scottish Borders	1.7
8	Angus	1.6
9	East Ayrshire	1.5
10	Glasgow City	1.4
11	Clackmannanshire	1.4
12	Moray	1.4
13	Shetland Islands	1.2
14	Renfrewshire	1.2
15	South Ayrshire	1.1
16	North Ayrshire	1.0
17	North Lanarkshire	1.0
18	Dundee City	0.9
19	Falkirk	0.8
20	**City of Edinburgh**	**0.8**
21	South Lanarkshire	0.8
22	Highland	0.8
23	West Lothian	0.6
24	Fife	-
25	Stirling	-
26	Perth & Kinross	-
27	East Dunbartonshire	-
28	East Lothian	-
29	Aberdeen City	-
30	Aberdeenshire	-
31	Orkney Islands	-
32	Dumfries and Galloway	-
	Average	**1.0**

Audit days vs service income

	Row Labels	Average of Audit days per £1m income 2021/22
1	Na-h Eileanan Siar	9.5
2	Inverclyde	5.5
3	East Renfrewshire	5.5
4	Scottish Borders	5.4
5	Argyll & Bute	5.2
6	West Dunbartonshire	4.8
7	Midlothian	4.3
8	Angus	4.2
9	East Ayrshire	3.6
10	Clackmannanshire	3.5
11	Moray	3.5
12	Glasgow City	3.2
13	Highland	2.9
14	Renfrewshire	2.8
15	South Ayrshire	2.7
16	Shetland Islands	2.6
17	North Ayrshire	2.4
18	North Lanarkshire	2.4
19	Dundee City	2.2
20	Falkirk	2.2
21	South Lanarkshire	1.9
22	West Lothian	1.8
23	**City of Edinburgh**	**1.7**
24	East Lothian	-
25	Aberdeenshire	-
26	Fife	-
27	Dumfries and Galloway	-
28	Stirling	-
29	East Dunbartonshire	-
30	Perth & Kinross	-
31	Aberdeen City	-
32	Orkney Islands	-
	Average	**2.6**

Audit days vs citizen contribution (CT & NDR)

	Row Labels	Average of Audit days per £1m citizen contribution 2021/22
1	Na-h Eileanan Siar	28.6
2	Inverclyde	13.8
3	East Ayrshire	11.5
4	Midlothian	9.4
5	West Dunbartonshire	9.4
6	East Renfrewshire	9.3
7	Angus	9.0
8	Argyll & Bute	8.9
9	Scottish Borders	7.9
10	Clackmannanshire	7.7
11	Shetland Islands	7.6
12	North Ayrshire	6.9
13	Dundee City	5.7
14	North Lanarkshire	5.6
15	Moray	5.6
16	South Ayrshire	5.4
17	Renfrewshire	4.7
18	Falkirk	3.8
19	Glasgow City	3.7
20	West Lothian	2.8
21	**City of Edinburgh**	**2.5**
22	Highland	2.2
23	South Lanarkshire	2.0
24	Aberdeen City	-
25	Stirling	-
26	Perth & Kinross	-
27	Fife	-
28	East Lothian	-
29	East Dunbartonshire	-
30	Aberdeenshire	-
31	Orkney Islands	-
32	Dumfries and Galloway	-
	Average	**5.4**

Audit days vs net assets

	Row Labels	Average of Audit days per £1m net assets 2021/22
1	Scottish Borders	5.9
2	Inverclyde	4.4
3	West Dunbartonshire	3.9
4	Na-h Eileanan Siar	3.2
5	East Ayrshire	3.1
6	Glasgow City	2.5
7	Argyll & Bute	2.4
8	Clackmannanshire	1.9
9	South Ayrshire	1.6
10	Midlothian	1.5
11	North Ayrshire	1.3
12	East Renfrewshire	1.3
13	Angus	1.3
14	Falkirk	1.1
15	Moray	1.0
16	Dundee City	0.9
17	North Lanarkshire	0.8
18	Renfrewshire	0.8
19	West Lothian	0.6
20	South Lanarkshire	0.5
21	**City of Edinburgh**	**0.5**
22	Shetland Islands	0.5
23	Highland	0.4
24	Aberdeen City	-
25	East Dunbartonshire	-
26	Perth & Kinross	-
27	East Lothian	-
28	Stirling	-
29	Aberdeenshire	-
30	Orkney Islands	-
31	Dumfries and Galloway	-
32	Fife	-
	Average	**1.3**

Appendix 5 – Summary of Options to Deliver the 2021/22 IA Annual Plan and Opinion

1. Option 1 – remove 5 audits from the annual plan with no backfill to support IA secondments
2. Option 2 - remove 5 audits from the annual plan with 2 co-source backfill resources provided from mid November to 31 March 2022.
3. Option 3 – remove 12 audits from the annual plan and carry them forward into 2022/23, with 5 co-source backfill resources provided (2 from mid November to 31 March 22, and 3 from 10 January to 31 March 2022)

Options to Deliver the 2021/22 IA Annual Opinion	Option 1	Option 2	Option 3
Balance of Days Required	1,092	1,092	1,092
IA team capacity	521	682	908
Shortfall	571	410	184
FTE Shortfall	3.74	2.69	1.24
No of audits that cannot be completed	23 audits	16 audits	8 audits
Annual Opinion Impact - 32 audits required	15 Audits (11 Council and 4 LPF) No opinion can be provided	22 audits (18 Council and 4 LPF) No opinion can be provided	30 plus 2 delivered in Q4 (28 Council and 4 LPF) Opinion can be provided

Appendix 6 – Audits Proposed for Removal from the 2021/22 IA Annual Plan

Audits proposed for removal from IA annual plan	Directorate	ALEO	IA Comments
1. Management of Waiting Lists and Assessments	Health and Social Care Partnership	N/A	This is currently a high risk area and has already been deferred from 2020/21 into 2021/22 and will now be deferred into 2022/23 at the request of the Partnership
2. Council Housing Allocation Process	Place	N/A	Deferral requested by the Place Directorate
3. Port Facility Security Plan	Place	N/A	Departnert for Transport has confirmed that no IA review is required in the current year.
4. Lothian Valuation Joint Board	N/A	LVJB	LVJB has confirmed that no further audit work is required in the current year
5. Royal Edinburgh Military Tattoo	N/A	REMT	REMT has confirmed that no further audit work is required in the current year
6. Adaptation and Renewal Programme Governance	Council Wide	N/A	Deferral into 2022/23 recommended by IA as the programme will continue throughout the next plan year
7. Empowered Learning Programme	Corporate Services / Education and Children's Services	N/A	Deferral into 2022/23 recommended by IA as programme will continue throughout the next plan year
8. Active Travel	Place	N/A	Deferral into 2022/23 recommended by IA as programme will continue throughout the next plan year
9. Design of the New Repairs and Maintenance Framework (Operational Properties)	Place	N/A	Deferral into 2022/23 recommended by IA as this will enable review of both design and effectiveness of the new framework.
10. Council Emissions Plan	Corporate Services	N/A	Deferral into 2022/23 recommended by IA as programme will continue throughout the next plan year
11. Transition Arrangements from Day Care to Adult Social Care	Health and Social Care Partnership and Education and Children's Services	N/A	Deferral into 2022/23 recommended by IA reflecting significant ongoing service delivery pressures across both directorates
12. Partnership Financial Sustainability	Health and Social Care Partnership	N/A	Deferral into 2022/23 recommended by IA reflecting significant ongoing service delivery pressures across the Partnership.

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Governance, Risk and Best Value Committee

10.00am, Tuesday 9 November 2021

Revenue Budget Framework 2021/26 – progress update – referral from the Finance and Resources Committee

Executive/routine
Wards
Council Commitments

1. For Decision/Action

1.1 The Finance and Resources Committee has referred a report on the Revenue Budget Framework 2021/26 – progress update to the Governance, Risk and Best Value Committee as part of its work programme.

Stephen S Moir
Executive Director of Corporate Services

Contact: Emily Traynor, Assistant Committee Officer
Legal and Assurance Division, Corporate Services Directorate
Email: emily.traynor@edinburgh.gov.uk

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Referral Report

Revenue Budget Framework 2021/26 – progress update

2. Terms of Referral

2.1 On 7 October 2021, the Finance and Resources Committee considered a report which updated members on the projected Council-wide revenue budget position for the year.

2.2 The Finance and Resources Committee agreed:

2.2.1 To note that a balanced overall monitoring position continued to be forecast in the current year;

2.2.2 To note, nonetheless, the potential for further expenditure pressures to emerge during the remainder of the year and thus the on-going need for pressures, savings delivery shortfalls and risks to be fully and proactively managed within all Directorates and the Health and Social Care Partnership;

2.2.3 To note that a further update would be provided to the Committee at its next meeting on 9 December 2021;

2.2.4 To note that a savings requirement of £8.2m was now forecast in 2022/23, increasing significantly in subsequent years, re-emphasising the need to initiate by the autumn a comprehensive savings programme, rooted in the priorities set out within the Council's Business Plan, to address this gap;

2.2.5 To note the principal findings of the "lessons learned" review of the 2021/22 budget development process; and

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

3. Background Reading/ External References

3.1 Finance and Resources Committee – 7 October 2021 - Webcast

3.2 Minute of the Finance and Resources Committee of 7 October 2021

4. Appendices

4.1 Appendix 1 – report by the Executive Director of Corporate Services

Finance and Resources Committee

10.00am, Thursday, 7 October 2021

Revenue Budget Framework 2021/26 – progress update

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

1. Recommendations

1.1 Members of the Finance and Resources Committee are recommended:

1.1.1 to note that a balanced overall monitoring position continues to be forecast in the current year;

1.1.2 to note, nonetheless, the potential for further expenditure pressures to emerge during the remainder of the year and thus the on-going need for pressures, savings delivery shortfalls and risks to be fully and proactively managed within all Directorates and the Health and Social Care Partnership;

1.1.3 to note that a further update will be provided to the Committee at its next meeting on 9 December 2021;

1.1.4 to note that a savings requirement of £8.2m is now forecast in 2022/23, increasing significantly in subsequent years, re-emphasising the need to initiate by the autumn a comprehensive savings programme, rooted in the priorities set out within the Council's Business Plan, to address this gap;

1.1.5 to note the principal findings of the "lessons learned" review of the 2021/22 budget development process; and

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

Stephen S. Moir
Executive Director of Corporate Services

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Report

Revenue Budget Framework 2021/26 – progress update

2. Executive Summary

2.1 The report updates members on the projected Council-wide revenue budget position for the year. While a balanced overall position continues to be projected, there remains considerable uncertainty around the on-going impacts of the pandemic on the Council and its ALEOs and, more immediately, the level of the employee pay award for 2021/22. As a result, the position will continue to be kept under active review and a further update brought to the Committee in December.

2.2 The report then reviews a number of existing financial planning assumptions, resulting in an estimated revised savings requirement of £8.2m for 2022/23 and increasing significantly thereafter. This re-emphasises the need to initiate by the autumn a comprehensive savings programme, rooted in the priorities set out within the Council's Business Plan, to address the estimated revenue funding gaps in future years.

3. Background

Revenue budget, 2021/22

3.1 Members of Council approved a balanced one-year revenue budget monitoring position for 2021/22 on 18 February 2021. In doing so, however, it was noted that there remained the potential for further changes to emerge based on the outcome of both the UK Budget and subsequent stages of the Draft Scottish Budget's Parliamentary consideration. In addition, further clarification was being sought on the availability and associated conditions of use of a number of financial "flexibilities", particularly the service concession-related flexibility.

3.2 Given this, a further update on the revenue budget framework was considered by the Finance and Resources Committee on 20 May. Applying carried-forward and in-year COVID-related funding presented an opportunity to increase significantly the level of framework provision for the continuing impacts of the pandemic in both 2021/22 and 2022/23 whilst at the same time fully addressing the incremental residual savings requirement in 2022/23.

3.3 The report considered by the Committee also set out an opportunity to invest up to £21m in 2021/22 and 2022/23 to address remaining service pressures, anticipated

savings delivery shortfalls and member priorities. On 27 May, Council approved total investment across these areas in 2021/22 of £21m but with a number of the service investments giving rise to continuing liabilities totalling £3.3m in 2022/23.

Month three forecast

3.4 On 12 August 2021, members of the Committee considered the first in-year Council-wide revenue monitoring report for 2021/22, based on analysis of the first three months' financial data. While a balanced overall position was projected, it was noted that there remained considerable uncertainty around the on-going impacts of the pandemic on the Council and its ALEOs and, more immediately, from the level of the employee pay award for 2021/22.

3.5 A detailed half-year monitoring update will be considered at the Committee's next meeting on 9 December. This report therefore provides an interim update, including an overview of progress in taking forward the investment measures approved by Council on 27 May, as well as considering a number of required changes to future years' budget framework planning assumptions.

4. Main report

COVID-related impacts

4.1 Following the decision of Council on 27 May, the revised 2021/22 budget makes provision for £39m of continuing COVID-related impacts as shown in the table below.

Area of expenditure pressure/income loss	£m
Reductions in parking income	8.0
Reductions in commercial rental income	5.0
Lothian Buses - loss of dividend	6.0
Arm's-Length External Organisations (ALEOs) - support for Edinburgh Leisure	6.0
ALEOs – other	1.0
Personal Protective Equipment	1.0
Homelessness	5.0
Other income/expenditure[1]	7.0
Total funding for COVID impacts	**39.0**

4.2 In the case of homelessness services, the £5m shown above is supplemented by a further £5m within the framework baseline. In approving the £21m of additional investment on 27 May 2021, a further £2m was added to this sum, meaning that in

[1] Other income/expenditure represents sums set aside in recognition of various anticipated continuing impacts of increased expenditure, or reductions in income, linked to the pandemic. These provisions include additional staffing costs in waste and cleansing and for the processing of support payments for both individuals and businesses, as well as assumed reductions in income for the Council's outdoor centres, cultural venues and community access to schools

total, the 2021/22 budget reflects an increase of £12m on the budgeted level of provision in 2020/21.

4.3 Based, where relevant, on expectations around the timing of service resumption and likely ensuing demand, the total provision of £39m continues to be assessed as sufficient at this time. Parking income, in particular, has recovered strongly, with the total level of income received in August 2021 similar to the equivalent period in 2019. While levels of outstanding debt continue to be tracked on a monthly basis, loss of commercial rental income is similarly expected to be maintained within the approved level of provision. A further update in each of these areas, based on analysis of additional months' data, will be reported to the Committee in December.

4.4 Lothian Buses has already advised the Council that it will not be in a position to pay any dividend in the current financial year. While passenger numbers have been steadily increasing, Transport Scotland has now confirmed that transport operator funding to contribute towards the additional net costs of operating safely at a time of reduced demand will continue to be provided to bus operators until the end of March 2022, with a similar arrangement anticipated to be confirmed for Edinburgh Trams shortly.

4.5 Based on current demand patterns, it is also expected that the required level of support for Edinburgh Leisure will be contained within the £6m set aside for this purpose.

Directorate projections

4.6 In addition to monitoring the on-going impacts of the pandemic, Executive Directors continue to oversee the delivery of approved savings and management of pressures within their respective areas of responsibility. The approved budget framework for 2021/22 includes £12m of additional baselined investment in recognition of underlying service pressures, as well as applying a higher required level of assurance for savings to be included within it. While these measures provide a degree of contingency against the emergence of significant in-year pressures within services, it remains the role of Executive Directors to manage these fully when they do arise and to maintain expenditure within budgeted levels.

4.7 Details of the respective non-COVID projections for the three main Directorates were contained within the report to the Committee's previous meeting on 12 August. While these forecasts are being progressively aligned to the revised organisational structures approved by Council on 27 May, they remain essentially unchanged from that time.

Corporate Services

4.8 As set out in further detail in a report elsewhere on today's agenda, the Executive Director of Corporate Services is projecting a balanced overall position for the services within his area of responsibility. Financial controls applied during 2020/21, including control of recruitment to all non-essential vacant posts and agency worker

use, will continue to be applied during the current year. Controls will also be applied to discretionary expenditure where no legal or contractual commitment exists, to mitigate potential budget pressures.

Education and Children's Services

4.9 The Interim Executive Director of Education and Children's Services is projecting residual as-yet unmitigated non-COVID pressures of £2.562m.

4.10 Based on an assessment of current external placement numbers and known changes over the remainder of the year, an estimated pressure of £0.7m exists within residential and secure accommodation. The impact of COVID, including the number of staff requiring to self-isolate, also continues to affect internal capacity and the resulting scope for movement of places within the Council's own young people's centres, resulting in a further residual pressure of £0.8m. There is furthermore a risk that the easing of COVID-related travel restrictions results in the presentation of further individuals and places additional pressures on the Council's capacity.

4.11 Continuing pressures within temporary accommodation as a result of a shortage of suitable move-on accommodation have been highlighted in a number of previous reports with, at this stage, a residual pressure of £1.2m forecast. There is a risk, however, that this sum may increase further if bed nights continue at current levels for the remainder of the year. The potential recurring aspects of this in-year pressure are discussed in more detail later in this report.

4.12 The Interim Executive Director is fully committed to making all efforts to identify mitigations to reduce the residual pressures and to identify and implement management actions required to address these and a further update will be included in the report to the Committee's next meeting on 9 December.

Place

4.13 The Executive Director of Place continues to highlight core budget pressures currently without mitigation across the former Place Management and Place Development Divisions totalling some £1.592m, along with a number of other risks where corresponding mitigating actions are being developed. In addition, a small element of the Directorate's approved savings target is currently assessed as "red".

4.14 The Executive Director and his Senior Management Team will continue to consider regular updates and develop corresponding actions, such that net expenditure is brought back within approved levels. A more detailed update, based on actual income and expenditure to the end of August, is underway, with the results of this analysis to be included in the half-year report to be considered at the Committee's next meeting.

Corporate budgets

4.15 The report to the Committee's previous meeting highlighted a number of variances at Council-wide or corporate level. While detailed analysis is continuing, in particular, around the in-year loans charge forecast given slippage in 2020/21's programme, the knock-on impacts of this slippage on the delivery of projects originally planned for delivery in 2021/22 and the securing in June and July 2021 of new borrowing at low rates of interest, these remain unchanged at this time and are summarised in the table below.

	£m
Favourable variances	
Loans charges	(6.000)
Other non-service specific costs (including inflationary uplift provisions)	(1.774)
Unfavourable variances	
Senior Management Review/VERA savings – shortfall in delivery	2.005
Council Tax Reduction Scheme – additional demand	1.395
Discretionary rates relief	0.220
Net favourable variance	**(4.154)**

Overall position

4.16 Taken together, the favourable variances above offset in full the pressures highlighted within the Education and Children's Services and Place Directorates, allowing a balanced position to continue to be forecast at this time.

4.17 There remains, however, uncertainty around the on-going impacts of the pandemic on the Council and its ALEOs and, more immediately, the level of the employee pay award for 2021/22 (an update on which is provided in the following section of this report). It is therefore crucial that Executive Directors and the Chief Officer of the Edinburgh Health and Social Care Partnership fully manage pressures, risks and savings delivery shortfalls within their respective core budgets if the greater stability of the framework approved by members on 27 May is not to be compromised.

2021/22 Local Government employees national pay negotiations

4.18 The baseline level of provision for staff pay awards contained within the approved budget equates to an average of 2% across all staff groups. Application of the revised Scottish Public Sector Pay Policy, to which the initial Local Government offer was intentionally aligned, would give rise to an overall pressure of £1.2m in excess of this level of provision. This sum can, however, be contained within the assumed level of inflation-related corporate savings noted above.

4.19 Following negotiations, a small increase to the flat-rate payment (increasing the cost to the Council of the employer's offer by about £0.4m) was reflected in a revised

offer issued to the Scottish Joint Council Trade Union Side Joint Secretaries on 13 August. Having considered the offer, UNISON's Local Government Committee concluded that there had been insufficient movement to warrant further member consultation and thus recommended proceeding with targeted industrial action, the membership ballot for which runs between 1 and 22 September. Consultative ballots of participating GMB and UNITE the Union members also resulted in rejection of the revised offer, with a move to balloting for full industrial action. As of the time of writing, the SNCT Extended Joint Chairs' consideration of the teachers' pay claim is on-going.

4.20 It remains the employer's view that the offer strikes an acceptable balance across affordability, employee recognition and maintenance of good industrial relations. In view of the heightened expectations resulting from the revised offer made to Health staff, however, COSLA has pushed for the provision of additional funding to allow an equivalent offer to be made to the Local Government workforce. This request has been declined by the Scottish Government.

4.21 The additional cost of backdating the current pay award to 1 December 2020 would be £4m (or £8m if based on the revised Health offer), a one-off £500 "thank you" payment to all remaining staff about £6m and matching the Health offer for 2021/22 (without backdating) about £12m, the last-mentioned also having implications for future years' funding gaps. These sums include, where applicable, sums payable to staff within the Edinburgh Health and Social Care Partnership.

Approved investments in priorities, pressures and savings shortfalls mitigations

4.22 In setting the Council's 2021/22 revenue budget on 18 February 2021, members approved some £14.2m of additional investment aligned to wider Business Plan priorities. Following the receipt of significant additional COVID-related funding after the budget was set, this was supplemented on 27 May 2021 by a further £21m of investment in member priorities and sums to address service pressures and projected in-year savings shortfalls.

4.23 A progress assessment against each of the measures concerned is included in Appendix 1, showing that the majority are on track for delivery in 2021/22. Work is continuing with Strategic Change and Delivery Team colleagues in Corporate Services to develop appropriate associated outcome measures and an update on these will be included in the December report. Any in-year underspends against these investments will not automatically be carried forward into 2022/23 and thus also be considered in the context of addressing future years' savings requirements.

Afghan refugees

4.24 At the meeting of Council on 26 August 2021, members unanimously approved a motion welcoming displaced Afghan refugees to the city, including the provision of good-quality immediate temporary accommodation. While encouraging on-going dialogue with the UK Government to ensure that this support is fully funded,

members also agreed to delegate to the Chief Executive, in consultation with the Leader and Deputy Leader, approval of any other such costs not covered by UK funding or existing budgets by means of a contribution of up to £0.5m from the Council's unallocated reserve. Members are reminded that, following the realignment of the Council's reserves as part of the approved 2021/22 budget, the size of the unallocated reserve was increased from £13m to £25m. It is being assumed, however, that should this sum be required in 2021/22, a corresponding replenishment of the unallocated reserve will be undertaken in 2022/23.

Edinburgh Integration Joint Board (EIJB)

4.25 In March 2021, the EIJB agreed the 2021/22 financial plan and associated savings and recovery programme. Recognising that the additional measures which would be required to balance the plan would have a significant negative impact on performance gains and, ultimately, on outcomes for people, the board made the difficult decision to support a budget which did not deliver financial balance. At this point, the plan had a deficit of £9.3m and the EIJB Chief Officer and EIJB Chief Finance Officer were supported to continue tripartite efforts with colleagues in the Council and NHS Lothian to bridge this shortfall.

4.26 As part of the additional service investment approved by Council on 27 May, members then allocated £2.5m of further support to the EIJB, reducing the financial gap to £6.8m. In addition to this underlying remaining funding gap, an initial assessment has raised concerns around the ability to deliver the assumed level of purchasing-related savings of £11.2m implicit within the delegated budget.

4.27 As of the time of writing, tripartite discussions with the partners are continuing to address the residual gap. Discussions are also continuing with the Scottish Government to explore the extent to which the EIJB's earmarked reserves could be applied to support the range of financial pressures and challenges faced. Engagement with the Scottish Government is also continuing on the contents of the Quarter 1 Local Mobilisation Plan, with detailed feedback awaited.

Financial flexibilities

4.28 Members of the Committee have received a number of previous updates on the basis on which a number of financial "flexibilities" could be made available to manage the impacts of the pandemic over a longer timeframe. While the budget approved in February 2021 reflected the assumed use of the loans fund principal repayment deferral flexibility, following receipt of significant additional grant funding late in 2020/21, this assumption was then reversed as part of the May realignment.

4.29 On 18 August, the Cabinet Secretary for Finance and Economy wrote to the COSLA Spokesperson for Resources offering additional clarity on the availability of the service concession flexibility. The letter confirmed that councils would be permitted to write the balance of service concession payments over the remaining life of the asset. The size of this potential timing-related benefit would, however, be severely reduced by three main factors, namely:

(i) allowing only the principal (and not the interest) element of the debt to be written off over the remaining asset life;

(ii) allowing only prospective (and not retrospective) application of the flexibility, removing the potential for the accumulated benefit of the change to be applied by councils in supporting post-COVID recovery; and

(iii) restricting the application of the flexibility to the value of the principal element of the debt net of Scottish Government Grant (in the case of the largest schools PPP schemes, this reduces the sums concerned, after application of the two restrictions above, by a further 80%).

4.30 While further work is required to quantify the position within the Council's own context, the combination of these factors would be expected to reduce the overall benefits relative to earlier Directors of Finance modelling by around 95%. Although the Council is able to defer its decision on adoption of the flexibility until closure of the 2021/22 accounts, any potential benefits are likely to be much more modest than was previously sought by councils. Discussion with the Scottish Government, however, remains on-going.

Review of budget framework assumptions

4.31 Following the receipt of significant additional COVID-related funding late in 2020/21 and a reprioritisation of the Council's own reserves, on 27 May members approved an increase in the budget framework's provision for the continuing impacts of the pandemic in 2021/22 and 2022/23 from £29m to £64.3m. In addition, £21m of available funding was approved in 2021/22 to mitigate existing budget pressures, anticipated savings delivery shortfalls and facilitate investment in member priorities. The investment in member priorities gives rise to up to £3.3m of recurring liabilities, resulting in revised cumulative funding gaps as follows:

	2022/23	2023/24	2024/25	2025/26	2026/27
	£000	£000	£000	£000	£000
Restated funding gap, taking account of investment approved by Council on 27 May	3,325	52,424	67,424	94,528	122,098

4.32 A summary of the main financial planning assumptions underpinning these incremental savings requirements is included as Appendix 2. These assumptions are the subject of on-going review, with the principal changes arising from the most recent reviews set out in the following sections.

National Insurance – employer contribution rates

4.33 On 7 September, the UK Government confirmed changes to National Insurance (NI) contribution rates to fund £12 billion of additional annual investment in the NHS and social care across the UK. Employer's contribution rates will increase by 1.25%

during 2022/23, with a ringfenced Health and Social Care levy of 1.25% then introduced from 2023/24, subject to alignment to devolved funding arrangements.

4.34 Given that setting of NI rates is a reserved matter for the UK Government, these changes will also apply in Scotland. Based on the Council's current spend in this area, this change would be expected to give rise to a recurring pressure of some £5.9m and increase in line with the general pay award provision thereafter. While further clarification is required, it is understood, however, that the £12 billion raised by the rate changes may be net of additional liabilities incurred by public sector employers. This would give the potential, subject to decisions made by the Scottish Government, for the bodies affected to be compensated accordingly.

Senior management restructuring and Voluntary Early Release Arrangements (VERA)

4.35 To date, business cases resulting in the delivery of recurring annual savings of £2.014m have been approved. When adjusted for the £0.868m of this total required to contribute towards mitigation of existing service pressures or delivery of previously-approved savings, £1.146m is available for offset against the budget framework savings assumption in 2022/23 of £3.158m, resulting in a net shortfall of £2.012m. While opportunities for senior management restructuring and related efficiencies will continue to be explored where appropriate, it is considered prudent to incorporate this shortfall into the Council's financial planning going forward.

Homelessness – recurring pressures

4.36 As of 31 March 2020, the homelessness service was supporting 3,570 households in temporary accommodation. In response to and as a result of the COVID-19 pandemic, the numbers requiring temporary accommodation increased significantly during 2020/21 to 4,431 by 31 March 2021. Most of this increase was of necessity accommodated in short-term lets and bed and breakfast, the most expensive forms of accommodation. There was, however, also an increase in use of private sector leasing following the agreement of improved rates as part of the newly-approved contract.

4.37 This growth resulted in increased net costs of £8.8m in 2020/21, with the full-year effect for 2021/22 estimated to be £14m. Additional funding of £12m has been provided through the 2021/22 budget process to acknowledge the increased costs with an expectation that, as the impact of the pandemic eases, there will be a reduction in costs of £2m as the year progresses (at this stage, a £1.2m residual pressure is being forecast). It is furthermore hoped that any growth in excess of the budgeted level of funding will be mitigated through the roll-out of more explicitly preventative services and income maximisation activity agreed by Council in February.

