

# Finance and Resources Committee

3pm, Thursday, 5 November 2020

## City of Edinburgh Council – 2019/20 Annual Audit Report to the Council and the Controller of Audit–referral from the Governance, Risk and Best Value Committee

Executive/routine  
Wards  
Council Commitments

### 1. For Decision/Action

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- 1.1 The Governance, Risk and Best Value Committee has referred the attached report to the Finance and Resources Committee for approval, and onward referral to the City of Edinburgh Council for noting.

**Andrew Kerr**

Chief Executive

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# Referral Report

## City of Edinburgh Council – 2019/20 Annual Audit Report to the Council and the Controller of Audit–referral from the Governance, Risk and Best Value Committee

### 2. Terms of Referral

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- 2.1 The Governance, Risk and Best Value Committee on 3 November considered a report by the the Executive Director of Resources, summarised the principal findings arising from the Council's 2019/20 external audit.
- 2.2 The Governance, Risk and Best Value Committee agreed:
- 2.2.1 To note that, following the audit process, it is anticipated that an unqualified audit opinion will be issued on the Council's annual accounts for 2019/20.
  - 2.2.2 To refer the audited annual accounts to the Finance and Resources Committee for approval and thereafter to Council for noting.
  - 2.2.3 To note that, following approval by the Finance and Resources Committee, the audited annual accounts will be signed and submitted to the external auditor.
  - 2.2.4 To note the areas of strength identified within the wider scope audit work and that progress in the delivery of the remaining improvement actions set out in Appendix 5 of the auditor's report will be considered as part of the adaptation and renewal programme and reported to the committee over the coming year.
  - 2.2.5 To note that, once approved, a summarised version of the annual accounts will also be published on the Council's website by 30 November
- 2.3 The report is therefore referred to the Finance and Resources Committee for approval, and onward referral to the City of Edinburgh Council for noting.

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

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3.1 [Governance, Risk and Best Value Committee – 3 November 2020– Webcast](#)

### **4. Appendices**

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Appendix 1 – report by the Executive Director of Resources

# Governance, Risk and Best Value Committee

10.00am, Tuesday, 3 November 2020

## City of Edinburgh Council – 2019/20 Annual Audit Report to the Council and the Controller of Audit

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

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- 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 2019/20;
  - 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 areas of strength identified within the wider scope audit work and that progress in the delivery of the remaining improvement actions set out in Appendix 5 of the auditor's report will be reported to the Committee during the coming year; 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.

**Stephen S Moir**  
Executive Director of Resources

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## City of Edinburgh Council – 2019/20 Annual Audit Report to the Council and the Controller of Audit

### 2. Executive Summary

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- 2.1 The report summarises the principal findings arising from the Council's 2019/20 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.
- 2.2 The proposed audit certificate provides an unqualified audit opinion on the financial statements and other prescribed matters but the accompanying report notes the failure of the Council's remaining Significant Trading Operation (STO) to break even over a rolling three-year period. In addition, the report includes an emphasis of matter paragraph, highlighting the effects of a material uncertainty on property valuations as a result of the COVID-19 pandemic.
- 2.3 Despite the impacts of the pandemic in March resulting in an overall overspend, the report concludes that the Council had appropriate arrangements in place for managing its financial position during the year. It also acknowledges the extent of progress made in assessing pandemic-related financial impacts, and addressing the resulting funding shortfall, in 2020/21. Once the medium-term impacts on the Council and its ALEOs, particularly in terms of income generation, become clearer, the report recommends the development of a longer-term financial strategy.
- 2.4 The report concludes that the Council has adapted its political management arrangements promptly and effectively in light of the pandemic and has sought to address previous recommendations on improving information-sharing protocols between elected members and senior management, although progress has been affected by necessary reprioritisation of activity.
- 2.5 While noting a generally positive and improving picture in service performance in both absolute and relative terms, the auditor's report highlights a requirement to improve public performance reporting in respect of the Council's duty of best value.

### 3. Background

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- 3.1 The Council submitted its unaudited annual accounts to the external auditor by the required date of 30 June. 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, particularly where access to supporting physical records might not be available. 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 5 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 website by 30 June 2020 and made available for public inspection from 1 July 2020 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 largely by electronic means.
- 3.4 Correspondence was received from four individuals on three different subjects during this period, resulting in the lodging of one objection. Following consideration by the external auditor, an element of this objection was upheld and corresponding minor changes to relevant disclosures around the St James Growth Accelerator Model have been incorporated in the audited accounts.
- 3.5 In discharging its work, the external auditor is required to comply with Audit Scotland's revised Code of Audit Practice and ISA260: Communications with those charged with governance. As part of the standard, the auditor is required to highlight:
- Relationships that may bear on the independence, integrity and objectivity of the appointed auditor and audit staff;
  - The overall scope and approach to the audit, including any expected limitations, or additional requirements;
  - Expected modifications to the audit report;
  - Management representations requested by him/her;
  - Unadjusted misstatements other than those that are clearly trivial;

- Material weaknesses in internal control identified during the audit;
- Qualitative aspects of accounting practice and financial reporting, including accounting policies; and
- Matters specifically required by auditing standards to be communicated to those charged with governance and any other matters that are relevant to the audit.

3.6 During the course of the audit, Scott-Moncrieff was rebranded as Azets and the auditor's report is therefore issued under the Azets name. Members of the Committee should also note that the content of the audit report is intended to complement, but not duplicate, the Council's Best Value Assurance Report, due for publication in late November 2020.

## 4. Main report

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- 4.1 There are no qualifications to the proposed audit certificate. As in previous years, however, the audit opinion includes an explanatory paragraph in respect of the Council's remaining Significant Trading Organisation (STO). The Edinburgh Catering Services – Other Catering STO failed, over the three-year rolling period to 2019/20, to meet the statutory requirement to break even. In addition, the report includes an emphasis of matter paragraph, highlighting the effects of a material uncertainty on property valuations as a result of the COVID-19 pandemic.
- 4.2 As part of the audit process, material adjustments were incorporated within the audited accounts in respect of property, plant and equipment, pension liabilities (reflecting the impact of recent tribunals and legal judgements), PPP transactions and group balances (in turn reflecting changes in constituent bodies' accounts arising from the audit process).
- 4.3 In addition, confirmation was received after submission of the unaudited accounts that the Council was entitled to a payment under the Business Rates Incentivisation Scheme (BRIS) for income received in excess of its target during 2018/19. Expressed net of minor increases in provisions also made as part of the audit process, receipt of this sum has reduced the Council's overspend for 2019/20 from £5.231m to £4.907m, with a corresponding transfer back to earmarked reserves of £0.324m incorporated in the audited accounts. While no further material changes are anticipated, as of the time of writing the accounts remain to be finalised (with a number of minor amendments to be incorporated within the Annual Governance Statement) and members will therefore be updated at the Committee's meeting.
- 4.4 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.

4.5 The key messages from the audit are presented on pages 4 and 5 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 64 to 67. The report also summarises on pages 68 to 85 progress made in implementing the recommendations contained in previous years' reports.

#### **Annual accounts (pages 10 to 31)**

- 4.6 An unqualified opinion has been provided on the financial statements and other prescribed matters, albeit the report notes that the Edinburgh Catering Services – Other Catering STO failed to meet the statutory requirement to break even over a rolling three-year period. The in-year deficit for 2019/20 was £0.048m, forming part of a cumulative three-year deficit of £0.126m.
- 4.7 The impact of COVID-19 will make achieving a break-even position more challenging. A tariff increase in line with inflation is due on re-commencement of services. Re-modelling of the service will also be considered, however, to accommodate changes in demand and the lack of commercial activity at the City Chambers.
- 4.8 The auditor's report also draws attention, in Paragraphs 28 to 34, to the effects of a material uncertainty on property valuations as a result of the COVID-19 pandemic. During the pandemic, the Royal Institution of Chartered Surveyors (RICS) published guidance which outlines the challenges with regard to the valuation of assets during this period, including the potential for valuations to be "qualified" with a "material valuation uncertainty".
- 4.9 While the valuations contained within the accounts were based on the best information available, due to the unprecedented set of circumstances within which these judgements had been made, less certainty can be attached to them than would normally be the case. A corresponding emphasis of matter paragraph has therefore been included in the auditor's report, with a recommendation that the accompanying narrative on future years' valuations includes greater detail on judgements made about these sources of uncertainty.
- 4.10 Paragraphs 41 to 49 provide an overview of a number of pertinent issues affecting the year-end pension fund liability, including the impact of the proposed means of remedying past age discrimination highlighted by the McCloud judgement. As this proposal relates to conditions existing at the balance sheet date, a corresponding adjustment has been included within the audited accounts.
- 4.11 Paragraphs 50 to 63 outline changes to the audit approach resulting from the onset of the COVID-19 pandemic, including access to audit evidence and changes to reporting timescales. The report notes that the working papers accompanying the financial statements were of a high standard and all requested audit evidence was



received, with the results of the Council's group bodies also appropriately reflected within the financial statements and no instances of concern with regard to the legality of transactions or events identified.

- 4.12 The auditor's report notes, in Paragraph 74, a change to the audited accounts of the Common Good to reflect the release of the lease premium received following the conclusion of the lease of 329 High Street across its full term rather than fully in the year of receipt. Paragraphs 75 to 82 then summarise progress in updating the contents of the Common Good register and the Council's compliance with Scottish Government guidance in this area.

#### **Financial sustainability (pages 32 to 38)**

- 4.13 While acknowledging the positive achievement of setting, in February 2020, a balanced three-year revenue budget and ten-year capital budget strategy against a backdrop of delays in the announcement of the UK and Scottish Budgets, once the medium-term impacts on the Council and its ALEOs, particularly for income generation, become clearer, the report recommends the development of a longer-term financial strategy. In recognising both this continuing uncertainty and a succession of one-year financial settlements, the Council's primary focus will remain on setting a balanced, three-year revenue budget. Once greater certainty is obtained in these areas, however, opportunities to plan over a longer timescale will be considered and reported to the Finance and Resources Committee.
- 4.14 The report also comments favourably on the extent of progress made in assessing and addressing funding shortfalls linked to the pandemic in 2020/21, alongside frequent reporting to elected members during this period.

#### **Financial management (pages 39 to 44)**

- 4.15 The report concludes that, despite the impacts of the pandemic in March resulting in a revised overall overspend of £4.907m, the Council had appropriate arrangements in place for managing its financial position during the year. The report does, however, observe that while the Council has traditionally held a comparatively high level of earmarked reserves, the recent depletion of these in response to service overspends and latterly the COVID-19 pandemic means that the relatively low level of unallocated reserves may now be insufficient to face its future financial challenges.
- 4.16 The external auditor's report also 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 most recent National Fraud Initiative. An overview of the Council's response to a number of potential risk areas linked to the pandemic is furthermore presented on page 43.

### **Governance and transparency (pages 45 to 49)**

- 4.17 The report concludes, in Paragraphs 173 to 177, that the Council has adapted its political management arrangements promptly and effectively in light of the pandemic and has sought to address previous recommendations on improving information-sharing protocols between elected members and senior management, although progress has been affected by necessary reprioritisation of activity.
- 4.18 The report furthermore concludes that the Council's arrangements in relation to standards of conduct and the prevention and detection of bribery and corruption are adequate.
- 4.19 Paragraphs 192 to 194 set out the main elements of the Council's risk management plan developed to capture emerging COVID-related strategic risks. The following paragraphs then summarise the principal findings of a (pre-COVID) review of wider risk management arrangements, identifying opportunities for further development and organisation-wide understanding of risk through the provision of additional training and expanding the coverage of risk registers to include all service areas.

### **Value for money (pages 50 to 52)**

- 4.20 While noting a generally positive picture of improvement in service performance in both absolute and relative terms, the auditor's report highlights a requirement to improve public performance reporting in respect of the Council's duty of best value. Additional detail in this area will be provided as part of the Best Value Assurance Report.

### **Other aspects of wider scope audit**

- 4.21 Appendix 2 of the report on pages 57 and 58 apprises members of the principal findings across two further risk areas, namely systems and procedures to prevent fraud and corruption in procurement and preparedness in respect of the United Kingdom's withdrawal from the European Union, with satisfactory arrangements assessed to be in place in both of these areas. An assessment against the Accounts Commission's five strategic priorities is also included in Appendix 4 on pages 60 and 62. Greater detail in these latter areas will again be provided as part of the Council's Best Value Assurance Report.

## **5. Next Steps**

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- 5.1 Subject to approval by the Finance and Resources Committee on 5 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 5 will be reported to the Governance, Risk and Best Value Committee over the coming year.

## **6. Financial impact**

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

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

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- 7.1 The annual audit report includes a comprehensive review of the effectiveness of existing and proposed arrangements to empower communities.
- 7.2 The financial statements were made available for public inspection in July for a period of 15 working days in accordance with the provisions of Part VII of the Local Government (Scotland) Act 1973 and the Local Authority Accounts (Scotland) Regulations 2014. Following the upholding of an element of an objection received, minor disclosure changes have been reflected in the audited accounts.

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

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- 8.1 [Revenue Monitoring 2019/20 – outturn report](#), Finance and Resources Committee, 27 August 2020
- 8.2 [Unaudited Annual Accounts 2019/20](#), The City of Edinburgh Council, 30 June 2020

## **9. Appendices**

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Appendix 1 – 2019/20 Annual Audit Report to the Council and the Controller of Audit

Appendix 2 – 2019/20 Audited Annual Accounts



# City of Edinburgh Council

2019/20 Annual Audit Report to the Council  
and the Controller of Audit

November 2020



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# Key messages



<p><b>Annual accounts</b></p>	<p>The annual accounts for the year ended 31 March 2020 are due to be approved by the Finance and Resources Committee on 5 November 2020. We report within our independent auditor’s report:</p> <ul style="list-style-type: none"> <li>• An unqualified opinion on the annual accounts; and</li> <li>• An unqualified opinion on other prescribed matters.</li> </ul> <p>We have drawn attention in our independent auditor’s report to the following matters:</p> <ul style="list-style-type: none"> <li>• the effects of a material uncertainty, caused by COVID-19, on the property values; and</li> <li>• the Council’s Edinburgh Catering Services – Other Catering trading operation has failed to break even, on a cumulative basis, over the three year period to 2019/20.</li> <li>• Our opinion is not modified in respect of these matters.</li> </ul>
 <p><b>Financial Sustainability</b></p>	<p>The Council’s three revenue budget strategy and a 10 year capital budget strategy were developed prior to the impact of COVID-19 becoming known. These strategies will require to be updated given the significant cost impact of COVID-19 on council services and income levels over the short and medium term. Current estimates of this impact to date are £81.6million. The Council has worked hard to reduce the anticipated budget deficit for 2020/21 given the significant impact of the pandemic but at the time of the audit this still stood at £12.2million. A longer term financial strategy should be put in place when it becomes clearer what the medium term impact on council services is on income generating activities and council associated ALEOs.</p>
 <p><b>Financial Management</b></p>	<p>The Council had appropriate arrangements in place for managing its financial position during 2019/20. It did however report an unplanned net overspend of £4.9million for 2019/20 which was met from a drawdown of earmarked reserves. A planned, favourable outturn position was impacted by £8.4million of COVID-19 related expenditure. The approved 2019/20 budget was predicated on the delivery of £38.7million of directorate-specific and corporate savings. 77% of approved savings by value were delivered.</p> <p>The City of Edinburgh Council’s level of unearmarked reserves is 1.37% of expenditure. It is unlikely that this will be sufficient to deal with its future financial challenges. In response to the additional pressures COVID-19 presents, the Council has already committed to use £19.6million of earmarked reserves to meet the estimated deficit.</p> <p>Around 94% of the general fund capital programme and 103% of the HRA programme was delivered in 2019/20.</p>

 <p><b>Governance &amp; Transparency</b></p>	<p>The Council modified its political management arrangements in August 2019 to further improve its decision-making effectiveness. In March 2020 and May 2020 in response to the COVID-19 pandemic, emergency arrangements were put in place to deal with the significant issues facing the Council. In our view the Council has responded promptly and effectively in its political management arrangements to the COVID-19 crisis.</p> <p>In response to a recommendation within our 2018/19 Annual Report on the Audit, the Council agreed by January 2020 to review its existing protocols with elected members and senior management to ascertain where improvements were required. The Council is currently reviewing this protocol although COVID-19 has delayed the completion of this.</p>
 <p><b>Value for Money</b></p>	<p>Performance is measured annually and against other Scottish authorities. 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. The latest 2018/19 Local Government Benchmarking Framework information shows that the Council performs better than other councils in around half of national benchmarking indicators.</p> <p>Reporting against the new Statutory Performance Indicators Direction requires improvement. In particular the Council needs to address the new requirements of reporting progress against its duty of Best Value.</p>

## Conclusion

This report concludes our audit for 2019/20. Our work has been performed in accordance with the Audit Scotland Code of Audit Practice, International Standards on Auditing (UK) and Ethical Standards.