4.38 Should the rate of increase seen between April and July continue for the rest of the year, however, the estimated impact for 2021/22 would be a further increase of £1m, taking the pressure to £2.2m. The full-year impact for 2022/23 would be an

increased cost of £3.3m. The budget planning assumption for 2022/23 is for a reduction of £4m i.e. reducing the overall level of additional funding to £8m. Should the rate of growth continue for the remainder of the year the service would be starting 2022/23 with a forecast pressure of £7.3m in this area.

4.39 While recognising the need to keep the position under review and to allow time for the preventative measures to take effect, it is considered prudent at this stage to increase the level of provision in 2022/23 from £8m to £10m, with the existing £5m currently baselined thereafter increased to £7m. These changes have the effect of increasing the cumulative funding gap by £2m in each of the next five years.

Edinburgh Integration Joint Board – additional funding support in 2021/22

4.40 Members will recall that the motion approved by Council on 27 May provided an additional £2.5m of in-year support to the EIJB, being equivalent to the Council's proportionate share of the overall projected shortfall in 2021/22. Recognising the continuing prioritisation of the Partnership's pandemic response and the consequent delay in implementing aspects of its transformation programme, it is considered prudent to extend this support for a further year.

Pay award, 2021/22 – recurring impacts

4.41 As noted earlier in the report, the level of employee pay award for 2021/22 has not yet been agreed. The current employer's offer would give rise to a recurring pressure of £1.6m relative to the current level of provision contained within the budget framework.

4.42 It is anticipated that such a level of pressure could be contained in 2022/23 and 2023/24 through redirecting the existing provision for additional Wave 4 school running costs contained within the framework that is not yet required. This saving is however, of its nature, not sustainable over the longer term. Should the final level of settlement be higher than the current employer's offer, this would by extension result in a higher in-year savings requirement and increase the residual funding gap going forward. By means of illustration, each 1% increase would give rise to an additional cost of around £6m.

4.43 Members will be kept apprised of developments in this area and a further update on any resulting financial implications will be reported to the Committee's next meeting on 9 December.

Reinstatement of unallocated General Fund reserve

4.44 As noted in Paragraph 4.24, on 26 August 2021, Council agreed to allocate up to £0.5m from the unallocated general reserve to meet any unfunded costs arising from the resettlement of Afghan refugees within the city. Should this sum be required in 2021/22, the updated budget framework assumes reinstatement of the reserve in 2022/23.

Review of budget framework loans charge provision

4.45 The Sustainable Capital Budget Strategy 2022/32 report included elsewhere on today's agenda includes a detailed commentary on the review of the current capital investment programme to ensure alignment between the updated programming of works and the related loans charge provision requirement within the revenue budget framework.

4.46 Through a combination of (i) COVID-related and other programme slippage, (ii) the impact of the Loans Fund review reported to the Finance and Resources Committee on 14 February 2020, (iii) borrowing secured at historically low rates and (iv) anticipated reductions in interest rates going forward, opportunities have been identified to fund, in full, the current 2022/32 capital investment programme whilst also consolidating within the framework the savings in loans charges apparent in the current year's revenue monitoring. In addition to the £6m of savings in 2021/22 forecast in this area, in-year programme slippage is anticipated to result in a further £2m of loans charge savings relative to budgetary provision accruing from 2022/23 onwards. An assumed recurring saving of £8m is therefore available to offset the net pressures outlined in the preceding sections, resulting in the updated savings requirements shown in the table below.

	2022/23	2023/24	2024/25	2025/26	2026/27
	£000	£000	£000	£000	£000
Restated funding gap, taking account of investment approved by Council on 27 May	3,325	52,424	67,424	94,528	122,098
Subsequent changes:					
National Insurance - 1.25% employer contribution rate increase from April 2022	5,900	6,077	6,259	6,447	6,641
VERA/Senior Management review - savings delivery shortfall	2,012	2,012	2,012	2,012	2,012
Homelessness - additional provision for continuing service pressure	2,000	2,000	2,000	2,000	2,000
Integration Joint Board - assumed continuation of additional 2021/22 contribution for further year	2,500	0	0	0	0
Pay award - continuing pressure of current employer offer for 2021/22	1,600	1,600	1,600	1,600	1,600
Wave 4 revenue running costs - timing-related saving	(1,600)	(1,600)	0	0	0
Reinstatement of unallocated general reserve (if utilised in 2021/22)	500	0	0	0	0
Reduction in required loans charge provision	(8,000)	(8,000)	(8,000)	(8,000)	(8,000)
Revised estimated funding gap	**8,237**	**54,513**	**71,295**	**98,587**	**126,350**

4.47 These assumptions will be reviewed upon receipt of the Local Government Finance Settlement. The UK Government has now confirmed that it will present a multi-year

2021 Spending Review and Autumn Budget on 27 October, including planning totals for both revenue and capital expenditure for the period from 2022/23 to 2024/25 inclusive. The Cabinet Secretary for Finance and Economy has now agreed with the Scottish Parliament's Finance and Public Administration Committee that the Scottish Budget will be introduced on 9 December 2021. Although the announcement is expected to cover only one year, this will be accompanied by the publication of the Scottish Government's Medium-Term Financial Strategy which will provide relevant context and frame its strategic approach to fiscal policy. As of the time of writing, a specific publication date for the Local Government Finance Settlement (also covering one year) remains to be confirmed but is anticipated to be shortly after the Budget announcement.

4.48 While full funding of the existing capital programme is to be welcomed, it is important to re-emphasise that delivery of the associated plan is dependent upon a balanced medium- to longer-term revenue budget framework. As can be seen from the table above, significant funding shortfalls remain, particularly in respect of the incremental savings requirement in 2023/24 and, as such, this criterion cannot yet be considered to have been met.

4.49 Recognising the lead-in time for the scale of change likely to be required, this position re-emphasises the need for early consideration and a corresponding comprehensive and sustainable savings plan, rooted in the Council's priorities as set out in the Business Plan, to be initiated by the autumn to address the projected funding gap in 2022/23 and, in particular, the significant shortfalls in subsequent years.

Other risks

4.50 A number of other risks exist within the budget framework, including but not limited to the following:

(i) while the level of provision has been increased significantly, the continuing expenditure and cost impacts of the pandemic on the Council and its ALEOs may exceed the level of provision contained within the budget framework, particularly in 2023/24 and 2024/25 when this provision reduces to £11m and £3m respectively;

(ii) pressures or savings delivery shortfalls being mitigated on a one-off basis through the provision of additional funding in 2021/22 (excluding homelessness and the EIJB, totalling £2.846m) are not managed on a sustainable basis going forward, giving rise to recurring pressures in future years;

(iii) for those investments where assumed recurring provision has been incorporated within the framework, this level of funding may be insufficient, particularly in demand-led areas; and

a wider inability to identify further savings, given that only £0.310m of proposals were brought forward as part of 2021/22 budget discussions.

4.51 At the meeting of Council on 23 September 2021, members agreed to the granting of an additional fixed day's leave for all employees on 3 June 2022 to mark Her Majesty the Queen's Platinum Jubilee. While the sums concerned remain to be confirmed, this will give rise to enhanced payments and other costs for employees and services still requiring to operate on this date.

Budget "lessons learned" review

4.52 A "lessons learned" review has been introduced as part of the annual budget process. Interviews were held with elected members, the Corporate Leadership Team and colleagues from Finance and Strategic Change and Delivery. The review was based on the CIPFA Financial Management Code which sets the principles and standards of financial management for local authorities; supports improved financial resilience; and encourages greater organisational responsibility for financial management and sustainability.

4.53 General feedback on the Council's 2021/22 budget-setting process was positive, recognising the complexity of tracking and reporting frequently-changing funding announcements and expenditure/income impacts during the pandemic. It was felt that complex information was presented in a clear, concise and timely manner with good cross-party engagement through the Finance and Resources Committee and good wider engagement on budget matters with all political groups.

4.54 Feedback recognised a number of positive improvements within the 2021/22 budget-setting process including realignment and reprioritisation of reserves; provision for underlying service pressures and anticipated savings shortfalls; approval of Business Plan priorities; and investment in prevention-related initiatives.

4.55 A number of suggestions for further improvements to the budget process were identified with a key priority being the development of a detailed medium-term revenue savings and prioritisation programme aligned to Business Plan priorities. An action plan has been agreed (included as Appendix 3) and implementation will be reported through Committee with progress to date including a review of a number of key budget assumptions within the medium-term revenue budget framework; agreement by the Council of a proportionate additional contribution of £2.5m to the EIJB 2021/22 budget gap; increased provision of £39m in 2021/22 and £25m in 2022/23 for the estimated financial impacts of Covid-19; and development of funding solutions to address budget gaps and support a sustainable capital budget strategy.

5. Next Steps

5.1 The cost and income impacts of the coronavirus pandemic will continue to be actively tracked and refined as additional clarity is received on the timing and nature of the easing of current restrictions.

5.2 Executive Directors require to bring forward measures to offset in full the savings delivery shortfalls and residual service pressures within their respective areas of responsibility. At this stage, however, shortfalls of £2.6m (Communities and Families) and £1.6m (Place) remain and the development of corresponding sustainable actions is required both to reduce any in-year call on the Council's earmarked reserves and enhance the sustainability of the budget framework.

6. Financial impact

6.1 The report notes a range of significant expenditure pressures, both in respect of Council services and impacts on the activities of the Council's ALEOs. While a balanced in-year position is currently being forecast, the financial impacts of the pandemic are expected to continue at least into the medium term and will, alongside management of risks and pressures, thus be subject to on-going review as part of maintaining the integrity of the revised budget framework approved by Council on 27 May.

6.2 While the receipt of recent additional funding is to be welcomed, it is important not to lose sight of the more fundamental need to bring forward a comprehensive and sustainable savings plan, rooted in the Council's priorities, to address significant projected funding gaps from 2023/24 onwards.

7. Stakeholder/Community Impact

7.1 A detailed report summarising the response to the Council's recent engagement on budget priorities for 2021/22 and beyond, including relevant supporting material from other engagement activity on priorities and life experiences during the COVID-19 pandemic, was considered by the Finance and Resources Committee on 2 February and referred on to Council as part of the 2021/22 budget-setting meeting.

8. Background reading/external references

8.1 Finance Update, Edinburgh Integration Joint Board, 17 August 2021

8.2 Revenue Monitoring 2021/22 – Month Three Position, Finance and Resources Committee, 12 August 2021

8.3 Revenue Budget Framework 2021/26 Update – referral from the Finance and Resources Committee, The City of Edinburgh Council, 27 May 2021

8.4 Revenue Budget 2020/21 and 2021/26 Budget Framework Update, Finance and Resources Committee, 4 March 2021

8.5 Coalition Budget Motion, The City of Edinburgh Council, 18 February 2021

9. Appendices

9.1 Appendix 1 – Approved investments and pressure/savings shortfall mitigations – current status

9.2 Appendix 2 – Current principal financial planning assumptions, 2022/23 to 2026/27

9.2 Appendix 3 – Budget “Lessons Learned” Action Plan

Approved investments and pressure/savings shortfall mitigations – current status

Appendix 1

Investment	2021/22 £m	Investment/ Pressure	Current Directorate	RAG Status	Status Narrative	Risk of overspend
Communal Bins	1.100	Investment	Place	R	No contractual commitment to be made until outcome of Zero Waste Scotland funding application is known in October 2021. Revised business case may be required depending on funding outcome.	
Tram Concessions – free under-19 travel	0.500	Investment	Place	R	Scottish Government policy is now for under-22 free travel on buses. If this were applied to trams, the cost would exceed the approved annual level of investment funding by at least £1m, with this sum likely to increase significantly upon opening of the tram extension.	Eligibility criteria will require to be tightly defined to prevent risk of significant overspend.
Edinburgh Bike Scheme	0.800	Investment	Place	R	Following the failure of contract extension negotiations, the current scheme ended on 17 September and alternative options are therefore being investigated.	
Carers' Recovery Fund	0.250	Investment	Health and Social Care	A	Discussions have been initiated between VOCAL (Voice of Carers Across Lothian) and the Edinburgh Health and Social Care Partnership to develop detailed delivery plans.	
Early commitments to support a city-wide 2030 Net Zero Strategy	0.700	Investment	Corporate Services	A	Council Sustainability Team costs fully covered; some delay on commissioning energy consultancy but deliverable. As of time of writing, public campaigns have not yet begun hence amber overall status.	
Food Growing	0.130	Investment	Corporate Services	A	Draft profile of investment has been developed for discussion with Sustainability and Equality Champion.	
Positive Destination and Holiday Programme Officers	0.124	Investment	Education and Children's Services	A	Recruitment process is underway.	
All Ability Bikes	0.071	Investment	Place	A	Grant award to the Thistle Foundation to support the delivery of a service to allow adaptive cycles to be available for disabled people across the city was approved by Transport and Environment Committee at continuation of its meeting originally held on 19 August 2021.	
Smart Cities	0.500	Investment	Place	A	The related commercial terms are currently being finalised and the programme will seek to join the Council's Change Portfolio for in-depth monitoring from September 2021.	
Roads, Carriageways and Pavements	6.000	Investment	Place	A	Delivery programme has been developed and associated phasing is being agreed with Finance colleagues.	
Increased foot and cycleway gritting and cleaning	0.300	Investment	Place	A	Procurement of the additional vehicles is underway. Pavement gritting routes have been designed and are being tested and risk-assessed by staff.	
Electric Vehicle Infrastructure	0.250	Investment	Place	A	Relates to installation of charging points for Council fleet	
20 minute neighbourhood strategy – enabling works	0.500	Investment	Place	A	18-month funding agreed at CLT on 28 July and now into secondments and/or recruitment for resource.	
Accelerating decarbonisation of the Council's estate	1.000	Investment	Place	A	Near completion of feasibility stage for the two pilot projects with a further 11 projects now in tranche 1 of feasibility since funding approved. Investment likely to be fully committed by the end of this financial year, once cost profile of these pilots fully understood. Members' briefing is being scheduled to give an overview of the programme and investment required to reach 2030 targets.	
Energy and Waste actions and Net Zero Strategy	0.200	Investment	Place	A	Implementation planning underway, project management support required given tight timescales.	

Approved investments and pressure/savings shortfall mitigations – current status

Investment	2021/22 £m	Investment/ Pressure	Directorate	RAG Status	Status Narrative	Risk of overspend
Council Tax freeze - net loss of income	5.200	Investment	Corporate	G	No further action needed; Council Tax frozen (and 3% "compensation" received) as part of setting Council's 2021/22 budget on 18 February.	
Contribution to reserves	2.743	Investment	Corporate	G	No further action needed; actioned as part of setting 2021/22 budget.	
Edinburgh Integration Joint Board	2.500	Investment	Corporate	G	Transfer actioned; no further action needed.	
Discretionary fees and charges	0.170	Investment	Corporate	G	No further action needed; freezing of school meal, garden aid, library and home care charges approved as part of 2021/22 budget motion.	
Independent Inquiries	0.400	Investment	Corporate	G	In-year spend being tracked and reported to Group Leaders.	Given the demand-led nature of the inquiry, there is an inherent risk of overspend.
Maximising income and meeting crisis needs	1.050	Investment	Corporate Services	G	Implementation on track, with owners established for each element (Income Max, Discover, 1in5 and Advice Services)	
Sustainability	0.300	Investment	Corporate Services	G	Carbon literacy training and COP26 events in train	
Embedding prevention and community engagement	0.600	Investment	Corporate Services	G	Resource profile agreed at CLT 28/07, with outcomes to be fully defined. Recruitment is underway.	
Diversity Training	0.100	Investment	Corporate Services	G	Project plan developed and training delivery partners commissioned.	
Gaelic Development Officer	0.052	Investment	Corporate Services	G	Relates to the extension of an existing fixed-term post and has been progressed.	
Homelessness support and advice	0.400	Investment	Education and Children's Services	G	Spend of additional funds is on track with recruitment nearly complete and training underway.	
Library Books	0.050	Investment	Education and Children's Services	G	Funding for pupil educational and development needs within school libraries (£29k), in addition to spend within wider library estate.	
Nursery deferrals	0.169	Investment	Education and Children's Services	G	Funding for expected increase in number of deferrals for entry to P1, based on 40 additional deferrals.	Based on the actual number of deferrals for session 2021/22, the level of investment is broadly sufficient.
1-to-1 Digital Learning	2.000	Investment	Education and Children's Services	G	Project underway with business case approved at CLT, updates to Policy and Sustainability Committee and Governance, Risk and Best Value in August and September.	

Approved investments and pressure/savings shortfall mitigations – current status

Investment	2021/22 £m	Investment/ Pressure	Directorate	RAG Status	Status Narrative	Risk of overspend
Homelessness	2.000	Offsetting Pressure	Education and Children's Services	G	£2m allocated based on initial assessment of residual pressure of £3m.	Current projected residual pressure of £1.2m but being contained within balanced overall Council-wide position in 2021/22
Looked after children	1.500	Offsetting Pressure	Education and Children's Services	G	To be applied to address pressures in Out of Council Residential and Secure placements pending implementation of early intervention and preventative measures to reduce demand.	Current projected residual pressure of £0.7m but being contained within balanced overall Council-wide position in 2021/22
Home to school transport	0.600	Offsetting Pressure	Education and Children's Services	G	Travel Demand - reduces approved saving/investment reduction of £0.9m to £0.3m in 2021/22 only.	Current projected residual pressure of £0.3m but being contained within balanced overall Council-wide position in 2021/22
Corporate Parenting	0.110	Investment	Education and Children's Services	G	Additional funding to allow continuation of current arrangements	
Public conveniences	0.450	Offsetting Pressure	Place	G	Additional temporary toilets in premier parks and other key locations	Actual costs slightly exceed approved investment due to extended period of opening - refinement of figures required, will revert to SMT as part of reporting.
Edinburgh's Summer Festivals	0.300	Investment	Place	G	Funds disbursed as agreed.	
Parks & Greenspace one-off	0.500	Investment	Place	G	Million Tree Project, Greenspace for Foamstream, Thriving Greenspaces project.	
Short Term Lets regulation set-up costs	0.250	Investment	Place	G	As expected – on track to be spent.	
Edinburgh Guarantee for All	0.175	Investment	Place	G	As expected – on track to be spent.	
Taxi and Licence Enforcement	0.160	Investment	Place	G	As expected – on track to be spent.	
Place - fees and charges reduced income	0.559	Offsetting Pressure	Place	G	Funding applied against income shortfall as agreed.	
Development and Business Services Operating Model - reduced income	0.187	Savings Shortfall	Place	G	Funding applied against income shortfall as agreed.	
Investment in Parks, Greenspace and Cemetery Infrastructure	0.250	Investment	Place	G	£4m prioritised programme of capital works (the recurring loans charge cost of which is £250k) approved by Culture and Communities Committee on 15 June.	
Total	**35.200**					

Current principal financial planning assumptions, 2022/23 to 2026/27

	2022/23	2023/24	2024/25	2025/26	2026/27	Notes
Pay award	2%	3%	3%	3%	3%	Each 1% increase equates to £6m at 2021/22 prices
Contract and other inflation	2%	2%	2%	2%	2%	Each 1% increase equates to £3m at 2021/22 prices
Total provision for recurring expenditure and income impacts of pandemic (£m)	25.3	11.0	3.0	3.0	3.0	Actual expenditure/income in 2020/21 was £69m and budget framework provision in 2021/22 is £39m
Demographic provision (Education and Children's Services and Place) (£m)	4.0	4.0	4.0	4.0	4.0	Allocation primarily covers increasing pupil numbers and growing household numbers; level of provision to be reviewed in line with updated pupil roll projections when available
Government grant and retained Non-Domestic Rates income - assumed year-on-year change in like-for-like funding	-0.7%	0%	0%	0%	0%	Each 1% equates to £7.7m at 2021/22 funding levels
Council Tax - increase in rate (or receipt of "freeze" compensating funding)	3%	3%	3%	3%	3%	Each 1% equates to £3.1m at 2021/22 funding levels

Budget "Lessons Learned" - Action Plan 2022/23

Appendix 3

CIPFA FM Code Section	Development Actions 2022/23
Governance and financial management style	Deliver development sessions for Elected Members, Senior Managers, Finance and Strategy staff on the CIPFA Financial Management Code. Elected Member development to be prioritised following the Elections in May 2022.
Long to medium-term financial management	Continue to support case for "fair funding", multi-year funding settlements and increased flexibility through COSLA and professional bodies.
	Develop a detailed medium-term revenue budget savings and prioritisation programme aligned to Business Plan priorities. Realistic service savings and investment proposals aligned to anticipated resources to be available in May / June 2022. Implement a new approach to medium-term service planning: research best practice in medium-term business / service planning; leadership team to agree strategy for prioritisation of services / allocation of the estimated savings requirement to inform service plan development; Finance and Strategy teams to support the development of data / evidence to facilitate assessment of value for money; Leadership team to provide peer review and constructive challenge.
	Develop affordability of the Capital Investment Programme for the period of the next Administration including development of a realistic phasing of approved investments and assessment of the implications of the move to equal instalments of principal.
	Develop enhanced leadership team scrutiny of the EIJB annual budget, strategic plan and medium-term financial plan.
	Review key assumptions within the medium-term revenue budget framework including SG settlement, Council Tax uplift and EIJB savings. (Revised assumptions agreed by Council 27 May 2021 – 3% Council Tax for 2022/23; "Flat Cash" SG funding from 2023/24; removed 2% EIJB savings target in 2022/23).
	Develop a clear, simple illustration / explanation of the estimated medium-term funding gaps to support broader engagement and understanding.
	Review demographic provision in the medium term budget framework to ensure that assumptions remain appropriate.
	Review planning assumptions to ensure that the revenue budget financial implications of the Capital Investment Programme are fully reflected in the medium-term revenue budget framework.
	Issue an indicative 3-year resource allocation to the EIJB to support development of EIJB strategic planning.
	Review EHSCP demographic assumptions to develop more refined projections

Budget "Lessons Learned" - Action Plan 2022/23 – continued

CIPFA FM Code Section	Development Actions 2022/23
The annual budget process	Consider a proportionate additional contribution to the EIJB 2021/22 budget gap of £9.3m (£2.5m contribution agreed by Council on 27th May 2021).
	Accelerate publication of fees and charges proposals including estimated financial impacts of proposed uplifts. Proposed uplifts 2022/23 to be shared by Dec. 2021.
	Embed enhanced CLT scrutiny of underlying budget pressures and savings proposals within the annual budget process.
	Further develop CLT and Elected Member engagement on the HRA budget strategy and capital programme.
	Embed regular engagement between Executive Directors / Service Directors and Conveners / Vice Conveners on key budget issues, including agreement of any actions to address budget pressures and risks.
	Refresh guidance for managers on arrangements for consideration of Spend to Save proposals.
	Develop a budget timetable with key milestones and indicative dates.
	Develop an additional step in the budget process to document detailed implementation plans for more complex change proposals.
	Develop more regular business plan and budget engagement with the Council's Wider Leadership Team.
	Embed "open book" budget discussions between Executive Directors / Service Directors and Opposition Groups.
	Update 21/22 budget and medium-term plan when COVD impacts / funding become clearer. (Provision increased to £39m in 2021/22 and £25m in 2022/23 at Council on 27 May 2021. Position subject to ongoing review.)
Stakeholder engagement and business cases	Develop a refreshed budget engagement strategy for detailed medium-term business plan.
	Develop detailed plans for approved investments including contribution to outcomes and exit strategies for non-recurring investment. A detailed update will be reported to the Finance and Resources Committee on 7 October.
	Strengthen business case and option appraisal approach / governance with business cases to follow a proportionate framework aligned to the HM Treasury standard five case model including appropriate provision for optimism bias.
Monitoring financial performance	Further develop Directorate budget monitoring information to strengthen consistency / best practice. Reporting should track development and implementation of timely action by accountable service managers to correct / mitigate emerging pressures and risks.

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Governance, Risk and Best Value Committee

10.00am, Tuesday 9 November 2021

Sustainable Capital Budget Strategy 2022-2032 – referral from the Finance and Resources Committee

Executive/routine
Wards
Council Commitments

1. For Decision/Action

1.1 The Finance and Resources Committee has referred a report on the Sustainable Capital Budget Strategy 2022-2032 to the Governance, Risk and Best Value Committee for consideration as part of its workplan.

Stephen S Moir
Executive Director of Corporate Services

Contact: Emily Traynor, Assistant Committee Officer
Legal and Assurance Division, Corporate Services Directorate
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EDINBVRGH
THE CITY OF EDINBURGH COUNCIL

Referral Report

Sustainable Capital Budget Strategy 2022-2032

2. Terms of Referral

2.1 On 7 October 2021, the Finance and Resources Committee considered a report which set out the priorities for £1,725.732m of council capital investment, in alignment with the Council Business Plan, over the medium to long-term.

2.2 The Finance and Resources Committee agreed:

2.2.1 To note the priorities for capital expenditure outlined in the report which were aligned to the Council Business Plan;

2.2.2 To note proposed funding solutions and that the plan was now balanced, subject to the risks set out in the report;

2.2.3 To note the announcement of the provisional Local Government Finance Settlement was expected in December 2021;

2.2.4 To note that delivery of funded capital expenditure priorities was dependent on the achievement of a balanced medium-term revenue budget;

2.2.5 To note that a further report on the Sustainable Capital Budget Strategy 2022-2032 would be presented to the Committee on 3 February 2022 prior to Council budget setting in February 2022; and

2.2.6 To refer the report to the Governance Risk and Best Value Committee as part of its work programme.

3. Background Reading/ External References

3.1 Finance and Resources Committee – 7 October 2021 - Webcast

3.2 Minute of the Finance and Resources Committee of 7 October 2021

4. Appendices

4.1 Appendix 1 – report by the Executive Director of Corporate Services

Finance and Resources Committee

10.00am, Thursday, 7 October 2021

Sustainable Capital Budget Strategy 2022-2032

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

1. Recommendations

1.1 To note the priorities for capital expenditure outlined in this report which are aligned to the Council Business Plan;

1.2 To note proposed funding solutions and that the plan is now balanced, subject to the risks set out in this report;

1.3 To note the announcement of the provisional Local Government Finance Settlement is expected in December 2021;

1.4 To note that delivery of funded capital expenditure priorities is dependent on the achievement of a balanced medium-term revenue budget;

1.5 To note that a further report on the Sustainable Capital Budget Strategy 2022-2032 will be presented to the Committee on 3 February 2022 prior to Council budget setting in February 2022; and

1.6 To refer the report to the Governance Risk and Best Value Committee as part of its work programme.

Stephen S. Moir
Executive Director of Corporate Services

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EDINBVRGH
THE CITY OF EDINBURGH COUNCIL

Report

Sustainable Capital Budget Strategy 2022-2032

2. Executive Summary

2.1 The Sustainable Capital Budget Strategy sets out priorities for £1,725.732m of council capital investment, in alignment with the Council Business Plan, over the medium to long-term.

2.2 As the overall funding position of the Sustainable Capital Budget Strategy in Appendix 3 shows, the programme is now funded over the 10-year period. However, if a funding gap in the strategy emerges through failure to deliver revenue savings or project cost pressures increase, then further re-profiling of priorities, reduction in scope of projects or additional revenue savings to fund the borrowing costs to deliver the Capital Budget Strategy will be required ahead of future budget setting to comply with the terms of the Prudential Code. This could potentially mean that later phases of the Wave 4 Schools programme could not be delivered within the ten-year programme.

2.3 The Strategy is expected to come under significant financial pressure as a result of higher tender prices caused by external factors including COVID-19 and Brexit. The extent of the impact of these is likely to differ between programmes and projects and it is still too early to understand the full cost to the Council. This is notable in the scarcity and cost pressures in various key construction materials, i.e. steel and timber, which is leading to slippage on delivery of projects.

2.4 The strategy assumes that some priorities, such as the City Centre Transformation and wider transport initiatives, will need to be funded primarily from external funding unless significant realignment of existing budgets is undertaken. The wider financial implications of City Plan 2030 infrastructure requirements are also likely to have a further impact on the 2022-32 Capital Budget Strategy which has yet to be fully understood and reflected in the assumptions of this report.

3. Background

3.1 The Sustainable Capital Budget Strategy 2021-2031 was reported to Finance and Resources Committee on 2 February 2021. This report detailed priorities for council capital investment of £1,492.494m, in alignment with the new Council Business Plan, over the medium to long-term and set out a plan on how they could be

funded. However, there was a funding gap of £171.779m which needed to be addressed in subsequent updates. The report also emphasised the Council's commitment to end poverty in Edinburgh and become a Carbon Neutral city by 2030. While the plan was affordable in the years in the short-term, thereafter a funding gap developed from 2024/25 onwards, which future budgets needed to address.

3.2 The Council needs to ensure that it creates a sustainable capital budget strategy, from an environmental, financial and service delivery perspective. COVID-19 and the true costs of creating Carbon Neutral infrastructure will have an impact on what the Council can afford, and it needs to ensure that the projects taken forward are the right choices with more limited resources. It also needs to consider a total place approach where new buildings are not built in isolation but consider the full range of services offered, their role and accessibility within the local community.

3.3 This report eliminates the previously reported funding gap, highlighting capital investment priorities for the next 10 years and the corresponding proposed funding solutions. This report should be read in parallel with the revenue budget report elsewhere on this agenda as the revenue impact of additional capital expenditure needs to be contained within a balanced medium-term revenue budget.

3.4 The three-year Business Plan: *Our Future Council; Our Future City* brings together our strategic priorities into a single plan responding to these needs for change and should also be read alongside this strategy and the wider capital and revenue budgets.

3.5 This report only covers the general fund capital investment programme. The capital expenditure requirements for the Housing Revenue Account will be included in an update on the Housing Revenue Account business plan to Housing, Homelessness and Fair Work Committee on 4 November and thereafter to Finance and Resources Committee as part of the budget setting process in February 2022.

4. Main report

Latest 2021/22 Capital Monitoring Position including current market conditions update

4.1 The Capital Budget Strategy is expected to come under further financial pressure as a result of higher tender prices caused by current market conditions. The extent of the impact is likely to differ between programmes and projects and it is still too early to understand the full cost the pandemic has had on the Council's capital programme. This is notable in the scarcity and cost pressures in various key construction materials, e.g. steel and timber, which is leading to slippage and cost pressures on delivery of projects.

4.2 The latest Capital Monitoring position at period three for the 2021/22 financial year was reported to Finance and Resources Committee on 12 August 2021. A further

update on the 2021/22 in-year Capital Monitoring position will be reported to Finance and Resources Committee on 9 December 2021.

Proposed Capital Expenditure

4.3 The Sustainable Capital Budget Strategy 2022-32 sets out priorities for £1,725.732m of council capital investment, in alignment with the Council Business Plan, over the medium to long-term. The level of capital expenditure required has increased from the amount previously reported, as it takes account of confirmed grant funding for specific projects, and revised expenditure forecasts. It also rolls forward the programme for an additional year. The proposed capital expenditure is set out in Appendix 1 by project area and split by relevant financial year.

4.4 There is a significant opportunity for the learning estate buildings across the city to become anchor facilities for wider joined up service delivery in local communities aligned to the principles of the 20-minute neighbourhood concept. For all new learning estate projects currently in development, options for wider service delivery from the facility are being considered during the design phase with flexible working space included as budgets allow. This process is most advanced at the replacement Currie High School and Liberton High School projects and the new Maybury Primary School project where the Passivhaus certified standard will also be adopted.

4.5 This process will continue as the remainder of the planned projects included in the Sustainable Capital Budget Strategy are progressed. The projects are: Trinity Academy Phase 2; Wester Hailes High School Phase 2; LDP primary and secondary schools. It is essential to ensure the strategic briefs for these projects outline the teaching, learning and wider community requirements from the outset to ensure the buildings constructed are fit for purpose.

4.6 There is also an opportunity for existing learning estate facilities to be adapted in order that wider services can be delivered from these locations. In order to ensure this is successful detailed suitability assessment of the physical changes required to the learning estate should be progressed. A new Edinburgh's Learning Estate Strategy 2021 'Investing in New Buildings: Guiding Principles' will be reported to Education, Children and Families Committee on 12 October 2021.

4.7 To become carbon neutral by 2030, the city will need to tackle its largest sources of carbon emissions. The transport sector is one such significant source and road transport accounts for 68% of total transport emissions. Investing in active travel infrastructure provides the city's residents, visitors and businesses a means of transport that is low carbon and can efficiently move people and goods around the city. Active travel not only has a lower carbon footprint than private vehicles, it is also better for the city's air quality. To work towards the target of being carbon neutral by 2030 there is council capital funding of £72.061m to deliver Public Transport, Road Safety and Active Travel infrastructure which will be augmented by external funding.

4.8 The Capital Budget Strategy also includes £126.693m for completion of the tram line to Newhaven, which will increase public transport capacity and help to reduce transport emissions. Although there is expected to be some minor reprofiling between financial years, the project is anticipated to be delivered within its original budget of £207.3m. A more detailed update report on the project will be considered by Transport and Environment Committee on 11 November 2021.

4.9 In order to continue to deliver high-quality services, the Council needs to continue to invest in the condition and suitability of its assets. The Sustainable Capital Budget Strategy 2022-32, as set out in Appendix 1, includes £224.263m for the existing operational estate to continue the positive impact of the Asset Management Works Programme as most recently reported to Finance and Resources Committee on 12 August 2021. There is also a further £203.954m allocated towards carriageways and footways as well as continuing investment in specific assets such as the completion of the North Bridge Refurbishment.

4.10 While additional social housing provision is financed by the Housing Revenue Account, the general fund capital programme provides £209.707m for lending to Edinburgh Living LLPs which is included within this Strategy. These projects are self-financing as a result of income from affordable rents. Further information on the risks of this on-lending are included in paragraph 4.31.

Proposed Capital Expenditure Savings

4.11 There are no new capital expenditure savings proposed at this stage, however, if a funding gap in the strategy emerges through failure to deliver previous savings or project cost pressures then further re-profiling of priorities, reduction in scope of projects or additional revenue savings to fund the borrowing costs to deliver the Capital Budget Strategy will be required ahead of future budget setting to comply with the terms of the Prudential Code.

4.12 In the previous update on the Sustainable Capital Budget Strategy in February 2021, it was proposed that a business plan would be developed and through receipts and savings a total of £63.160m was removed from the strategy as a result of the proposed review of the learning estate programme. The ongoing pandemic, delays to capital projects that are already being constructed, the continuing market cost increases and material shortages being experienced in the construction sector have made it impossible to progress a detailed capital programme savings exercise for the learning estate. However, it remains essential to assess opportunities for reducing the overall level of investment over time and utilise existing capacity in the best possible manner.

4.13 A Learning Estate Investment Implementation Unit has been created at officer level to co-ordinate these opportunities. Further updates will be provided to Committee on this as part of the wider budget setting process.

4.14 Year-on-year there is also slippage in the capital programme and a slippage assumption has been applied over the latest cashflows into the Strategy which has reduced the funding pressure by £7.737m in the 10-year programme.

Proposed Capital Funding

4.15 The Sustainable Capital Budget Strategy 2022-2032 funding has been thoroughly reviewed line by line following the setting of the previous strategy in February 2021. This was undertaken to consider any opportunities to address the previously reported funding gap.

4.16 The Long-Term Financial Plan and Resource Allocation for revenue has also been reviewed to ensure alignment with the revised Capital Budget Strategy timescales and expenditure. This was undertaken to understand the availability of revenue loan charges budget to support Loans Fund Advances resulting from capital investment. The review also considered the required revenue expenditure on the running costs of these assets. This review concluded that the Capital Budget Strategy was affordable as it stands in Appendix 1.

4.17 The review resulted in an additional £125.908m being made available for Loans Fund Advances within the Capital Budget Strategy to balance the funding position. The key drivers in being able to deliver this additional funding are the Loans Fund Review reported to Finance and Resources Committee on 14 February 2020 and an update included in the Treasury Management – Annual Report which was reported to Finance and Resources Committee on 12 August 2021.

4.18 The Loans Fund Review re-profiled the pre-March 2019 advances and impact of slippage in the capital programme in such a way that material reductions in budget provision could be made. Appendix 6 of the Treasury Management – Annual Report showed that £100m of General Fund borrowing had been undertaken in the 2021/22 financial year so far at interest rates below the budgetary assumptions.

4.19 With interest rates at historic lows, this was done to strike a balance between the cost of carry of new borrowing and the wish to lock out the low rates for the required borrowing to fund the Capital Budget Strategy. Reviews were also undertaken of interest rate projections in the medium term and on assumed asset life taking account of maintenance provisions. The combined effect of these measures extrapolated into future years showed that there was sufficient availability of revenue loan charges budget in the revenue budget framework to support the Loans Fund Advances required to deliver a balanced Sustainable Capital Budget Strategy.

4.20 In addition to the above borrowing, there is an assumption that 10% of the annual revenue Council Tax buoyancy increase can be used to support borrowing costs but this assumption is dependent upon continued growth in the Edinburgh housing sector increasing the Council Tax base. On review, it was determined that a further £0.400m per year could be hypothecated from the Council Tax buoyancy in revenue to support capital investment linked to Local Development Plan growth. This resulted in an additional £5.700m per year being provided in the Capital Budget Strategy funding assumptions.

4.21 The provisional Local Government Finance Settlement is expected to be announced in December 2021. Within Appendix 1, it is assumed:

- General Capital Grant is expected to increase at slightly lower than previously expected levels with; £39.240m in 2022/23, £39.080m in 2023/24, £41.287m in 2024/25 and £41.849m in 2025/26 based on the Scottish Government Capital Spending Review. The years from 2026/27 onwards are based on a slightly more optimistic trend, however, this may have to be revisited in future;
- Cycling, Walking and Safer Routes (CWSR) is expected to continue at the current funding level of £2.299m until 2025/26 per the Scottish Government Capital Spending Review;
- Transfer of Management of Development Funding (TMDF) is expected to continue at the funding level of £27.950m until 2025/26 per the Scottish Government Capital Spending Review. However, based on previous experience this will be supplemented by Additional Homes funding, which will result in matching income and expenditure being recognised over and above this level; and
- Place Based Investment Programme (PBIP) funding is expected to continue, with £1.735m expected in 2022/23 and £1.209m expected in 2023/24 to 2025/26.

4.22 There have been no further changes to Developer Contributions assumed within the strategy, but this funding stream will be kept under review as the Wave 4 schools, Local Development Plan and subsequently City Plan infrastructure progress.

4.23 The Capital Budget Strategy assumes Capital Receipts from Asset Sales of £3m per year which will be closely monitored. There is a risk that if capital receipts are not received, or not received in the same financial year as the expenditure is incurred, additional funding pressures will occur which would increase the revenue pressures with higher than anticipated revenue loan charges.

4.24 Within the Council's reserves, there is the Capital Fund which has £27m set aside to be drawn down to support capital investment. In addition to this, £2m had been ring-fenced within the Capital Fund from a previous capital receipt to assist with the delivery of a new, 60 bed Integrated Care Facility (ICF). Elsewhere on the Committee agenda, there is a further report outlining the proposed re-prioritisation of this funding to support a mobile workforce solution (Total mobile) for improving capacity for reablement and home-based care services and enabling delivery of the bed base care strategy.

4.25 There is also a further £47.949m in the Capital Grants Unapplied Account to be drawn down against the relevant expenditure, including £43.827m for completion of the Early Years infrastructure. This is held in Reserve outwith the capital expenditure and funding in Appendix 1 and will be drawn down as income to offset expenditure when it is incurred.

4.26 The funding changes are summarised in Appendix 2, along with summarised details of the other expenditure movements from the 2021-31 Capital Budget Strategy approved in February 2021.

Funding Pressure and Risks

4.27 There is still a potential risk of expenditure exceeding budget on projects and these will be reviewed as part of the quarterly monitoring and included in the Council's 2022 budget planning process, as appropriate.

4.28 If the Council is unable to make the revenue savings required to support the loan charges assumed, then capital expenditure will need to be reduced, potentially meaning that later phases of the Wave 4 Schools programme could not be delivered within the ten-year programme.

4.29 Scottish Government funding will be available through the outcomes-based funding (OBF) model for Wave 4 schools included in the Learning Estate Investment Programme Phases 1 and 2. The funding will be released on evidence of the achievement of four agreed key outcomes. These are maintaining asset condition A and/or B for 25 years, achieving Energy Efficiency targets, being Digitally enabled learning hubs and delivering Economic Growth through meeting a target number of jobs per the Construction Industry Training Board (CITB). There is a risk that if the Council assets fail to meet the requirement criteria, that funding would be reduced, resulting in a revenue funding pressure for the Council.

4.30 The Scottish Government has also indicated that it wishes Local Authorities to change from the annuity method for Loans Fund Advances and align more closely with accounting standards by using a depreciation method for debt charges over the asset life. This change towards an equal instalment of principal approach would result in increasing the annual costs of borrowing once repayment of principal and interest are considered, especially in the earlier years after the asset becomes operational. The financial impact of any change in accounting treatment will be kept under review.

4.31 At present the City of Edinburgh Council only has consent to borrow from the Scottish Government for Edinburgh Living LLP up to 2023-24 for a total of £248.000m. At present, both the Housing Revenue Account (HRA) Business Plan and General Fund on-lending assume continuation of the consent beyond this point, in the form of capital receipts in the HRA and borrowing in the General Fund. Work is underway to understand future viable models for mid-market and market rent; taking into account development costs, availability of grant funding and consents.

4.32 The wider financial implications of City Plan 2030 may also have a further impact on the 2022-32 Capital Budget Strategy which have yet to be fully understood and reflected in the assumptions.

Unfunded Capital Priorities and Pressures

4.33 In addition to the existing programme and additional priorities, we are developing a funding strategy to deliver City Centre Transformation and the wider City Mobility Plan. This will be reported at a later date to Committee.

4.34 The EnerPHit Team are actively looking into other funding streams including any Scottish Government funding which could be used for the Council's future EnerPhit

informed investments. They have recently submitted a bid for funding for CEC's EnerPHit informed works under the Scottish Government's 'Green Growth Accelerator' funding programme. This is a new national programme that unlocks £200 million of additional investment in infrastructure projects to support Scotland's transition to an inclusive net-zero emissions economy. No specific funding for such a programme is included within the ten-year programme presented in Appendix 1.

5. Next Steps

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 Finance staff will continue work with project and programme managers to monitor capital budgets.

5.3 Further capital budget reports will be presented to Finance and Resource Committee on 9 December 2021 and 3 February 2022 ahead of budget setting.

5.4 The capital budget strategy will be developed further, and detailed budget proposals will be submitted to this committee prior to the Council setting its budget in February 2022.

6. Financial impact

6.1 This report sets out capital expenditure and funding of £1,725.732m based on the assumptions set out above, including the generation of savings and additional income in revenue budgets. These assumptions will be kept under review, and capital expenditure plans remain contingent on the strategy continuing to be affordable.

6.2 Investment in additional assets is likely to result in increased running costs borne by the Council's service areas. A report on the associated cost implications of changes in the size and profile of the Council's operational property estate was considered by the Finance and Resources Committee on 23 May 2019. The report noted the need to provide for the additional revenue costs of several demand- and condition-led school replacements and new-builds. Based on the cost projections intimated in that report and sums provided within the budget framework in respect of known rising school rolls projects, the Wave Four schools programme (as set out in the original 2018 business case) and additional, or expanded, facilities linked to the Local Development Plan, this level of provision was anticipated to be sufficient to meet, in full, these additional costs at that time.

6.3 There is, however, a continuing need to assess, based on best-available expenditure and income projections for the projects concerned, the adequacy of sums provided within the budget framework in respect of known and emerging potential commitments As a result, all projects will be required to produce a detailed business case, setting out both capital and revenue costs and

demonstrating how they will be funded prior to project commencement as part of the wider Gateway process requirement.

7. Stakeholder/Community Impact

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

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

8. Background reading/external references

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

8.2 Loans Fund Review, Finance and Resources Committee, 14 February 2020

8.3 Sustainable Capital Budget Strategy 2021-2031, Finance and Resources Committee, 2 February 2021

8.4 Sustainable Capital Strategy 2021-31 – Annual Report, Finance and Resources Committee, 4 March 2021

8.5 Updated Housing Revenue Account (HRA) Capital Programme, Housing, Homelessness and Fair Work, 3 June 2021

8.6 Treasury Management: Annual Report 2020/21, Finance and Resources Committee, 12 August 2021

8.7 Asset Management Works Programme – 2020/2021 Update, Finance and Resources Committee, 12 August 2021

8.8 2021-31 Sustainable Capital Budget Strategy – Outturn 2020/21 and Revised Budget 2021/22, Finance and Resources Committee, 12 August 2021

9. Appendices

9.1 Appendix 1 – Sustainable Capital Budget Strategy 2022-32 - Summary

9.2 Appendix 2 – Changes from Capital Budget Strategy 2021-2031

9.3 Appendix 3 – Capital Budget Strategy 2022-32 – Funding Position

A Sustainable Capital Budget Strategy 2022-2032
Capital Investment Programme Summary

Expenditure			Revised Budget	Indicative Budget	Re-profile to/from Later Years	Revised Budget	Indicative Budget	Indicative Budget	Indicative Budget	Indicative Budget	Indicative Budget	Indicative Budget	Indicative Budget	Indicative Budget	Indicative Budget
			2021/22	2022/23	2022/23	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32
Direcorate	**Project Area**	**Total**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Communities and Families	Early Years	**0.000**	-	3.593	- 3.593	0.000	-	-	-	-	-	-	-	-	-
Communities and Families	Primary Schools	**28.212**	9.305	-	6.220	6.220	5.504	7.183	-	-	-	-	-	-	-
Communities and Families	Wave 3 Schools	**14.587**	13.301	-	1.286	1.286	-	-	-	-	-	-	-	-	-
Communities and Families	Wave 4 Schools	**317.755**	21.868	38.358	3.692	42.050	56.505	68.218	36.320	10.489	43.932	25.888	12.485	-	-
Communities and Families	Libraries	**0.777**	0.777	-		-	-	-	-	-	-	-	-	-	-
Communities and Families	Sports Facilities	**6.405**	4.755	0.165		0.165	0.165	0.165	0.165	0.165	0.165	0.165	0.165	0.165	0.165
Communities and Families	Safer and Stronger Communities CCTV	**1.114**	0.100	-	1.014	1.014	-	-	-	-	-	-	-	-	-
Communities and Families	Properties for House Share	**0.891**	0.891	-		-	-	-	-	-	-	-	-	-	-
Communities and Families	Other Communities and Families	**8.333**	8.333	-		-	-	-	-	-	-	-	-	-	-
Communities and Families	Infrastructure for Population Growth	**164.367**	19.193	15.510	6.662	22.172	15.725	20.668	12.291	13.911	28.500	11.036	9.956	10.915	-
Place	Depot Review	**7.574**	0.675	-	6.899	6.899	-	-	-	-	-	-	-	-	-
Place	Parks, Greenspace and Cemeteries and Other Environment	**7.464**	1.971	0.400	3.293	3.693	0.200	0.200	0.200	0.200	0.200	0.200	0.200	0.200	0.200
Place	Fleet Replacement	**11.042**	2.427	-	8.615	8.615	-	-	-	-	-	-	-	-	-
Place	Home Owners Adaptation Grants and Other Housing and Regeneration	**9.802**	- 0.198	1.000		1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
Place	Town Centre Fund / Place Based Investment Programme	**9.792**	4.430	1.735		1.735	1.209	1.209	1.209	-	-	-	-	-	-
Place	Transfer of Management of Development Funding (TMDF)	**164.218**	52.418	27.950		27.950	27.950	27.950	27.950	-	-	-	-	-	-
Place	Roads and Transport Infrastructure (including North Bridge)	**203.954**	29.195	24.191	0.426	24.617	39.830	12.039	14.039	14.039	14.039	14.039	14.039	14.039	14.039
Place	Energy Efficiency Street Lighting Project and Traffic Signals Prudential	**9.786**	5.600		4.186	4.186	-	-	-	-	-	-	-	-	-
Place	Public Transport, Road Safety and Active Travel	**42.736**	10.532	8.654	- 6.636	2.018	3.783	7.343	8.320	2.472	1.654	1.654	1.654	1.654	1.654
Place	Cycling Walking and Safer Routes (CWSR)	**11.495**	2.299	2.299		2.299	2.299	2.299	2.299	-	-	-	-	-	-
Place	10% Cycling Commitment	**17.830**	-	1.783		1.783	1.783	1.783	1.783	1.783	1.783	1.783	1.783	1.783	1.783
Place	St James GAM/Picardy Place	**62.900**	62.900	-		-	-	-	-	-	-	-	-	-	-
Place	Tram Life Cycle Replacement	**11.565**	5.043	1.000	3.532	4.532	0.535	0.708	0.287	0.069	0.071	0.073	0.076	0.079	0.092
Place	IMPACT	**5.000**	-	-		-	-	5.000	-	-	-	-	-	-	-
Place	King's Theatre (£4m Capital Contribution)	**4.000**	-	-		-	4.000	-	-	-	-	-	-	-	-
Place	King's Theatre (£5m Prudential Borrowing)	**5.000**	-	-		-	5.000	-	-	-	-	-	-	-	-
Place	Leith Theatre	**0.500**	0.500	-		-	-	-	-	-	-	-	-	-	-
Place	Other Culture	**0.263**	0.263	-		-	-	-	-	-	-	-	-	-	-
Place	Other Contributions	**3.847**	3.847	-		-	-	-	-	-	-	-	-	-	-
Place - Lending	Lending - Edinburgh Living LLPs	**209.707**	18.029	4.856	2.529	7.385	72.000	70.500	41.793	-	-	-	-	-	-
Place - Trams	Tram to Newhaven	**126.693**	72.100	41.744		41.744	12.849	-	-	-	-	-	-	-	-
Resources	ICT	**10.528**	3.841	0.807		0.807	1.091	1.597	0.669	0.678	0.615	0.615	0.615	-	-
Resources	Asset Management Works	**224.263**	20.413	25.650		25.650	19.800	19.800	19.800	19.800	19.800	19.800	19.800	19.800	19.800
Resources	Other Projects	**- 0.300**	- 0.300			-	-	-	-	-	-	-	-	-	-
Resources	Other Prudential Projects	**1.075**	1.075			-	-	-	-	-	-	-	-	-	-
IJB	Health and Social Care Projects	**0.295**	0.295	-		-	-	-	-	-	-	-	-	-	-
Unallocated		**30.000**	-	-		-	-	-	5.000	5.000	5.000	5.000	5.000	5.000	-
Slippage Assumption	Slipped from Previous Year 50% in Year 1	**70.584**	-	-		-	9.985	14.061	13.585	10.039	4.661	6.573	4.624	3.899	3.158
Slippage Assumption	Slipped from Previous Year 50% in Year 2	**67.427**	-					9.985	14.061	13.585	10.039	4.661	6.573	4.624	3.899
Slippage Assumption	In-Year	**- 145.748**	-	- 19.969	-	19.969	- 28.121	- 27.171	- 20.077	- 9.323	- 13.146	- 9.249	- 7.797	- 6.316	- 4.579
Total Expenditure		**1,725.732**	**375.878**	**179.725**	**38.125**	**217.850**	**253.091**	**244.536**	**180.694**	**83.907**	**118.313**	**83.238**	**70.173**	**56.842**	**41.210**

Funding Opportunities

Category	Funding Stream	Total	Revised Budget 2021/22 £m	Indicative Budget 2022/23 £m	Re-profile to/from Later Years 2022/23 £m	Revised Budget 2022/23 £m	Indicative Budget 2023/24 £m	Indicative Budget 2024/25 £m	Indicative Budget 2025/26 £m	Indicative Budget 2026/27 £m	Indicative Budget 2027/28 £m	Indicative Budget 2028/29 £m	Indicative Budget 2029/30 £m	Indicative Budget 2030/31 £m	Indicative Budget 2031/32 £m
Existing Programme - Funding	Asset Sales (Unringfenced)	**33.000**	3.000	3.000		3.000	3.000	3.000	3.000	3.000	3.000	3.000	3.000	3.000	3.000
Existing Programme - Funding	Capital Funded from Current Revenue (CFCR)	**4.000**	4.000	-		-	-	-	-	-	-	-	-	-	-
Existing Programme - Funding	Capital Grants Unapplied Account	**-**	-	3.422	- 3.422	-	-	-	-	-	-	-	-	-	-
Existing Programme - Funding	General Capital Grant	**483.316**	38.360	39.240		39.240	39.080	41.287	41.849	46.000	46.500	47.000	47.500	48.000	48.500
Existing Programme - Funding	Specific Capital Grant - Place Based Investment Programme	**7.360**	1.998	1.735		1.735	1.209	1.209	1.209	-	-	-	-	-	-
Existing Programme - Funding	Specific Capital Grant - Early Years	**-**	-	-		-	-	-	-	-	-	-	-	-	-
Existing Programme - Funding	Specific Grants - TMDF	**164.218**	52.418	27.950		27.950	27.950	27.950	27.950	-	-	-	-	-	-
Existing Programme - Funding	Specific Grants - CWSR	**11.495**	2.299	2.299		2.299	2.299	2.299	2.299	-	-	-	-	-	-
External Funding	Specific Grants - GME	**-**	-	-		-	-	-	-	-	-	-	-	-	-
Existing Programme - Funding	Developers Contributions	**12.283**	12.283	-		-	-	-	-	-	-	-	-	-	-
Existing Programme - Funding	Loans Fund Advances - Prudential	**108.796**	77.409	0.807	19.700	20.507	6.091	1.597	0.669	0.678	0.615	0.615	0.615	-	-
Existing Programme - Funding	Loans Fund Advances - On-Lending	**209.707**	18.029	4.856	2.529	7.385	72.000	70.500	41.793	-	-	-	-	-	-
Existing Programme - Funding	Loans Fund Advances - Trams to Newhaven	**126.693**	72.100	41.744	-	41.744	12.849	-	-	-	-	-	-	-	-
Existing Programme - Funding	Loans Fund Advances - General	**89.137**	59.893	13.036	19.318	32.354	11.481	- 2.360	- 17.004	- 14.059	0.679	7.557	9.040	1.556	-
Existing Programme - Funding	Loans Fund Advances - City Deal	**20.908**	0.247	0.359		0.359	2.129	10.689	6.666	0.818	-	-	-	-	-
Borrowing supported by	Loans Fund Advances - Prudential Schools	**48.700**	-	-		-	-	18.700	30.000	-	-	-	-	-	-
Borrowing supported by	Revenue Budget Framework - Wave 4 Funding	**78.000**	22.500	25.500		25.500	30.000	-	-	-	-	-	-	-	-
Borrowing supported by	10% of Increased Council Tax take	**47.300**	4.300	4.300		4.300	4.300	4.300	4.300	4.300	4.300	4.300	4.300	4.300	4.300
Borrowing supported by	10% of Increased Council Tax take UPLIFT	**57.000**	-	5.700		5.700	5.700	5.700	5.700	5.700	5.700	5.700	5.700	5.700	5.700
External Funding	Developers contributions (Wave 4)	**12.511**	0.056	5.612		5.612	1.158	3.743	0.436	1.506	-	-	-	-	-
External Funding	Developers contributions (LDP)	**58.400**	-	0.165		0.165	-	6.150	1.619	3.382	12.794	19.237	15.053	-	-
External Funding	Asset Sales (Wave 4)	**-**	-	-		-	-	-	-	-	-	-	-	-	-
Reserves	Capital Fund Drawdown	**27.000**	6.986	0.000		0.000	20.014	-	-	-	-	-	-	-	-
Internal Funding	Long-Term Financial Plan Loan Charges Review	**125.908**	-			-	13.831	49.772	30.208	32.582	44.725	- 4.171	- 15.035	- 5.714	- 20.290
Total Funding Opportunities		**1,725.732**	**375.878**	**179.725**	**38.125**	**217.850**	**253.091**	**244.536**	**180.694**	**83.907**	**118.313**	**83.238**	**70.173**	**56.842**	**41.210**

A Sustainable Capital Budget Strategy 2022-2032 **Appendix 2**
Changes from Capital Budget Strategy 2021-2031

Summary of Changes

Description	**Amount**
Long-Term Financial Plan Loan Charges Review	- 125.908
Council Tax Funding	- 57.000
Slippage Assumptions/Re-profiling	- 19.994
Existing Project Funding Pressures	25.760
General Capital Grant Assumptions	5.359
Movement from February	**- 171.783**

A Sustainable Capital Budget Strategy 2022-2032 **Appendix 3**

Capital Budget Strategy 2022-32 – Funding Position

	Total	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m	2029/30 £m	2030/31 £m	2031/32 £m
Total Capital Expenditure	**1,725.732**	375.878	217.850	253.091	244.536	180.694	83.907	118.313	83.238	70.173	56.842	41.210
Total Capital Funding	**1,725.732**	375.878	217.850	253.091	244.536	180.694	83.907	118.313	83.238	70.173	56.842	41.210
Funding Pressure (Incremental)	**0.000**	-	-	**0.000**	**- 0.000**	**0.000**	**- 0.000**	**0.001**	**- 0.000**	**- 0.000**	**- 0.000**	**0.000**

Governance Risk and Best Value Committee

10.00am, Tuesday, 9 November 2021

Accounts Commission: Local Government in Scotland Overview 2021 – referral from the Policy and Sustainability Committee

Executive/routine
Wards
Council Commitments

1. For Decision/Action

1.1 The Policy and Sustainability has referred the attached report to the Governance, Risk and Best Value Committee for consideration.