**Azets**  
**November 2020**



# Introduction

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This report is presented to those charged with governance and the Controller of Audit and concludes our audit of the City of Edinburgh Council for 2019/20.

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

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

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## Introduction

1. This report summarises the findings from our 2019/20 audit of the City of Edinburgh Council (“the Council”).
2. We outlined the scope of our audit in our External Audit Plan. The core elements of our work include:
  - an audit of the 2019/20 annual accounts, for both the Council and its group and the charitable trusts, and related matters;
  - consideration of the wider dimensions of public audit work, as set out in Exhibit 1;
  - an assessment of the arrangements for the collection and publication of statutory performance information in accordance with the Accounts Commission direction;
  - provision of opinions on a number of grant claims including Whole of Government Accounts;
  - providing existing evidence and intelligence for, and participating in, shared risk assessment (SRA) processes;
  - to audit and report on Best Value and the Strategic Audit Priorities (refer to paragraph 10 and Appendices 3 and 4);
  - monitoring the Council’s participation in the National Fraud Initiative (NFI); and
  - any other work requested by Audit Scotland.

### Exhibit 1: Audit dimensions within the Code of Audit Practice



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

4. The report contains an action plan with specific recommendations, responsible officers and dates for implementation. Senior management should assess these recommendations and consider their wider implications before deciding on appropriate actions. We give each recommendation a grading to help management assess its significance and prioritise the actions required.
5. We would like to thank all management and staff for their co-operation and assistance during our audit.

## Confirmation of independence

6. International Standards on Auditing in the UK (ISAs (UK)) require us to communicate on a timely basis all facts and matters that may have a bearing on our independence.
7. We confirm that we complied with the Financial Reporting Council's (FRC) Ethical Standards. In our professional judgement, the audit process is independent, and our objectivity has not been compromised in any way.
8. We set out in Appendix 1 our assessment and confirmation of independence. Our assessment includes consideration of:
  - Provision of non-audit services to the Council's group components; and
  - Relationships between 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

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

## Best Value

10. Councils have a statutory duty introduced in the Local Government Scotland Act 2003 to make arrangements to secure Best Value. The audit of Best Value is a continuous process that forms part of the annual audit of every council. Findings are reported each year through the Annual Audit Report. In addition, the Controller of Audit will present a Best Value Assurance Report to the Accounts Commission at least once during the five-year audit appointment for each council.
11. A Best Value review was undertaken on the City of Edinburgh Council in 2020 with detailed work commencing in February and March 2020. This immediately preceded the lockdown due to the COVID-19 pandemic. As a result, work continued during lockdown to ensure where appropriate, findings were updated to reflect the impact of the pandemic. The work was undertaken by a team which included Audit Scotland staff experienced in undertaking similar Best Value reviews across other

Scottish authorities and members of the local audit team from Azets.

can be reported directly to any member of your audit team.

12. The findings of the review are included in a detailed report which will be formally issued in the next few weeks. The detailed report including these key messages will be submitted to the Accounts Commission on 2 November after which the Accounts Commission findings and the detailed report will be published. Areas covered within the Best Value report include:

- Does the council have clear strategic direction?
- How well is the council performing?
- Is the council working well with its partners?
- Is the council demonstrating continuous improvement?

13. As a result, whilst we have commented on some aspects of the use of resources by the Council we have not commented on or replicated the above areas which are covered in the Best Value report.

14. The Best Value report also includes recommendations to help the Council address the improvement areas identified in the report. As your external auditors for the remaining two years of our appointment we will continue to audit Best Value. This work will include a follow-up on the findings from this report as well as more detailed audit work on other Best Value characteristics as appropriate.

## Openness and transparency

16. This report will be published on Audit Scotland's website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

## Feedback

15. 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

# Annual accounts

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

In this section we summarise the findings from our audit of the 2019/20 annual accounts.

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## Annual accounts

### Unqualified audit opinion on the annual accounts

The annual accounts for the year ended 31 March 2020 are due to be approved by the Finance and Resources Committee on 5 November 2020. We report within our independent auditor's report:

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

We have drawn attention in our independent auditor's report to the following matters:

- the effects of a material uncertainty, caused by COVID-19, on the property values; and
- the Council's Edinburgh Catering Services – Other Catering trading operation has failed to break even, on a cumulative basis, over the three year period to 2019/20.

Our opinion is not modified in respect of these matters.

### Overall conclusion

17. The annual accounts for the year ended 31 March 2020 are due to be considered by the Governance, Risk and Best Value Committee on 3 November 2020 and approved by the Finance and Resources Committee on 5 November 2020. We report within our independent auditor's report:

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

18. We have drawn attention to the following matters in our audit report:

- Note 6 "Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty" and Note 15.7 "Property, Plant and Equipment" of the annual accounts, describe the effects of a material uncertainty, caused by COVID-19, on the property values (paragraphs 28-34). Our opinion is not modified in respect of this matter.
- the Council's Edinburgh Catering Services – Other Catering trading operation has failed to break even, on a cumulative basis, over a three year period (paragraphs 65-67). While this is a failure to comply with the Local Government in Scotland Act 2003, it does not

affect our overall opinion on the financial statements.

## Our assessment of risks of material misstatement

19. The assessed risks of material misstatement 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 report and accounts as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the annual report and accounts is not modified with respect to any of the risks described below.

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

### Management override

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


*Noted in the 2019/20 External Audit Plan*

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

## Revenue recognition

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


*Noted in the 2019/20 External Audit Plan*

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21. At the planning stage of our audit, we conclude 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.
  22. 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. To inform our conclusion we evaluated the Council's key revenue streams and reviewed the controls in place over revenue accounting. We also carried out testing to confirm that the revenue recognition policy is appropriate and that it was applied consistently throughout the year.

## Risk of fraud in the recognition of expenditure

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

*Noted in the 2019/20 External Audit Plan*

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23. We have evaluated each type of expenditure transaction and documented our conclusions. We gained reasonable assurance over the completeness and occurrence of expenditure and are satisfied that expenditure is fairly stated in the annual accounts. To inform our conclusion we carried out testing to confirm that the Council's policy for recognising expenditure is appropriate and has been applied consistently throughout the year.




## Asset valuation and additions

The Council's revised general fund capital budget for 2019/20 is £289million. As at period 8, the Council was reporting a projected outturn of £263million. The housing revenue account capital budget for 2019/20 is £109million. As at period 8, the Council was reporting a projected outturn of £101million.

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. As we concluded in our 2018/19 Annual Audit Report, significant efforts were committed to developing valuation arrangements in 2018/19, however further improvements are required.

There is a risk of material misstatement to the annual accounts relating to the recognition of capital expenditure and asset valuations.

*Noted in the 2019/20 External Audit Plan*

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24. During 2019/20, the Council reported capital additions of £377.352million. The Residual Waste Treatment plant at Millerhill accounts for £111.941million of capital additions in the year.
  25. We carried out sample testing on additions and concluded, based on the audit work performed, that additions had been accounted for in the audited annual accounts in accordance with Council's accounting policies and the applicable accounting standards.

### Valuations

26. We reviewed the Council's valuation process and noted the following:
27. Valuations are carried out by internal valuers. We considered the instructions and information provided to the valuer and performed procedures to confirm the accuracy and completeness of the information. Instructions are disseminated to the individual valuers through the valuation handbook and supporting valuation templates. The results of the valuation exercise are formally communicated to the Council through a valuation report for each asset valued and an overarching valuation report. From our review of the instructions provided to the valuer, the valuers report and assessment of the valuer's expertise, we are satisfied that we can rely on their work.
28. During the pandemic, the Royal Institution of Chartered Surveyors (RICS) published guidance which outlines the challenges with regard to the valuation of assets during this period, including the potential for valuations to be "qualified" with a "material valuation uncertainty".

29. The valuation report prepared by the Council's valuer stated the following:

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**“ Material Valuation Uncertainty**

*The outbreak of the Novel Coronavirus (COVID-19), declared by the World Health Organisation as a “Global Pandemic” on 11 March 2020, has impacted global financial markets. Travel restrictions have been implemented by many countries.*

*Market activity is being impacted in many sectors. As at the valuation date, we consider that we can attach less weight to previous market evidence for comparison purposes, to inform opinions of value. Indeed, the current response to COVID-19 means that we are faced with an unprecedented set of circumstances on which to base a judgement.*

*Our valuations are therefore reported on the basis of ‘material valuation uncertainty’ as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently, less certainty – and a higher degree of caution – should be attached to our valuation than would normally be the case. Given the unknown future impact that COVID-19 might have on the real estate market, valuations of this property will be kept under review.*

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30. The Council is required to revalue its properties with sufficient regularity to ensure that the carrying amount does not differ materially from the current value as at 31 March. A material uncertainty in a valuer's report does not mean that the valuation cannot be relied upon or that there is a misstatement. However, it indicates that less certainty can be attached to the valuation than would otherwise be the case.
31. The Council has made reference to this uncertainty within Note 6 “Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty” with further detail provided in Note 15.7 “Property, Plant and Equipment” to the Annual Accounts.
32. IAS 1 ‘Presentation of Finance Statements’, requires entities to disclose information about assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities in the next financial year. The standard notes that the nature and extent of the information provided may vary according to the nature of the circumstances but includes as an example of the type of disclosures to be made, the sensitivity of carrying amounts to the methods,
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assumptions and estimates underlying their calculation, including the reasons for the sensitivity.

33. The Council has disclosed in its financial statements that *'the range of uncertainty has not been identified and therefore we are unable to quantify the potential impact on the accounts'* and has therefore not disclosed any sensitivities on the property valuations. In future years, we would encourage the Council to carry out a sensitivity analysis to help users of the financial statements understand the judgements management have made about the sources of estimation uncertainty.

Action plan point 1

34. We concluded that the material uncertainty over the property valuations is of such importance that it is fundamental to users' understanding of the annual accounts. Based on our audit work performed and conclusions, we have included an emphasis of matter paragraph in our independent auditor's report which draws attention to the disclosures made in the annual accounts. Our audit opinion is not modified in respect of this matter. This treatment within the auditor's report has been adopted by auditors across most Scottish local authorities.

#### Council Dwellings

35. Council dwellings are valued using the beacon method which aggregates the vacant possession value of each unit of housing stock based on the value of a beacon or sample property. An adjustment factor is applied to reflect the lower rent yield from social housing compared to market rates.
36. We highlighted in 2018/19 that the change in valuation identified through the Council's five yearly revaluation exercise reflected significant material movements in the four years to 31 March 2018. The Council agreed to consider an appropriate percentage increase to the council dwelling values each year, based on the growth in the housing sector along with other checks to ensure that the key assumptions and estimates over valuations remained reasonable. We have confirmed that the Council has undertaken this exercise. A 4% uplift factor was applied based on a sample of Beacon properties revalued in year. The appropriateness of the discount for social rent was also reviewed based on the sample of revaluations undertaken.

#### Remaining useful life

37. Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that may be incurred in relation to an individual asset. We noted in 2018/19 that the updated useful lives had not been reflected in the fixed asset register and depreciation calculations for 2018/19. We have

confirmed that the Council has now updated the useful lives in the fixed asset registers.

### Impairment

38. The Council has implemented condition surveys as part of the five year rolling programme. The surveys identify assets where the condition has changed and an assessment is made as to whether a revaluation is necessary.
39. The condition surveys performed in 2019/20 are a strong source of evidence to indicate whether an impairment may have occurred. However, these only consider a proportion of the Council's operational estate and do not take cognisance of other sources of information such as the level of maintenance and repairs required in the year. While no indication of material impairment was identified, we would encourage the Council to further develop its procedures for assessing whether there has been an impairment of its estates portfolio (refer to prior year action plan at Appendix 5).

### Disposals

40. During 2019/20, the Council reported disposals of £20.443million. The disposals predominantly arose from £14.986million in sales of newly constructed dwellings to Edinburgh Living MMR LLP.

### Pension assumptions

An actuarial estimate of the pension fund asset/liability is calculated on an annual basis under IAS 19 and on a triennial funding basis by an independent firm of actuaries with specialist knowledge and experience. The estimates are based on the most up to date membership data held by the pension fund and have regard to local factors such as mortality rates and expected pay rises with other assumptions around inflation when calculating the liabilities. There is a risk that the assumptions used are not appropriate.

*Noted in the 2019/20 External Audit Plan*

41. 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. In addition we reviewed the information in the actuarial report for completeness and accuracy against the published pension fund data.
42. 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.

43. The net pension liability within the audited annual accounts has been revised to take account of the latest reliable, available information on the 'McCloud Judgement':

#### McCloud judgement

44. This case relates to an employment tribunal ruling that transitional provisions impacting on a public sector final salary scheme were unlawfully age discriminatory. This was upheld in the Courts in December 2018 although the Government at that stage sought leave to appeal this judgement. In June 2019, the Supreme Court rejected the Government's request for a further appeal.
45. In July 2020, the Government released its consultation on applying the remedy to address the age discrimination inherent within the transitional protections that were adopted by the public service schemes in 2014 and 2015. The SPPA on behalf of Scottish Ministers also released a consultation document which sets out its preferred policy approach for remedying the discrimination in the Local Government Pension Scheme. The Council's Actuaries highlighted that the remedy consultation could have a material impact on the treatment of McCloud in the March 2020 actuarial pension valuations.
46. Estimates require to be based on the latest available, reliable information, including information that becomes available after 31 March. The issue of the consultation paper from SPPA on the McCloud judgement is an adjusting event as it provides evidence of conditions that existed as at 31 March 2020.
47. The financial effect of this pension issue is a past service gain of £17.218million. As a consequence, the net pension liability of £540.753million as reported in the unaudited annual accounts is now a net pension liability of £523.535million.

#### Goodwin tribunal

48. The Goodwin tribunal relates to a recent employment tribunal that changes the pension entitlement of male survivors in opposite sex marriages to take into account the female member's service from 6 April 1978. Previously, the male spouse survivor's entitlement was based on service accrued from 6 April 1988. The change is backdated to 5 December 2005. The change therefore affects the pension of male spouse survivors where their entitlement arose (i.e. where the female member died) on or after 5 December 2005.
49. Management instructed its Actuaries to calculate an estimated cost of the Goodwin impact on the Employer's future obligations. The Actuaries estimated that the closing obligations as at 31 March 2020 may be around 0.13% higher as a result of the Goodwin tribunal.

Based on this information, management assessed the impact on the Council's pension liability to be immaterial and no adjustment has been made in respect of the Goodwin tribunal.

## Update to our initial risk assessment

50. Planning is a continuous process and our audit plans are updated during the course of our audit to take account of developments as they arise. We have specifically updated our risk assessment and audit plan in light of COVID-19. We recognised this as a key audit risk<sup>1</sup>.

### COVID-19

The COVID-19 pandemic is presenting unprecedented challenges to the operation, financial management and governance of organisations, including public sector bodies. Core areas of service delivery have been suspended or substantially reduced, systems and processes have been amended to support remote working, arrangements for governance, decision making and performance management have been adapted, and many organisations are forecasting large operating deficits due to loss of income and/ or additional cost pressures. It is uncertain how long these challenges will persist.

The implications of these risks and uncertainties are under consideration by the Council. We continue to monitor government and relevant announcements as they pertain to the audit and have adapted our audit approach as required.

51. In response to COVID-19 we identified potential areas of increased risk of material misstatement to the financial statements and/or our audit opinion. These areas included:
- Property valuations
  - Content of the annual report and accounts
  - Access to audit evidence
  - Timescales/administrative processes.

<sup>1</sup> A key audit risk is one which may result in a material misstatement to the financial statements or

significantly impact on our audit judgements and conclusions on the wider scope dimensions.

### Property valuations

52. As noted at paragraphs 28-34 of this report, the valuer included a 'material uncertainty' disclaimer over the asset valuations for the year ended 31 March 2020.
53. We concluded that the material uncertainty over the property valuations is of such importance that it is fundamental to users' understanding of the financial statements. Based on our audit work performed and conclusions, we have included an emphasis of matter paragraph in our independent auditor's report which draws attention to the disclosures made in the annual accounts. Our audit opinion is not modified in respect of this matter.

### Content of the annual report and accounts

54. In response to the impact of the COVID-19 pandemic, the Scottish Government issued Finance Circular 10/2020 which allows bodies to disapply specified requirements for Finance Circular 5/2015 (which provides statutory guidance on the preparation of a Management Commentary).
55. The Council took the decision to include where applicable to the organisation, the full disclosures in the Management Commentary.

### Access to audit evidence

56. 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.

57. 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.
58. We are pleased to report we received all audit evidence requested to allow us to form our audit opinion.
59. We received the unaudited annual accounts and supporting papers of a high standard. Our thanks go to staff at the Council for their assistance with our work.

### Timescales/Administrative processes

60. Schedule 6 of the Coronavirus (Scotland) Act 2020 allows a local government body to postpone submitting the unaudited accounts to auditors and publishing the audited accounts until it is reasonably practicable. The Scottish Government has provided guidance on this in Finance Circular 10/2020. The guidance advises that 30 November should be considered a reasonably practicable date for publishing the audited accounts.
61. Audit Scotland has revised the deadline for auditors to submit the audited annual accounts from 30 September to 30 November 2020. However, it is for local auditors to agree a timetable with each local government body with a view to completing the process as early possible while still delivering a high quality audit.
62. The annual accounts are due to be considered by the Finance and Resources Committee on 5 November 2020; thereby meeting the revised timetable as set out above.



63. We have been working closely with the Council throughout the audit to ensure that this timetable is adhered to.

## Other risk factors

64. In addition to the identification of significant audit risks (paragraph 19), we identified in our External Audit Plan a number of risk factors which could potentially result in a material misstatement to the annual accounts. An update on these risk factors is set out below:

### Significant trading operations

65. Local authorities have a duty under section 10 of the Local Government in Scotland Act 2003 to operate their significant trading operations so that income is not less than expenditure over each three-year period. The Council has failed to comply with this statutory requirement for the three-year period ending 31 March 2020 in respect of its one significant trading operation; Edinburgh Catering Services – Other Catering. We have reported this matter in our independent auditor’s report.
66. Despite improvements in recent years’ financial performance, the Council’s Edinburgh Catering Services – Other Catering trading operation reported a deficit of £48,000 in 2019/20 and a cumulative three-year deficit of £0.126million. We have reported that Edinburgh Catering Services has failed to meet this financial objective in each of the four years of our audit appointment.
67. The Council notes in the annual accounts that the impact of COVID-19 will make achieving a breakeven position challenging. A tariff increase

in line with inflation is due on re-commencement of services. Re-modelling the service will be considered, to accommodate changes in demand and the lack of commercial activity at the City Chambers.

### Common good

68. Local Authorities are required to administer common good funds under section 15 of the Local Government (Scotland) Act 1994. The purpose of common good funds is to provide benefit to the population of the area either through the disbursement of funds, securing assets for on-going use for the population or contributing to specific local projects/initiatives.

### Common good fund annual accounts

69. The Common Good Fund stands separately from the Council’s annual accounts and has been described as “the ancient patrimony of the community”.
70. During 2019/20, a surplus of £312,000 was reported on the common good fund. Overall useable common good funds stood at £2.665million as at 31 March 2020.
71. In 2016, the Council’s Finance and Resources Committee approved the use of the common good fund for planned maintenance of part of the common good assets. £2million was earmarked in 2015/16 (following a receipt from the sale of East Market Street Garage), to fund a maintenance programme for common good assets. Since this earmarked fund was created in 2016, £123,000 has been used on the Scott Monument, £33,000 on surveys at the City Observatory, £8,600 on Queensferry Harbour and £12,600 on Portobello Municipal Clock.



72. During our 2019/20 audit of the common good fund annual accounts we noted the following:

#### Common good fund income and expenditure

73. 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 £3.394million which has been offset by rental income for the period of £1.160million. In order to achieve a “breakeven position” on property costs, the Council has offset the expenditure with an income recharge from the Council of £2.163million and capital funding of £71,000.

74. During the year, the Council concluded on a lease agreement with the Chris Stewart Group (CSG) to take a 125 year lease of 329 High Street at a nominal annual rent in return for an initial premium reflecting the market value for the property. All of this initial premium was disclosed as income in the unaudited accounts. The audited accounts now show this as a lease premium on the balance sheet which will be “released” over the term of the lease.

#### Common good asset registers

75. Part 8 of the Community Empowerment Act (Scotland) 2015 came into force on 27 June 2018. This places a statutory duty on local authorities to establish, maintain and publish a register of all property held by them for the common good. Local people must be consulted on the register, to make sure nothing has been left out. Local authorities are also required to publish their proposals

and consult community bodies before disposing of or changing the use of common good assets.

76. In July 2018, the Scottish Government, following consultation in 2017, issued statutory guidance for local authorities on how they should carry out these new legal duties.

77. The guidance identifies that a local authority should ‘aim to publish the first version of its common good register as soon as practicable after the initial twelve week consultation period has closed, and in any case, within six months of the end of the consultation.’

78. The Council’s common good register was published for consultation in September 2018 and members of the public were able to provide feedback on the register until 31 December 2018. The first post-consultation draft of the register was published on the Council’s Common Good Webpage on 28 June 2019, complying with Scottish Government Guidance. The register has remained on the website for the period and the Council has provided updates over the representations received.

79. In September 2019, the first draft of the register was presented to the Finance and Resources Committee. During 2019/20, the Council has sought legal counsel opinion on the classification of some of the assets and is currently undertaking a review of Civic Regalia and the Silver Safes.

80. As part of our audit work we compared the published register to the asset register (“accounting asset register”) which is used to compile the Common Good annual accounts. We noted the following:

- Five assets included in the published register as common good are not on the accounting asset register and therefore not included in the annual accounts (the asset values have yet to be determined); and
  - Four assets are included on the accounting asset register but are not disclosed in the published register. These assets are under investigation by Council Solicitors to determine whether they should be classified as common good.
81. In line with the Scottish Government guidance; ‘In cases where there have been numerous or complex representations, and the local authority is still carrying out investigations, a note should be added to the register making clear that some representations are still being followed up. It is proposed that an annex is produced which lists all of the property still under investigation, along with an indication of when these investigations are likely to be concluded.’
82. We reviewed the Council’s published common good register and assets still under investigation are detailed in a schedule annexed to the Common Good Register, therefore complying with Scottish Government guidance. However, in order to ensure completeness and transparency in the operation of the common good fund, we would encourage the Council to update its published common good asset register to include all assets currently under investigation (refer to prior year action plan at Appendix 5).

## An overview of the scope of our audit

83. The scope of our audit was detailed in our External Audit Plan. 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.
84. 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.
85. Our standard audit approach is based on performing a review of the key financial systems in place, substantive tests and detailed analytical procedures. Tailored audit procedures, including those designed to address significant risks, were completed by the audit fieldwork team and the results were reviewed by the audit management team. In performing our work we applied the concept of materiality, which is explained below.

## Our application of materiality

86. 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 over both the amount and the nature

of the misstatement. We keep this assessment under review throughout the audit.

87. Performance materiality is the working level of materiality used 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.
88. 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 any uncorrected and undetected misstatements exceed overall materiality.
89. 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 kept these as per our initial assessment. We consider that our updated assessment has remained appropriate throughout our audit.

Materiality	Council £million	Group £million
<b>Overall</b>	20.3	22.3
<b>materiality:</b> Our assessment of materiality is set with reference to gross expenditure <sup>2</sup> . We consider this to be the principal consideration for the users of the annual accounts when assessing the performance of the Council and its group.		
<b>Performance</b>	15.225	16.725
<b>materiality:</b> using our professional judgement we have calculated performance materiality at approximately 75% of overall materiality.		

90. We noted in our External Audit Plan that we would report any misstatements identified through our audit that fall into one of the following categories:
- All material corrected misstatements;
  - Uncorrected misstatements with a value in excess of £250,000; and

<sup>2</sup> Our assessment of materiality equates to approximately 1% of the group and Council's 2019/20 gross expenditure as disclosed in the 2019/20 unaudited annual accounts.

- Other misstatements below £250,000 that we believe warrant reporting on qualitative grounds.
- Overall impact on group net assets: increase in net assets of £55.500million.

## Audit differences

91. Material audit differences we identified during the audit have been detailed in the letter of representation. In summary these adjustments were as follows (on a group basis):

- Property, plant and equipment: net increase in assets of £0.758million.
- Long term assets (pension): incorporation of revised actuarial pension information for Transport for Edinburgh, net increase in pension asset of £30.584million.
- Investments and liabilities in associates and joint ventures: updated following receipt of audited accounts net reduction in investment of £3.274million.
- Group adjustments following receipt of audited accounts for group bodies; net increase of asset position of £3.738million.
- PPP transactions: update to accounting model for PPP Residual waste resulting in reduction in liabilities of £6.536million.
- Provisions: recognition of new provision for working time directives of £60,000.
- Pension liabilities: incorporation of revised actuarial information; reduction in net pension liabilities £17.218million.

92. The overall impact on usable reserves was an increase of £38.966million. In respect of the Council; there was an increase of £8.6million to useable reserves; of which £8.276million was to the donated asset fund and £0.324million as increase to the General Fund balance. The increase to the General Fund balance represents the reduction in drawdown required from reserves to meet the revised outturn position.

93. We also identified disclosure and presentational adjustments during our audit, which have been reflected in the final set of annual accounts.

## Council representations

94. We have requested that a signed representation letter be presented to us at the date of signing the annual accounts. This letter is to be signed by the section 95 officer on behalf of the Council.

## Group audit

95. 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.
96. As part of our audit we reviewed the consolidation entries made within the group accounts and confirmed entries back to the financial statements of the group bodies.
97. 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.
98. In 2019/20, an adjustment was made to the Council's group accounts for net pension assets as reported by Transport for Edinburgh (whose financial statements are prepared to 31 December). The overall impact was an increase in net pension assets of £30.584million.
99. Overall, we concluded that the results of the group bodies had been appropriately consolidated into the Council's audited group accounts.
100. 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:
- CEC Holdings; and
  - Transport for Edinburgh.
101. We revisited our assessment, following receipt of the unaudited accounts. Our assessment was updated to include Edinburgh Living MMR LLP as a significant component. In addition, we no longer classified CEC Holdings as a significant component:
- Edinburgh Living MMR LLP – In 2015, the Council agreed to enter into a partnership with Scottish Futures Trust (SFT) to accelerate housebuilding through the acquisition of homes for market rent and mid-market rent. Edinburgh Living MMR LLP had investments in 131 properties at a value of £27.75million at 31 December 2019. We concluded that this is a significant component in 2019/20 due to the following; this is the first year in which accounts have been prepared for this body, the identified risks noted by the component auditor, the value of the investment properties (and with reference to the impact of COVID-19 on those values).
- CEC Holdings: In early 2017, the Council confirmed that operational activities undertaken by EDI Group would in the future be delivered through an in-house council model. The Council instructed directors of the EDI Group to begin a process of closure, with the majority of land transferring to the Council and most of the staff leaving the company in June 2018. The company will continue to trade until such time as all projects currently being undertaken by the EDI Group have either concluded or have been transferred to the Council. The impact of this decision however no longer poses a risk of material misstatement to the Council's group accounts (including consideration of the financial balances within CEC Holdings as they relate to the EDI Group) and therefore we have concluded for the 2019/20 audit that this is no longer a significant component.
102. Azets is 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.

103. We have nothing to report in respect of the following matters:

- No significant deficiencies in the system of internal control or instances of fraud were identified by the component auditor; and
- There were no limitations on the group audit.

## Legality

104. We have planned and performed our audit recognising that non-compliance with statute or regulations may materially impact on the annual accounts. Our audit procedures included the following:

- Reviewing minutes of relevant meetings;
- Enquiring of senior management and the Council's solicitors the position in relation to litigation, claims and assessments; and
- Performing detailed testing of transactions and balances.

105. We are pleased to report that we did not identify any instances of concern with regard to the legality of transactions or events.

## Other matters identified during our audit

106. During the course of our audit we noted the following:

## The Local Authority Accounts (Scotland) Regulations 2014

107. As part of our audit we reviewed the Council's compliance with the Local Authority Accounts (Scotland) Regulations 2014, in particular with respect to regulations 8 to 10<sup>3</sup> as they relate to the annual accounts.

108. 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.

109. In 2018/19 we received correspondence relating to the notice of the public right to inspect. We concluded in 2019/20 that action had been taken, where applicable to 2019/20 and the revised arrangements for COVID-19, to address these issues.

110. 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.

111. We did receive one objection to the annual accounts in 2019/20. We upheld the objection in relation to disclosures within the unaudited annual accounts regarding the St James Redevelopment – Growth Accelerator Model. These disclosures have now been updated in the audited annual accounts.

## Management commentary

112. The Local Authority Accounts (Scotland) Regulations 2014 require local authorities to include a management commentary within the annual accounts. The management

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<sup>3</sup> Regulations 8 to 10 relate to the preparation and publication of unaudited accounts, notice of public

right to inspect and object to the accounts and consideration and signing of the audited accounts.



commentary is intended to assist readers in understanding the annual accounts and the organisation that has prepared them.

113. As auditors we are required to read the management commentary and express an opinion as to whether it is consistent with the annual accounts. We have concluded that the management commentary is consistent with the annual accounts and has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003 (refer to paragraphs 54-55 of this report).

#### Annual governance statement

114. The Chief Executive and the Council Leader have confirmed that in their opinion, reasonable assurance can be placed upon the adequacy and effectiveness of City of Edinburgh Council and its group systems of governance. The Annual Governance Statement identifies a range of actions that have been, or will be, taken by the Council to continue to progress improvements in the Council's governance arrangements.
115. We are satisfied that the governance statement within the annual accounts is consistent with the financial statements and that report has been prepared in accordance with the Delivering Good Governance in Local Government: Framework 2016.

#### Remuneration report

116. Our independent auditor's report confirms that the part of the Remuneration Report to be audited has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014.

#### Members' salaries and expenses

117. The Remuneration Report discloses salaries and expenses paid to elected members. The Council also publishes this information in detail on its website. The Council, in preparing this publication, uses source records from, for example, individual elected members claims.
118. We noted during our audit, differences between the published information on the Council's website and the ledger. While we concluded that this is not material to the annual accounts we would recommend that the Council carry out regular reconciliations between the ledger and the published information on elected members remuneration and expenses.

Action plan point 2

#### Charitable trust funds

119. The Council administers six charitable trust funds. Over the last few years the Council has rationalised the number of charitable trusts down from over 100 to six.
120. The Charities Accounts (Scotland) Regulations 2006 outline the accounting and auditing requirements for charitable bodies. The Regulations require an auditor to prepare a report to the charity trustees where an audit is required by any other enactment. The Council's charitable trust funds are covered by the requirements of section 106 of the Local Government (Scotland) Act 1973 and consequently require a full audit.
121. We have audited the Council's 2019/20 charitable trust funds. Our findings from our audit have been separately reported to the Trustees. In summary we reported the following:

- We have provided an unqualified audit opinion on the charitable trust funds annual accounts; associated with the charitable trust funds.
- We have, however, drawn attention in our independent auditor’s report to the fact that the City of Edinburgh Council Charitable Funds (Boyd Anderson) have been prepared using a break-up basis of accounting as the trustees consider that it is not a going concern. Our opinion is not modified in respect of this matter.
- The Council has complied with the Local Authority Accounts (Scotland) Regulations 2014 as they relate to its charitable trust funds;
- We did not identify any significant weaknesses over the accounting systems and internal controls

### Qualitative aspects of accounting practices and financial reporting

122. During the course of our audit, we considered the qualitative aspects of the financial reporting process, including items that have a significant impact on the relevance, reliability, comparability, understandability and materiality of the information provided by the financial statements. Our audit conclusions on these qualitative aspects are as follows:

Qualitative aspect considered	Audit conclusion
The appropriateness of the accounting policies used.	The accounting policies, which are disclosed in the annual accounts, are considered appropriate to the Council.
The timing of the transactions and the period in which they are recorded.	We did not identify any concerns over the timing of transactions or the period in which they were recognised.
The appropriateness of the accounting estimates and judgements used.	<p>We are satisfied with the appropriateness of the accounting estimates and judgements used in the preparation of the annual accounts.</p> <p>Significant estimates have been made in relation to property, plant and equipment and pension liabilities. We consider the estimates made, and the related disclosures, to be appropriate to the Council.</p> <p>We have included an emphasis of matter in our independent auditor’s report drawing attention to</p>



Qualitative aspect considered	Audit conclusion
	<p>the material uncertainty disclosure on property valuations.</p> <p>We evaluated the competence, objectivity and capability of management experts in line with the requirements of ISA (UK) 500 and concluded that use of the expert is appropriate.</p>
<p>The appropriateness of the going concern assumption</p>	<p>We have reviewed the financial forecasts for 2020/21. 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.</p>
<p>The potential effect on the financial statements of any uncertainties, including significant risks and related disclosures that are required.</p>	<p>We have not identified any uncertainties, including any significant risk or required disclosures, which should be included in the annual accounts.</p>
<p>The extent to which the financial statements have been affected by unusual transactions during the period and the extent that these transactions are separately disclosed.</p>	<p>From the testing performed, we identified no significant unusual transactions in the period.</p>
<p>Apparent misstatements in the annual report or material inconsistencies with the financial statements.</p>	<p>The management commentary contains no material misstatements or inconsistencies with the accounts.</p>
<p>Any significant financial statement disclosures to bring to your attention.</p>	<p>There are no significant annual accounts disclosures that we consider should be brought to your attention other than the material uncertainty disclosure on property valuations noted above. All the disclosures required by relevant legislation and applicable accounting standards have been made appropriately.</p>

Qualitative aspect considered	Audit conclusion
Disagreement over any accounting treatment or financial statements disclosure.	While disclosure and presentational adjustments were made during the audit process there was no material disagreement during the course of the audit over any accounting treatment or disclosure.
Difficulties encountered in the audit.	There were no significant difficulties encountered during the audit. Our audit this year has been carried out 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.