Stephen S. Moir
Executive Director of Corporate Services

Contact: Louise Williamson, Assistant Committee Officer
Legal and Assurance Division, Corporate Services
E-mail: louise.p.williamson@edinburgh.gov.uk

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Referral Report

Accounts Commission: Local Government in Scotland Overview 2021

2. Terms of Referral

2.1 On 5 October 2021, the Policy and Sustainability Committee considered a report which presented the recent report by the Accounts Commission looking at Local Government in Scotland in the context of the Covid pandemic.

2.2 The Policy and Sustainability Committee agreed:

2.2.1 To note the report by the Executive Director of Corporate Service.

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

3. Background Reading/ External References

3.1 Minute of the Policy and Sustainability Committee – 5 October 2021

4. Appendices

Appendix 1 – report by the Executive Director of Corporate Services

Policy and Sustainability Committee

10.00am, Tuesday, 5 October 2021

Accounts Commission: Local Government in Scotland Overview 2021

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

1. Recommendations

1.1 It is recommended that the Committee:

1.1.1 Notes the contents of the report.

1.1.2 Refers the report to the Governance, Risk and Best Value Committee as part of its work programme.

Stephen S. Moir
Executive Director of Corporate Services

Contact: Gavin King, Head of Democracy, Governance and Resilience
Legal and Assurance Division, Corporate Services Directorate
E-mail: gavin.king@edinburgh.gov.uk | Tel: 0131 529 4239

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Report

Accounts Commission: Local Government in Scotland Overview 2021

2. Executive Summary

2.1 This report presents the recent report by the Accounts Commission looking at Local Government in Scotland in the context of the Covid pandemic.

3. Background

3.1 The Accounts Commission has produced a report looking at the evolving and long-term impact of Covid. This is the first in a series of reports which in future will look closer at the lessons learned and assess the progress made in 2022.

4. Main report

4.1 The report by the Accounts Commission explores the initial impacts and challenges for local government throughout the pandemic. It recognises that recovery will not be quick and that councils face an increasingly challenging financial outlook and have even greater challenges to plan for. The Accounts Commission highlights the positive impacts created by local government, communities and partners working together during the pandemic but notes that the lessons learned over this period must be harnessed to meet the new challenges created by Covid.

4.2 The report provides, on pages 10 and 11, a timeline of key events during the pandemic and explores the impact with case studies in the following areas:

4.2.1 Communities and people;

4.2.2 Service delivery and partnership working; and,

4.2.3 Resources and governance.

4.3 The report also highlights a number of lessons learned which are summarised below:

4.3.1 Councils need to put in place a digital strategy to ensure equal access to services for all citizens and communities;

4.3.2 The importance of strengthening relationships and empowering communities;

4.3.3 Councils must deliver targeted responses to tackle both the immediate negative impacts of the pandemic and the long-term inequalities;

4.3.4 The Council's recovery and renewal efforts must be informed by comprehensive understanding of the issues that affect all those that live and work in the City;

4.3.5 A lack of flexible funding in the future may lead to a detrimental impact on service delivery and exacerbate existing financial sustainability risks;

4.3.6 All Councils should ensure that public participation in committee meetings is facilitated as soon as possible to provide openness and transparency in decision making; and,

4.3.7 Councils' medium term financial plans will need to be updated to reflect the significant impact of the pandemic.

4.4 It is important to note that the Commission's report is intended to assess the response across Scotland rather than specifically to Edinburgh. However, the Council has already sought to address many of the lessons learned highlighted in the report. A new Council Digital and Smart City Strategy was agreed in October 2020 and deputations have already been reintroduced to committee meetings. In particular, the Council, through its Business Plan and Budget in February 2021, outlined the financial impact of Covid to that point and the expected impacts and risks that would affect the long-term budget situation. Following the receipt of additional grant funding late in 2020/21 i.e. after the budget was set, we significantly increased our contingency for the on-going expenditure and cost impacts of the pandemic in May 2021 (these now total £64m over 2021/22 and 2022/23).

4.5 The three-year Council Business Plan: *Our Future Council, Our Future City* brought together the Council's strategic priorities and developed a plan to deliver real improvements in Council services within the context of the pandemic. In addition, service investment was clearly focused in the Business Plan priorities, particularly zero-carbon and poverty eradication.

4.6 The Council has received regular reports outlining the impact and response regarding the pandemic through the adaptation and renewal reports. The Adaptation and Renewal programme is coming to a close as service delivery is focussed through delivery of the business plan.

4.7 The Council will be involved in a number of lessons learned exercises which will feed into the Council's understanding of how services and citizens' needs have changed due to the pandemic.

4.7.1 A lessons learned exercise is to be carried out on the adaptation and renewal programme;

4.7.2 Lessons learned by individual Directorates/Divisions have been carried out throughout the pandemic. New guidance is to be produced to help make the results of this more consistent when being analysed;

4.7.3 The Council will be expected to take part in national and UK lessons learned exercises; and

4.7.4 A Councilwide specific lessons learned exercise is to be carried out at an appropriate time with the Corporate Leadership Team.

4.8 The results of these will be reported through the appropriate parent executive committees.

5. Next Steps

5.1 Following consideration at the Policy and Sustainability Committee, the report will be referred to the Governance, Risk and Best Value Committee for scrutiny.

6. Financial impact

6.1 While the initial financial impacts of the pandemic were felt particularly in 2019/20, the extent of this additional expenditure, and in particular loss of income, increased greatly in 2020/21. By the end of the year, the net cost to the Council, including exposure through its Arm's-Length External Organisations (ALEOs), had reached nearly £80m, with some £70m of this relating to 2020/21. The largest single contributors during 2020/21 were loss of parking income, net of reduced enforcement costs, of £13.4m, additional homelessness expenditure of £8.8m, loss of commercial rental income of £7.1m, loss of £6m of dividend income from Lothian Buses, additional support provided to Edinburgh Trams (including invoices written off) of £6m and reduced income from cultural venues of £3.9m.

6.2 Given the unprecedented scale of these impacts, elected members considered detailed financial reports on a monthly basis during 2020/21 and through a combination of savings identified in corporate budgets and significant additional grant funding received late in the financial year, expenditure and income were brought back into balance, with an overall underspend of £8.1m recorded.

6.3 Looking forward, in order to provide resilience against the longer-lasting financial impacts of the pandemic and other budget framework risks, the 2021/22 budget set aside further monies for these impacts and almost doubled the size of the Council's unallocated reserves.

7. Stakeholder/Community Impact

7.1 There is no direct impact arising from the report's content, and the report highlights the positive impacts created by local government, communities and partners working together during the pandemic. It also notes that the lessons learned over this period must be harnessed to meet the new challenges created by Covid-19

8. Background reading/external references

8.1 Accounts Commission: Local Government in Scotland – Financial Overview 2018/19, Finance and Resources Committee, 23 January 2020.

8.2 Accounts Commission: Local Government in Scotland – Overview 2020, Policy and Sustainability Committee, 6 August 2020

9. Appendices

9.1 Appendix 1 - Accounts Commission: Local Government in Scotland Overview 2021

Local government in Scotland

Overview 2021

ACCOUNTS COMMISSION

Prepared by Audit Scotland
May 2021

Who we are

The Accounts Commission

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

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

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

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

Chair's introduction

In 2020, Covid-19 changed the world and will have a profound impact on our lives in the years ahead. The public services we all receive and many of us depend on each and every day have adapted, in some cases transformed and will certainly continue to change.

Covid-19 has laid bare and exacerbated existing ***inequalities*** such as health, work, income, housing and education across Scotland's communities. The multiple impacts of these inequalities have affected the most vulnerable, minority groups and women.

Reporting on how inequalities are being tackled is, and will be, a core priority for the Accounts Commission in our future reporting. The recovery from Covid-19 isn't going to be quick, again exacerbating the impact on the lives of those already most affected. The recovery plans and priorities need to recognise this.

Councils must put robust and realistic plans in place and work alongside partner organisations best placed to help. They must work with and for their communities, focusing on the needs of local people.

This will have to be achieved against an increasingly challenging ***financial outlook.*** There is rarely financial certainty for councils beyond the current financial year. For many years the Commission has reported on the importance of long-term financial planning for our councils and they need the certainty of a multi-year financial settlement to do this. Without this Scotland is faced with a clear risk to the financial sustainability of our councils. During the last few years we have seen increasing amounts of funding provided by the Scottish Government being ring-fenced for specific purposes and this limit on local flexibility has also emerged through the funding arrangements for Covid-19. Councils have also been impacted by the significant loss of income and additional costs caused by Covid-19 which will have a consequential impact in the coming years. Support for councils will be needed to allow them to take a comprehensive and holistic approach as they look to stimulate economic recovery, address inequalities and build back communities.

Of course, this complex and difficult set of circumstances will, inevitably, mean that councils must make difficult decisions about the services they deliver, and indeed how these services are delivered.

A key issue will therefore be reaching agreement between the Scottish Government and COSLA to achieve a funding model for local government that targets and supports those most in need.

Throughout 2020 and beyond, the ways in which councils and communities have worked together to deliver services and support the most vulnerable has been incredible. Many communities and individuals continue to step in to provide crucial local services, empowered to do so by councils. Those local areas where partnership working was already strong and embedded were able to respond and react more quickly to the developing needs caused by Covid-19. This brought into focus the value and importance of ***partnership working*** and empowering communities to deliver services that meet very local needs.

Chair's introduction continued

The Accounts Commission will look to ensure that the significant amounts of funding given to councils to deliver and provide support to mitigate the impact of Covid-19 achieved value for money. ***Following the 'pandemic pound'*** will be central to our future work.

Our audit work has already seen so much positive work in councils, not least the swift and vital move to delivering services remotely and digitally. This new way of working needs to be harnessed and consolidated, with ***lessons learned, shared and improved upon***. It is vital that councils do not default to previous ways of working in areas where new approaches are having positive outcomes.

This latest Local Government Overview is the first in a series of reports that will reflect on the evolving and long-term nature of the impact of Covid-19. Here we consider the initial response of councils. And our future reporting will give a more detailed analysis of the impact and lessons learned from the pandemic, including an assessment of progress being made in early phases of recovery in 2022 before looking ahead to how councils have supported their local communities to begin recovering.

Elma Murray
Interim Chair of the Accounts Commission

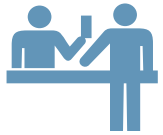
Key messages

1. The Covid-19 pandemic is having a profound impact on all aspects of society, including the economy, jobs, and the physical and mental health of the public

The negative impacts have been greater for those already experiencing socio-economic disadvantage, and existing inequalities have intensified. Councils have been at the centre of the response to the pandemic, supporting communities through these difficult times. They responded quickly and put their initial focus on maintaining service delivery and protecting communities.

2. Relationships with communities have been vital

Councils and communities have worked well together to manage local responses to Covid-19. These included supporting initiatives to promote wellbeing and support people who were shielding and facilitating community support hubs. Existing partnerships that were stronger before the pandemic made a smoother transition into the response phase, as there were fewer barriers. Moreover, some communities were able to offer a faster and more targeted response and deliver some vital services as a result of having fewer formal decision-making structures. In some cases, Community Planning structures have been strengthened and community groups have been able to work more flexibly, demonstrating the value of community empowerment.



3. Levels of service disruption have varied

Services such as education, social care and culture and leisure were badly affected, while other core services continued on a reduced basis. Services that could be delivered by people working from home were most resilient. The disruption to services had significant negative impacts on vital areas and on some client groups. These included carers who lacked access to respite care, people with learning disabilities who lacked access to important services and wider support, and school children, who experienced significant disruption to their education. Communities experienced significant service disruptions alongside the wider impact of the pandemic. This created further challenges including job losses and increased economic uncertainty, the impact on people's mental health, and increased child protection risks during lockdown.

Key messages continued

4. Some services were delivered virtually

For example, education continued where students were able to access learning materials online. Councils worked fast to enable homeworking for staff and to provide innovative IT (information technology) solutions. There were challenges for some councils in the early days of the move to homeworking, including limited internet connectivity and insufficient supplies of IT equipment to enable the required numbers of staff to work remotely.

5. The workforce demonstrated the versatility to take on new roles

Staff were redeployed from services that were closed or reduced into services facing increased pressure while working at pace under challenging circumstances. There will be an increased need in future for staff to be agile as services continue to evolve in line with the pandemic and the recovery phases. Councils must also manage the pressures on staff to ensure their people are not put at risk of burnout as the pandemic continues.

6. There were significant changes in council governance structures and processes

At the onset of the crisis, councils suspended or revised their meeting schedules, and adopted different approaches to decision-making. Virtual meetings were established in growing numbers of councils, and all councils now hold remote meetings. There is now less reliance on delegation to officers or emergency committees than in the early stage of the pandemic, but councils must continue to balance the need for urgent decision-making with transparency.

Key messages continued

7. Councils continue to face significant financial challenges, and these have been exacerbated by the pandemic

The Convention of Scottish Local Authorities (COSLA) estimated that the total net financial impact of Covid-19 in 2020/21 would be £767 million. This includes forecast financial pressures of £855 million, with loss of income accounting for around £400 million of this total. The financial pressures have been offset slightly by estimated cost reductions of £88 million from a range of areas such as lower property costs and reduced school meal costs.

8. The Scottish Government has provided substantial additional financial support, but the nature and timing of funding has created further challenges for councils

Funding announced by the Scottish Government by February 2021 is likely to support councils in covering the net financial impact of the pandemic for 2020/21. This additional funding includes a significant element of one-off grant funding, therefore this may present financial sustainability risks for some councils in future years. Furthermore, funding announcements have been frequent but not regular, and in some cases specific conditions are attached. This has created an additional administrative burden for the Scottish Government and councils arising from awarding and accepting grants and completing the related reporting requirements.

Key messages continued

9. Councils have started to plan for longer term recovery from the crisis

While restarting services is led largely by national guidance, and the response to a second wave of Covid-19, councils are beginning to think about how to rebuild local economies and support communities in the long term. Councils will play a pivotal role in this, and as they progress through the recovery phases, there must be recognition that a return to 'business as usual' will not be possible and that the negative impacts of the pandemic will be felt for years to come. Councils' recovery plans have signalled this kind of thinking, focusing on areas that were already priorities before the pandemic, such as digital, tackling inequalities and climate change. We are still learning about the significant long-term challenges, and councils' recovery and renewal plans should address the longer-term implications of the pandemic for local economies, communities and individuals. Recovery plans must also recognise the longstanding issues of inequality that exist and set out actions to address the differential impact of Covid-19 on different groups.

10. There has been some ongoing learning resulting from the emergency response to the pandemic

Councils' service delivery arrangements and working practices changed at an unprecedented pace and on a scale that would have been considered impossible in the past. The need to respond quickly with simplified procedures has allowed councils to operate more flexibly and achieve outcomes that would previously have taken much longer. For example, the use of digital technology, to support changes to service delivery and councils' governance arrangements, has accelerated at a greater pace than many councils had planned for or thought achievable. It is important that councils now consolidate and build on the factors that allowed this level of change and innovation to take place so quickly. Councils should also identify the positive developments to take forward into renewal planning to maintain this momentum. It is also important for councils to avoid the risk of reverting to 'business as usual' in areas where new ways of working are having positive outcomes, for example flexible working and an increase in digitally enabled services. We will consider further lessons learned in more detail in future local government overview reports.

About this report

Our local government overview this year is taking place amidst the Covid-19 pandemic, which has created an unprecedented set of issues and challenges for councils, their partners and for communities. The shape of the recovery and renewal curve is not yet clear, nor are many of the longer-term impacts on the economy, communities, and public services.

This report

- is the first in a series of reports that reflects the evolving and long-term nature of the impact of Covid-19
- considers the initial response phase of the pandemic from March 2020, and includes financial data correct as at the end of February 2021
- provides case study examples of council responses to new challenges.

Future reporting

- will give a more detailed analysis of the impact of the pandemic and lessons learned from it, including an assessment of progress being made in early phases of recovery in 2022
- will cover further progress, with renewal and recovery reported on in 2023.

Timeline of key events

18th - £350m funding announced for councils, the third sector, and community groups

20th - Closure of schools

24th - Scotland goes into 'lockdown'

30th - The Scottish Gov. announce that local authorities' August 2020 deadline to deliver 1140 funded hours of Early Learning and Childcare will be removed

6th - Coronavirus (Scotland) Act receives royal assent

20th - Covid-19 deaths peak in Scotland

5th - Scottish Gov. announce that £155m in Barnett Consequentials will be passed to Local Government

7th - Announcement of the 'Connecting Scotland' Initiative

29th - Scotland enters phase 1 of Scottish Gov. route map

16th - Summer provision of free school meals announced

19th - Phase 2 of Scottish Gov. route map begins

23rd - £257.6 million of additional funding for councils to help tackle Covid-19 is approved (includes £155m consequentials)

10th - Phase 3 of Scottish Gov. route map begins

13th - UK Government announce the Eat Out to Help Out Scheme for establishments serving food

20th - The University of Oxford publishes its findings from a coronavirus vaccine trial, noting that the vaccine appears safe and triggers an immune response

5th - Local restrictions in Aberdeen following rise in infections

4th - Scottish pupils receive SQA results

11th - Re-opening of schools

March | April | May | June | July | August

Initial response phase, March to August 2020

Timeline of key events

September

1st - New restrictions introduced in the West of Scotland

22nd - New national restrictions and hospitality curfews introduced

24th - Scottish Gov. publish 2020/21 Autumn Budget revision. Covid-19 guaranteed consequentials reach £5.5bn

October

7th - Further temporary restrictive measures for hospitality, particularly in the central belt

20th - Further funding announced for free school meals and additional flexibility for councils to use the £20 million welfare fund

November

2nd - Local Authority protection levels take effect

5th - UK Gov. announce furlough extended to March

20th - 11 local authorities move into Level 4

24th - UK wide relaxation of restrictions over Christmas announced

December

8th - Covid-19 vaccination programme commences

14th - It is confirmed that the ELC expansion deadline has moved to August 2021

19th - The Scottish Gov. announce tightening of festive period restrictions

26th - National lockdown in Scotland begins

January

5th - Mainland Scotland goes into lockdown with a new legal requirement forbidding anyone from leaving their home except for essential purposes.

11th - The rollout of the Oxford/Astrazeneca coronavirus vaccine begins

29th - Scottish Gov. announce the Western Isles will move to Level 4 due to rise in cases

February

22nd - Children in early learning and childcare and primaries 1 to 3 return full-time to classrooms

25th - Scottish Gov. announce Scotland's vaccination programme has delivered first doses of the Covid-19 vaccine to a third of those eligible

28th - Scottish Gov.t announce three cases of a Covid-19 Variant of Concern first identified in Brazil, have been identified in Scotland

Initial response phase, September 2020 to February 2021

Key facts/Context

About local government

Councils in Scotland operate in a complex and challenging landscape. The scale of Covid-19 has created an unprecedented set of issues and challenges for councils, their partners, and communities. These include unprecedented economic and social impacts, additional financial pressures and increased service demand, the need for new service delivery models and negative impacts across communities and groups, particularly those who were already vulnerable. For several years, councils have been dealing with increasing challenges and uncertainty while continuing to address the needs of local people and national priorities.

The Covid-19 pandemic has put into clear focus the pivotal role of councils in delivering not only the day-to-day services that communities rely on, but also in responding to risks. It emphasises the essential importance of effective leadership, good governance and good financial management for all councils.

Additional Covid-19 actions and responsibilities

- support to communities
- business support grant administration and distribution
- infrastructure amendments
- advice services
- staff redeployment
- virtual service delivery

32 councils

£12.6bn net expenditure budget in 2019/20

Workforce of **206,000** local government staff

Providing services to **5,463,300** people in Scotland

431,000 claims for the Self-employment Income Support schemes

£0.8bn estimated additional Covid-19 costs in 2020/21

180,000 people shielding in Scotland

£0.4bn estimated loss of income in 2020/21

9,000 households receiving kit through 'Connecting Scotland'

£1.02bn administered in business support grants

Our Local government in Scotland: Financial overview 2019/20 and Digital in Local Government reports explore some of these issues in more detail.

Key characteristics of the response

We have organised our analysis of the local government response to the pandemic and the wider risks that have emerged under the following themes. Early lessons learned relating to each theme are highlighted in the following sections of the report.

Each characteristic can be navigated to by the tabs at the top of the pages.

Communities and people

Community wellbeing and the role of communities in responding to the crisis

- differing impacts of Covid-19 on demographic groups
- the impact of the pandemic on inequalities
- communities' contributions in responding to the crisis

Service delivery and partnership working

The adaption of service provision and working with partners

- reduced service provision and prioritised services
- innovation and digital delivery
- enhanced collaboration and more positive working relationships

Resources and governance

The financial impact of responding to Covid-19, use of resources and changes to governance arrangements

- challenging financial outlook– additional spending and lost income
- new funding and financial flexibilities
- staff redeployed to fulfil essential roles
- virtual decision-making
- changes to governance arrangements

Communities and people

The adverse effects of the Covid-19 pandemic on different communities will last for years to come. Some people have faced greater hardship than others, and inequalities have increased in areas such as health, deprivation, employment and digital access. Communities have been integral in supporting councils and their partners' responses to the pandemic. Covid-19 recovery planning needs a sustained focus on addressing inequalities with community empowerment at its heart.

Covid-19 has had a profound impact on society and the economy

- The impact of Covid-19 on society has been hugely disruptive. Social distancing measures have markedly changed people's daily lives and, for many, have had a detrimental impact on mental health and wellbeing.

- Covid-19 has created significant uncertainty for many sectors of the economy. The national restrictions have forced many industries to shut down completely, resulting in substantial job losses and reliance on the national furlough scheme. At November 2020 the unemployment rate was 4.4 per cent, compared with 3.8 per cent for the same period in 2019.[1] The Improvement Service has created a Covid-19 economic impact dashboard[2] which shows the current uptake of government support at a Scottish local authority level. This uses publicly available data and includes details of the types of employment furloughed, the Self-Employment Income Support Scheme, unemployment benefit claims, and the Covid-19 Business Support Fund Grant Scheme.

- Covid-19 will also bring longer-term impacts on the economy and labour market, potentially leading to structural changes and the risk of long-term scarring for those exposed to extended periods of unemployment. The pandemic has created unequal effects on the economy so far, with digital and tech industries thriving whereas retail, hospitality, tourism, and creative industries have been the worst affected. Many of the workers within these worst affected industries are among the lowest paid and include groups such as young people, women, those with disabilities, and minority groups. This creates a risk that existing social and economic inequalities will be exacerbated. There is also the potential for some areas to be disproportionately affected, for example in economies surrounding city centres relying on footfall and in rural economies relying on tourism. The Improvement Service comments on these issues in more detail in its Covid-19 Supplement to the Scottish Local Authorities Economic Development Group (SLAED) Indicators Report 2019-20.[3]

1. Labour marker in the regions of the UK: Office for National Statistics, March 2021
2. COVID Economic Impact dashboard (shinyapps.io)
3. Covid-19 Supplement to SLAED Indicators Report 2019-20

Covid-19 had a significant impact on children and young people

- Significant disruption to education has had an adverse effect on children and young people. The move to home learning has been challenging for many families and has led to loss of learning and loss of school experiences. Our report Improving outcomes for young people through school education looks at these issues in more detail and notes that the negative impacts of the pandemic may affect children and young people across a range of outcomes, and has had a detrimental effect on mental health and wellbeing.
- Covid-19 has also had a significant impact on young carers, many of whom have had to take on additional caring responsibilities during lockdown. These young people provide essential care for their families, often 24 hours a day, and this can lead to challenges in maintaining their social, educational, and economic wellbeing, as well as their physical and mental health. The pandemic and associated lockdown restrictions and social distancing measures have had far-reaching implications for young carers. These include increases in the complexity of the care provided, the withdrawal of some aspects of external support, difficulties associated with home learning and increased stress and anxiety levels as care loads grow.

Covid-19 has had a disproportionate impact on some communities and groups in society

- Covid-19 has had disproportionate effects on peoples' health, particularly those with existing health conditions, but the pandemic and society's response to it is also having an unequal impact on disadvantaged and vulnerable people and communities.
- Those living in areas of high deprivation in Scotland are twice as likely to die from Covid-19,[4] and structural inequalities, for example poor access to good-quality education, employment, health and housing, place black and minority ethnic groups at much higher risk of becoming severely ill with Covid-19.[5]
- One-third of 18-24-year-olds have been furloughed or lost their job, in contrast to just over one-sixth of working-age adults overall. A cause for concern is prompted by further analysis by the Resolution Foundation which suggests that those currently on furlough have an increased risk of later unemployment when the job retention scheme ends.[6]
- The financial impact of Covid-19 has been substantial for many individuals and families. Over half of families in receipt of Universal Credit or Child Tax Credit in Scotland have had to borrow money since the start of the crisis.[7] The economic impact has also affected some groups to a greater degree than others, for example young people and women in low-paid job sectors that have faced service closures. Women have historically been exposed to labour market inequality, through comprising more underpaid and undervalued work and are also more likely to have caring responsibilities, making it harder to balance work and care commitments. These issues have been heightened through the response to Covid-19, as women have been disproportionately affected by job disruption and the need for more unpaid care.[8]
- In addition, digital exclusion has been exacerbated, resulting in reduced access to information, goods, and services for some. In the 20 per cent most deprived areas in Scotland, 82 per cent of households have access to the internet, in comparison with 96 per cent in the 20 per cent least deprived areas.[9]

4. Deaths involving Coronavirus (COVID-19) in Scotland, National Records of Scotland, December 2020
5. Supporting community recovery and resilience in response to the COVID-19 pandemic: a rapid review of evidence, Glasgow Centre for Population Health, May 2020
6. Getting Britain working (safely) again, The next phase of the Coronavirus Job Retention Scheme, May 2020
7. A stronger Scottish lifeline in the economic storm, Joseph Rountree Foundation, July 2020
8. The impact of COVID-19 on women's labour market equality, Close the gap: Disproportionate disruption May 2020
9. Scottish Household Survey 2019: annual report

New vulnerabilities have also emerged as a result of Covid-19

- Covid-19 has created new vulnerabilities and exacerbated existing inequalities and exposure to risk factors.[10] The response to the pandemic has had a huge impact on vulnerable adults and children, for example through care services being removed from people with disabilities and elderly people, children with additional support needs having reduced educational support, and increased child protection risks as a result of children being less visible to support services.
- These services provide important streams of both practical and social support for those in need. The reduction or cessation of services has had a significant impact. For example, the Care Inspectorate found that children and young people, whose school education and building-based social activities had been suspended, were particularly adversely affected.[11] Similarly, parents in some situations became quickly exhausted. The Care Inspectorate also note the risk of hidden harm being a concern.
- The disproportionate impact has also been reflected in the challenges for those with caring responsibilities, including carers who have faced reduced access to support services and respite care.

Case study 1

East Renfrewshire Council

East Renfrewshire Council's multi-layered approach to shielding.

The council contacted those on the shielding list to assist with essential tasks such as delivering food and medicine. Further support was provided to other groups by cross matching the shielding list with the lists of those accessing other services, such as homecare, telecare, housing, learning disability, food hubs and young mums' services. This allowed the council to co-ordinate various elements of support and contact people who had not used services before. It also helped to identify wider issues that were emerging during the pandemic, such as communities being at risk of food poverty.

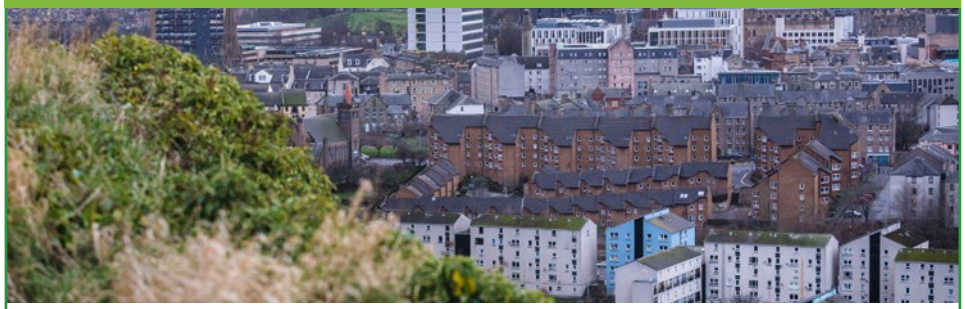
10. A brief summary of some issues and potential impact on those living in socio-economic disadvantage, The Improvement Service: Poverty, Inequality and Covid-19
11. Delivering care at home and housing support services during the COVID-19 pandemic, September 2020

Councils were innovative and worked at pace to provide support to those most at risk

- In the initial phases of the pandemic, councils identified vulnerable people using sources such as databases of those accessing food banks, households receiving free school meals and people on the shielding list. This allowed for a targeted response to those at greatest risk.
- Councils have been at the forefront in adapting services and providing support to communities. Diverse approaches were taken to respond to the changing circumstances and to support the most vulnerable. For example, innovative solutions to provide accommodation for homeless people were established. The rapid response to housing the homeless, through additional funding and using private sector resources, is unprecedented.
- Councils are also contributing to national efforts to minimise the negative effect of digital exclusion on vulnerable communities, working with the Scottish Government and third sector to distribute digital devices through the 'Connecting Scotland' initiative.