# 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.



The Council's three-year revenue budget strategy and a 10 year capital budget strategy were developed prior to impact of COVID-19 becoming known. These strategies will require to be updated given the significant cost impact of COVID-19 on council services and income levels over the short and medium term. Current estimates of this impact to date are £81.6million. The Council has worked hard to reduce the anticipated budget deficit for 2020/21 given the significant impact of the pandemic but at the time of the audit this still stood at £12.2million. A longer term financial strategy should be put in place when it becomes clearer what the medium term impact on council services is on income generating activities and Council associated ALEOs.

## Significant audit risk

123. Our audit plan identified a significant risk to financial sustainability under our wider scope responsibilities.

### Financial sustainability

During our 2018/19 audit, we noted that the Council has a well-developed and responsive Medium-Term Revenue Funding Framework.

In October 2019, the Finance and Resources Committee considered an update on the development of an evolving four year change strategy, with a specific focus on the budget-setting approach for 2020/21. This report identified a requirement to deliver at least £86.7m of recurring annual savings beyond those previously approved, with £36m of these required in 2020/21.

Extensive work has been undertaken to develop necessary savings proposals to bridge the gap between expenditure and available funding over the next three years, aligned to the three underpinning themes of the Change Strategy.

In February 2020, the Finance and Resource Committee considered the proposed savings which, if all approved, would allow the Council to set a balanced three-year budget. The achievement of these savings presents a significant financial challenge to the Council.

*Noted in the 2019/20 External Audit Plan*

124. The Council's three-year revenue budget strategy and a 10 year capital budget strategy were developed prior to impact of COVID-19 becoming known. These strategies will require to be updated given the significant cost impact of COVID 19 on council services and income levels over the short and medium term. Current estimates of this impact to date are £81.6million. The Council has worked hard to reduce the anticipated budget deficit for 2020/21 given the significant impact of the pandemic but at the time of the audit this still stood at £12.2million. A longer term financial strategy should be put in place when it becomes clearer what the medium term impact on council services is on income generating activities and Council associated ALEOs.

## Medium term financial planning

125. In February 2020 the Council approved a three year revenue budget

strategy covering the years 2020/21 to 2022/23 together with a 2020-2030 capital budget strategy. The revenue budget strategy required the delivery of estimated recurring savings of £34.87million in 2020/21 and

£87.25million by 2022/23. The Council also approved a Change Strategy which set out proposals for delivering £87.975million of savings and income generation.

126. 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.

Action plan point 3

127. Since the approval of the budget strategy COVID-19 has impacted significantly on the Council's financial plans. The Council recognised the need for greater scrutiny during the uncertain period of COVID-19 and implemented additional monitoring by members and officers. Since April 2020 the Policy and Sustainability Committee and latterly the Finance and Resources Committee has received monthly updates of the revenue impacts on the 2020/21 budget. We welcome this approach to financial management. Whilst reports to date have focussed on the 202/21 implications the Council is aware that it requires to revisit its three-year revenue budget and the capital plan given the exceptional circumstances.

128. In May 2020, the Council presented a report on its revised 2020/21 Revenue Budget to the Policy and Sustainability Committee. The report set out £101.5million of additional net expenditure pressures, which included £81.6million of Covid-19-related costs. The Council identified around £45million from savings, reserves and government funding for COVID-19, to offset this additional expenditure, but it still predicted a £56.5million shortfall in its 2020/21 budget.

129. The Council further revised its position in June, July and August identifying lower levels of additional net expenditure and a greater use of savings and reserves.

130. The most recent update to the 2020/21 revenue budget position in September 2020 notes that there is a remaining in-year shortfall of £12.2million which requires to be addressed. Directorates are continuing to examine ways of reducing this shortfall further. In the years 2020/21 to 2023/24, the Council anticipates its cumulative budget shortfall to be £70million.

131. The remaining in-year deficit comprises the following:

Additional net expenditure pressures	£million	£million
Estimated Covid-19 specific expenditure and loss of income		81.6
Council services (excluding Health and Social Care):		
<ul style="list-style-type: none"> <li>• Additional expenditure: £15.3million</li> <li>• Reduction in income: £44.2million</li> <li>• Savings in expenditure: (£4.9million)</li> <li>• ALEO related: £27million</li> </ul>		
<hr/>		
Net residual pressures/anticipated shortfalls in service delivery		3.0
<hr/>		
Available funding	(19.9)	
<hr/>		
2020/21 budget unallocated monies	(4.8)	
<hr/>		
Use of earmarked reserves	(19.6)	
<hr/>		
Time related and corporate savings	(17.2)	
<hr/>		
Potential further funding	(11.0)	
<hr/>		
Sub-total		(72.4)
<hr/>		
<b>Remaining shortfall</b>		<b>12.2</b>
<hr/>		

132. The current position is based on assumptions that services gradually resume across the city. It is estimated that each month's further lockdown would cost approximately £10million.

133. There are continued discussions with the Scottish Government through COSLA regarding the development of an income compensation scheme. The circumstances of the Council and its Arm's-Length External Organisations (ALEO's) mean that any

scheme which is agreed will be of benefit to the Council as a source of funding.

134. The Council is also exploring the potential applicability of the package of financial flexibilities agreed between the Scottish Government and COSLA to address the funding pressures faced by local government due to COVID-19. The flexibilities include:

- Application of capital receipts to finance COVID-19 related revenue expenditure
- Revision of the statutory charge for leases and service concession arrangements; allowing councils to charge the debt element over the life of the asset rather than the contract period
- Loans fund repayment holiday; permitting councils to defer loans fund repayments due to be repaid in either 2020/21 or 2021/22.

## ALEO's and the impact on Council finances as a result of COVID-19

135. As noted in the Following the Public Pound section of this report almost all of the ALEOs undertake services which have been greatly affected by COVID-19. The ALEOs have required support from the Council due to the significant impact on their business. The September report to Finance and Resources set out the latest position:

### Lothian Buses (£12million cost to the Council)

136. Passenger numbers fell by 90% during lockdown and have only recovered to 60% of normal levels. Significant losses were incurred by the company only partially met by Scottish and UK Government support. Council support was required and in addition two years of an anticipated £6million dividend receipt per annum from the company was withdrawn.

### Edinburgh Leisure (£6million cost to the Council)

137. The closure of all facilities during lockdown and the phased reopening from

September 2020 meant significant losses have been incurred by the charity.

### Edinburgh Trams (£6million cost to the Council)

138. Passenger numbers fell by 98% during lockdown and still remain 75% below budgeted levels. Scottish Government funding was confirmed and additional discussions are taking place with Transport Scotland for further support. However the net cost to the Council is still estimated at £6million.
139. There are also on-going discussions regarding any additional support required for Transport for Edinburgh, Edinburgh International Conference Centre and Capital Theatres (comprising the Kings Theatre Festival theatre and The Studio) all of which have been significantly impacted by the pandemic.

### Edinburgh Integration Joint Board (EIJB)

140. The Council approved to pass on in full the £8million increase in health and social care monies received via the Scottish Government's budget. This represented a 3.8% increase over the 2019/20 budget with the Council's initial financial offer to the EIJB totalling £226million for 2020/21. Following the initial Council budget approval, a further £95million across Scotland was identified for local authorities. The Council approved to allocate £2million of its £7.4million share to the EIJB. Additional funding of £1.2million has been confirmed in respect of the additional cost of the 3.3% Living Wage increase and discussions are on-going with the Scottish Government in relation to an

estimated funding gap of £3.4m. Despite this significant investment, substantial savings require to be delivered in year to maintain financial balance.

141. The EIJB's financial plan for 2020/21 recognises a savings requirement of £15.9million, of which detailed savings plans totalling £11.91million have been identified. Work is still ongoing to quantify the short- and medium-term impact of COVID-19 on EIJB's financial position and delivery of savings plans and the development of a medium term financial strategy has been further delayed as a result. 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 monitor the in-year position and develop medium term financial plans.

## Capital investment programme

142. The Council's Capital Budget Strategy 2020-2030 was approved in February 2020 as part of the budget process. It was subsequently consolidated with other key strategies into the Council's Capital Strategy which was approved by Council in March 2020. The strategy sets out a capital plan of £2,324.8million to 2029/30. The strategy highlights that £154.602million is unfunded and will require the Council to find additional revenue savings in future years, or lead to projects having to be removed from the capital investment programme or delayed.
143. Significant general fund capital projects within the strategy include:
- Wave 4 Schools

- Asset management works
- Infrastructure for population growth
- Trams to Newhaven
- Investment in carriageways and footways
- New schools and extensions
- St James Infrastructure Assets and Picardy Place
- Millerhill Waste Facility
- North Bridge Structural Works

144. COVID-19 however has significantly impacted on the delivering of the plan within the timescales and budgets previously planned. While the full impact on the programme is not yet known, the Council has forecast a net slippage position of £171million in 2020/21 on the general fund capital programme (with the approved budget for 2020/21 being £449.835million).

## Housing revenue account

145. The Council's housing revenue account five year budget strategy is underpinned by the following key strategic documents:
- Five year business plan: sets out planned investment of £2.5billion over a ten year period. Assumes a 2% annual increase in rents.
  - Thirty year business plan
  - Five year capital investment programme
  - A Rapid Rehousing Transition Plan (RRTP)
  - Mixed Tenure Improvement Strategy



- Strategy Housing Investment Plan (SHIP).
146. As reported to Housing, Homelessness and Fair Work Committee in September 2020, the HRA is forecasting a balanced position in 2020/21.
147. The HRA 10 year investment strategy and five-year capital programme set out planned capital investment of £910.245million over the next five years, rising to £2,457.997million over 10 years.
148. The capital budget for 2020/21 has been revised from the initial approved budget of £96.468million to £56.969million largely due to COVID-19.

# Financial management

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



The Council had appropriate arrangements in place for managing its financial position during 2019/20. It did however report a net overspend of £4.9million for 2019/20 which was met from an unplanned drawdown of earmarked reserves. A planned, favourable outturn position was impacted by £8.4million of COVID-19 related expenditure. The approved 2019/20 budget was predicated on the delivery of £38.7million of directorate-specific and corporate savings. 77% of approved savings by value were delivered.

The City of Edinburgh Council's level of unearmarked reserves is 1.37% of expenditure. It is unlikely that this will be sufficient to deal with its future financial challenges. In response to the additional pressures COVID-19 presents, the Council has already committed to use £19.6million of earmarked reserves.

Around 94% of the general fund capital programme and 103% of the HRA programme was delivered in 2019/20.

## Financial performance

149. The 2019/20 Comprehensive Income and Expenditure Statement shows that the Council spent a total of £2billion on the provision of public services and recorded an accounting deficit of £10.665million. The accounting deficit is partly technical as it includes elements of income and expenditure that need to be accounted for to comply with the Code of Practice on Local Authority Accounting (the Code), and which are subsequently adjusted

to show their impact on statutory Council reserves.

150. The key measure of performance in the year is the movement in the Council's general fund balance. Following the required adjustments, the net impact on the general fund is a decrease of £24.733million to £120.112million. In total, cash backed (useable) reserves held by the Council increased by £46.257million in the year to £289.140million.

### Movement in the Council's useable reserves per the Annual Accounts 2019/20

	2019/20 £million	2018/19 £million	Movement £million
General Fund	120.112	144.845	(24.733)
Housing Revenue Account	0	0	0
Renewal and Repairs Fund	29.748	26.346	3.402
Capital Fund	48.935	55.908	(6.973)
Capital Grants Unapplied Account	28.452	15.784	12.668
Donated Assets Reserve	61.893	0	61.893
<b>Total useable reserves</b>	<b>289.140</b>	<b>242.883</b>	<b>46.257</b>

151. In 2019/20 £106.185million of the general fund balance was earmarked with the remainder representing an unallocated general fund of £13.927million. The unallocated general fund equates to 1.37% of the annual budgeted net expenditure.

152. The Council reviews its reserves policy on an annual basis, taking into account its known commitments. Earmarked General Fund Reserves are used for known future expenditure requirements. Unearmarked General Fund Reserves are held to cover unforeseen circumstances. The

Council can use some of the earmarked reserves flexibly if policies or commitments change.

153. In 2019/20, the Council applied a drawdown of earmarked reserves to address its year-end deficit on the general fund (£4.907million). This means that those earmarked reserves can no longer be used for the Council's original intended purpose. The table below illustrates which earmarked reserves were applied:

	To fund year-end deficit £million	Balance at 31 March 2020 £million
Dilapidations Fund	2.000	3.227
Workforce management	2.907	13.358

154. The Accounts Commission's Local Government Overview Report states that councils typically set their unearmarked reserves at between 1% and 4% of net expenditure. The City of Edinburgh Council's level of unearmarked reserves is 1.37% of expenditure. It is unlikely that this will be sufficient to deal with its future financial challenges. In response to the additional pressures COVID-19 presents, the Council has already committed to use £19.6million of earmarked reserves to meet the estimated deficit (paragraph 131).

## Revenue performance against budget

155. The Council reported a net overspend of £4.907million for 2019/20. A

planned, favourable outturn position was impacted by £8.4million of COVID-19 related expenditure. The most significant impact was the loss of a £6million anticipated dividend from Lothian Buses and a reduction in parking income (£1.3million).

156. The approved 2019/20 budget was predicated on the delivery of £38.7million of directorate-specific and corporate savings. 77% of approved savings by value were delivered.

## Housing revenue account (HRA)

157. The balance on the HRA is nil. In line with the HRA Business Plan, at the end of 2019/20 the HRA was balanced after making a contribution of £7.477million towards in-year capital investment.

## Capital expenditure

158. During 2019/20, the Council reported total capital additions of £390million; of which £278million were general fund additions and £112million were housing revenue account (HRA) additions. In so doing the Council delivered on 94% of the revised general fund capital programme and 103% of the HRA revised capital programme.

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

- Early years programme and rising school rolls projects
- National Housing Trust (NHT)
- Edinburgh Living LLPs
- Major infrastructure projects

160. Acceleration in the programme of Asset Management Works however

significantly offset the slippage in these projects.

## Treasury management

161. For the first time since 2012, the Council borrowed a significant level of funds (£236million) from the Public Works Loans Board (PWLB). The Council's debt outstanding increased during the year due to the new borrowing, but the interest cost for the year was lower than 2018/19. At 31 March 2020, the Council's debt was £37million below its Capital Financing Requirement.
162. Borrowing was undertaken during 2019/20 for the following:
- Edinburgh Living (£16.3million); borrowing was carried out to match the capital advances and loans made to Edinburgh Living MMR LLP for the acquisition of affordable housing;
  - The Council's inverse LOBO loans were repaid prematurely and re-financed with a loan from PWLB (£40million)<sup>4</sup>;
  - Trams to Newhaven (£150million)
  - Housing Revenue Account (£30million)

## Systems of internal control

163. We have evaluated the Council's key financial systems and internal financial controls to determine whether they are adequate to prevent material misstatements in the annual accounts. Our approach includes documenting the processes and key internal financial controls within the Council's

key financial systems and performing walkthrough testing to confirm our understanding of those systems.

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

## Internal audit

165. 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.
166. To avoid duplication of effort and to ensure an efficient audit process we have taken cognisance of the work of internal audit.

## Prevention and detection of fraud and irregularity

167. In accordance with the Code of Audit Practice, we have reviewed the arrangements for the prevention and detection of fraud and irregularity. Overall, we found the Council's arrangements to be sufficient and appropriate.
168. 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,

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<sup>4</sup> A premium was repayable on redemption of the inverse LOBO loans of £46.9million.

- communities and businesses in an extremely difficult time.
169. The report identifies 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.
170. In response, the Council provided a summary position in regard to these six risk areas:

Fraud risk area	Council position
Governance	Business continuity protocols were reviewed.  Internal Audit has not been used to cover operational roles.
Procurement	Enhancements to existing controls were introduced at the onset of the pandemic in recognition of increased risk.
COVID-19 funding	Risk assessment exercise performed.  Regular staff training provided on the fraud risks in relation to provision of funding.  Updates from the IRRV in relation to emerging scams circulated to relevant staff.
Payroll	No relaxation or suspension of controls.
IT and cyber crime	Provision of training to all staff in the form of E-learning on the subject of phishing scams and audit logs to prevent misuse of system access.  Security Incident Management procedures in place available to all staff through the Council's intranet.
Health and wellbeing	Wellbeing programme in place  Signposting to further sources of support for staff during the pandemic.

## National Fraud Initiative (NFI)

171. The National Fraud Initiative (NFI) is a counter-fraud exercise co-ordinated by Audit Scotland working together with a range of Scottish public bodies to identify fraud and error.
172. The most recent NFI exercise commenced in October 2018 and as part of our 2018/19 audit we monitored the Council's participation in NFI. We submitted an assessment of the Council's participation in the exercise to Audit Scotland in February 2020. Overall we concluded that the Council's arrangements with respect to NFI are satisfactory.

# 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.



The Council modified its political management arrangements in August 2019 to further improve its decision-making effectiveness. In March 2020 and May 2020 in response to the COVID-19 pandemic, emergency arrangements were put in place to deal with the significant issues facing the Council. In our view the Council has responded promptly and effectively in its political management arrangements to the COVID-19 crisis.

In response to a recommendation within our 2018/19 Annual Report on the Audit, the Council agreed by January 2020 to review its existing protocols with elected members and senior management to ascertain where improvements were required. The Council is currently reviewing its member/officer protocol. COVID-19 has delayed work on this review.



## Governance and transparency

### Governance arrangements

173. The Council's political management arrangements were modified in August 2019. Executive committee remits have been rebalanced and the former Corporate Policy and Strategy Committee given a stronger corporate, cross-cutting role with a refreshed membership including all executive committee conveners.
174. 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.
175. 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 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.
176. 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 cycle was changed to monthly. It was agreed that all meetings would be held virtually until December 2020 when the political management arrangements would be reviewed.
177. The Council has responded promptly and effectively in its political management arrangements to the COVID-19 crisis.
178. During our 2018/19 audit, it became clear that the arrangements for sharing sensitive information between some councillors and the leadership team required to be reviewed. 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.
179. 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.
180. The Council agreed by January 2020 to review its existing protocols with elected members and senior management to ascertain where improvements were required. The Council is currently reviewing its member/officer protocol. The review included a discussion and survey of the majority of political group leaders, facilitated by the Improvement

Service. The review identified areas for improvement, including access to information and clarity of roles and responsibilities. COVID-19 has delayed work on the review. The Council also now intends to take account of the Scottish Government's planned review of the Code of Conduct for Councillors, which was again delayed by COVID-19 but commenced on 19 October (refer to prior year action plan at Appendix 5).

## Following the public pound

181. 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 ALEO and the quality of services the ALEO provides. The Council needs to hold ALEOs to account for their use of public funds and should have sufficient governance arrangements in place to do so.
182. A Council Governance Hub, chaired by the Chief Executive, was established to scrutinise the management of the Council's ALEOs, seek assurance over the delivery of services and to ensure that the Council is aware of any risks.
183. In February 2020, the Council changed the scrutiny arrangements for its ALEOs to provide greater clarity and avoid duplication:
184. The Council's executive committees will scrutinise the future direction of each ALEO, service performance, including progress against service level agreements, and any emerging issues.

185. The GRBV Committee will scrutinise the ALEOs' financial performance, including the annual accounts, and any risks affecting the Council or any individual ALEO.
186. The Council had planned a wider review of its ALEOs during 2019/20 but this was delayed by COVID-19.
187. Almost 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 sustainability section of this report the Council anticipates significant implications for its income. The Council's current estimate of lost income and other required financial support is £27million. 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.

## Standards of conduct

188. In our opinion, the Council's arrangements in relation to standards of conduct and the prevention and detection of bribery and corruption are adequate.

## Risk management

189. 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.

190. The Council has 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.

191. The Council has restructured the team responsible for risk management. It has increased oversight by the Head of Legal and Risk and the Chief Internal Auditor, along with transferring more responsibility for risk management from the second to the first line of defence.

192. 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.

193. The risk management plan drawn up in April 2020 included a total of nine strategic or high level COVID-19 risks, underpinned by 55 sub risks. The nine strategic risks are now supported by a further 20 sub risks identified; assessed; and recorded during the course of the pandemic.

194. The original and current risk assessment ratings 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	Original Risk	Current Risk
Health and safety of citizens and service users.	Critical	High
Council response and governance	High	Medium
Health and availability of employees to deliver critical services	Critical	High
Council premises and security	Critical	Medium
Supply chain risk	Critical	Medium
Technology and information	Critical	Medium
Financial and economic risk	Critical	Critical
Fraud and serious organised crime risk	Medium	Low
Legal and commercial risk	Medium	Low

195. As part of our 2019/20 work we undertook a detailed review of the Council's risk management arrangements. This work was undertaken pre-COVID-19.

196. Our review identified that there is scope for the Council to further develop its approach to risk management. We concluded that at the CLT level risk is generally well managed, with appropriate articulation of the corporate risks and appropriate discussion. However, we identified two high risk areas to further improve processes.

197. There is a need to utilise information within training materials to clearly articulate how the risk framework should operate in practice, with appropriate training attended by relevant staff.

198. We also noted that risk registers have not been completed for all services, with capacity of the teams to devote sufficient time to this activity being a key limiting factor.

199. Our report was presented to the GRBV committee in August 2020. The Council accepted that capacity and knowledge at lower levels of the organisation were limited, meaning that not all risks may be clearly identified and/or addressed. Relevant risk management training has been provided to those within the second and third lines of defence and the Council plans to deliver training to relevant staff within the first line of defence.

# 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.



Performance is measured annually and against other Scottish authorities. 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. The latest 2018/19 information shows that the Council performs better than other councils in around half of national benchmarking indicators.

Reporting against the new Statutory Performance indicators Direction requires improvement. In particular the Council needs to address the new requirements of reporting progress against its duty of Best Value.

## Value for money

### Public Performance Reporting 2019/20

200. It is the duty of a local authority to make arrangements for reporting to the public on the outcomes of the performance of its functions.
201. Public performance reporting is a fundamental requirement of Best Value. Local authorities must ensure that in approaching public performance reporting they: engage stakeholders, give an honest and balanced picture plus, information is published in a timely and engaging manner.
202. The Council's Annual Performance Report for 2019/20 was published in August 2020 and is available on the Council's web-site. It reports performance against a number of themes over the three years to 2019/20. Targets are set for all indicators and a RAG traffic lights systems sets out whether the indicator is on or ahead of target, within 5% of target or greater than 5% behind target.
203. 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. The latest 2018/19 information shows that the Council performs better than other councils in around half of national benchmarking indicators.

### Local Government Benchmarking Framework

204. The Council is required to report its public performance in line with the Local Government Benchmarking Framework. The 2018/19 results were reported to the Corporate Policy and Sustainability Committee in August 2020. Whilst this report is available to the public we recommend that the analysis is published on the Council's web-site.

### Statutory Performance indicators

205. The Accounts Commission has a statutory power to define performance information that local authorities have to publish. The 2018 Direction, which applies for the first time in 2019/20 was enhanced to make more of a distinction for the public in the Council setting out and reporting on progress against outcomes agreed with partners and communities, reporting the performance the Council has prime responsibility for and reporting against the Council's best value duty.
206. There are two Statutory Performance Indicators:  
  
SPI 1: Each council will report a range of information setting out:
  - Performance in improving local public services provided by both (i) the council itself and (ii) by the council in conjunction with its partners and communities; and
  - Progress against the desired outcomes agreed with its partners and communities.

SPI 2: Each council will report a range of information setting out:

- The council's assessment of how it is performing against its duty of Best Value and how it plans to improve against this assessment.
- Audit assessments of its performance against its Best Value duty and how it has responded to these assessments.
- In particular how it (in conjunction with its partners as appropriate) has engaged with and responded to its diverse communities.

207. 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:

1. Vision and leadership
2. Governance and accountability
3. Effective use of resources
4. Partnerships and collaborative working
5. Working with communities
6. Sustainability
7. Fairness and equality

and that these are published as part of the Annual Performance Report.

Action plan point 4

# Appendices





## Appendix 1: Respective responsibilities of the Council and the Auditor

### Responsibility for the preparation of the annual accounts

The Council is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has responsibility for the administration of those affairs. The Head of Finance has been designated as that officer within City of Edinburgh Council.

The Head of Finance is responsible for the preparation of the Council's annual accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

#### **In preparing the annual accounts, the Head of Finance is responsible for:**

- selecting suitable accounting policies and applying them consistently;
- making judgements and estimates that are reasonable and prudent;
- complying with legislation; and
- complying with the Code.

#### **The Head of Finance is also responsible for:**

- keeping proper accounting records which are up to date; and
- taking reasonable steps for the prevention and detection of fraud and other irregularities.

## Auditor responsibilities

### We audit the annual accounts and give an opinion on whether:

- they give a true and fair view in accordance with applicable law and the 2019/20 Code of the state of the affairs of the Council and its group as at 31 March 2020 and of its income and expenditure for the year then ended;
- they have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2019/20 Code;
- they have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, the Local Authority Accounts (Scotland) Regulations 2014 and the Local Government in Scotland Act 2003;
- the use of the going concern basis of accounting in the preparation of the financial statements is appropriate or the Head of Finance has disclosed in the financial statements any identified material uncertainties that may cast significant doubt about its ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue;
- the audited part of the Remuneration Report has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014;
- the information given in the Management Commentary is consistent with the financial statements and has been prepared in accordance with statutory guidance issued under the Local Government Scotland Act 2003; and
- the information given in the Annual Governance Statement is consistent with the financial statements and has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016).

### We are also required to report, if in our opinion:

- adequate accounting records have not been kept; or
- the financial statements and the audited part of the Remuneration Report are not in agreement with accounting records; or
- we have not received all the information and explanations we require for our audit; or
- there has been a failure to achieve a prescribed financial objective.

## Independence

International Standard on Auditing (UK) 260 "Communication with those charged with governance" requires us to communicate on a timely basis all facts and matters that may have a bearing on our independence.

### Group non-audit services

Azets provides taxation services to CEC Holdings Group, Transport for Edinburgh Group, Edinburgh Living MMR LLP, Telford NHT LLP, Energy for Edinburgh and CEC Recovery Limited. All tax services are provided by independent partners and staff who have no involvement in the audit of those financial statements. The total value of taxation services provided is approximately £51,500.

### Confirmation of independence

We confirm that we will comply with FRC's Ethical Standard. In our professional judgement, the audit process is independent and our objectivity has not been compromised in any way. In particular there are and have been no relationships between Azets and the Council, its elected members and senior management that may reasonably be thought to bear on our objectivity and independence.

## Appendix 2: Our approach to the wider scope audit

Our approach to the wider scope audit (as set out in our 2019/20 External Audit Plan) builds upon our understanding of the Council which we developed from previous years, along with discussions with management and review of minutes and key strategy documents.

During our audit we also considered the following risk areas as they relate to the Council:

- Fraud and corruption in respect of the procurement function
- EU withdrawal

Overall we concluded that the Council has appropriate arrangements in place in respect of these areas as noted below:

### Fraud and corruption in respect of the procurement function

As part of our 2019/20 audit we undertook an audit of procurement arrangements at the City of Edinburgh Council, concentrating on the arrangements preventing fraud and corruption in procurement.

The Council spent £844million between November 2018 and October 2019 on the procurement of goods and services including revenue and capital purchases. The procurement arrangements are set out in the Council's Contract Standing Orders dated 27 June 2019 in compliance with section 81 of the Local Government (Scotland) Act 1973. These standing orders require to be interpreted in accordance with the key principles of transparency, equal treatment, non-discrimination and proportionality.

We tested a sample of payments that the Council had made between November 2018 and October 2019 in relation to invoices, contracts and authorisation levels as per the scheme of delegation.

Our work focused on the following areas:

- Procurement purchases outside agreed frameworks.
- Compliance with thresholds set out in relevant legislation, delegated financial authority limits and the validity of reasons for extension of contracts.
- Cost, authorisation, segregation of duties and conflicts of interest.
- Monitoring the spend per contract including agreeing prices charged to contracts/suppliers' price list

We also considered the openness of the tender process, compliance with tender timetables, scoring criteria, the selection process, and the processes for awarding the contract to the successful party.

Overall, we have concluded that the arrangements for preventing and detecting fraud in procurement at City of Edinburgh Council are satisfactory.

The tendering process is in accordance with the contract thresholds set by the Procurement Reform (Scotland) Act, 2014 and the Public Contracts (Scotland) Regulations 2015. These thresholds applied from 1st April 2016. The procurement arrangements are compliant with the Council's Contract Standing Orders and with the key principles of transparency, equal treatment, non-discrimination, and proportionality.

The Council scored highly in the Procurement and Commercial Improvement Programme (PCIP) at 87% placing it in the F1 (highest performing) band according to the Scottish Government bandings.

Our detailed testing did not identify any fraudulent procurement transactions although a number of weaknesses were identified which the Procurement Team were already aware of. We found there was a weakness in tracking expenditure per contract. In the Council's Oracle system, the purchase order and invoice cannot be linked to the contract, therefore the year-to-date spend on the contract cannot be reported or monitored unless done manually by the budget holder. This is further complicated by the fact that some suppliers have more than one contract.

Where weaknesses were identified we agreed with management action to remedy these.

### **Impact of EU withdrawal**

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 has taken priority over the past six months, however, there has not been a significant change in circumstances in regard to the exit from the EU to respond to and 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 will meet on 13 October 2020 to review the risk register and identify whether any further changes are recommended.

## Appendix 3: Best Value Programme

In October 2016, Audit Scotland introduced a new approach to auditing Best Value in Scottish Councils. The new approach continues to audit against the statutory duties but has an increased focus on the pace and depth of improvement at each council. Each council will be subject to a full Best Value Assurance report over a 5 year period.

Under the Code of Audit Practice (May 2016), and supplementary guidance issued by Audit Scotland, we are required to consider and make judgements on 8 Best Value themes over the course of our appointment. This work will build our assessment of the Council's approach to demonstrate Best Value, which will help to risk assess and inform the coverage of the full Best Value Assurance Report. In future years we will review progress being made by the Council against the Best Value findings. The table below outlines our coverage to date and plans for the remaining 2 years of our appointment.

Wider Scope Dimension	Year 1 2016-17	Year 2 2017-18	Year 3 2018-19	Year 4 2019 -20	Year 5 2020 - 21	Year 6 2021 - 22
Financial Management / Sustainability	Effective use of resources			Full Best Value review undertaken	Follow-up of BV report	Follow-up of all wider scope and BV reports
	Financial Governance Financial and service planning	Financial governance Resource management				
Governance and transparency	Governance & accountability					
	Governance, decision making and scrutiny Member training and development	Governance, decision making and scrutiny	Managing risk effectively	Full Best Value review undertaken	Follow-up of BV report	Follow-up of all wider scope and BV reports
		Partnership and collaborative working	Community responsiveness			
		Fairness and equality				
Value for Money		Performance outcomes and improvement Improvement		Full Best Value review undertaken	Follow-up of BV report	Follow-up of all wider scope and BV reports

## Appendix 4: Accounts Commission Strategic Priorities

The Accounts Commission, within its Strategy and Annual Action Plan sets out its plans and priorities to fulfil its oversight and scrutiny role, with the overriding aim to hold councils to account for the pace, depth and continuity of improvement facilitated by effective governance. We aim to support the Accounts Commission’s work by using our annual audit work to assess how the Council is progressing against the Commission’s priorities. The Strategic Plan for 2019-24 [https://www.audit-scotland.gov.uk/uploads/docs/report/2019/ac\\_strategy\\_plan\\_19-24.pdf](https://www.audit-scotland.gov.uk/uploads/docs/report/2019/ac_strategy_plan_19-24.pdf) contains five strategic priorities.

Our assessment against the priorities is outlined below.