Case study 2

The City of Edinburgh Council



The City of Edinburgh Council private sector leasing scheme to tackle homelessness.

The council increased its provision to homeless people by using private sector resources, such as hotels, B&Bs and rented accommodation through the private sector leasing scheme. Working with Link Housing, the council is looking to enhance the scheme in the longer-term, where landlords can lease their properties to the council for up to ten years at guaranteed rents. The council began a new contract for the scheme in April 2020 and, despite the challenges of Covid-19, the scheme has increased by 89 properties, and 321 new tenancies were established between 1 April and 6 November 2020.

Councils were innovative and worked at pace to provide support to those most at risk

Case study 3

Scottish Borders Council

Scottish Borders Council's 'Inspire Learning' programme:

'Inspire Learning' is an ambitious digital learning programme developed in July 2019, through which all secondary pupils and teachers received their own iPad. A range of partners have contributed to the programme's success by adopting a 'one vision' approach. The initial phase was completed six months ahead of schedule in March 2020, providing an invaluable tool for remote learning in response to Covid-19. In the first week of home learning, over 90 per cent of secondary pupils were using their iPads at home. The programme has also now been extended to all primary pupils in P4 and above and primary teaching staff. It also aims to aid collaboration between schools, enhance delivery of the curriculum, and address future employment challenges, by teaching young people digital skills such as coding, working with Apple's education initiative.

Councils will continue to play a significant role in addressing future inequalities

- The Convention of Scottish Local Authorities (COSLA) has recently prepared a Blueprint, based on the empowerment of people and communities, that outlines the steps local government needs to take to overcome inequalities which increase the chances of contracting Covid-19, and longer-term impacts of the virus. However, it is too early to assess councils' progress in applying the blueprint or to understand the full impact of the pandemic on inequalities.
- Councils will play an integral role in Scotland's recovery from Covid-19 and putting communities at the centre of recovery will be vital. As well as managing the specific impacts of the pandemic, councils will also need to address the challenges that existed before the pandemic, many of which have been heightened.
- The impact of the crisis will require targeted interventions to ensure that people can be supported to overcome its damaging social and economic effects. Councils have demonstrated early signs of this kind of thinking, for example by developing virtual skills programmes for young people, and job-matching websites to help people find employment.

Case study 4

Falkirk Council

Falkirk Council's Employment and Training Unit.

The council's Employment and Training Unit has ensured that more than 800 people could continue to develop employability skills during Covid-19 by providing virtual support, replacing typical face-to-face learning. The team supports young people in Falkirk who wish to develop skills outwith traditional higher or further education settings. The service offers a range of support, from specific training and qualifications to wider life skills in wellbeing, health, and finance. The team has signposted people to other services to help with challenges arising from Covid-19. It has been successful in securing jobs for some despite the fragile employment market, in areas such as health and social care, retail, food and administration.

Lessons learned

The impact of Covid-19 has been extremely detrimental for many of Scotland's most vulnerable people and communities. The impact will be long-lasting and will significantly increase inequalities. Recovering from the pandemic will require tackling inequalities to be a priority.

As councils may look to embed longer-term changes to service provision as seen during the pandemic, it is important that they are adaptable in their approach, to ensure that services are reaching communities in the right way. Councils need to understand the needs of those experiencing digital exclusion and put a strategy in place to ensure equal access to services for all citizens and communities.

Communities were an asset in councils' response to the pandemic

- As councils worked at pace to adapt service provision and provide additional support to vulnerable people, community groups made significant contributions, for example local people helping to coordinate the shielding response.
- Community-led responses were delivered through initiatives such as Community Planning Partnerships and third sector volunteering. Communities made important contributions to delivering these support systems.
- The establishment of community hubs was a common approach to coordinating local support by providing emotional support and services such as deliveries of food and medicines.

Case study 5

North Ayrshire Council

North Ayrshire Council's 'Three Towns' Community Hub.

The council established community hubs around its localities, one being the three towns of Saltcoats, Stevenston, and Ardrossan. Existing community engagement work provided a robust base for developing a collective response from different services, and from community groups that acted as volunteers.

The hub linked together expertise from the community, health, social work, libraries, community development and voluntary organisations. The hubs provided a local telephone point of contact for community need arising as a result of Covid-19, also helping to distribute food, medicine, mental health support, and books. Holistic working provided an efficient response to serving communities with various services 'under one roof'.

Communities experienced increased levels of activity and collaboration

- As a result of reduced levels of governance and decision-making protocols, communities embraced the opportunity to take charge in responding to the crisis. For example, communities quickly organised themselves to help councils to provide essential supplies to vulnerable people, often in a matter of days.
- Before the pandemic, this type of innovation and activity from local people faced barriers, including limited opportunities to influence or take control of decision-making processes, poor relationships and a lack of trust between communities and the public sector, continued financial pressures and austerity measures, and leadership and cultural challenges. However, the need for more streamlined processes allowed communities to make significant contributions in response to the pandemic. Our report Principles for community empowerment outlines the benefits of community empowerment in more detail.
- Collaboration was more effective where pre-existing relationships with communities were strong. Shared values and trust were important in helping councils to target support and achieve buy-in from community groups.

Case study 6

East Lothian Council

East Lothian Council Connected Communities Resilience Bases.

The council established six bases (one in each ward) across the local authority area to support vulnerable people or those who are self-isolating and have no other local support. Staff coordinated the despatch of essential goods including food, sanitary products, and hearing aid batteries. They proactively contacted those on the shielding list and worked with community groups to tackle concerns over wellbeing and isolation.

Lessons learned

Action taken by communities has been vital in supporting councils and their partners to deliver an emergency response. Partnerships that were well-established before the pandemic had a smoother transition into the response phase and acted more quickly than others.

The importance of strengthening relationships with communities has been apparent. Greater flexibility in decision-making structures has been an effective tool for communities, empowering them while allowing the council to operate more efficiently. Giving communities more scope to use initiatives like this will be important in the future but must be balanced with the return of robust governance arrangements and continued openness and transparency in decision-making.

Service delivery and partnership working

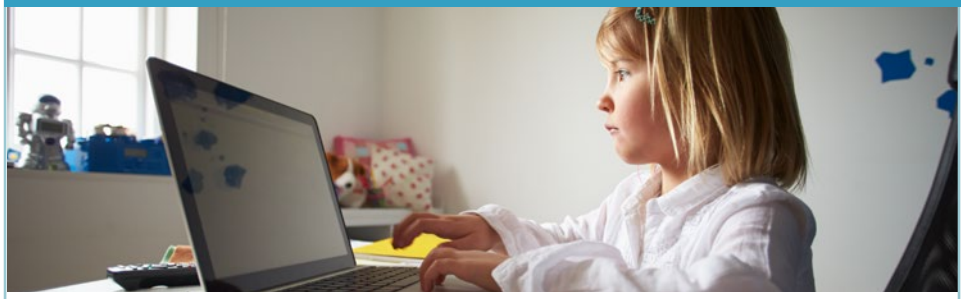
Councils were central to the national Covid-19 pandemic response to supporting communities and vulnerable groups, alongside partners in health and social care and voluntary sectors. They responded quickly to the pandemic, placing their initial focus on maintaining essential services and protecting communities. Levels of service disruption varied during the early stages of the spring 2020 lockdown. Some councils worked well with their communities to respond to the challenges.

Councils proved agile in adapting service provision, by redirecting resources and using digital technology

- In their initial response to the national lockdown in March 2020, councils had to take quick decisions on their priorities to maintain key services while changing the way they delivered services and pausing some altogether.
- Generally, the most resilient services were those that were able to embrace home working, particularly administrative, support and processing functions.
- The impact of the pandemic and disruption to services varied. Services such as education, social care, culture and leisure, and housing repairs were significantly disrupted, and it is likely that these impacts will have longer-term consequences for communities and councils.
- Our report Improving outcomes for young people through school education found that those involved in planning and delivering school education and their partners had developed a strong foundation of working together before the pandemic. That foundation helped them deliver a quick response to the crisis. However, the move to home learning was less effective for children and young people living in already challenging home circumstances. This has exacerbated learning and development inequalities among pupils.

Case study 7

Aberdeen City and East Dunbartonshire



Councils including Aberdeen City and East Dunbartonshire distributed digital equipment to school pupils.

Aberdeen City Council's Education Service provided laptops and internet access for children and young people to support their access to the curriculum and continuing their studies at home. Teachers came up with interactive ways to provide more engaging learning for students. Guidance on delivering a digital curriculum was also issued to parents and staff.

- The pandemic impacted on councils' ability to carry out their social care functions, and the Coronavirus (Scotland) Act 2020 temporarily relaxed many of the usual statutory requirements on councils. These changes had significant negative impacts on some vulnerable groups and communities. In its review of care at home services, the Care Inspectorate found that health and social care partnerships effectively prioritised support for people with critical needs; but the impacts of this prioritisation on other people using services was very variable across the country.
- The suspension of day care and respite services had a particular impact on children and young people with additional support needs, learning disabilities or challenging behaviours. Children and young people whose school education and social activities had been suspended were particularly adversely affected.
- The Care Inspectorate also found that social isolation, disruption of daily activities, limitations on physical activity and the suspension of reablement services had an adverse impact on the health and wellbeing of people who experience care and carers.
- All councils and partner providers closed their leisure centres, libraries, museums, and cultural centres to the public.
- Councils initially restricted housing repairs to emergencies and essential repairs only, and the right to repair timescales were suspended in cases where landlords and contractors could not meet them because of the disruption caused by Covid-19.

Case study 8

Midlothian Council

Midlothian Council's Registrations service moved to a seven-day service, to make sure that deaths would be registered on time, and in line with social distancing requirements.

The service adapted to enable remote digital registrations, coordinating the early stages of each registration before completing it in the office. The council's library support team provided administrative assistance to the registrations team.

- Other services such as waste collection and administration functions continued on a reduced basis in the early stages of the spring 2020 lockdown. For example, in waste management, most councils continued kerbside bin collections, but recycling centres were temporarily closed. Most planning services were moved online with site visits suspended and a focus on responding to urgent matters.
- Councils made creative use of digital technology, responding to challenges across services. For example, school pupils were given access to learning materials online while learning at home (the 2021 report Improving outcomes for young people through school education looks at councils' responses to the pandemic and their impacts in detail). In addition, fitness classes and library collections moved online; some care homes provided virtual visiting for residents; and some councils live-streamed funeral services privately for family and friends.
- The Digital progress in local government report found that the pandemic has had a huge impact on council workforces, resulting in a large-scale shift to homeworking and remote working. Getting the right technology, skills, and support in place to give staff the confidence to use new cloud-based tools has been a key challenge. Councils' digital and information communication technology (ICT) teams have responded with unprecedented speed, agility, and resilience.

Case study 9

Perth and Kinross Council

Perth and Kinross Council live streamed funeral services from Perth Crematorium, to allow families to say goodbye to their loved ones safely while following social distancing guidelines.

The webcam service was made available privately to relatives, and the feedback received from families has been overwhelmingly positive.

Councils rapidly changed service delivery arrangements

- Councils reacted quickly to take on new responsibilities brought about by the pandemic, including distribution of business support grants (see Resources and governance section) and involvement in the shielding response.
- Councils have also experienced an impetus for digital change from the challenges of the pandemic, with some taking the opportunity to accelerate their digital transformation plans by, for example, adopting online meetings and reducing staff travel. The Digital progress in local government report provides more details on how councils met these challenges.
- Data sharing between councils and partners enabled resources to be directed to those in need. The Digital progress in local government report highlighted the example of the Helping Hands platform which councils and third sector partners jointly developed to coordinate support for citizens who were shielding or otherwise vulnerable. This allowed councils and partners to identify and support those at greatest risk. However, the Improvement Service found that a lack of data sharing in some cases created challenges, for example relating to councils and Public Health Scotland sharing Test and Protect data from households required to isolate.
- Our review of the 32 council websites found that councils took similar approaches to communicating with the public and staff through their websites by providing periodic updates on most services. But some councils' websites had gaps in information on key services such as homelessness and social care in the early stages, creating the risk of people not being kept fully informed about the services they needed.

Case study 10

Perth and Kinross Council

Perth and Kinross Council staff such as parking attendants worked with NHS Tayside to collect and deliver prescriptions and other medical equipment to patients.

This followed the suspension of parking charges, to allow key workers to get to their places of work more easily. The council's Public Transport Unit also worked with businesses that normally take pupils to school to instead take key workers to and from work back home.

Council workforces demonstrated versatility by adapting quickly, taking on new roles and working under pressure to maintain key services

- Councils redeployed staff from closed or reduced services to services that faced increased demand or pressures. Staff have had to work at pace and under significant pressure.
- Homeworking and staff redeployment have created challenges for council workforces. The additional pressures created by new and changed ways of working reinforce the need for the workforce to be versatile now and in the future.
- The impact of the pandemic on staff wellbeing and mental health means that there is an increased need for leaders to be aware of staff wellbeing and their role in supporting staff, as well as ensuring the effectiveness and accuracy of councils' workforce data and planning. These challenges have been highlighted by the Improvement Service Organisational Development Local Authority Network (ODLA).
- There is an increasing and ongoing need for council workforces to be agile as services continue to adapt to the impact of Covid-19, and as recovery moves into renewal. But councils must also manage the pressures on their staff to ensure their people are not at risk of burnout as the pandemic continues.

Case study 11

North Ayrshire Council

North Ayrshire Council redeployed staff to its community support hub network to work with volunteers in supporting local communities.

The hub network was established in March 2020 providing services including support to vulnerable residents and people in isolation to access emergency food supplies, and connecting with people struggling with money worries, social isolation, and poor mental health. The links to a wide range of disciplines allowed the hub to respond quickly in the initial phases of lockdown by taking a multi-agency approach. In one week, the hubs answered over 2,200 calls, carried out 2,153 food deliveries and 746 prescription drop-offs, and provided advice and signposting to over 400 residents to key statutory services.

Lessons learned

Councils must closely monitor the impacts of service changes and disruptions on people and communities. There are growing concerns about the effects of service disruptions on different groups, for example the impacts of moving school education into homes and online on disadvantaged and vulnerable children and young people, and of reduced or paused care services on people who rely on them and their carers. Councils must develop targeted responses to tackle both the immediate negative impacts of the pandemic and the long-term inequalities that have been exacerbated.

As councils embrace longer-term digital service provision, they must balance the efficiencies digital services bring against the needs of communities and the workforce. Citizens must be at the heart of decisions about the services they rely on.

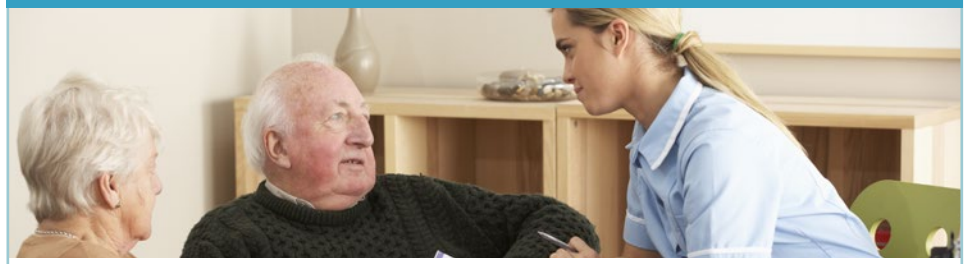
Councils have worked effectively with community partners to respond to the impacts of Covid-19. Partnerships between councils and community partners have developed and strengthened in some areas

- Councils play a key role in leading and coordinating partnerships focused on supporting and improving the lives of people in their communities. This role has been crucial as councils have coordinated and managed local responses to the pandemic. There have been many positive examples of these partnerships - including in mandatory Local Resilience Partnerships, through data-sharing responses to support shielding - and community resilience responses.
- During the early stages of the spring 2020 lockdown, it was not always clear how councils identified those in need of additional support. Some councils outlined their approaches on their websites, for example in providing additional support to individuals and families by coordinating data on those accessing other support such as food banks, households receiving free school meals, and those on the shielding list. Not all councils detailed their approaches publicly. This created a risk that people were not fully informed about the services they could access and were entitled to, particularly those in vulnerable groups, or about the council's response to Covid-19 in their local area.
- Partnerships with the third sector and communities have been particularly important in protecting people's wellbeing and supporting community hubs. As noted in the Communities and people section, partnerships that were well established before the pandemic had a smoother transition in the response phase. Many councils set up community hubs, and some communities were able to offer a faster and more targeted response to deliver vital services as a result of having fewer formal decision-making structures.

- Councils played an active role in national initiatives such as Connecting Scotland, working with the Scottish Government and third sector to distribute digital devices to people in need.
- Collective action from Community Planning Partnerships (CPPs) had a significant positive impact. CPPs provided a much-needed way of coordinating local support activities and communications. Work carried out by the Improvement Service highlighted how CPPs have added value, through emergency resilience planning and by providing an immediate response involving key partners and communities.
- CPPs' impacts highlighted the value of Community Planning, in coordinating local and national responses, mobilising communities to take charge of supporting vulnerable people, developing existing relationships within Community Planning, and marshalling third sector resources. Following this initial reactive phase, there is evidence of CPPs now looking to join councils' efforts in recovery planning.

Case study 12

East Renfrewshire Council

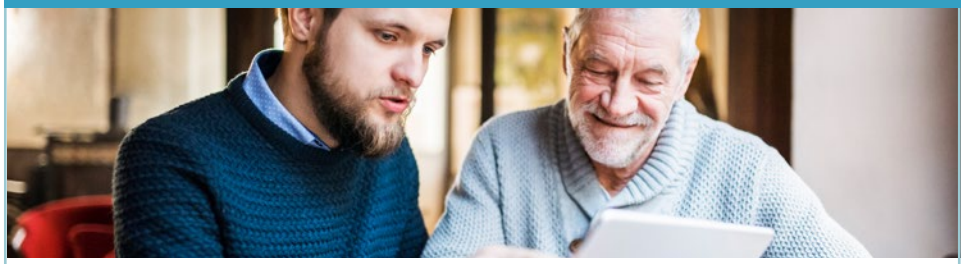


East Renfrewshire Council contacted the 2,500 people on the shielding list to check whether they needed any assistance, for example in obtaining food and medicine provision, digital support, or financial help.

The council also carried out a social care needs assessment at that point to determine what support was already in place, for example district nursing or home care, and then worked with Voluntary Action East Renfrewshire to meet the additional needs.

Case study 13

Fife Council



Fife Council worked with Fife Voluntary Action to deliver the Helping Hands initiative.

This aims to support local communities across Fife, providing a range of essential services, including delivery of shopping and prescriptions, and providing transport and befriending services. There are eight active community resilience groups in Fife, six of which were established before the pandemic. These linked directly with the Emergency Resilience Team which provides advice on and support for developing local resilience arrangements and community-led responses. The groups have been key to providing a foundation for building capacity and additional resources to respond to the impacts of Covid-19 and support communities.

- The Improvement Service has worked with COSLA and the Society of Local Authority Chief Executives (SOLACE) to develop a local government Covid-19 dashboard, to help councils to coordinate and draw insights from the significant volume of Covid-19 data they hold. The dashboard has been created to put greater focus on evidence-based service arrangements and to help councils use timely data to inform their decision-making. It is too early to assess the overall effectiveness of the dashboard, but the early signs are positive, and councils now have access to current data on key figures and emerging trends analysed nationally and at family grouping level. Further consideration will be given to the dashboard in future local government overview reports.
- More broadly the Improvement Service has played a key role in sharing good practice examples of effective ways of working by councils during the pandemic, preparing a paper on the role of Community Planning in the response to the crisis and producing economic dashboard outputs on its website to show differences in councils' uptake of the furlough schemes. COSLA's Recovery Special Interest Group is currently reviewing lessons learned and developing policy on the national recovery from Covid-19. The group is chaired by the COSLA vice-president and includes COSLA's president and five policy spokespersons. Its aim is to develop political direction from local government to shape the medium- to longer-term recovery work.

Councils' approaches to restarting paused services have varied, but they have been guided by the Scottish Government's national guidance

- As well as recovery planning, early action has already been taken in some councils to address the profound and immediate economic and social consequences of the pandemic. Some councils are working with partners to develop skills programmes to tackle future employment issues and using place-based approaches to address wider economic challenges.

- Councils have also maintained their focus on key challenges that they faced before the pandemic, and progress has been made in some areas despite the unprecedented pressures that emerged. For example, in March 2021, the Improvement Service[12] noted that data returned by local authorities indicated that 114,222 children were accessing funded early learning and childcare services as at the end of February 2021. Of these, 98,474 children (86 per cent) were accessing more than the statutory entitlement of 600 hours, and 74,096 children (65 per cent) were accessing 1,140 hours, despite the legal obligation to do so being suspended for a further 12 months.

- But there are significant challenges facing councils as they move from the response to recovery from the pandemic. As we highlighted earlier in this report, there are longstanding and wide-ranging inequalities in children's and young people's education outcomes that have been exacerbated by the impacts of and actions taken in response to Covid-19. The impacts of reduced services for pupils and for care service users for example, may not be known for some time and will require long-term efforts to address them.

- Services that were paused or reduced during Covid-19 restrictions will have built up backlogs of demand that may take some time to become clear. Councils' responses to these backlogs and the restarting of services will need to be effectively resourced and managed.

- Looking to the medium and longer term, councils recognise the challenges of repairing the damage to communities caused by Covid-19. Recovery planning began in many councils early in the pandemic, primarily focusing on recovery and renewal. The priorities that demanded councils' attention before the pandemic have become even more pressing, such as tackling inequalities, improving outcomes for young people, and tackling climate change.

12. Early Learning and Childcare Expansion Delivery Progress Report, March 2021

Case study 14

Glasgow City Council

Glasgow City Council acted promptly in establishing its Covid-19 Recovery Group to tackle the economic and social consequences of the pandemic by looking at economic impact data.

At the end of this process, the group will publish a report containing recommendations on the actions that will guide the economic recovery of the city and city region. The group consists of members of the Glasgow Economic Leadership, the Glasgow Partnership for Economic Growth, the Glasgow Economic Commission, and some external advisers. Members include representatives from the public sector, academia, the voluntary sector, and the tourism, retail, financial services, and energy sectors.

Case study 15

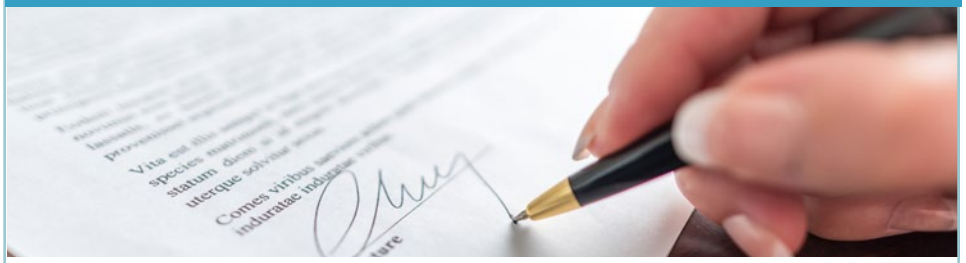
Edinburgh and South East Scotland

Edinburgh and South East Scotland City Region Deal partners, through the Integrated Employer Engagement workstream of the Integrated Regional Employability and Skills programme, launched a new job matching website, c19jobs, as a rapid response to promote key worker roles and to help reduce unemployment caused by the pandemic impacts.

The site offers vacancies in key sectors such as the NHS, supermarkets, and take-away services. The site also provides information and guidance for both employers and employees.

Case study 16

North Ayrshire Council



North Ayrshire Council launched its Community Wealth Building Strategy in May 2020 which is the first of its kind in Scotland.

The strategy underlines how the council and other 'anchor' organisations – including NHS Ayrshire and Arran, Ayrshire College, and wider partners - will support more local business to bid for public sector contracts. The council seek to continue to enhance its strategy, recognising that Covid-19 has had a negative impact on inequalities to ensure that the recovery is strong, resilient, and fair. It aims to 'keep wealth local' and provide more sustainable solutions to tackle Climate Change.

Lessons learned

Councils and their staff have been at the centre of unprecedented efforts to protect and support people and communities through the Covid-19 pandemic. Demands on people have been intense, and both council staff and the citizens they serve will need continued targeted support through the move to recovery and renewal. Councils' recovery and renewal efforts must be informed by comprehensive understanding of the issues that affect all those who live and work in their communities, and the positive partnerships built on during their initial response should be a core element in this.

The impacts of the pandemic, particularly its unequal impacts on groups in society and the awareness it has raised of issues of fairness and equality, the importance of community and the value of local services are all key to deciding future priorities for public services and what 'building back better' might mean for communities.

Resources and governance

Councils have been dealing with the unprecedented economic and fiscal consequences of the Covid-19 pandemic alongside other challenges. Significant changes were also required to governance arrangements in the early stages of the pandemic.

Councils face significant financial challenges as a result of the pandemic

- Our Local government in Scotland: financial overview 2019/20 report explains how the Covid-19 pandemic and associated lockdown has affected many aspects of councils' finances and created significant financial challenges and uncertainty.

- As part of COSLA's cost collection exercise carried out in July 2020, councils estimated that the total 2020/21 net financial impact of Covid-19 would be £767 million. This includes financial pressures totalling £855 million, offset by cost reductions of £88 million from a range of areas such as lower property costs and reduced school meal costs. Loss of income accounted for around £400 million of the forecast financial pressures. Other areas forecast to come under increased pressure include the costs associated with delaying capital projects, underachievement of savings and the additional costs associated with delays in the redesign and reconfiguration of services.

- The closure of sport and leisure facilities is likely to result in a significant loss of income for councils. In summer 2020, COSLA estimated that this could be around £75 million for 2020/21, however this was based on assumptions in line with the Scottish Government's route map out of lockdown at that time. It is likely that the further lockdown restrictions implemented in December 2020 will exacerbate this challenge, resulting in a greater loss of income than first anticipated. This also applies to other areas of lost income for councils, including from the closure of other buildings and services, reductions in fees and charges and the impact of school closures on income from food and drink. In addition, the council tax reduction scheme and loss of council tax revenue continues to put significant pressure on revenues, alongside similar challenges faced by councils in collecting housing rent payments. Councils also projected that they will miss out on over £50 million in savings as a result of opportunities forgone and the pressures faced in response to Covid-19.

- Councils' auditors also reported wider financial consequences of Covid-19 in the 2019/20 annual audit reports. These include the suspension of capital programmes, delays in bad debt collection and the uncertainty of capital receipts.

Case study 17

Projected loss of income – ALEOs

Several large urban councils have arm's-length external organisations (ALEOs) that were set up to manage commercial activities and provide income back to councils. These include conference facilities and transport services.

Councils' projected loss of income from these organisations in 2020/21 is £39 million. This includes Lothian Buses, Edinburgh Trams, the Scottish Exhibition and Conference Centre and the Aberdeen Exhibition and Conference Centre.

The UK and Scottish governments have provided substantial additional funding to support the pandemic response

- Scotland has had guaranteed additional funding from the UK Government of £8.6 billion. As at February 2021, over £2 billion of Scottish Government Covid-19 support for councils had been either allocated or announced. This includes the following:
  - £800 million of non-ringfenced revenue support, including £200 million (estimated) of dedicated funding to compensate councils for loss of income
  - £267 million to support education recovery
  - £255 million to support individuals, families and communities
  - £434 million of NHS funding to be passed on to health and social care partnerships
  - £63 million of capital support for Regeneration Capital Grant Fund, Town Centres Capital Fund, School transport support and Digital Inclusion funding.