2019/20 Strategic Priority	Our assessment
<p>Having clear priorities with a focus on outcomes, supported by effective leadership and long term planning (governance and transparency).</p>	<p>The Council’s Business plan: “A Programme for the Capital: The City of Edinburgh Council Business plan 2017/22” was approved in August 2017.</p> <p>The Council has also led on the development of a 2050 City Vision which was finalised in 2020 after considerable public consultation.</p> <p>The Council has developed an Adaptation and Renewal Programme in response to Covid-19. The programme sets out how the council plans to: protect its staff and services; help rebuild Edinburgh’s economy; and support vulnerable residents.</p> <p>The ambitious plans within these documents are not set out in an overarching strategic plan and the Council acknowledges that it needs to set out its priorities more clearly.</p> <p>The Council has a number of longer-term financial plans including a three year Financial Strategy and a ten year Capital Investment Programme. A three-year revenue budget is at the lower end of what Audit Scotland would consider as adequate medium-term financial planning.</p>
<p>The strategic appraisal of options to reshape services in line with priorities. This should consider good practice, innovation and</p>	<p>The Council does consider options appraisal for major capital programmes and projects e.g. the tram extension. Options are also included in certain other areas such as the Council’s consideration of political management arrangements. However formal option appraisal for the</p>

2019/20 Strategic Priority	Our assessment
<p>collaborative working with partners (financial sustainability).</p>	<p>delivery of services is patchy and this is an area the Council needs to improve on.</p>
<p>Ensuring that members and officers have the right knowledge, skills and support to design, develop and deliver effective services in the future (financial sustainability).</p>	<p>New members to the Council go through a comprehensive training programme. During a Council term any new members also receive this training. Workshops are held for elected members as and when required to ensure knowledge and skills support is available for complex or technical areas such as planning. Members' attendance at this training has been mixed.</p>
<p>Empowering local communities and involving them in the design and delivery of local services and planning for their local area (governance and transparency).</p>	<p>The Council has established close working relationships with a range of partners but has not yet established effective community planning governance arrangements. The Edinburgh Partnership has struggled to develop effective Locality Improvement Plans. Revised new plans were due to be finalised in June 2020 but this has been delayed by Covid-19.</p> <p>Since the Community Empowerment Act came into force in 2015 there have been two asset transfers completed with a further six approved by the Council and awaiting legal completion.</p>
<p>Reporting the body's performance in a way that enhances accountability to citizens and communities, helping them contribute better to the delivery of improved outcomes.</p>	<p>The Annual Performance Report reports annual performance across a range of KPIs from one year to the next. This was published on the Council web-site in September 2020. The Council also measures and reports performance against other local authorities as part of the Local Government Benchmarking Framework. Whilst there is a link to this on the Council web-site there is no summary of Edinburgh's performance.</p> <p>The 52 Coalition Commitments are part of the Council's performance reporting. The status of each commitment is reported annually to Council and 6-monthly to Executive Committees.</p> <p>The performance reports to the Council's senior leadership team include trends and performance against targets and allow managers to agree actions to address performance issues. Performance reporting to elected members still requires some improvement for example the inclusion of</p>



<b>2019/20 Strategic Priority</b>	<b>Our assessment</b>
	specific targets and performance measures to allow monitoring of progress. The Council plans to develop a new performance management framework as part of its Adaptations and Renewal Programme.

## Appendix 5: Action Plan

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

### Action plan grading structure

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

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

## Current year action plan

Action plan point	Issue & recommendation	Management comments
1. Sources of estimation uncertainty – sensitivity analysis	IAS 1 'Presentation of Finance Statements', requires entities to disclose information about assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities in the next financial year. The standard notes that the nature and extent of the information provided may vary according to the nature of the circumstances but includes as an example of the type of disclosures to be made, the sensitivity of carrying amounts to the methods, assumptions and estimates underlying their calculation, including the reasons for the sensitivity.	To ensure full compliance with IAS 1 'Presentation of Finance Statements', a sensitivity analysis will be undertaken to help users of the financial statements understand the judgements made about any sources of estimation uncertainty. Due to the onset of COVID-19 lockdown restrictions around the time of the 2019/20 Annual Accounts closedown, there was insufficient information available to conduct this analysis for these accounts.
Rating		
Medium		
Paragraph Ref		
33	The Council has disclosed in its annual accounts, in relation to property valuations that 'the range of uncertainty has not been identified and therefore are unable to quantify the potential impact on the accounts' and has therefore not disclosed any sensitivities on the property valuations.	<b>Responsible officer:</b> Senior Accountant, Capital and Major Projects, Finance  <b>Implementation date:</b> March 2021

Action plan point	Issue & recommendation	Management comments
	<p><b>Risk</b></p> <p>There is a risk of non-compliance with accounting standards.</p> <p><b>Recommendation</b></p> <p>In future years, we would encourage the Council to carry out a sensitivity analysis to help users of the financial statements understand the judgements management have made about any sources of estimation uncertainty.</p>	

Action plan point	Issue & recommendation	Management comments
2. Members expenses	The Remuneration Report discloses salaries and expenses paid to elected members. The Council also publishes this information in detail on its website. The Council, in preparing this publication, uses source records from, for example, individual elected members claims.	The need to carry out such a reconciliation is acknowledged and a corresponding procedure will be put in place to ensure this is undertaken on an at-least six-monthly basis.  <b>Responsible officer:</b> Election and Members' Services Manager
Rating		
Medium		
Paragraph Ref		
118	We noted during our audit, differences between the published information on the Council's website and the ledger. While we concluded that this is not material to the annual accounts we would recommend that the Council carry out regular reconciliations between the ledger and the published information on elected members remuneration and expenses.	<b>Implementation date:</b>  March 2021

Action plan point	Issue & recommendation	Management comments
3. Long term financial plan	<p>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.</p>	<p>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.</p> <p><b>Responsible officer:</b> Head of Finance</p> <p><b>Implementation date:</b> TBC</p>
Rating		
Medium		
Paragraph Ref		
126		

Action plan point	Issue & recommendation	Management comments
4. Public Performance Reporting	<p>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.</p>	<p>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.</p>
Rating		
Medium		
Paragraph Ref		
207		
<p><b>Responsible officer:</b> Change and Delivery Manager (Data, Performance and Business Planning), Strategy and Communications</p>		
<p><b>Implementation date:</b> September 2021</p>		

## 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
In progress	High	1	4	2
	Medium	-	-	1
Complete	High	-	-	2
	Medium	2	1	3
<b>Total</b>		<b>3</b>	<b>5</b>	<b>8</b>

## Actions outstanding or in progress from previous years

### 2018/19 recommendations which are in progress in 2019/20

#### Elected member and officer protocols

Initial rating	Recommendation	Management comments
Medium	Councillors and the senior leadership team should review the current protocols to ensure these are still appropriate and that both members and officers can comply fully with their responsibilities.	<p>The Council has clear protocols for access to documentation and these are outlined in the member/officer protocol. This document is set to be reviewed in 2019 and an exercise will be carried out with elected members and senior management to ascertain where the protocol needs to be improved including access to documentation.</p> <p><b>Responsible officer:</b> Democracy, Governance and Resilience Senior Manager</p> <p><b>Implementation date:</b> January 2020</p>
Current status	Update	
In progress	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.	



## Implementation of audit recommendations

Initial rating	Recommendation	Management comments
<p><b>High</b></p>	<p>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.</p> <p>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.</p>	<p>While significant progress has been made in verifying historic and/or re-opened findings, it is acknowledged that more needs to be done to implement and evidence completion of some more recent audit actions. To this end, Directorate action plans have been developed and are subject to regular monitoring and CLT consideration including, in the case of more complex findings, opportunities to provide interim or alternative assurance with respect to the issues concerned.</p> <p><b>Responsible officer:</b> Chief Executive and all Executive Directors</p> <p><b>Implementation date:</b> On-going</p>
Current status	Update	
<p><b>In progress</b></p>	<p>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.</p> <p>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.</p>	

## Service performance

Initial rating	Recommendation	Management comments
<p><b>High</b></p>	<p>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.</p> <p>Significant improvements are required, including the pace of change in implementing such improvements</p>	<p><b>Adult Social Care Services</b></p> <p>The EIJB is continuing to work with partners to support the delivery of sustainable improvement. The recent establishment of a Performance and Delivery Committee should provide clearer oversight, more focussed scrutiny and regular progress updates.</p> <p><b>Responsible officer:</b> Chief Officer, Health and Social Care Partnership</p> <p><b>Implementation date:</b> On-going</p> <p><b>Environmental Services</b></p> <p>A number of improvement actions have been identified and are planned for implementation as follows:</p> <p>Commence operation of the two new Waste Transfer Stations in the East (Seafield) and West (Bankhead) of the city to improve waste collection reliability (Head of Place Management, October 2019);</p> <p>Finalise the design of the new communal waste and recycling collection service (Head of Place Management, March 2020)</p> <p>Complete the rollout of the Routesmart system to ensure that all waste and recycling routes are delivered and monitored for effectiveness (Waste and Cleansing Manager, March 2020).</p> <p><b>Homelessness</b></p> <p>Having already secured more than 500 shared house spaces, we are actively working towards identifying alternative forms of accommodation such as</p>

Initial rating	Recommendation	Management comments
<p style="background-color: red; color: black; text-align: center; padding: 10px;">In progress</p>		<p>temporary furnished tenancies to meet the targets set in the RRTP.</p> <p>Efforts are also continuing to facilitate a steady supply of housing through the housebuilding programme, rent deposit scheme, increased access to mid-market rent properties and increases in preventative work.</p> <p><b>Responsible officer:</b> Homelessness and Housing Support Senior Manager</p> <p><b>Implementation date:</b> On-going</p>
Current status	Update	
<p style="background-color: yellow; color: black; text-align: center; padding: 10px;">In progress</p>	<p>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.</p>	

## 2017/18 recommendations which are outstanding or in progress in 2019/20

### Property, plant and equipment

Initial rating	Recommendation	Management comments
High	<ul style="list-style-type: none"> <li>Instructions formally highlight the need to assess whether there is any indication of impairment. The valuer used the results of condition surveys performed in 2018/19 as a key source of evidence. Whilst we deem this to be an appropriate source of evidence, it only provides assurance over a proportion of the Council's operational estate and does not take cognisance of other sources of information, such as the level of repairs and maintenance required in the year. We would encourage the Council to further develop its procedures for assessing whether there has been an impairment.</li> </ul>	<p>The Operational Estate Manager is currently in discussions with Facilities Management regarding what data is available on repairs that could be used to improve the identification of impairments.</p> <p>Once this has been reviewed, we will look at ways to develop the final procedure and ensure that impairments are assessed in accordance with that procedure.</p> <p><b>Responsible officer:</b> Operational Estate Manager, Resources</p> <p><b>Implementation date:</b> TBC</p>
Current status	Update	
In progress	In 2019/20, we have used data available on repairs and maintenance to improve the identification of impairments. A formal procedure has been	

Initial rating	Recommendation	Management comments
[Yellow box]		put in place in accordance with that procedure and included within the Checklist for Asset Valuation Process.

## Common good asset register

Initial rating	Recommendation	Management comments
<p><b>High</b></p>	<p>The Council, in preparing the 2018/19 common good fund annual accounts should review the accounting policies for property, plant and equipment and heritage assets to ensure that:</p> <ul style="list-style-type: none"> <li>• The assets are classified correctly;</li> <li>• The appropriate valuation basis has been applied; and</li> <li>• Depreciation is applied dependent on the accounting policy and classification of the asset.</li> </ul>	<p>The 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.</p> <p>The Register will now be presented to the Finance and Resources Committee for approval on 26 September 2019 as part of the Common Good Annual Performance Report.</p> <p>Assets still under consideration comprise a schedule annexed to the Common Good Register. The Common Good status of these assets is currently being considered by legal counsel and the Council Solicitor and this is stated in the asset register.</p> <p>Annexing a list of "property still under investigation" complies with Scottish Government Guidance.</p> <p>Work on categorising civic regalia and artefacts that are assets of the Common Good fund is advancing well and the list is to be finalised at a future meeting of the Common Good Project.</p> <p>Those categorised as assets of the Common Good will be added to the register which is live on the Council's webpage.</p> <p><b>Responsible officer:</b> Principal Accountant (Corporate Accounts), Finance</p> <p><b>Implementation date:</b> March 2020</p>

<b>Current status</b>	<b>Update</b>
<b>In progress</b>	<p>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.</p> <p>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.</p> <p>Those categorised as assets of the Common Good will be added to the register which is live on the Council’s webpage.</p>

## Financial sustainability – Health and Social Care

Initial rating	Recommendation	Management comments
<b>High</b>	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.	<p>The EIJB Medium Term Financial Plan will be presented to the Board in December 2019 following the approval of the Strategic Plan 2019-2022.</p> <p><b>Responsible officer:</b> EIJB Chief Finance Officer</p> <p><b>Implementation date:</b> December 2019</p>
Current status	Update	
<b>In progress</b>	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.	



## Health and Social Care performance

Initial rating	Recommendation	Management comments
<b>High</b>	<p>Whilst there has been some improvement in performance, it remains too early to conclude whether this can be sustained. The approval of a new Strategic Plan should provide a framework for delivering real improvement however there is a danger that this is compromised by the significant financial challenges faced by the IJB in reaching a balance position.</p>	<p>The IJB is continuing to work with partners to support the delivery of sustainable improvement. The recent establishment of a Performance and Delivery Committee should provide clearer oversight, more focussed scrutiny and regular progress updates.</p> <p><b>Responsible officer:</b> Chief Officer, Edinburgh Health and Social Care Partnership</p> <p><b>Implementation date:</b> On-going</p>
Current status	Update	
<b>In progress</b>	<p>The committee conducted its first meeting in September 2019 and met bi-monthly until all committee meetings were suspended in April 2020.</p> <p>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.</p> <p>Performance reports are significant in length with the most recent committee report in excess of 60 pages. Whilst the 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.</p> <p>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</p>	

## 2016/17 recommendations which are outstanding or in progress in 2019/20

### Delayed discharges

Initial rating	Recommendation	Management comments
<b>High</b>	<p>Edinburgh has regularly had the highest number of delayed discharges of any Integration Authority in Scotland.</p> <p>We recommend that improving performance in this area remains a priority.</p>	<p>The IJB is continuing to work with partners to support the delivery of sustainable improvement. The recent establishment of a Performance and Delivery Committee should provide clearer oversight, more focussed scrutiny and regular progress updates.</p> <p><b>Responsible officer:</b> Chief Officer, Edinburgh Health and Social Care Partnership</p> <p><b>Implementation date:</b> On-going</p>
Current status	Update	
<b>In progress</b>	<p>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.</p> <p>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.</p> <p>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).</p> <p>Partnerships across Scotland managed to reduce delayed discharges, A&amp;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.</p>	

## Actions raised in prior year/s which have now been completed/closed

### Actions raised in 2018/19

#### Recommendation **Property, Plant and Equipment**

All key assumptions and estimates made in the valuation of council dwellings should be reviewed on an annual basis, with the outcome formally reported to the Council. The Council should consider performing interim check valuations of Council dwellings.

<b>Rating</b>	High	<b>Implementation date</b>	March 2020
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#### Complete

The HRA Asset Register takes account of the changes in housing stock and the valuation this year was uplifted by 4% based on the 2018/19 Action Plan recommendation.

From the beacons revalued, the average uplift in value in this sample was 4.36%. This was rounded down to 4% having compared it to market reports of changes in the housing market during the financial year.

The adjustment factor for the beacons sample was also reviewed. The average adjustment factor per this check is 40%, however, given the small sample size and relatively small change from the 38% adjustment factor introduced last year, we do not propose changing the adjustment factor for 2019/20 and have continued to use 38%.

#### Recommendation **Public Inspection Notice**

We highlighted issues with regards to the public inspection in 2017/18 and recommend the Council make arrangements to ensure full compliance in 2019/20.

<b>Rating</b>	Medium	<b>Implementation date</b>	June 2020 (for 2019/20 inspection process)
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#### Complete

While the onset of the pandemic resulted in a need to make significant changes to the inspection process, all key requirements were met within the requisite timescales.

## Actions raised in 2018/19

### Recommendation **Committee reporting**

In considering committee remits the Council considered committee statistics including the volume of reports being submitted to committees. We recommend that further consideration is given as to whether the content of reports can be improved in terms of their clarity and use of technology.

Rating	Medium	Implementation date	January 2020
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#### Complete

The Council reviewed its political management arrangements in August 2020 to respond to the pandemic. This identified that there had been a reduction in the total number of reports and the average number of pages (per report) considered by committees since the changes were made in 2019 to balance committee workload and amend the committee report template so it was clearer, took less resource and more effective.

The further use of technology was explored with an online report management system trialled by committee and service area staff. It is not considered that it is the right time, with the majority of office-based staff working from home, to be bringing in new processes in report management. Currently the potential benefits are outweighed by the challenges and also in the context of an improved position as reported in August 2020.

## Actions raised in 2018/19

### Recommendation Risk Management

We noted that risk no longer features as a standing heading on Council reports requiring decisions.

We recommend that is re-introduced to ensure it is properly considered in decision-making.