- As part of their new responsibilities resulting from the impact of the pandemic, councils have administered funding of over £1 billion under the Covid-19 Business Support Fund Grant Scheme. These grants are administered by councils on behalf of the Scottish Government, and funding is made available to councils to finance the costs incurred. Councils reported that over 106,000 applications were received for the Small Business Grant Scheme and the Retail, Hospitality and Leisure Business Grant Scheme across Scotland. Of the applications received, over 90,000 were successful with grants of over £1 billion awarded by December 2020.[13]

Covid-19 Business Support Fund Grant Scheme (December 2020)

- Total number of applications: **106,662**
- Number of grants awarded: **91,258**
- Value of grants awarded: **£1,019,526,016**

13. Coronavirus (COVID-19): business support fund grant statistics - gov.scot (www.gov.scot)

More councils added to their revenue reserves in 2019/20. Further increases may occur in 2020/21 as a result of carry-forward of late grant funding and allocations of cash from the Scottish Government

- In 2019/20, 22 councils reported increases in their revenue reserves balance (13 in 2018/19), with a net increase of £65 million (or three per cent) across all councils. Reserves play an important role in effective financial management. They provide a working balance to smooth out uneven cashflows, protect against the financial impact of unexpected events, and enable funds to be built up for known future commitments. With continued uncertainty around available funding and additional costs resulting from Covid-19, increases in revenue reserve balances may help councils to deal with short-term cash-flow challenges in 2020/21.

- Some elements of funding announced by the Scottish Government in late 2020/21 may need to be carried forward by some councils. This, along with late allocations of cash that are unlikely to be spent before the year-end, is likely to have an impact on councils' year-end reserves. Although an increase in revenue reserves would provide some additional flexibility for councils at a time of significant financial challenges, this is more likely to reflect the timing and nature of funding allocated rather than favourable financial positions resulting from strategic decisions made by councils. Late funding carried forward from 2020/21 is also likely to be earmarked for specific purposes rather than being available for general use. It is important that councils continue to recognise the sustainability challenges of using reserves to fund recurring expenditure, particularly as the impact and challenges of Covid-19 continue to develop.

COSLA is working closely with the Scottish Government to obtain additional financial support for councils

- Discussions continue around an additional package of spending powers and financial flexibility that the Scottish Government claims could be worth up to £600 million for councils. This figure would apply if all councils were able to use all the new flexibilities, but COSLA does not consider this to be a likely scenario. Councils will need to consider the increased costs that may arise in future years and the impact that Covid-19 may have on some areas, for example expected capital receipts. The additional spending powers being discussed apply to Covid-19-related pressures only and to the years 2020/21 and 2021/22 and include:
  - enabling the use of capital receipts to meet one-off revenue funding pressures, including Covid-19 related costs
  - extending debt repayment periods over the life of the asset rather than the contract period
  - allowing councils to take a repayment holiday in either 2020/21 or 2021/22 to defer internal loan fund repayments.
- The Scottish Government has also provided flexibility in its guidance on how councils use specific education and early learning and childcare funding. This includes Pupil Equity Funding and deploying early learning and childcare funding flexibly to deliver critical services for children and families. The extent of how these individual flexibilities may be used by each council is as yet unclear. Each council will need to consider the flexibilities available and decide how funding is used. This may depend on the extent of unavoidable commitments already made, for example in early learning contract commitments to parents.

The total net cost of Covid-19 in 2020/21 will be challenging for councils but is likely to be managed through savings, use of reserves and additional funding provided by the Scottish Government. Nevertheless, significant uncertainty remains around future financial planning and support

- The report Local government in Scotland: Financial overview 2019/20 estimated that funding announced by the Scottish Government by November 2020 would meet 60-70 per cent of the revenue cost pressures identified by councils, with total costs and funding still uncertain. Councils have taken steps to manage this position in-year through delivery of savings and use of reserves. Subsequent announcements of additional funding by the Scottish Government at the end of February 2021 indicate that the total net cost of Covid-19 in 2020/21 may now be fully covered. However, a significant element of this additional funding is non-recurring and ringfenced for specific purposes. Councils may still have cost pressures in other separate areas, including in core services, which may not be met by this specific funding. This therefore puts increased pressure on councils to identify ways to close remaining budget gaps with limited flexibility in some of the funding allocated.
- Funding of councils beyond 2021/22 remains uncertain. Currently, funding is being provided incrementally, and this presents challenges for councils in planning effectively. Significant levels of grant support have been provided by the Scottish Government in 2020/21, but it is not yet clear whether this will continue in future years as the impact of the pandemic develops. COSLA anticipates that the impact on council finances will be felt for years to come, particularly in relation to recovery of income streams and collection of council tax debt. Furthermore, the flow of funding in late 2020/21 has created an additional administrative burden for the Scottish Government and councils in awarding and accepting grants and completing the related reporting requirements. This may have an adverse impact on councils' ability to respond to local needs should a large proportion of future funding come with similar conditions.

Lessons learned

The timing and nature of funding for local government is creating pressure and uncertainty for councils beyond the current financial year. Funding is being provided incrementally and the lack of certainty regarding future budgets makes effective short- and medium-term planning very difficult for councils. Covid-19 will have long-term impacts on councils and the communities that they serve. Councils are likely to require additional support to address the challenges of remobilising services, and supporting social and economic recovery. If additional funding is provided with specific conditions or is ring-fenced for specific purposes councils will then be forced to make difficult prioritisation decisions with potential negative impacts on other services. A lack of flexibility in future funding may lead to a differential impact on service delivery and exacerbate existing financial sustainability risks.

As reported in Local government in Scotland: Challenges and performance 2018, services such as planning, cultural services, environmental health and roads have borne the brunt of service cuts in recent years. The trend has been one of larger reductions to relatively smaller service areas with no change in real terms to social care and education spending. The increased financial constraints created by Covid-19 are likely to create a further risk to recovery should smaller services face further cuts. This will adversely affect councils' ability to provide importance services that people and communities rely on.

Councils made swift changes to governance arrangements

- Councils moved quickly to a revised/suspended schedule of meetings. Many councils held only meetings dealing with urgent business, while some councils maintained other committees. Several councils established a Covid-19 committee, which was helpful in providing key information and updates in relation to council business during the pandemic.

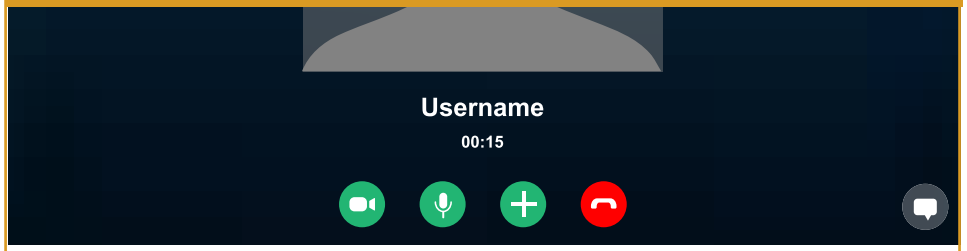
- Some councils have since moved to virtual committee meetings, while others have operated blended or socially distanced meetings. There was some initial inconsistency in how councils made decisions, with some establishing 'emergency' or 'special' committees to take key decisions that would otherwise have been taken by other committees, and others delegating key decisions to senior officers. All 32 councils now have arrangements in place for remote meetings and are not relying on delegation to officers or emergency committees to the extent seen early in the pandemic.

- The Improvement Service notes in its November 2020 paper 'Transitioning to the new normal: Political Governance' that around half of councils are now livestreaming meetings or allowing members of the public to participate. Many of the councils that do not currently livestream or allow the public to participate are exploring options for doing so. Microsoft Teams is the most popular platform, and some councils are using it in conjunction with other technology. Although not in breach of the provisions in the Coronavirus (Scotland) Act 2020, a lack of public participation restricts the openness and transparency of decision-making.

- The new governance arrangements introduced by councils have created greater flexibility and safer conditions for officers, elected members, and the public. However, councils will be required to decide on the longer-term sustainability of these arrangements. Some feedback gathered by the Improvement Service notes that remote meetings are taking longer and need additional support staff to facilitate them, placing greater strain on resources. Councils will face difficult decisions in resourcing governance arrangements that are flexible and safe but that also enable effective scrutiny and decision-making.

Case study 18

Aberdeenshire Council



Aberdeenshire Council was able to ensure minimal disruption to democratic processes from the beginning of the pandemic as it already had the technology in place.

This enabled a smooth transition to virtual meetings by Skype and remote working – ahead of other councils. One committee meeting was postponed, but otherwise all council meetings continued as scheduled. The council produced guidance for elected members, chairs, committee officers and board members to ensure proceedings ran as smoothly as possible. Guidance was also available to help the public understand how meetings would be conducted and recorded, and how they could participate in meetings and access those recordings.

Lessons learned

Councils have reacted well to the changing environment and have acted quickly to implement new governance arrangements that are safe and flexible. Although delegation to officers and emergency committees was undertaken at some councils in the early stages, it is welcome that all 32 councils now have arrangements in place to support remote meetings. It is likely that the requirement for remote meetings will continue for some time, therefore all councils should ensure that public participation is facilitated as soon as possible to provide openness and transparency in decision-making.

The pandemic created significant challenges for councils in financial planning and reporting

- There was inconsistency in the pace at which councils prepared financial updates during the initial response phase of the pandemic. Early monitoring of councils' websites found limited reporting of financial considerations. A few councils prepared detailed financial analysis papers in the early months of the pandemic, but most were slower to make this information available to the public. There has since been an improvement in the pace at which councils are providing financial updates, but the cost projections and assumptions included remain uncertain as the situation continues to develop.

- Councils will need to revise their medium-term financial plans. The wide range of financial and service demand pressures councils faced before the pandemic still exist, alongside a new set of future challenges created by the pandemic. These include restarting services and dealing with backlogs, developing new services and strategies to address the long-term harm caused to communities by the pandemic. In 2019/20, auditors reported greater uncertainty in current financial planning arrangements at councils due to Covid-19. Medium-term financial plans will now need to be revised by all councils to consider additional financial pressures and updated funding arrangements, as well as updated savings requirements and financial assumptions.

- The strategic uncertainties around Scotland's public finances and fiscal plans may also create challenges for councils in updating their own financial plans. Prioritising services such as the NHS may have an adverse impact on local government funding levels. In the Local government in Scotland: Financial overview 2019/20, we reported that between 2013/14 and 2019/20, local government funding underwent a larger reduction than the rest of the Scottish Government budget over the same period. The Scottish Government will have to make difficult fiscal decisions in response to the pandemic and this may exacerbate the financial uncertainty challenge for councils.

- The differential impact of Covid-19 on some groups and communities has implications for the Scottish Government's approach to the distribution of funding. It needs to be targeted to those most in need. As reported in the Local government in Scotland: Financial overview 2017/18, we recognise that a review of funding distribution is difficult in times of reduced budgets and financial challenges, as there will inevitably be some councils that end up with smaller allocations of funding, putting further strain on already tight budgets. Nevertheless, as the effects of the Covid-19 pandemic develop it is increasingly important that the Scottish Government and COSLA assure themselves that the funding formula remains fit for purpose.

Case study 19

Inverclyde Council

Inverclyde Council prepared a 'Covid-19 Financial Considerations' paper in late March 2020.

This paper was used to highlight the financial pressures and supports relating to Covid-19 and to seek delegated powers where required to release funding. All councils are now preparing regular Covid-19 related financial updates for elected members and the public.

Lessons learned

Councils' medium-term financial plans will need to be updated to reflect the significant financial impact of the Covid-19 pandemic. Although considerable challenge and uncertainty still exists, it is important that councils have a plan in place that identifies medium-term impacts so that steps can be taken to manage risk and plan effectively. Good medium-term financial planning, based on modelling various future scenarios and focusing on clear priorities, is more important now than ever.

Local government in Scotland: Overview 2021

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Governance Risk and Best Value Committee

10.00am, Tuesday, 9 November 2021

Best Value Assurance Audit Response - October Update – referral from the Policy and Sustainability Committee

Executive/routine
Wards
Council Commitments

1. For Decision/Action

1.1 The Policy and Sustainability has referred the attached report to the Governance, Risk and Best Value Committee for consideration.

Stephen S. Moir
Executive Director of Corporate Services

Contact: Louise Williamson, Assistant Committee Officer
Legal and Assurance Division, Corporate Services
E-mail: louise.p.williamson@edinburgh.gov.uk

EDINBVRGH
THE CITY OF EDINBURGH COUNCIL

Referral Report

Best Value Assurance Audit Response - October Update

2. Terms of Referral

2.1 On 5 October 2021, the Policy and Sustainability Committee considered a report which provided an update on the progress made to respond to the Best Value Assurance Audit recommendations.

2.2 The Policy and Sustainability Committee agreed:

Motion

1) To note the progress made to date to respond to the Best Value Assurance Audit Report recommendations.

2) To note the Council's external auditors (Azets) would review the Council's progress on the Best Value Assurance Report's findings as part of their 2020/21 Annual Audit Report to the Council.

3) To refer the report by the Executive Director of Corporate Services to the Governance Risk and Best Value Committee for its consideration.

- moved by Councillor McVey, seconded by Councillor Day

Amendment

1) To note the progress made to date to respond to the Best Value Assurance Audit Report recommendations.

2) To note the Council's external auditors (Azets) would review the Council's progress on the Best Value Assurance Report's findings as part of their 2020/21 Annual Audit Report to the Council.

3) To refer the report by the Executive Director of Corporate Services to the Governance Risk and Best Value Committee for its consideration.

4) To further agree to restart work on detailed medium and long-term financial plans and a detailed workforce plan immediately with the results to be presented to Council and available to political groups ahead of the 2022 budget setting process; recognising that these documents provided more than a route to maintain financial stability but were core to the delivery of any strategy to reshape Council services.

- moved by Councillor Whyte, seconded by Councillor Mowat

Voting

The voting was as follows:

For the motion - 12 votes
For the amendment - 5 votes

(For the motion: Councillors Aldridge, Burgess, Kate Campbell, Day, Gardiner, Gloyer, Macinnes, McVey, Miller, Munn, Perry and Wilson.

For the amendment: Councillors Jim Campbell, Mitchell, Mowat, Rose and Whyte.)

Decision

To approve the motion by Councillor McVey.

3. Background Reading/ External References

3.1 Minute of the Policy and Sustainability Committee – 5 October 2021

4. Appendices

Appendix 1 – report by the Executive Director of Corporate Services

Policy and Sustainability Committee

10.00am, Tuesday, 5 October 2021

Best Value Assurance Audit Response - October Update

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

1. Recommendations

The Committee is recommended to:

1.1 Note the progress made to date to respond to the Best Value Assurance Audit Report recommendations.

1.2 Note the Council's external auditors (Azets) will review the Council's progress on the Best Value Assurance Report's findings as part of their 2020/21 Annual Audit Report to the Council.

1.3 Refer this report to the Governance Risk and Best Value Committee for its consideration.

Stephen S. Moir
Executive Director Corporate Services

Contact: Hayley Barnett, Corporate Governance Manager
Legal and Assurance Division, Corporate Services Directorate
E-mail: Hayley.barnett@edinburgh.gov.uk | Tel: 0131 523 3996

EDINBVRGH
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Report

Best Value Assurance Audit Response - October Update

2. Executive Summary

2.1 This report provides an update on the progress made to respond to the Best Value Assurance Audit recommendations.

3. Background

3.1 The City of Edinburgh Council Best Value Assurance Audit Report (BVAR) was published by the Accounts Commission on 26 November 2020.

3.2 At the Policy and Sustainability Committee (1 December 2020), Governance, Risk and Best Value Committee (8 December 2020) and full Council (10 December 2020), elected members considered a report noting the findings of the BVAR, the approach to ensure a comprehensive and holistic response to the audit and provided feedback on priority areas for improvement.

3.3 At the Policy and Sustainability Committee on 23 February 2021, members agreed, following the implementation of the Planning and Performance Framework, that the actions to address the Best Value Assurance Report recommendations (as set out at Appendix 1) will be integrated into the Business Plan performance reporting cycle. A separate report on Business Renewal will also be considered by the Policy and Sustainability Committee.

3.4 Committee received further update reports in April 2021 including the Council progress update, the response by the Edinburgh Partnership and the Covid-19 Engagement and Consultation Approach.

4. Main report

4.1 The BVAR for the City of Edinburgh Council focused on five key areas: the Council's vision and strategic direction; performance and outcomes including public performance reporting; effective use of resources; partnership working and community engagement, and continuous improvement.

4.2 There were six key recommendations made within the BVAR. As with previous progress reports, the table at Appendix 1 sets out the initial response considered by committee in February, a progress update from April and a further update for each recommendation covering the period April-October.

4.3 As members will be aware, the Council's external auditors (Azets) will review the Council's progress on the BVAR's findings as part of their 2020/21 Annual Audit Report to the Council. Officers are currently engaging with the external audit team to provide all necessary documentation and evidence.

5. Next Steps

5.1 The report will be referred to the Governance, Risk and Best Value Committee for its consideration. Officers will continue to progress the actions detailed in appendix 1 and liaise with the external audit team to inform their 2020/21 Annual Audit Report to the Council.

6. Financial impact

6.1 There is no direct financial impact resulting from the Best Value Assurance Audit. All improvement actions will be individually costed and will be required to be managed through existing revenue budget allocations.

7. Stakeholder/Community Impact

7.1 Stakeholder engagement on specific recommendations will be developed as the Council responds to the BVAR recommendations.

8. Background reading/external references

8.1 Best Value Assurance Audit – City of Edinburgh Council, 10 December 2020

8.2 Council Business Plan and Budget 2021/26 – Finance and Resources Committee, 2 Feb 2021

8.3 Best Value Assurance Audit Response - Policy and Sustainability Committee, 23 February 2021

8.4 Best Value – Policy and Sustainability Committee, 20 April 2021

9. Appendices

9.1 Appendix 1 – Best Value Assurance Audit - Status Update Table

Appendix 1 – Status Update Table

Recommendation		Status and progress to date	Next steps and timescales	April Update	October Update
1(a)	As part of its Adaptation and Renewal Programme, the council should quickly amalgamate its Business Plan and Change Strategy, to provide clearer priorities and direction for the council.	On 27 January the Council published the draft three-year Council Business Plan: Our Future Council, Our Future City. The draft Business Plan brings together 15 outcomes and accompanying actions for the next three years. It includes detail on working with our partners, our finances and the new planning and performance framework. The Business Plans provides a strategic direction for the Council and will be supported by the updated the Council Budget and the refreshed People Strategy and underpinning Workforce Plan.	The Business Plan and Budget were considered by the Finances and Resources committee on 2 February 2021 ahead of Council on 18 February. The draft Business Plan is a live document and will evolve in line with both council priorities and service delivery changes. The People Strategy and Workforce Plan will be considered by the Policy and Sustainability Committee in April 2021.	The People Strategy and Workforce Plan are on the agenda for the Policy and Sustainability Committee's consideration.	The Council Business Plan is now a live document which colleagues are using across the Council to provide strategic direction for deliverables – replacing the previous Business Plan and Change Strategy. It is readily available on both the Council's intranet and public pages alongside the People Strategy and Strategic Workforce Plan We continue to meet with teams to talk them through the Business Plan and what it means for their team. It remains a live document which we will update as required. Our People Strategy 2021-2024, approved at Committee in April 2021, is an essential enabling strategy and approach to support the delivery of the Business Plan. This strategy is further underpinned by our Strategic Workforce Plan 2021-2024, which describes specific further actions we will take as an organisation to address the gaps between our current workforce and the future workforce during the same

					period. The commitments and outcomes from both have been built into a programme of work, which will be tracked, measured and reported on through; HR Leadership team; Corporate Leadership Team; Policy & Sustainability Committee and; Finance and Resources Committee. RECOMMENDED FOR CLOSURE
1(b)	As part of its Adaptation and Renewal Programme, the council should prepare sustainable medium and long-term financial plans, and detailed workforce plans, to support its strategic priorities.	Given the announcement on 5 January 2021 that Edinburgh and all other mainland authorities in Scotland would be returning to arrangements akin to the March 2020 lockdown and the significant consequent increase in uncertainty and risk that any longer-term budget is based on incomplete information or flawed assumptions, the primary focus for 2021/22 activity has reflected the Council's statutory responsibility to set a balanced budget for the following year by 11 March. This shorter, one-year timeframe is consistent with both the UK and Scottish Governments and councils elsewhere in Scotland. Once the financial position is clearer, a strategic long-term financial plan, guided by the overarching vision, principles and priorities set out within the Business Plan: Our Future Council, Our Future City will therefore be developed to maintain its financial sustainability. The BVAR also noted findings in relation to the setting and subsequent implementation and delivery of the Council's revenue budget. These included continuing shortfalls in savings delivery (and consequent reliance on savings in non-service budgets), a lack of robustness in the implementation plans for some proposals and the potential for the Council's use of reserves to become unsustainable without decisive action.	Once the financial position is clearer, a strategic long-term financial plan, guided by the overarching vision, principles and priorities set out within the Business Plan: Our Future Council, Our Future City will therefore be developed to maintain its financial sustainability.	No further update at this stage.	The Council set a balanced one-year budget for 2021/22 on 18 February 2021, including a recurring additional £12m to recognise underlying service pressures and £18m to reflect the in-year expenditure and income impacts of the pandemic. The approved budget also reflected a re-assessment of the ability to deliver a number of previously approved savings in light of subsequent reprioritisation of activity to respond to the pandemic. Following the receipt of significant additional grant funding after the budget was set, Council subsequently increased to £39m the provision for the in-year impacts of the pandemic, as well as increasing the corresponding level of provision in 2022/23. Due in part to the anticipated recurring impacts of some of

		In seeking to address these concerns, a number of further enhancements have been introduced into this year's process, including updated, detailed and consistently applied guidance for Finance professionals in assessing the rigour of accompanying savings implementation plans and more general earlier recognition, through discussion and agreement at Corporate Leadership Team, of the impact of underlying service pressures and savings shortfalls on the robustness of the budget framework. An indicative five-year planning timeframe has also been adopted. In light of the COVID-related risks within the budget framework, it is also proposed to realign and reprioritise the Council's reserves with effect from 31 March 2021 as follows: (i) an increased unallocated General Fund balance of £25m, equating to around 2.3% of the Council's net expenditure and being more in line with other authorities in Scotland; (ii) a series of ringfenced reserves maintained for statutory or specific policy reasons or to reflect timing differences between the receipt of income and its subsequent application, together totalling £55m; (iii) a workforce transformation reserve of £15m, less commitments incurred as part of the recent targeted staff release programme for senior managers, to facilitate organisational restructuring and deliver associated recurring efficiency savings; and a COVID contingency reserve of £16m, acknowledging the continuing uncertainty of the			the in-year investment approval approved by members on 27 May, a residual funding gap of £10m is projected in 2022/23 but with a much larger savings requirement of at least £50m in 2023/24. Given this, members also approved the initiation by Autumn 2021 of a savings programme, rooted in the Council's Business Plan, to address the estimated funding gap. In view of the significant funding gap within the Sustainable Capital Budget Strategy from 2023/24, a further report on addressing this gap will also be brought to the Finance and Resources Committee in October 2021.

		recurring impacts of the pandemic on, in particular, income levels in key areas such as parking, commercial rentals and other fees and charges.			
2	The council should implement a strategic approach to self-evaluation and continuous improvement. This should include better demonstrating how it responds to feedback and scrutiny findings.	Continuous improvement is central to the Council's approach for an integrated planning and performance framework (see recommendation 4) aligned to the Council's new business plan. This integrated framework is underpinned by the 'plan, do, check, review/act' model and methodology. To ensure delivery of the draft business plan outcomes and service priorities we will introduce the development of annual service plans at all levels in the Council (from Directorate to Service Team level). Plans will be aligned to Key Performance Indicator (KPI) scorecards and underpinned by trend dashboards which will be monitored and actioned regularly. Each year service teams will undertake a detailed review of their plans and associated performance to assess the progress we have made in delivering our outcomes and improving performance. This review will inform service planning for the next year which will ensure that continuous improvement is embedded at all levels. To ensure effective scrutiny of our performance we will develop a regular cycle of performance reporting for Elected Members as well as the wider public. We will also engage with the Improvement Service to look at the options open to the Council to implement a strategic approach to self-evaluation which will align to and enhance our integrated planning and performance framework.	A detailed report on the integrated planning and performance framework will be submitted to Policy and Sustainability in April 2021. As part of developing the framework we will undertake early discussion with political groups to inform our approach.	The Planning and Performance Framework is on the agenda for the Policy and Sustainability Committee's consideration. Political Groups have all been offered discussions and a session with members of GRBV is planned.	In June 2021, the Policy and Sustainability approved the new planning and performance framework for the Council Business Plan, including an initial suite of Key Performance Indicators (KPIs). The integrated Planning and Performance framework is under pinned by the "plan, do, check, act/review" continuous improvement model. The framework is now into implementation phase and a performance update will be considered as a separate report (Business Renewal) by the Policy and Sustainability.
3	To help them carry out their best value responsibilities, elected members should take advantage of the	To fully respond to this recommendation officers are proposing a short (end of March 2021), medium (2021/2022) and longer-term response (post local government 2022 election).	The Policy and Sustainability will be provided with an update on the progress of this recommendation at its next meeting in April 2021.	The short-term commitment to carry out an audit of all current training materials and communicate the	The medium-term and long-term commitments are currently at planning stage. Officers are currently developing a programme of workstreams - Council 2022

	learning and development opportunities provided by the council.	Short (end March 2021) – To ensure elected member learning and development meets statutory requirements, is continuous, relevant and of good quality officers will carry out an audit of all current training materials and communicate the current offering to members. All statutory and requested training will also continue. Medium (2021/2022) – A training needs analysis will be carried out with elected members. This will be fundamental to identify any gaps in learning and development and help implement further training that is useful, relevant, developmental and will encourage and support participation. A key aspect of this will be to consider more online and virtual training to allow members to complete learning and development at a convenient time. Long-term (post Local Government elections) - The training needs analysis will be a fundamental tool to support the induction and on-going training offering to new and returning members after the 2022 election. As in previous election years, a full 8-week induction programme will be offered to members. Building on this, there will then be a focus on continuous learning and development with members supported to take an active role in their development and monitor their participation in further training. This will allow training needs to be identified on an ongoing basis and training and development to be offered timeously.		current offering to members in complete. Members were emailed on 25 March 2021.	in preparation for the 2022 Local Government elections. (The Council's election team has responsibility to manage the delivery of the election, with separate project management arrangements for this in place). A key strand of the project is to deliver a comprehensive induction and training programme for elected members. The training needs analysis (medium term commitment) is key to inform and support this programme.
4(a)	The council should further improve its performance reporting by making better use of performance measures and targets, particularly to demonstrate the impact of improvement work.	The Council's draft Business Plan includes a new strategy performance map which details the outcomes, actions and initial metrics. Work is now underway to further develop the strategy performance map and we will be working with teams to agree annual plans and metrics. This is in advance of rolling out the new integrated planning and performance framework which will go live from May 2021, following the closure of the 2020 – 2021 annual performance report.	A detailed report on the integrated planning and performance framework will be submitted to Policy and Sustainability Committee in April 2021.	The Planning and Performance Framework is on the agenda for the Policy and Sustainability Committee's consideration.	In June 2021, the Policy and Sustainability approved the new planning and performance framework for the Council Business Plan, including an initial suite of Key Performance Indicators (KPIs) which are aligned to Specific, Measurable, Achievable and Relevant (SMART) performance indicators and milestones.

		The new planning and performance framework will provide a clear link between our three-year business plan, key strategies, annual service plans and the underlying performance framework including benchmarking. The framework will be underpinned by a cycle of 'plan, do, check and review and act' and will aim to drive a culture of continuous improvement (see recommendation 2). The business plan outcomes will be aligned to Specific, Measurable, Achievable and Relevant (SMART) performance indicators and milestones where appropriate, which will allow for open discussion and scrutiny of performance at organisational and service team levels, as well as with Elected Members and the wider public on a regular basis.			The planning and performance framework has been developed in close collaboration with elected members. This included an initial briefing to Policy and Sustainability Committee on the proposed approach, followed by the final paper in June setting out the full planning and performance framework. As part of the design, meetings were held with all political groups and a workshop was arranged with the Governance, Risk and Best Value Committee. Meetings were also held with all Senior Managers, the Wider Leadership Team, and Corporate Leadership Team was closely involved in the design of framework. The framework is now into implementation phase. The next phase of this work will look to develop service plans and targets against each performance indicator or milestone. A performance update will be considered as a separate report (Business Renewal) by the Policy and Sustainability.
4(b)	The council should further improve its performance reporting by publishing easily accessible, up-to-date performance				Officers are working to improve the performance reporting available to the Public via the Council website. Key improvements have focused on the layout and format of our reporting to

	information on its website.				ensure that publications are both accessible and timely. Along with publishing all committee performance reports (noted above in 4a), we will further enhance our public information by developing a suite of core measures to be published on a quarterly basis. In addition, we will be developing a data section to give a wider perspective on city data, for example, Edinburgh by Numbers
5(a)	In order to make community engagement an integral part of service improvement and delivery, the council should embed the lessons from effective community engagement activity and clearly communicate the results of, and the council's response to, community consultation.	Officers have developed a new Consultation and Engagement policy to formally embed the principles of high-quality engagement and consultation into the way we work. The intention was to bring this to committee in spring 2020 but consideration was delayed due to the impact of the pandemic. The Council is also developing a Consultation Advisory Panel of expertly trained council officers who will evaluate proposed significant consultations and make recommendations to the Corporate Leadership Team. This group will be established in line with the implementation of the new Consultation and Engagement policy and will be chaired by senior managers on a rotating basis. This will ensure a high quality and coordinated approach to community consultation and engagement. The Consultation Advisory Panel will ensure that planning for consultation and engagement takes account of and commits to the public reporting of how citizens' views have shaped the decisions of the Council. This approach will be implemented following Council agreement of the Consultation and Empowerment policy and will be reflected as part of the Business Plan annual performance report.	The Consultation and Engagement policy will now be brought to the Policy and Sustainability Committee for consideration at its next meeting in April 2021. Following agreement of the Policy, a series of officer and elected member briefings on effective community consultation and engagement will be delivered in May 2021. Further consideration of how the wider skills and capacity of the organisation can be enhanced will be addressed as part of the Council's People Strategy and workforce plans. This will be considered by the Policy and Sustainability Committee at it's April meeting.	The Consultation and Engagement policy is on the agenda for the Policy and Sustainability Committee's consideration. The People Strategy and workforce plans are on the agenda for the Policy and Sustainability Committee's consideration.	The Consultation Policy was approved at Policy and Sustainability Committee in April and came into effect from August 2021. The Consultation Advisory Panel has met successfully to review high-assessed consultation proposals. The first CAP report has been considered and approved by CLT. The process is under continuous review to ensure its effectiveness, this includes involvement of colleagues from Internal Audit. The Consultation Hub cannot now be accessed without records of self-assessment being reviewed by the Insight Team.

		The Council is considering its approach to empowering communities and the relationship with community councils with partners in the city, under the auspices of the Edinburgh Partnership. This is being taken forward by a working group (see 6a below). This allows the Council to consider its approach in the round and as part of a comprehensive suite of reforms for community planning and community empowerment.			Briefings have been provided to all consultation and engagement hub users and are currently being delivered to convenors and vice-convenors of committees. Directorate/Divisional briefings are being provided on request. A 3-year training programme has been developed to upskill colleagues and elected members on consultation practice and funding has been agreed for year one. Year one focuses on training for key users and colleagues providing central support for consultation. Funding has been agreed for a new team to drive community and voluntary sector engagement in the development of major new change projects – 20-minute Neighbourhoods and Poverty Prevention. In Autumn 2020 the Council supported the launch of End Poverty Edinburgh, a new group established to ensure the voices of people with lived experience of poverty are heard in the development of policy and actions in the city. The group is actively engaging with elected

					members and senior officers in development of new approaches to end poverty in the city.
5(b)	In order to make community engagement an integral part of service improvement and delivery, the council should support community groups to complete asset transfers	Community Asset Transfer (CAT) is an important element of the Council's approach to Community Empowerment. The Council has a well-established CAT Policy and provides advice and guidance to community organisations at all stages of the process to enable them to present the best possible case for an asset transfer. Prior to formal asset transfer requests being submitted, officers score the draft submissions following the CAT policy scoring matrix and works with the community to improve their business case so that it is as strong and robust as possible in terms of finance, operation, community consultation and governance. The Council has recently seen evidence of a greater number of Community Asset Transfer requests which it has supported and the number of approved requests has risen during the last 12 months.	As a part of the Draft Council Business Plan, the opportunity for greater use of Community Asset Transfer will be considered as a part of the Council's proposed approach to '20-minute neighbourhoods' and enable greater community resilience and empowerment in the future.	No further update at this stage.	Since the publication of the Best Value Report in November 2020, considerable progress has been made with Community Asset Transfers and a further three transfers have been concluded, bringing the total number of completed transfers to four since the introduction of the Community Empowerment (Scotland) Act 2015. In addition, a further four transfers have been agreed to by the Council and legal work is ongoing to bring them to a successful conclusion. There continues to be interest from community groups in pursuing transfers with four groups preparing detailed business plans for consideration and seven expressions of interest received that are currently being processed. We continue to receive initial enquiries on a regular basis, with 28 considered over the last reporting year. The Council's 20 Minute Neighbourhood strategy was approved by Committee in June 2021.

					Early implementation of the strategy is being progressed in Corstorphine and Portobello and will include a review of current and future opportunities for Community Asset Transfers to see where further support for CAT applications and community empowerment can be progressed. Early work is underway in Corstorphine and Portobello.
6(a)	The council should work with the Edinburgh Partnership Board to implement its new governance arrangements, effectively involve community representatives and deliver improved outcomes for communities.	Work to progress this recommendation will be taken forward in two parts; i) as a Community Planning Partnership looking at effective partnership working, and, ii) as a Council in support of community capacity and local empowerment. <u>The Edinburgh Partnership</u> Following a meeting of the Edinburgh Partnership Board on 15 December 2020, a working group of key partners led by the Council's Executive Director of Place was established to consider the Accounts Commission's recommendations and formulate a partnership response. Initial work has been carried out, with the group identifying key thematic areas for improvement covering governance to deliver outcomes, performance and community engagement. Work is now underway to develop a detailed proposed improvement actions under each of these themes. This will be presented to the Edinburgh Partnership Board in March 2021 for agreement. The Edinburgh Partnership Board has also committed to developing a Community Empowerment Plan and a draft report is due for consideration by the Board in June 2021.	The Policy and Sustainability Committee will be updated on the outcome of Edinburgh Partnership working groups findings at its next meeting in April 2021 and on the Community Empowerment Plan in August 2021. An update on the Localities Review will also be provided in April 2021.	The outcome of the Edinburgh Partnership Working Group's findings is on the agenda for the Policy and Sustainability Committee's consideration. An update on the Localities Review is on the agenda for the Policy and Sustainability Committee's consideration.	Progress on delivering the BV improvement Plan will be reported to the Edinburgh Partnership Board (EPB) in September. Thereafter, key actions will be included in the LOIP Delivery Plan – also being reported on at the EPB. The development of the 3rd LOIP theme – A good place to live, has been led by Public Health and has been informed by 2 key 'Joining the dots' workshops. These involve the participation of a range of partners across the city. A 3rd workshop is planned for October with a focus on project development – in particular for the two 20-minute neighbourhoods (Wester Hailes and Liberton/Gilmerton) identified as shared partnership delivery priorities.

		The Council The Council Business Plan has clearly articulated how the Council's priorities and key strategic programmes of work align with the Community Planning Partnership priorities (LOIP) and, in response to committee agreement to give further consideration of genuine local community empowerment, the Council is carrying out a review of the Localities teams. This will address how the Council improves its approach and capacity to effectively involve community representatives in local outcome plans and the work of the Edinburgh Partnership. This review is due to be complete by April 2021.			A short life joint working group has been established with the Edinburgh Association of Community Councils (EACC) to focus on how community councils can be better enabled to deliver their statutory functions and to improve the working relationship with the Council. The BV Improvement Plan identifies a number of actions to strengthen community empowerment in the city. Included within this is the finalisation of an Empowerment Plan, work on which began pre-pandemic. Work on this has now been resumed with a meeting arranged with partners to review the work to date and to agree, based on the revised city context, a refreshed project delivery plan. As part of the Council's approach to change management, engagement is underway with Senior Leaders within the Council on the creation of a team to lead Community Empowerment on behalf of the Council.
6(b)	The council should work with the Edinburgh Partnership Board to produce progress	Officers are working with community planning partners to agree clear performance measures and reporting framework. A draft is due to be considered by the Edinburgh Partnership Board in June to allow for any changes resulting from the Best Value working	The Policy and Sustainability Committee will be updated on the outcome of this work at its	The work on performance measures and reporting framework is progressing. An	The new LOIP Delivery Plan with corresponding performance measures is on the EPB agenda for

	reports with clear targets, accountable leads and links between the actions taken and the impact on performance.	group (detailed under 6a) recommendations to be reflected and to align with the Council's new integrated planning and performance framework (due for implementation in May 2021)	following meeting August 2021.	update will be provided in August 2021.	consideration in September 21. It builds on the work done within the Council's own performance framework giving a renewed emphasis to public health and Sustainability outcomes to reflect further development of the LOIP.

Governance, Risk and Best Value Committee

10.00am, Tuesday, 9 November 2021

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

Executive/routine	
Wards	**All**
Council Commitments	

1. For Decision/Action

1.1 The Housing, Homelessness and Fair Work Committee has referred an annual update report on the EDI Group to the Governance, Risk and Best Value Committee for information.

Stephen S. Moir
Executive Director of Corporate Services

Contact: Sarah Stirling, Area Support Team Clerk
Legal and Assurance Division, Corporate Services Directorate
Email: sarah.stirling@edinburgh.gov.uk | Tel: 0131 529 3009

EDINBVRGH
THE CITY OF EDINBURGH COUNCIL

Referral Report

The EDI Group – Annual Update

2. Terms of Referral

2.1 On 4 November 2021, the Housing, Homelessness and Fair Work Committee considered an annual update report on the progress of the transition strategy for The EDI Group Limited which aimed to close it and its subsidiary companies and bring their projects and assets into the Council.

2.2 The Housing, Homelessness and Fair Work Committee agreed:

2.2.1 To note the report.

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

3. Background Reading/ External References

3.1 Webcast of the Housing, Homelessness and Fair Work Committee of 4 November 2021

4. Appendices

4.1 Appendix 1 – report by the Executive Director of Place

Housing, Homelessness and Fair Work Committee

10.00am, Thursday, 4 November 2021

The EDI Group – Annual Update

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

1. Recommendations

1.1 It is recommended that Committee:

1.1.1 Notes the report; and

1.1.2 Refers the report to the Governance, Risk and Best Value Committee.

Paul Lawrence

Executive Director of Place

Contact: David Cooper, Commercial Development and Investment Senior Manager

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

Report

The EDI Group – Annual Update

2. Executive Summary

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

3. Background

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

4. Main report

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

4.2 The EDI Board, comprising three elected members, continues to meet quarterly. A scheme of delegation has been agreed which enables minor and routine decisions to be taken by Council officers.

4.3 The updated timeline in terms of projects transferring into the Council and estimated corporate closure dates is set out in Appendix 1. Appendix 2 provides an update on each project.

4.4 The audited consolidated financial statements for The EDI Group Limited for the year ending 31 December 2020 were, at the time of writing, scheduled to be considered by the EDI Board on 4 November 2021. The overall financial performance was a net loss of £3.195m (compared to a net profit of £2,039m in the year ending 31 December 2019 – restated from the originally reported net profit of £1,962m to correct a misstatement relating to an over accrual in EDI Market Street Limited) and retained earnings of negative £2.5m (compared to positive £2.4m in in

the year ending 31 December 2019). The Group had a cash balance of £6.1m as of 31 December 2020.

4.5 The main influencing factor in the net loss and negative retained earnings for the year ending 31 December 2020 was the provision for the write-off of the Work in Progress (WIP) held by EDI Fountainbridge Limited. Following the appointment of the development partner for the site by the Council, a decision was taken to make a provision for the full WIP value of £2.898m to be written off. The Group also declared dividends of £1.75m to CEC Holdings. The sales expected in 2021 will be profitable and cash forecasts show positive balances throughout 2021. It is not envisaged that dividends will be paid in 2021 to allow retained earnings to recover.

4.6 The independent auditor opined that the statements gave a true view of the state of the company and were properly prepared in line with International Financial Reporting Standards and the requirements of the Companies Act 2006. The directors' report and consolidated financial statements (including the independent auditor's report) are attached as Appendix 3.

5. Next Steps

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

6. Financial impact

6.1 The projected special dividend to the Council from closing EDI is currently forecast at £8.073m. This is a reduction on the original forecast figure of £8.5m, reflecting the loss sustained by EDI on the Market Street hotel development coupled with write-downs on property valuations associated with COVID-19, but is an improvement upon the projected figure of £7.525m reported on 5 November 2020, reflecting a higher-than-forecast receipt from the sale of land at New Brunstane.

7. Stakeholder/Community Impact

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

8. Background reading/external references

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

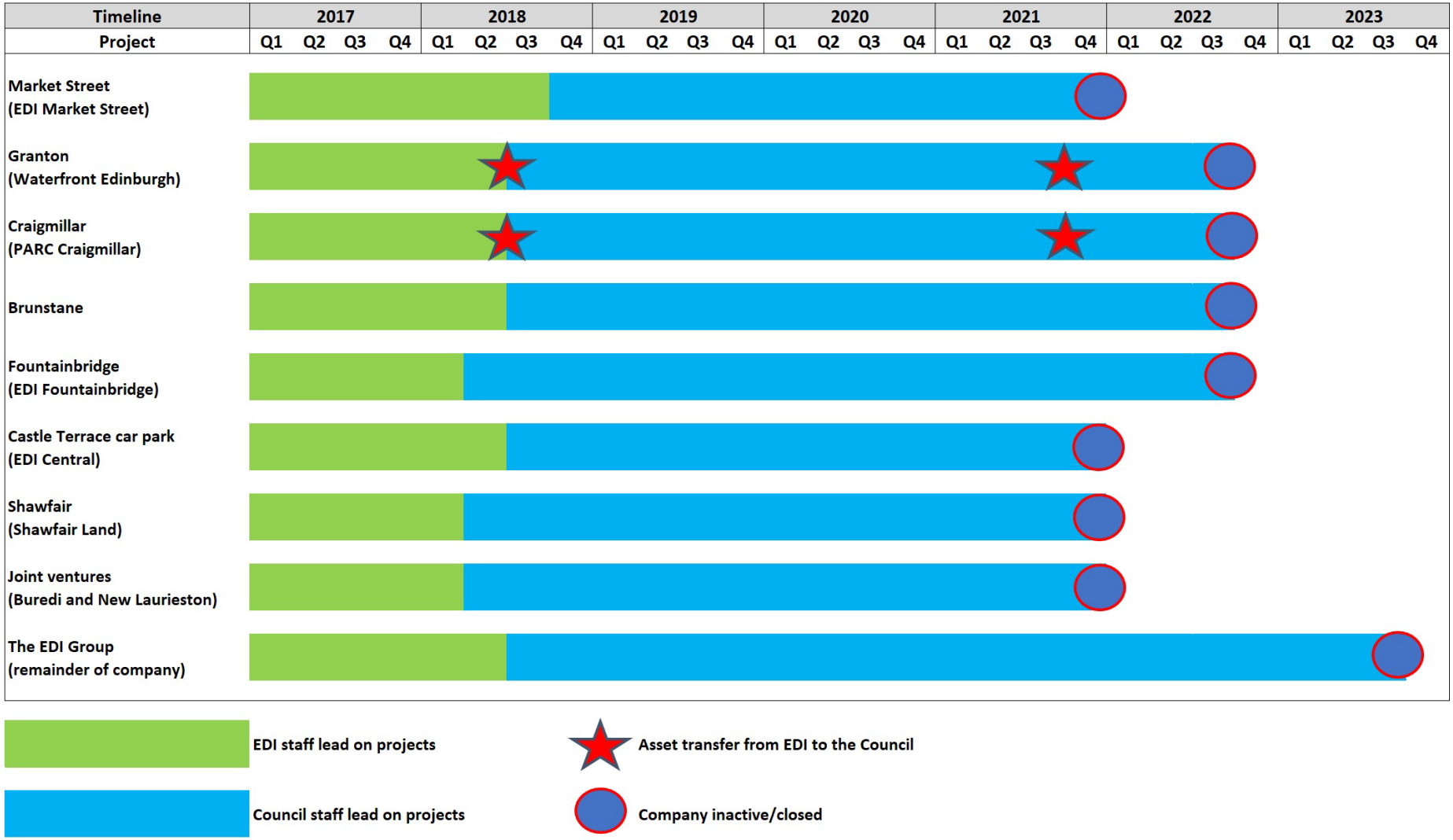
9. Appendices

9.1 Appendix 1 – Updated project timeline.

9.2 Appendix 2 – Project updates.

9.3 Appendix 3 – The EDI Group Limited: Directors' report and consolidated financial statements for the year ended 31 December 2020.

Appendix 1 – Update project timeline



Appendix 2 – Project updates

Please note RAG Status is in relation to performance against programme.

Market Street (EDI Market Street Limited)	
Description Subsidiary company of EDI set up to take forward a hotel development on Market Street.	
Position as of August 2021 The Market Street hotel achieved practical completion in November 2018, nine months behind the originally envisaged completion date. Council officers acting on behalf of EDI have now settled financial claims with the purchaser and the contractor. An application to strike-off the company will be made in late-2021/early-2022.	
RAG status	Amber
Granton (Waterfront Edinburgh Limited)	
Description Land and buildings at Granton along with shares in a joint venture holding land in Granton.	
Position as of September 2021 The land and buildings wholly owned by Waterfront Edinburgh have been transferred to the Council and now form part of the wider Granton Waterfront regeneration project led by the Housing and Regeneration service. The two Waterfront Edinburgh Ltd (WEL) subsidiary companies are in the process of being transferred up to The EDI Group to allow closure of WEL. Work is underway to assess the usability of historic tax losses within the company. The projected company closure date remains 2022, subject to transactions being completed by the end of 2021 to enable final accounts to be submitted.	
RAG status	Green
Craigmillar (PARC Craigmillar Limited, PARC Craigmillar Developments Limited)	
Description Land and buildings at Craigmillar.	
Position as of September 2021 PARC Craigmillar holds three assets: the White House, the South Park at Greendykes, and Greendykes plots K and L. Negotiations around a private sale of plots K and L have not progressed satisfactorily and so it is now proposed that the plots will be transferred to the Council's Housing Revenue Account. It is anticipated that these three assets will transfer to the Council by the end of 2021. Work is also underway to novate legal agreements to which PARC Craigmillar is a party to the Council. The projected company closure date remains 2022, subject to transactions being completed by the end of 2021 to enable final accounts to be submitted.	
RAG status	Amber
Brunstane (The EDI Group Limited)	
Description Housing development site with planning permission in place on land owned by EDI and option agreement in place with adjoining land owner. The Council also has an entitlement for profit share in relation to access rights.	
Position as of September 2021 The sale of the west field at New Brunstane concluded Missives in mid-2021. The sale price was slightly higher than forecast. The remaining land at New Brunstane (the east field) is planned to be marketed in late-2021/early-2022. A sale should conclude in 2022, allowing EDI to be closed thereafter.	
RAG status	Amber

Fountainbridge (EDI Fountainbridge Limited)	
Description EDI Fountainbridge was established to take forward the redevelopment of a brownfield development site owned by the Council.	
Position as of September 2021 The Council has now appointed Cruden Homes as the pre-development partner for the redevelopment of the site. It has now been determined that the work in progress held by EDI Fountainbridge is not of value to the Council and so it will require to be written off. An application to strike-off the company will be made in late-2021/early-2022.	
RAG status	Amber
Castle Terrace car park (EDI Central Limited)	
Description EDI Central is entitled to payments from NCP as settlement following a court case regarding a lease arrangement at the Castle Terrace car park.	
Position as of August 2021 All payments due to EDI Central have been received and paid up to The EDI Group. An application to strike-off the company will be made in late-2021/early-2022.	
RAG status	Green
Shawfair (Shawfair Land Limited)	
Description Shawfair Land formerly held a security over land at the South East Wedge.	
Position as of September 2021 Shawfair Land has released the security in return for a cash payment. An application to strike-off the company will be made in late-2021/early-2022.	
RAG status	Green
Joint ventures (Buredi Limited, New Laurieston (Glasgow) Limited)	
Description Inactive joint venture companies that previously carried out private housing developments.	
Position as of September 2021 Agreement has been reached with joint venture partners to close the two companies. The Buredi joint venture has been wound-up. The winding-up of the New Laurieston (Glasgow) joint venture, which is being taken forward by The Miller Group, is now expected to be completed during 2021.	
RAG status	Green
The EDI Group Limited (remainder of company)	
Description The parent company of all subsidiaries.	
Position as of September 2021 Other than New Brunstane, no projects sit directly within the parent company. The Council will oversee the repayment of loans and capital up to 2021 as PARC Craigmillar and EDI Central receive payments and pay these up to the parent company. The projected company closure date is now expected to be 2023 as some transactions will not completed until 2022.	
RAG status	Amber

Financial Statements

31 December 2020

THE EDI GROUP LIMITED

Directors' report and consolidated financial statements

For the year ended 31 December 2020

Contents	**Page**

THE EDI GROUP LIMITED

Company information

For the year ended 31 December 2020

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

The Directors present their strategic report and audited financial statements for 2020 financial year.

Principal activities, business review and future developments

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

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

The company has now ceased development activities with the majority of the land and buildings transferred to the Council in May 2018 and the remaining land at Greendykes and Brunstane subject to sale negotiations. There has been, and will continue to be, a minimal level of development and property related activity for the remainder of the company's lifespan. Non-property assets will be realised in accordance with their contractual terms and external liabilities and obligations will be settled in full. Financial projections for the closure process show that the group will have sufficient funds to meet all external liabilities and obligations and to repay share capital in full. The intention is that each company will become dormant with a timespan covering 2 to 7 years.

Current development activity:

The Market Street hotel construction reached practical completion in November 2018 and negotiations on financial claims completed in 2020. The transfer of assets from PARC Craigmillar to the City of Edinburgh Council has been completed other than plots K and L, which are subject to live sale negotations. The sale of land at Brunstane is expected to complete in 2021.

Our performance

The financial performance of the group in 2020 was a net loss of £3.2m compared to a profit of £2.04m in 2019. Retained earnings reduced to negative £2.5m from (positive) £2.4m. The major factor influencing the year's results has been the write off of the Work In Progress in Fountainbridge following the appointment of a new development partner. However the longer-term position remains in line with transition strategy assumptions.

The group had a cash balance of £6.1m (2019: £5.3m). The sales expected in 2021 will be profitable and no dividends expected in 2021 to allow the retained earnings to recover from the write off.

Risks and environment

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

This report was approved by the board on _____ 2021 and signed on its behalf by:

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

The directors present their annual report and audited financial statements for the year ended 31 December 2020.

Principal activities and business review

Details of principal activities, market circumstances and risk and performance indicator are included in the Strategic Report. The directors recommend payment of a dividend at the year-end of £1,750,000 (2019: £1,046,788).

Directors

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

K Campbell
L Cameron
I Whyte

Political and charitable contributions

The company made no political or charitable contributions during the year.

Going concern

As described in the Strategic Report, the group's ultimate shareholder, The City of Edinburgh Council, has concluded that the group should begin a process of closure. The company has now ceased development activities other than the sale of remaining land at Greendykes and Brunstane.

The opinion of the directors is that the decision of the shareholder and the active implementation of the decision will lead to the company ceasing to trade in the future and it is therefore not appropriate to prepare the accounts on a going concern basis.

The closure strategy approved by both the shareholder and the directors is that all land and buildings which are not actively in development will transfer to the Council at book value and all liabilities due to the Council will be settled at book value. Much of this activity has now concluded or is in the process of concluding. Third party financial assets will be realised and third party liabilities will be settled according to their contractual terms.

In these accounts each asset and liability will be valued to reflect the closure strategy intention for that asset or liability. The details are described in the notes.

The Company, and the Group, as part of a regular evaluation of liquidity risk, has modelled the principal risks and uncertainties in its cash flow projections for the envisaged closure strategy. After discussions with the shareholder and after assessing the availability of cash balances under a range of scenarios, the Directors have formed the opinion that the Company has sufficient resources to meet all external liabilities and obligations and to repay its share capital in full.

Responsibilities of the directors

The directors are responsible for preparing the directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group and parent company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Responsibilities of the directors (continued)

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and the company and of the profit or loss of the group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group and company's transactions and disclose with reasonable accuracy at any time the financial position of the company and the group and enable them to ensure that the financial statements comply with the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Disclosure of information to auditor

In so far as the directors are aware:

- there is no relevant audit information of which the company's auditor is unaware; and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

Auditor

Azets Audit Services are deemed to be re-appointed under section 487(2) of the Companies Act 2006.

This report was approved by the board on _____ 2021 and signed on its behalf by:

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

Opinion

We have audited the financial statements of The EDI Group Limited for the year ended 31 December 2020 which comprise consolidated and parent company statement of profit or loss and other comprehensive income, consolidated and company statement of financial position, consolidated and company statement of changes in equity, consolidated and company statement of cash flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion, the financial statements:

- give a true and fair view of the state of the group and company's affairs as at 31 December 2020 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of matter – Basis of preparation

We draw attention to notes 2 and 2b in the financial statements, which describe the basis of preparation. The directors have prepared the financial statements using a non-going concern basis of accounting as they consider that the company is not a going concern. Our opinion is not modified in respect of this matter.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the Directors' Responsibilities Statement set out on pages 3 and 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities is available on the Financial Reporting Council's website at: https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above and on the Financial Reporting Council's website, to detect material misstatements in respect of irregularities, including fraud.

We obtain and update our understanding of the entity, its activities, its control environment, and likely future developments, including in relation to the legal and regulatory framework applicable and how the entity is complying with that framework. Based on this understanding, we identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. This includes consideration of the risk of acts by the entity that were contrary to applicable laws and regulations, including fraud.

In response to the risk of irregularities and non-compliance with laws and regulations, including fraud, we designed procedures which included:

- Enquiry of management and those charged with governance around actual and potential litigation and claims as well as actual, suspected and alleged fraud;
- Reviewing minutes of meetings of those charged with governance;
- Assessing the extent of compliance with the laws and regulations considered to have a direct material effect on the financial statements or the operations of the company through enquiry and inspection;
- Reviewing financial statement disclosures and testing to supporting documentation to assess compliance with applicable laws and regulations;
- Performing audit work over the risk of management bias and override of controls, including testing of journal entries and other adjustments for appropriateness, evaluating the business rationale of significant transactions outside the normal course of business and reviewing accounting estimates for indicators of potential bias.

Because of the inherent limitations of an audit, there is a risk that we will not detect all irregularities, including those leading to a material misstatement in the financial statements or non-compliance with regulation. This risk increases the more that compliance with a law or regulation is removed from the events and transactions reflected in the financial statements, as we will be less likely to become aware of instances of non-compliance. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Nick Bennett, Senior Statutory Auditor
For and on behalf of Azets Audit Services
Statutory Auditor
Exchange Place 3
Semple Street
Edinburgh
EH3 8BL

Date: _____2021

THE EDI GROUP LIMITED

Consolidated and Parent Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2020

		Consolidated Group		Parent Entity	
			Restated		
		2020	2019	2020	2019
	Note	£'000	£'000	£'000	£'000
Continuing Operations					
Revenue	3	174	5,020	-	-
Cost of sales		(2)	(2,550)	-	-
Gross profit		172	2,470	-	-
Administrative expenses		(406)	(666)	(316)	(358)
Work in progress written off		(2,898)	(733)	-	-
Profit/(loss) from operations	4	(3,132)	1,071	(316)	(358)
Loss on disposal		-	(1)	-	-
Finance income	6	28	44	5	1,772
Finance costs	7	(95)	(156)	(93)	(156)
Other income	5	5	1,499	-	-
Movement in fair value of investment property	10	-	28	-	
Impairment charge on investments		-	-	-	(176)
Profit/(loss) before income tax expense		(3,194)	2,485	(404)	1,082
Income tax (charge)/credit	8	(1)	(446)	-	96
Profit/ (loss) for the year from continuing operations		(3,195)	2,039	(404)	1,178
Net profit/(loss) for the year		(3,195)	2,039	(404)	1,178
Attributable to:					
Equity holders of the parent		(3,195)	2,039	(404)	1,178

There are no other items of comprehensive income or expense in the current year or prior year and therefore no Statement of Comprehensive Income is shown.

The accompanying notes form part of these financial statements.

THE EDI GROUP LIMITED

Consolidated Statement of Financial Position

As at 31 December 2020

	Note	Consolidated Group 2020 £'000	Restated 2019 £'000
Non-current assets			
Investment property	10	248	248
Investments in joint ventures and associates	11	267	269
Total non-current assets		515	517
Current assets			
Cash and cash equivalents	17	6,052	5,326
Trade and other receivables	13	2,837	5,219
Inventories	12	9,321	9,244
Total current assets		18,210	19,789
TOTAL ASSETS		18,725	20,306
Equity and Liabilities			
Equity attributable to equity holders of the parent			
Contributed equity	18	8,500	8,500
Retained earnings		(2,511)	2,434
Total equity		5,989	10,934
Liabilities			
Current liabilities			
Trade and other payables	14	3,931	3,465
Other financial liabilities	15	4,799	4,799
Provisions	16	4,006	1,108
Total current liabilities		12,736	9,372
Total liabilities		12,736	9,372
TOTAL EQUITY AND LIABILITIES		18,725	20,306

The financial statements were approved by the board of directors and authorised for issue on _____2021 and are signed on its behalf by:

Lezley Marion Cameron, Director

K Campbell, Director

Company number: SC110956

The accompanying notes form part of these financial statements.