Rating	Medium	Implementation date	n/a
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#### Complete

The “risk” heading has been removed from the template but risk has not been removed as a key element of the content of the report. The stakeholder/community impact section includes engagement, equalities, risk, governance, health and safety, compliance and regulatory implications and report writers are required to cover these individual elements when preparing a report. The report writing guidance retains a section titled risk and authors are still required to cover risk in the same manner as before.

### Recommendation CGI contract management

Overall, the evidence received from CGI has not been sufficient to allow us to form an opinion on whether recommendations have been addressed. Based on the evidence that has been provided, there is limited evidence of progress against the majority of recommendations.

Whilst we are satisfied that audit is seen as an important element of the internal control framework by senior management and Councillors there needs to be a greater prioritisation of addressing issues raised by external audit across the Council.

Rating	High	Implementation date	December 2019
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#### Complete

Additional evidence requested was provided to Azets in September/October 2019.

While no formal closure note has been issued, from having liaised with Internal Audit colleagues, we understand there to be no outstanding issues.

### Actions raised in 2017/18

**Recommendation** The Council should ensure that arrangements are in place to regularly report to the Edinburgh Partnership on the delivery of outcomes.

<b>Rating</b>	Medium	<b>Implementation date</b>	December 2019
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#### Complete

A verbal update on the LOIP was provided at the Edinburgh Partnership Board on 18 December 2019, followed by submission of an annual progress report at its meeting on 17 March 2020. The agenda for this meeting was deferred, however, to accommodate discussion on the COVID emergency. The report was subsequently considered and agreed at the meeting on 29 September 2020. In terms of the Children's Services Plan this was considered by the Board on 24 September 2019, as was the Criminal Justice Outcome Improvement Plan. An annual report on the latter was also considered at the Board on 29 September 2020.

### Actions raised in 2016/17

#### **Recommendation Register of interests**

Our review of the Councillors' register of interests in 2018/19, identified a number of Councillors for which either not all interests had been disclosed or for which the registers had not been updated to reflect the fact that the interests had ceased

<b>Rating</b>	Medium	<b>Implementation date</b>	Ongoing
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#### Complete

Records of the Register of Interests are now kept and published through Modern Gov. Reminders are provided to elected members and staff directly supporting members are aware of the responsibilities to register interests timeously. It does, however, remain the responsibility of individual elected members and not the Council.

**Actions raised in 2016/17**

**Recommendation Publication of the Council’s Corporate Governance framework self-assessment**

We continue to note that there has been no change to this process, which means that the GRBV has not had the opportunity to consider whether the assurance statements reflect their understanding of risk or consider the adequacy of planned governance improvements.

<b>Rating</b>	<b>Medium</b>	<b>Implementation date</b>	December 2019
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<b>Complete</b>	Changes to process and an adherence to timescales meant the Annual Governance Statement was considered by the Governance, Risk and Best Value Committee at its first opportunity on 9 June 2020.
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# 2019/20

# AUDITED ANNUAL ACCOUNTS



# The City of Edinburgh Council

## Annual Accounts

Year to 31 March 2020

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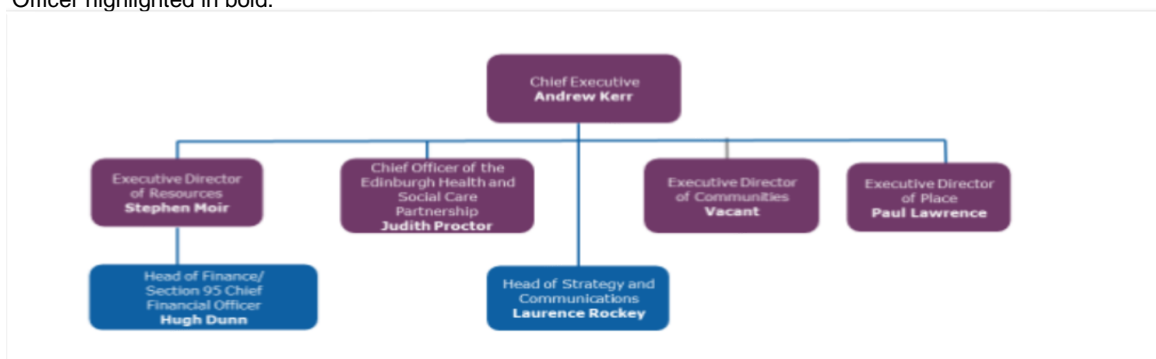
# MANAGEMENT COMMENTARY

## 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 2020. They have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 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 537,000 citizens across the 102 square mile Council area. As of March 2020, the Council employed 14,754 FTE staff, compared to 14,736 FTE in March 2019.

The structure of the Council continues to evolve but the Corporate Leadership Team (CLT) organisational chart and tables below indicate the latest position, with the constituent services with an Executive Director or Chief Officer highlighted in bold.

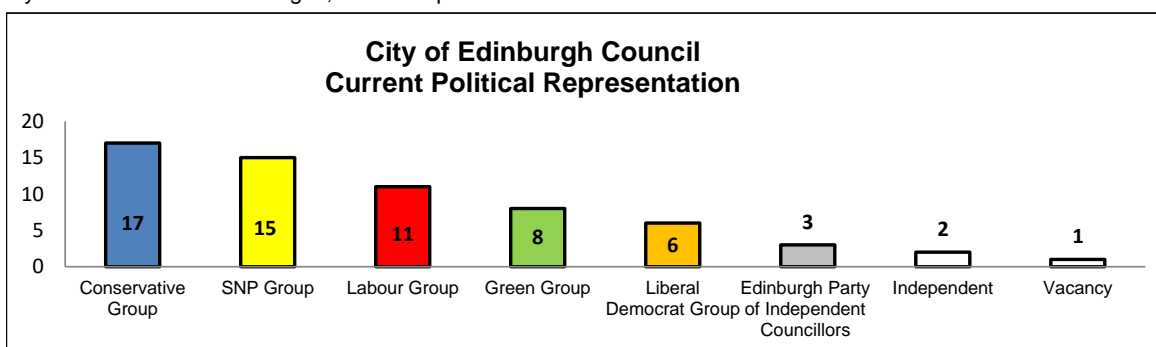


Resources	Health and Social Care	Place
Customer and Digital Services	Edinburgh Integration Joint Board	Environment (inc. waste and parks)
Finance	Older people's services	Transport (inc. parking)
Legal and Risk	Learning and Physical disabilities	Roads, bridges and flood prevention
Human Resources	Mental Health	Housing and Regulatory Services
Property and Facilities Management	Substance Misuse	Planning and building standards
	<b>Communities and Families</b>	
	Schools and Lifelong Learning	
	Children's social work	
	Community education	
	Libraries and Sports	
	Early Years	
	Community Justice	
	Homelessness services	
	Family and Household Support	

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

There was a Local Government Election on 4 May 2017 which resulted in a change in political representation for the Council, with a new minority SNP and Labour administration formed.

The Council currently has **63 Councillors** representing 17 wards within the city. 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 124 of these financial statements.

# MANAGEMENT COMMENTARY

## Edinburgh and the Council's Role

Edinburgh is one of the best cities in the world in which to live, work and study. In 2019, it had the highest proportion of working-age adults in employment of any major UK city. After London, it was also the most-visited city in the UK. Over 62,000 students are enrolled in its higher education institutions. It is therefore a city full of vibrancy and opportunity and, as a council, we are working hard to ensure that all residents can share in its success. We will keep investing in the things that support and sustain growth while confronting the challenges that come with it.

Edinburgh has seen significant recent population growth, with a 13.1% increase between 2008 and 2018 compared to a national rise of 4.5% over the same period, representing almost a five-fold increase on the equivalent rate in the previous decade. 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 65,000 people by 2027, with increases of more than 20% for those aged 12 to 17 and over 75. 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.

A growing population is one of the most visible signs of the city's economic success. We need to make sure that the city continues to be open, progressive and forward-thinking so that everyone can benefit from its prosperity. Alongside its affluent areas, however, the city contains some of the most deprived communities in Scotland. Within the most deprived wards, more than 25% of all residents live in households below the poverty threshold. Narrowing these gaps and allowing all residents to share in the city's success therefore forms a key strand of the **City Vision**, creating a city that is connected, inspired, thriving and fair. The immediate and potential longer-term impacts of the COVID-19 pandemic have only reinforced the importance of these principles, as well as the overarching importance of tackling poverty, promoting sustainability and improving well-being to all of the Council's activity.

## City of Edinburgh Council's Corporate Strategy

The **Programme for the Capital: Council Business Plan for 2017/22** describes the Council's strategic aims and target outcomes, the challenges, how success will be measured and the future direction of the organisation. The plan sets out overlapping strategic themes common to the work of all service areas. The strategic aims set out below are underpinned by the 52 commitments to the city.

- **Delivering an economy for all;**
- **Building for a future Edinburgh;**
- **Delivering a sustainable future;**
- **Delivering for our children and families;**
- **Delivering a healthier city for all ages; and**
- **Delivering a Council that works for all**

To deliver the vision and strategic aims, the Administration has set out 20 associated outcomes, as shown in the diagram below. These outcomes link to the **52 commitments** to the city which will be prioritised over the duration of the plan and into the future.



A **Council Performance Framework 2017-22** has been developed to support the implementation of the Council Business Plan 2017-22. The framework is reviewed annually, including refreshing the measures, actions and milestones to ensure that the data collected is useful in tracking performance and delivery.

## MANAGEMENT COMMENTARY

### Risks and Uncertainty

The Corporate Leadership Team's (CLT) **highest-prioritised risks** as reported to the Governance, Risk and Best Value Committee on 3 December 2019 are outlined below, along with the key controls in place to mitigate them.

Risk	Mitigating actions
<b>Health and Safety (H&amp;S)</b>	
As a result of potential gaps in training, management or understanding, deliberate or accidental actions, there is a risk of non-compliance with legislative requirements and/or the Council's health and safety policies or operational procedures. This could lead to an incident resulting in regulatory breaches, harm to staff, service users or members of the public, subsequent liability claims, fines and associated reputational damage.	<ul style="list-style-type: none"> <li>* Council Health and Safety Policy and Council Asbestos, Fire Safety and Water Safety Policies are available to all and set out roles and responsibilities.</li> <li>* H&amp;S corporate training programme includes the Council's induction programmes for all staff and new leaders; guidance/advice is available on the Council's intranet including, for example, asbestos awareness training.</li> <li>* Institute of Occupational Safety and Health "Leading Safely" courses delivered to the Wider Leadership Team.</li> <li>* Rolling H&amp;S audit programme identifies areas and actions for improvement.</li> <li>* H&amp;S risks and issues reported to CLT on a weekly basis, H&amp;S is a standing CLT agenda item.</li> <li>* H&amp;S performance is measured and reported to the CLT Risk and Assurance Committee quarterly, Council H&amp;S Group and Service-level H&amp;S Groups. Actions for improvement are agreed as appropriate.</li> </ul>
<b>Medium-term financial planning (to 2022)</b>	
Due to reduced funding available for Local Government, increasing demand for health social care services, challenges in achieving planned revenue and/or capital savings, public perception of (and reaction to) proposed changes, competing priorities, the requirement to ring-fence particular budgets, unknown financial impacts of the Scottish Child Abuse Inquiry and potential legislative changes following Brexit, the Council could find it more difficult to successfully undertake medium-term financial planning. The effects of this could include additional unplanned in-year financial pressures and failure to achieve the Council's medium-to-long term objectives across all areas of service delivery.	<ul style="list-style-type: none"> <li>* Engagement and lobbying with other local authorities through COSLA (Convention of Scottish Local Authorities) to Scottish Government and Ministers.</li> <li>* Budget-setting protocol in place at IJB and HSCP level.</li> <li>* Good financial control in accordance with legislation and the Council's Financial Regulations to deliver planned capital and revenue budgets.</li> <li>* Controls in place to monitor budgets and identify overspends.</li> </ul>
<b>Asset management (property assets)</b>	
Due to the age, condition and size of the Council's operational estate, there is a risk that properties are not of a sufficiently safe and sustainable standard for their continued use, potentially resulting in structural failures and/or negative health and safety consequences for staff, service users or members of the public. Associated with this, the Asset Management Strategy requires that decisions are made to close and dispose of properties in a planned manner. The risk associated with the implementation of the strategy is that closure decisions may not be made in a timely manner, resulting in additional cost pressures for both the capital and revenue budgets and consequently demographic pressures cannot be responded to adequately by the property portfolio, particularly for education and health and social care services.	<ul style="list-style-type: none"> <li>* Asset Management Works programme with 5 year investment to achieve improved safety and sustainability for Council operational properties.</li> <li>* Planned preventative maintenance (PPM) regimes</li> <li>* Progress against Asset Management Strategy reported regularly to Finance and Resources Committee.</li> <li>* H&amp;S inspections undertaken regularly. Cyclical condition surveys every 3-5 years. Statutory compliance testing in place</li> <li>* Fire Safety, Asbestos and Water Safety Standing Groups chaired by Head of Property and Facilities Management meets regularly to discuss issues</li> <li>* Asset Management Board (operational group) meetings monthly and is chaired by the Executive Director of Resources, with senior representation from all directorates.</li> <li>* Service Design change programme underway.</li> </ul>
<b>Programme and Project Delivery</b>	
Due to availability of appropriately-skilled project and programme management resource, there is a risk that the Council is unable to ensure the effective management and successful delivery, on time and on budget, of its challenging and ambitious plan for major programmes and projects. This risk also outlines the need for the Council to prioritise and deploy project delivery resource effectively, according to business needs, ensuring that benefits are realised and learning is shared effectively across all delivery activity. The Council has a large number of projects and programmes in various stages of progress – these include the Granton Waterfront development, the housebuilding programme, IT Device Refresh programme, and trams to Newhaven.	<ul style="list-style-type: none"> <li>* Oversight of major programmes and projects by the relevant Executive Committees and the Governance, Risk and Best Value Committee (every six months)</li> <li>* CLT Change Board provides robust monthly portfolio management and oversight for all programmes and projects, including review of business cases and project closedown benefits realisation and evaluation reports.</li> <li>* Internal Audit recommendations relating to Change Management delivered and project management training rolled out.</li> <li>* Integrated impact assessments in place</li> <li>* More funding has been agreed for major projects as well as additional project management resource appointed to develop and enable delivery of Change Strategy business cases.</li> </ul>

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

The new approach involves:

- \* **assessment of inherent risks (pre-controls) only**, as it is not possible to evaluate fully the effectiveness of mitigating actions taken in a dynamic resilience environment;
- \* **implementation of new inherent risk classifications** (critical; high; medium; and low) for both detailed and consolidated strategic COVID-19 risks based on the urgency of responses required; and
- \* **assessment of whether existing 'business as usual' operational controls are adequate to address new COVID-19 risks**, and details of actions completed; in progress; or proposed to address the gaps identified.

\* The following nine strategic inherent COVID-19 risks have been identified:

**Health and safety of citizens and service users** – Critical, **Health and availability of employees to deliver critical services** – Critical, **Council premises and physical security** – Critical, **Supply chain risk** – Critical, **Financial and Economic Risk** – Critical, **Technology and information** – High, **Fraud and serious organised crime** – High, **Legal and commercial risk** – Medium and **Council response and governance** – Medium.

The Council's **Enterprise Risk Management Policy**; and

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

# MANAGEMENT COMMENTARY

## Other Risks, Challenges and Uncertainties

On 23 June 2020, 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, including the following:

- **Political and economic** - including the impact of the COVID-19 pandemic on the economy, public finances and public bodies; the outcome of the local governance review; and impact of EU withdrawal. Given their particular significance to the population of the city (with 40,000 resident EU nationals, of whom over 1,000 are Council employees), the Council set up an officers' working group to plan for a number of scenarios to mitigate this last-mentioned risk, including potential impacts on availability of staffing for Council services, with its preparedness favourably assessed as part of the **2018/19 Annual Audit Report**. A cross-party elected members working group, supported by key Council officers, has also been established, with its remit including consideration of issues relating to personnel, vulnerable people, procurement, funding and resilience.  
The **Audit Scotland Briefing on withdrawal preparations** was considered by the Policy and Sustainability Committee on 25 February 2020 and referred to the Governance, Risk and Best Value Committee for scrutiny. The covering report updated members on further progress in this area.
- **Community needs**: including the uncertain longer-term impact of COVID-19 on communities; implications of an ageing population, particularly those aged over 75, for demand for services; and increasing poverty and child poverty levels. In response to the last-mentioned challenge, the Council has established a **Poverty Commission**, the final recommendations from which were published in September 2020.
- **Policy**: including continuing Health and Social Care Integration, tackling climate change, welfare reform, expansion of Early Learning and Childcare, additional support for learning and the Planning (Scotland) Act 2019. The Council has established a **Climate Change Commission** tasked with driving action on the climate crisis and Edinburgh's commitment to be a net-zero carbon emissions city by 2030.
- **Financial**: uncertainties over future funding levels; available flexibilities in deployment of funding; increasing cost pressures; and increasing use of reserves. The Council has sought to mitigate some of these risks through successfully lobbying for the ability to introduce, in a way that works for Edinburgh, visitor and workplace parking levies. The Council has, in addition, not drawn any funding from its unallocated reserve since reaching its target level in March 2011, although this may become increasingly challenging going forward.