Company Statement of Financial Position

As at 31 December 2020

	Note	Parent Entity 2020 £'000	2019 £'000
Non-current assets			
Investments in subsidiaries, joint ventures and associates	11	7,415	7,416
Total non-current assets		7,415	7,416
Current assets			
Cash and cash equivalents	17	563	1,874
Trade and other receivables	13	3,067	3,391
Inventories	12	4,213	4,139
Total current assets		7,843	9,404
TOTAL ASSETS		15,258	16,820
Equity and Liabilities			
Equity attributable to equity holders of the parent			
Contributed equity	18	8,500	8,500
Retained earnings		550	2,704
Capital contribution reserve		30	30
Total equity		9,080	11,234
Liabilities			
Current liabilities			
Trade and other payables	14	3,938	3,346
Other financial liabilities	15	2,240	2,240
Total current liabilities		6,178	5,586
Total liabilities		6,178	5,586
TOTAL EQUITY AND LIABILITIES		15,258	16,820

The financial statements were approved by the board of directors and authorised for issue on _____2021 and are signed on its behalf by:

Lezley Marion Cameron, Director

K Campbell, Director

Company number: SC110956

The accompanying notes form part of these financial statements.

Consolidated and Company Statement of Changes in Equity

As at 31 December 2020

Group

		Capital contribution reserve £'000	Contributed equity £'000	Retained earnings £'000	Total £'000
Balance at 1 January 2019		-	8,500	1,442	9,942
Profit from continuing operations		-	-	1,962	1,962
Dividends declared		-	-	(1,047)	(1,047)
Balance at 31 December 2019 as originally presented		-	8,500	2,357	10,857
Prior year restatement	22	-	-	77	77
Restated balance as at 31 December 2019		-	8,500	2,434	10,934
Restated balance at 1 January 2020		-	8,500	2,434	10,934
Loss from continuing operations		-	-	(3,195)	(3,195)
Dividends declared		-	-	(1,750)	(1,750)
Balance at 31 December 2020		-	8,500	(2,511)	5,989

Company

	Capital contribution reserve £'000	Contributed equity £'000	Retained earnings £'000	Total £'000
Balance at 1 January 2019	30	8,500	2,573	11,103
Profit from continuing operations	-	-	1,178	1,178
Dividends declared	-	-	(1,047)	(1,047)
Balance at 31 December 2019	30	8,500	2,704	11,234
Balance at 1 January 2020	30	8,500	2,704	11,234
Profit from continuing operations	-	-	(404)	(404)
Dividends declared	-	-	(1,750)	(1,750)
Balance at 31 December 2020	30	8,500	550	9,080

The capital contribution reserve represents the excess of fair value over the amount paid for the shareholdings either gifted or sold to the group.

The accompanying notes form part of these financial statements.

THE EDI GROUP LIMITED

Consolidated Statement of Cash Flows

For the year ended 31 December 2020

	Note	2020 £'000	Restated 2019 £'000
Cash flow from operating activities			
Total comprehensive profit/(loss) for year		(3,195)	2,039
Adjustments for:			
Taxation charge/(credit)		1	446
Interest received		(28)	(44)
Interest paid		95	156
Loss on disposal of available for sale assets		-	1
Net revaluations of non-current assets		-	(28)
(Increase)/decrease in inventories		(77)	351
(Increase)/decrease in receivables		2,382	(52)
Increase/(decrease) in payables		3,364	902
Taxation paid		(1)	(446)
Net cash flows from operating activities		2,541	3,325
Cash flow from investing activities			
Proceeds from sale of available for sale assets		2	(1)
Interest received		28	44
Net cash flows from investing activities		30	43
Cash flow from financing activities			
Dividends paid		(1,750)	(1,047)
Increase/(decrease) in loan stock borrowings		-	828
Interest paid		(95)	(156)
Net cash flows used in financing activities		(1,845)	(375)
Net increase in cash and cash equivalents		726	2,993
Cash and cash equivalents at beginning of year		5,326	2,333
Cash and cash equivalents at end of year	17	6,052	5,326

The accompanying notes form part of these financial statements

1. Presentation of financial statements

The company's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006. The Company has taken advantage of the exemption available under section 408 of the Companies Act 2006 from presenting a Company Statement of Profit or Loss and Other Comprehensive Income.

New accounting standards adopted during the year

Adoption of new and revised standards

The following standards and interpretations are mandatory for the first time for the year ended 31 December 2020 but are either not applicable or have no material impact on the Group's financial statements; IFRS 3, Amendments to IFRS 3 – definition of a business, IAS 1 and IAS 8, Amendments to IAS 1 and IAS 8 on the definition of material and Conceptual Framework, Revised Conceptual Framework for Financial Reporting.

The Group has adopted, where applicable, the following new and amended IFRSs as of 1 January 2020:

- IFRS 3, Amendments to IFRS 3 – definition of a business
- IAS 1 and IAS 8, Amendments to IAS 1 and IAS 8 on the definition of material
- Conceptual Framework for Financial Reporting (Revised)
- IBOR Reform and its Effects on Financial Reporting – Phase 1
- IFRS 16, Amendment – Covid-19 Related Rent Concessions

Other new standards, amendments to standards and interpretations that are mandatory for the first time in 2020 are considered to have no significant or material effect on the Group's financial statements.

Guidance in issue but not in force

IAS 8 requires disclosure of guidance in issue but not in force. The minimum disclosure relates to guidance issued by 31 December 2020, and with potential effect.

International Accounting Standards and Interpretations	Effective for periods beginning on or after
IBOR Reform and its Effects on Financial Reporting – Phase 2	1 January 2021
Annual Improvements to IFRS: 2018 – 2020 Cycle	1 January 2022
Conceptual Framework for Financial Reporting (Amendments to IFRS 3)	1 January 2022
IAS 37 Provisions, Contingent Liabilities and Contingent Assets (Amendment – Onerous Contracts – Cost of Fulfilling a Contract)	1 January 2022
IAS 16 Property, Plant and Equipment (Amendment – Proceeds before Intended Use)	1 January 2022
IFRS 17 Insurance Contracts	1 January 2023
IAS 1 Presentation of Financial Statements (Amendment – Classification of Liabilities as Current or Non-Current)	1 January 2023

The Directors have reviewed the requirements of the new standards and interpretations listed above and they are either not applicable or not expected to have a material impact on the Group's financial statements in the period of initial application.

2. Statement of significant accounting policies

The consolidated financial statements of The EDI Group Limited have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU), IFRIC Interpretations and the Companies Act 2006 applicable to companies reporting under IFRS.

The report is also prepared on an accruals basis and is based on historic costs and does not take into account changing money values or, except where specifically stated, current valuations of non-current assets.

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

The following significant accounting policies, which are consistent with the previous period unless otherwise stated, have been adopted in the preparation of this report:

a. Basis of consolidation

The consolidated financial statements are prepared by combining the financial statements of all the entities that comprise the economic entity, being the company (the parent entity) and its controlled entities as defined in accounting standard IAS 27 “Consolidated and Separate Financial Statements”. A list of controlled entities appears in note 13 to the financial statements. Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements.

All inter-company balances and transactions between entities in the economic entity, including any unrealised profits or losses, have been eliminated on consolidation.

Where a controlled entity has left the economic entity during the year its operating results have been included until the date control ceased.

b. Going concern

The opinion of the directors is that the decision of the shareholder to cease development activities and the active implementation of that decision will lead to the company ceasing to trade in the future and it is therefore not appropriate to prepare the accounts on a going concern basis.

The closure strategy approved by both the shareholder and the directors is that all land and buildings which are not actively in development will transfer to the Council at book value and all liabilities due to the Council will be settled at book value. Third party financial assets will be realised and third party liabilities will be settled according to their contractual terms

In these accounts each asset and liability will be valued to reflect the closure strategy intention for that asset or liability. The details are described in the notes.

The Company, and the Group, as part of a regular evaluation of liquidity risk, has modelled the principal risks and uncertainties in its cash flow projections for the envisaged closure strategy. After discussions with the shareholder and after assessing the availability of cash balances under a range of scenarios, the Directors have formed the opinion that the Company has sufficient resources to meet all external liabilities and obligations and to repay its share capital in full.

2. Statement of significant accounting policies (cont'd)

c. Investments in associates and joint ventures

The group's share of its associates' / joint ventures' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the group's share of losses in an associate / joint venture equals or exceeds its interest in the associate / joint venture, including any other unsecured receivables, the group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate / joint venture.

Unrealised gains on transactions between the group and its associates / joint ventures are eliminated to the extent of the group's interest in the associates / joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the group.

d. Income tax

The charge for income tax expense for the year is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using tax rates that have been enacted or are substantively enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future profits will be available against which deductible temporary differences can be utilised.

The amount of benefit brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction which affects neither the tax profit nor the accounting profit.

2. Statement of significant accounting policies (cont'd)

e. Property, plant and equipment

Each class of property, plant and equipment is carried at cost less, where applicable, any accumulated depreciation.

Plant and equipment

The carrying amount of property, plant and equipment is reviewed annually by the directors to ensure it is not in excess of the recoverable amount from those assets. The recoverable amount is assessed on the basis of the expected net cash flows which will be received from the assets employment and subsequent disposal. The expected net cash flows have not been discounted to present values in determining recoverable amounts.

Depreciation

The depreciable amount of all fixed assets is depreciated on a straight line basis over their estimated useful lives to the company commencing from the time the asset is held ready for use.

Given the closure strategy outlined in Note 2b, the useful life of all classes of fixed assets was reassessed and adjusted in the prior year. The remaining life of all asset classes was assessed as being to 30 June 2018, to coincide with the vacation of the company's offices.

All fixed assets were therefore fully depreciated in the year.

Derecognition and disposal

An item of furniture or equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in statement of comprehensive income in the year the asset is derecognised.

f. Acquisition of assets

Assets acquired are recorded at the cost of acquisition, being the purchase consideration determined as at the date of acquisition plus costs incidental to the acquisition.

In the event that settlement of all or part of the cash consideration given in the acquisition of an asset is deferred, the fair value of the purchase consideration is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

g. Inventories

Inventory is stated at the lower of cost and net realisable value. Cost relates to purchase costs and direct labour costs incurred in bringing the inventories up to a saleable state.

h. Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in income in the period in which they are incurred.

2. Statement of significant accounting policies (cont'd)

i. Impairment

The carrying value of all assets are reviewed for impairment at each reporting date, with the recoverable amount being estimated when events or changes in circumstances indicate that the carrying value may be impaired.

The recoverable amount of all assets is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which it belongs, unless the asset's value in use can be estimated to be close to its fair value.

An impairment exists when the carrying value of the asset or cash-generating units exceeds its estimated recoverable amount. The asset or cash-generating unit is then written down to its recoverable amount.

j. Financial instruments

Financial instruments are measured initially at cost, which is the fair value of what was paid or received to acquire or incur them.

After initial recognition, financial assets and liabilities may be classified into the following categories: financial assets or liabilities at fair value through profit or loss; held to maturity investments; available for sale financial assets; loans and receivables and other financial liabilities at amortised cost.

The company has the following categories of financial assets and liabilities:

Trade and other receivables

Trade and other receivables are initially measured at fair value, which is the original invoice amount, and subsequently measured at amortised cost, using the effective interest method. A provision for impairment is accounted for when management deems that specific receivable balances will not be collected. The amount of the impairment loss is recognised in the income statement. Bad debts are written off when they are identified as being irrecoverable.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand.

Trade and other payables

Trade payables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method, unless the effect would not be material.

2. Statement of significant accounting policies (cont'd)

k. Investment property

Investment property is property held to generate rental income and/or for capital appreciation. Investment property is initially measured at fair value and subsequently revalued annually to its fair value at the balance sheet date.

Gains or losses arising from changes in the fair value of investment property are included in net profit or loss for the period in which they arise.

l. Investments

Investments in subsidiary and associated undertakings are stated at cost less provision for permanent impairment.

m. Revenue

Revenue is measured at the fair value of consideration received from income from the group's ordinary activities. Revenue is stated received net of discounts, sales and other taxes. Revenue from sales is recognised when persuasive evidence of an arrangement exists, the significant risks and rewards of ownership have been transferred to the buyer, the price is fixed and determinable and collectively probable.

Rentals receivable under operating leases are recognised in the income statement over the term of the lease on a straight line basis.

Revenue from dividend income is recognised when the rights of the shareholder to receive the payment are determined.

n. Critical accounting estimates and judgements

In applying the accounting policies, the Directors may at times, be required to make critical accounting judgements and estimates about the carrying amount of assets and liabilities. These estimates and assumptions, when made, are based on historical experience and other factors that the Directors consider are relevant.

Key estimates:

i. *Investment property valuation* – the Directors assess the valuation of the investment property at each reporting date by evaluating conditions specific to the Group that may lead to a revaluation of the asset.

ii. *Provisions* – provisions are based on estimated costs provided by external professionals. The Directors review provisions regularly to assess how reasonable and accurate they are.

o. Provisions

Provisions are recognised when the company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made.

Further details of the provisions recognised in the year can be found at note 16.

2. Statement of significant accounting policies (cont'd)

p. Value added tax

Revenues, expenses and assets are recognised net of the amount of value added tax (VAT), except:

i. Where the amount of VAT incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
ii. For receivables and payables, which are recognised inclusive of VAT.

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

Cash flows are included in the statement of cash flows on a gross basis. The VAT component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

q. Grants receivable

Grants are accounted for by the company when receivable.

Grants receivable in respect of contributions to fixed assets in course of construction and property development work in progress costs are credited to deferred income.

Where grants are given for a specific purpose they are released to the profit and loss account to match the cost of completed project

3. Revenue

An analysis of revenue is as follows:

	Consolidated Group		Parent Entity	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Property sales	174	5,020	-	-
	174	5,020	-	-

4. Profit from operations

	Consolidated Group		Parent Entity	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
After charging				
Auditor's remuneration:				
Audit	42	42	12	12
Non-Audit	7	9	2	4

5. Other income

	Consolidated Group		Parent Entity	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Overage receipt	-	1,000	-	-
Compensation for option renunciation	-	493	-	-
Rental income	5	6	-	-
	5	1,499	-	-

Rental income is from investment properties in relation to property development in Parc Craigmillar Limited.

6. Finance income

	Consolidated Group		Parent Entity	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Other interest received	28	44	5	1,772
	28	44	5	1,772

7. Finance costs

	Consolidated Group		Parent Entity	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
On secured loan stock held by the City of Edinburgh Council	95	156	93	156
	95	156	93	156

8. Income tax expense

	2020 £'000	2019 £'000
Current tax:		
- Adjustments in respect of prior periods	-	(87)
- Tax adjustments, reliefs and transfer	1	-
- Current tax on income for the period	-	533
Current tax credit for year attributable to the company and its subsidiaries	1	446
Total deferred tax	-	-
	1	446
The tax (credit)/charge is allocated in the financial statements as follows:		
Profit and loss account	1	446
Statement of comprehensive income	-	-

Domestic income tax is calculated at 19% (2019: 19.00%) of the estimated assessable profit for the year.

The charge for the year can be reconciled to the loss per the income statement as follows:

	2020 £'000	2019 £'000
Loss/(profit) on ordinary activities before taxation	3,194	(2,408)
Tax on (loss)/profit at the effective rate of corporation tax of 19% (2019 – 19%)	(604)	458
Effects of:		
Expenses that are not taxable for tax purposes	-	-
Non-taxable income	-	(5)
Utilisation of tax losses	-	-
Deferred tax asset not recognised	525	5
Fixed asset differences	-	-
Other timing differences	-	-
Accounting adjustments and transfers	-	-
Adjustments in respect of prior periods	-	1
Remeasurement of deferred tax for changes in tax rate	(1)	-
Adjust deferred tax to average rate	(1)	(13)
Group relief surrendered	131	(177)
Group relief claimed	(49)	177
Current tax credit for year attributable to the company and its subsidiaries	1	446

9. Property, plant and equipment

	Furniture and equipment £'000	Computer equipment £'000	Leasehold equipment £'000	Total £'000
Group and company				
Cost or valuation				
At beginning of year	58	82	64	204
At end of year	58	82	64	204
Depreciation				
At beginning of year	58	82	64	204
At end of year	58	82	64	204
Net book value				
At 31 December 2020	-	-	-	-
At 31 December 2019	-	-	-	-

10. Investment property

	Investment property £'000
Group	
Valuation	
At 1 January 2020	248
Increase/(decrease) in fair value	-
At 31 December 2020	248
Net book value	
At 31 December 2020	248
At 31 December 2019	248

An investment property owned by the company was valued at £247,934 at 31 December 2020 by an internal Chartered Surveyor on the basis of open market value for existing use. The valuation was carried out in accordance with the Practice Statement in RICS Appraisal and Valuation Manual. The related rental income recognised in the Statement of Profit or Loss and Other Comprehensive Income was £nil (2019: £nil) along with direct operating expenses of £nil (2019: £nil).

The Scottish Ministers hold a standard security on a development property in respect of any amounts due to them by the company. The carrying value of this at the year-end is £nil (2019: £nil).

Under the fair value hierarchy in IFRS 13 – Fair Value Measurement, investment property is deemed a level 2. Level 2 inputs are inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

11. Fixed asset investments

Group

	Joint Ventures & Associated Undertakings 2020 £'000	Joint Ventures & Associated Undertakings 2019 £'000
Post-acquisition reserves		
At 1 January and 31 December 2020	267	269
Net book value		
Loans to and share of net assets in joint ventures and associated undertakings	267	269

Company

	Subsidiary undertakings £'000
Cost	
At 1 January 2020	7,416
Decrease in provision	(1)
At 31 December 2020	7,415
Net book value	
At 31 December 2020	7,415
At 31 December 2019	7,416

11. Fixed asset investments (continued)

The directors assessed the recoverability of the investments in subsidiary undertakings and considered an impairment charge of £nil (2019: £176,000) was appropriate to write down the value of the investments in subsidiary undertakings.

The principal companies in which the company's interest is more than 10% are as follows:

	Principal Activity	Country of Registration	Percentage of Ordinary Share Capital Held
EDI Central Limited	Property development	Scotland	100%
Shawfair Land Limited	Property development	Scotland	100%
Parc Craigmillar Limited	Regeneration	Scotland	100%
Parc Craigmillar Developments Limited (Subsidiary of Parc Craigmillar Limited)	Property development	Scotland	100%
Waterfront Edinburgh Limited	Property development and regeneration	Scotland	100%
Waterfront Edinburgh (Management) Limited (subsidiary of Waterfront Edinburgh Limited)	Non-trading	Scotland	100%
Caledonia Waterfront (Harbour Road) Limited (associate of Waterfront Edinburgh Limited)	Property development and letting of properties	Scotland	42.5%
New Laurieston (Glasgow) Limited	Property development	Scotland	45%
EDI Market Street Limited	Property development	Scotland	100%
EDI Fountainbridge Limited	Property development	Scotland	100%

All companies where greater than 50% of the share capital is held have been consolidated.

Where 50% or less of the share capital is held these companies have been consolidated using the equity accounting method. In the case of New Laurieston (Glasgow) Limited, The EDI Group's share of losses exceed the value of its interest in the company, and therefore no further losses have been recognised.

12. Inventories

	Consolidated Group		Parent Entity	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Development properties and associated costs	9,321	9,244	4,213	4,139

13. Trade and other receivables

	Consolidated Group		Parent Entity	
Current	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Trade receivables	79	85	-	-
Amounts owed by group & associated undertakings	112	522	2,982	3,299
Other debtors	1,263	1,960	7	-
Prepayments and accrued income	78	89	78	89
VAT recoverable	-	3	-	3
	1,532	2,659	3,067	3,391
Non-current				
Other debtors	1,305	2,560	-	-
	2,837	5,219	3,067	3,391

14. Trade and other payables

	Consolidated Group		Parent Entity	
	2020 £'000	Restated 2019 £'000	2020 £'000	2019 £'000
Trade and other payables	109	206	4	1
Amounts due to group & associated undertakings	1,777	1,759	1,918	1,990
Accruals and deferred income	2,045	1,500	2,016	1,355
	3,931	3,465	3,938	3,346

15. Convertible unsecured loan stock

The non-interest bearing loan stock is held by The City of Edinburgh Council, the company's ultimate parent undertaking. It bears no interest and is repayable on sale of associated land assets or cancellable on provision of community assets. Agreement has been reached with the Council that this loan stock will be settled as part of the closure process against the transfer of land and buildings to the Council.

The convertible unsecured loan stock is held by The City of Edinburgh Council, the company's parent undertaking. It bears interest at a variable rate. The Council has agreed to the repayment being delayed and settled as part of the closure process against the transfer of land and buildings to the Council or in cash as assets are realised.

	Consolidated Group		Parent Entity	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Unsecured loan stock- non-interest bearing	2,559	2,559	-	-
Unsecured convertible loan stock 2020	2,240	2,240	2,240	2,240
	4,799	4,799	2,240	2,240

16. Provisions

	Consolidated Group		Parent Entity	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Infrastructure expenditure				
Balance brought forward	1,108	464	-	-
Increase in provision for the year	-	644	-	-
Decrease in provision for the year	-	-	-	-
	1,108	1,108	-	-
Overspend on Market Street Project				
Balance brought forward	-	825	-	-
Decrease in provision for the year	-	(825)	-	-
	-	-	-	-
Work in progress				
Balance brought forward	-	-	-	-
Increase in provision for the year	2,898	-	-	-
Decrease in provision for the year	-	-	-	-
	2,898	-	-	-
	4,006	1,108	-	-

Provisions for infrastructure expenditure required additional works to be provided for due to land sold in the prior year.

Provisions for overspend on Market Street Projects recognised in 2018 related to potential cost overruns on the project which were unlikely to be recoverable. As final negotiations were reached in the prior year, the total provision was released against the cost of sales in the prior year.

Provisions for work in progress relates to the potential write off to work in progress as the value is unlikely to be recoverable.

17. Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise the following at 31 December 2020.

	Consolidated Group		Parent Entity	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Cash at bank and in hand	6,052	5,326	563	1,874

18. Contributed equity

	Consolidated Group		Parent Entity	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Allotted, called up and fully paid				
Ordinary shares of £1 each	8,500	8,500	8,500	8,500

The ordinary shares of £1 each carry one vote per share and participate in profits available for dividend pro rata.

19. Related party transactions

The key management personnel of the company are considered to be the directors. No director receives remuneration (2019: nil). During the year group companies carried out the following transactions with related parties:

Related Party	Relationship	Group Company	Nature of Transaction	Value of transactions during year	Amount owed from/(to) at year end
				£	£
City of Edinburgh Council	Ultimate holding organization	The EDI Group Ltd	Loan stock	-	(2,240,000)
			Interest on loan	(93,201)	(108,864)
City of Edinburgh Council	Ultimate holding organisation	EDI Central Ltd	Rent and loan account	420,000	-
City of Edinburgh Council	Ultimate holding organisation	Parc Craigmillar Ltd	Loan for infrastructure works	-	(1,219,764)
City of Edinburgh Council	Ultimate holding organisation	Parc Craigmillar Ltd	Loan stock	-	(2,558,899)
CEC Holdings Limited	Company whose ultimate controlling party is the City of Edinburgh Council	Parc Craigmillar Ltd	Group tax relief payments	(5,037)	(5,037)
LPFI Limited	Company whose ultimate controlling party is the City of Edinburgh Council	EDI Fountainbridge Limited	Group tax relief payments	4,288	4,288

20. Ultimate parent undertaking

The parent company is CEC Holdings Limited, a company registered in Scotland. The financial statements of the parent undertaking are available at their registered offices. The ultimate holding organisation is The City of Edinburgh Council.

21. Financial Risk Management

The group has the following categories of financial instruments at the balance sheet date:

	Consolidated group		Parent entity	
	2020 £'000	Restated 2019 £'000	2020 £'000	2019 £'000
Financial assets				
Financial assets measured at amortised cost	8,699	9,931	563	1,874

	2020 £	Restated 2019 £	2020 £	2019 £
Financial liabilities				
Financial liabilities measured at amortised cost	8,061	7,613	4,260	3,596

Financial assets measured at amortised cost comprise cash at bank and in hand, trade receivables, accrued income, and other receivables (excluding VAT receivable balances, tax receivables and prepayments).

Financial liabilities measured at amortised cost comprise trade payables, accruals, provisions, other payables (excluding VAT payable balances, tax payables and deferred income).

Capital risk management
The company aims to manage its overall capital structure to ensure it continues to operate on an ongoing basis within the broad timescales set out in the transition strategy. The company's capital structure represents the equity attributable to the shareholders of the company together with cash equivalents. The Directors are closely involved I the running of the company and are therefore fully aware of the capital position of the company at any point in time and any changes that circumstances bring. As a result they are in a position to address any issues that may arise on a timely basis.

Risk management objectives
The Board is charged with the overall responsibility of establishing and monitoring the group's risk management policies and processes in order to identify, analyse and monitor the risks that are faced by group. The group does not enter into or trade financial instruments for speculative purposes.

The main risks that the group is exposed to through its financial instruments are market risk, credit risk and liquidity risk. These are managed as follows:

21. Financial Risk Management (continued)

Market risk
Market risk is the risk that the value of the company's properties and sites under development may fall resulting in further write-offs to the income statement. The company manages this risk by carrying out sensitivity analysis for fluctuations in the property market. Included in market risk is interest rate risk, which is the risk that the expected receipts from deposits may fluctuate due to market conditions. The company monitors this risk but it is very unlikely to affect the company's overall liquidity.

Credit risk
Exposure to credit risk relating to financial assets arises from the potential non-performance by counterparties of contract obligations that could lead to a financial loss to the group. It arises from exposure to customers and for the parent company, also from amounts owed by group undertakings.

The maximum exposure to credit risk to recognised financial assets is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the balance sheet and notes to the financial statements.

Credit risk is reviewed regularly by the Board of Directors and monitored by actively assessing the rating quality and liquidity of counterparties as follows:

- Only banks and institutions with an acceptable credit rating are utilised;
- All potential customers are rated for credit worthiness taking into account their size, market position and financial standing;
- Customers that do not meet the groups credit policies may only purchase in cash or using recognised credit cards.

Liquidity risk
Liquidity risk arises from the possibility that the group might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities. The group manages that risk as follows:

- Preparing forward looking cash flow analysis; and
- Ensuring that adequate unutilised borrowing facilities are maintained.

Fair values
The directors consider that the carrying values of all the group's financial assets and liabilities approximate their fair values at the balance sheet date.

The only financial instruments measured at fair value are available for sale financial assets. These are valued annually by an internal Chartered Surveyor in accordance with the Practice Statement in the RICS Appraisal and Valuation Manual.

The Directors therefore consider that the risk in relation to financial instruments at fair value is low.

22. Prior Year Restatement

The consolidated prior year figures have been restated to correct a misstatement relating to an over accrual in EDI Market Street Limited, a subsidiary company. As a result, the consolidated financial statements for the year ended 31 December 2019 have been restated to reduce Trade and other payables and Cost of Sales by £77,066. This has resulted in the profit increasing by £77,066 and closing reserves as at 31 December 2019.

23. Post Balance Sheet Events

Agreement has been reached to sell Greendykes plots K and L with the price currently under negotiation. The transaction is expected to conclude in October 2021.

Agreement has also been reached to sell land at New Brunstane, with the missives signed in summer 2021.

The Board agreed in March 2021 to seek a meeting to secure agreement from all shareholders in Caledonia Waterfront (Harbour Road) Limited to transfer Waterfront Edinburgh Limited's interest in it to EDI.

The group carries out annual revaluations that ensures of all property, including investment property. All valuations were carried out internally, in accordance with the Statements of Asset Valuation Practice and Guidance Notes of The Royal Institution of Chartered Surveyors.

In 2020, the asset valuations contained a Material Valuation Uncertainty clause in line with RICS guidance. The RICS has set up a Material Valuation Uncertainty Leaders Forum (UK) in response to the COVID-19 Pandemic. On 9 September 2020, the forum recommended a general “lifting” of material valuation uncertainty excluding assets valued with reference to trading potential. This recommendation was reaffirmed on 3 November 2020 and 5 January 2021.

In line with the RICS recommendations, no material valuation uncertainty declaration is made for the asset valuations this year.

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