## 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. Six-monthly performance reports will be considered by the Policy and Sustainability Committee in 2020/21.

Edinburgh-specific performance data has also been provided through a range of other channels, including the **Edinburgh People Survey**, audits and inspections. Performance against a suite of local-level, outcome-focused "quality of life" indicators is in addition monitored on a regular basis, with corresponding areas for improvement identified.

## Council Performance and Best Value

The Council's **Annual Performance Report for 2019/20**, along with a progress assessment against the 52 commitments underpinning the Council's Business Plan, was considered by the Policy and Sustainability Committee on 20 August 2020. The report agenda also included an analysis of the comparative indicators comprising the 2018/19 Local Government Benchmarking Framework (LGBF). This analysis pointed to an improvement in the Council's performance compared to other local authorities in both relative and absolute terms, particularly in Education, Environmental and Culture and Leisure services. Over a longer period from 2013/14, the overall pace of improvement has also been better than that for Scotland's cities as a whole.

The 2018/19 Annual Audit Report noted that the Council would be subject to an external Best Value Audit in early 2020. The Best Value assessment considers whether the Council has achieved continuous improvement. The report's contents are currently being finalised, with publication due in November 2020.



# 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.

Due to the focus on the Council's immediate COVID-19 response, provisional 2019/20 data, along with commentary on both required improvement actions in areas of deteriorating or poor performance and actions taken in response to previous years' reviews, were included in the Council's **Annual Performance Report for 2019/20** considered by the Policy and Sustainability Committee on 20 August 2020.

Further detail of both **Council-wide and service-specific performance** is also available on the Council's website.

### Revenue - General Fund

The Council's financial performance is presented in the Comprehensive Income and Expenditure Statement, which can be seen on page 20. This statement has been prepared using International Financial Reporting Standards. To show the net position of the Council, it is necessary to adjust the Comprehensive Income and Expenditure Statement for statutory items that require to be taken into account in determining the position on the General Fund and Housing Revenue Account for the year. These are summarised in the Movement in Reserves Statement (page 17).

An Expenditure and Funding Analysis has been provided to reconcile adjustments between the Council's financial performance under the funding position and the deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The Expenditure and Funding Analysis can be found in Note 2 and the Expenditure and Income Analysed by Nature in Note 3.

The outturn position for the General Fund, excluding accounting practice adjustments, compared to budget is summarised below. 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.

	<b>Revised Budget 2019/20 £000</b>	<b>Actual 2019/20 £000</b>	<b>(Under) / Over Spend £000</b>
<b>General Fund services</b>	<b>865,630</b>	<b>875,594</b>	<b>9,964</b>
<b>Non-service specific areas</b>			
Loans charges / interest on revenue balances	106,080	104,710	(1,370)
Other non-service specific costs	30,668	25,112	(5,556)
Council Tax Reduction Scheme*	26,319	24,070	(2,249)
Net Cost of Benefits	(127)	(277)	(150)
Dividend and other interest received	(7,910)	(3,204)	4,706
<b>Non-service specific areas total</b>	<b>155,030</b>	<b>150,411</b>	<b>(4,619)</b>
<b>Movements in Reserves</b>			
Net contribution to / (from) earmarked funds	(1,072)	581	1,653
Contribution to / (from) Renewal and Repairs Fund	0	0	0
Contribution to / (from) Capital Fund	(334)	(334)	0
<b>Movements in Reserves total</b>	<b>(1,406)</b>	<b>247</b>	<b>1,653</b>
<b>Sources of funding</b>			
General Revenue Grant	(360,206)	(360,206)	0
Distribution from Non-Domestic Rate pool	(365,250)	(366,025)	(775)
Council Tax **	(293,798)	(295,114)	(1,316)
<b>Sources of funding total</b>	<b>(1,019,254)</b>	<b>(1,021,345)</b>	<b>(2,091)</b>
<b>Transfer (to) / from earmarked reserves</b>	<b>0</b>	<b>4,907</b>	<b>4,907</b>

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

\*uncommitted funds linked to the in-year underspend in respect of the Council Tax Reduction Scheme of £2.249m 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 21 February 2019, the Council set a **balanced budget for 2019/20** but with (i) delivery of approved savings and (ii) prompt identification and management of underlying or emerging risks and pressures key to maintaining financial stability in the year. In total, the approved budget was predicated on the delivery of some £39m of directorate-specific and corporate savings.

The Council's outturn position shows a net overspend against budget of £4.907m. This net position is attributable to three main factors:

- In-year reporting to the Finance and Resources Committee consistently highlighted a number of significant and mainly demand-led pressures affecting the Communities and Families Directorate, including those linked to rising pupil rolls, increasing costs of home-to-school transport, temporary accommodation and community access to schools. In addition, a number of brought-forward underlying pressures and delays, or shortfalls, in the delivery of approved savings were apparent within the Place Directorate. While mitigating measures taken during the year reduced the COVID-excluded final service outturn relative to the Period 8-based forecast by some £2.5m, General Fund services as a whole overspent by £10.0m, primarily within the Place (£7m) and Communities and Families (£3.1m) Directorates, alongside a £3.25m shortfall in the delivery of Council-wide savings.
  - A number of **savings or additional income in non-service budgets**, including loans charges, interest on revenue balances and other interest income (£2.8m) and Council Tax (£1.3m), were identified during the year. Alongside additional use of earmarked reserves not included in the approved budget totalling £7.9m and other savings of £2.3m, taken together, these primarily one-off savings meant that **a balanced position had been forecast as of January 2020.**
  - While the primary income and expenditure impacts of the COVID-19 pandemic are expected to affect the Council in 2020/21, the favourable movement in service outturns between January 2020 and the year-end was outweighed by some £8.3m of COVID-19 impacts, most materially the loss of the budgeted Lothian Buses dividend (£6m) and reductions in parking income. Of this total, £0.6m of expenditure was assumed to be met from the Hardship and Food Funds, resulting in a net COVID-related pressure of £7.7m; £1.7m of this total is included in the service outturns above.
- These factors contributed to an overall in-year overspend, being the first time in thirteen years in which expenditure has exceeded budgeted levels and a clear indication of the likely need for much more difficult decisions going forward.

In overall terms, **77% of approved savings were delivered during the year.** This marked a significant improvement on the equivalent figure for 2018/19 of 60% and reflected, in part, the provision of additional project management resource.

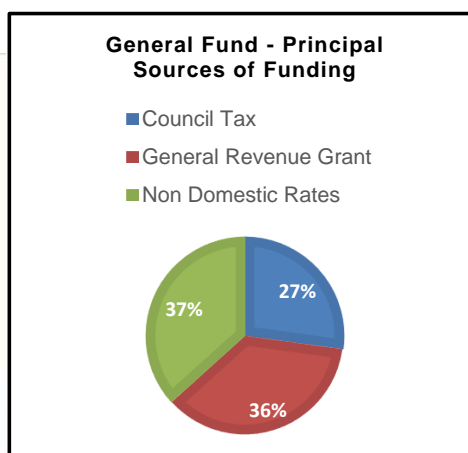
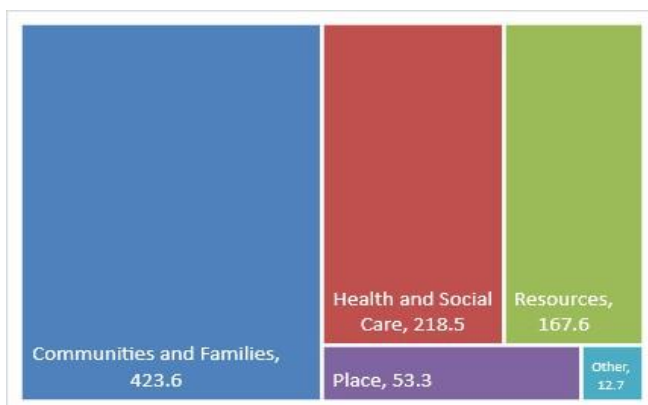
The net overspend of £4.907m has been funded from the drawdown of reserves.

### Principal Sources of Funding - General Fund

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

	<b>£000</b>
Council Tax, net of Council Tax Reduction Scheme (CTRS) <i>(property-related tax from households)</i>	271,044
General Revenue Grant <i>(Government revenue grant funding based on city's relative needs assessment)</i>	360,206
Distribution from Non-Domestic Rates pool <i>(property-related tax primarily from businesses)</i>	366,025
<b>Total</b>	<b><u>997,275</u></b>

### General Fund expenditure 2019/20 by service area (£m)



# MANAGEMENT COMMENTARY

## Financial Performance - continued

### Reserves

#### General Fund

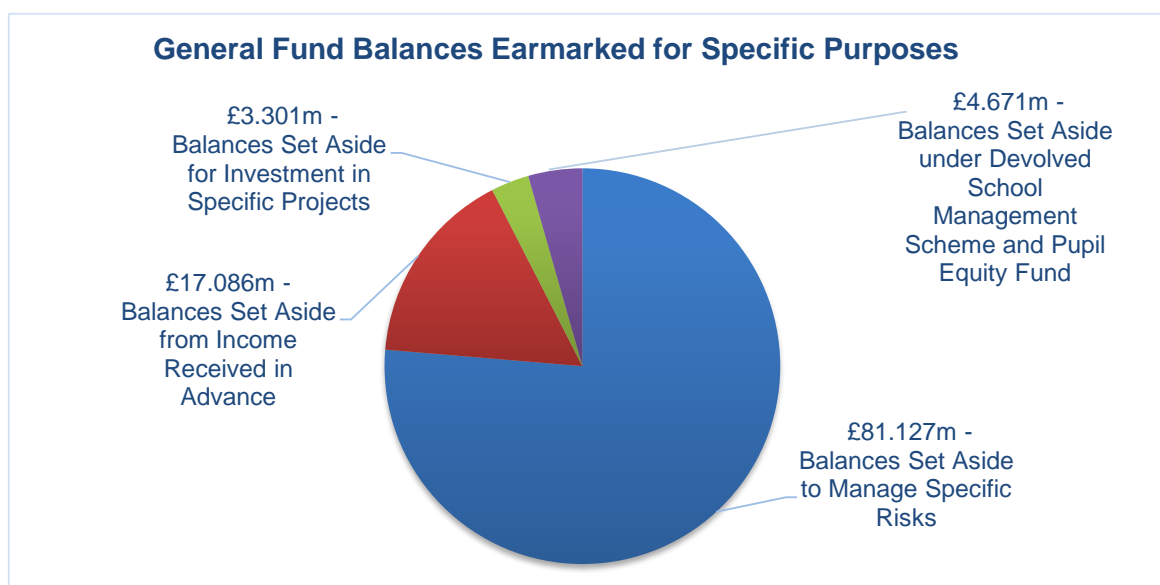
The Council's General Fund reserves comprise two elements:

- 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 2020, as part of the 2020/21 budget-setting process. The unallocated General Fund balance at 31 March 2020 was £13.927m, which equates to 1.37% of the annual budgeted net expenditure. Council approved a contribution of £0.9m to the unallocated General Fund during 2019/20.

In addition, the Council has a further £106.185m, (2018/19 £131.820m) of balances earmarked for specific purposes. Details can be seen in note 12 to the Financial Statements. The chart below highlights the split of these balances.



These balances are held for a number of reasons:

- Balances set aside for specific financial risks which are likely to arise in the medium-term future. Examples include monies earmarked for staff release costs, dilapidations and other related contractual commitments and the insurance fund.
- Balances set aside from income received in advance are primarily from grant income, due to timing differences between the receipt of the grant income and the planned expenditure thereof.
- Balances set aside to enable the Council to undertake investment in specific projects which will deliver savings in future years, such as Spend to Save. These savings are used, initially, to reimburse the earmarked balances.
- Balances held under the School Board Delegation Scheme (DSM) and Pupil Equity Fund (PEF), which permits balances on individual school budgets to be carried forward to the following financial year and academic years.

The decrease in reserves from the previous year mainly reflects a drawdown of the Council Tax Discount Fund to support planned development of affordable housing and drawdowns to fund the in-year deficit.

Given the extent of unfunded COVID-related expenditure pressures apparent in 2020/21, a fundamental review of the Council's earmarked reserves is underway to identify those that could be made available without compromising the Council's financial stability and/or ability to contribute to the city's recovery.

#### Other Reserves

The Council holds other usable reserves; these are the Capital Grants Unapplied Account with a balance of £28.452m, the Capital Fund with a balance of £48.934m, Donated Assets Reserve with a balance of £61.893m and the Renewal and Repairs Fund with a balance of £29.748m, including £2.983m 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.

Re-stated

<b>Council Tax</b>	<b>2019/20</b>	<b>2018/19</b>	<b>Notes on interpretation of ratios</b>
In-year collection rate	96.95%	97.03%	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 actual Council Tax collection.
Council Tax income as a percentage of overall funding	27.18%	26.92%	This shows the proportion of total funding that is derived from Council Tax, net of Council Tax Reduction Scheme (CTRS) support. The increase is mainly due to a combination of greater property numbers and the application of a 3% rise across all bands relative to a lower level of increase in other elements of funding.
<b>Debt and Borrowing - Prudence</b>			<b>Notes on interpretation of ratios</b>
Capital Financing Requirement	£1,708.7m	£1,567.4m	The capital financing requirement represents the underlying need to borrow to fund expenditure on assets and shows an increase of around 9% 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	£1,616.1m	£1,422.8m	External debt levels include long-term commitments in respect of finance leases (mainly schools provided through PPP schemes) together with borrowing undertaken to finance capital expenditure and show a year-on-year increase of around 14%.  The primary increases related to expenditure on the Trams to Newhaven, on-lending to Edinburgh Living and the waste facility at Millerhill and construction of Queensferry High School acquired on leases.  External debt levels are lower than the capital financing requirement as the Council has adopted a position of under borrowing, as set out in the Treasury Strategy.
<b>Debt and Borrowing - Affordability</b>			<b>Notes on interpretation of ratios</b>
Financing costs to net revenue stream - General Fund	10.50%	11.16%	These ratios show the proportion of total revenue funding that is used to meet financing costs.
Financing costs to net revenue stream - HRA	37.65%	37.29%	
Impact of capital investment on Council Tax	-0.95%	-1.07%	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	-0.02%	1.34%	

# MANAGEMENT COMMENTARY

## Financial Performance - continued

### Treasury Management Strategy

The **Annual Treasury Management Strategy 2020/21** was approved on 12 March 2020. The key points are:

- the Council's total capital expenditure is forecast to be £2.104 billion between 2019/20 and 2023/24;
- the Council's underlying need to borrow at 31 March 2024 is forecast to be £2.310 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 **Capital Strategy 2020-30** was approved at Full Council on 12 March 2020.

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 Investment Programme has been reviewed in light of COVID-19 and this has resulted in significant slippage from the original 2020/21 budget. The details of **this** were reported to the Finance and Resources Committee on 27 August 2020.

### 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 2019/20 outturn position for capital expenditure is summarised below:

	<b>Budget 2019/20 £000</b>	<b>Actual 2019/20 £000</b>	<b>(Slippage) / Acceleration £000</b>
Capital expenditure			
General Fund services	297,207	278,562	(18,645)
Housing Revenue Account	<u>108,954</u>	<u>111,854</u>	<u>2,900</u>
Total capital expenditure	<u>406,161</u>	<u>390,416</u>	<u>(15,745)</u>
Capital receipts and other contributions			
- General Fund services	(43,194)	(59,102)	(15,908)
- Housing Revenue Account	(40,917)	(61,838)	(20,921)
Government and other grants			
- General Fund services	(156,520)	(148,229)	8,291
- Housing Revenue Account	<u>(8,526)</u>	<u>(11,613)</u>	<u>(3,087)</u>
Total capital income	<u>(249,157)</u>	<u>(280,782)</u>	<u>(31,625)</u>
Balance to be funded through borrowing			
- General Fund services	97,493	71,231	(26,262)
- Housing Revenue Account	<u>59,511</u>	<u>38,403</u>	<u>(21,108)</u>
Total advances from loans fund	<u>157,004</u>	<u>109,634</u>	<u>(47,370)</u>

Expenditure on General Fund services slipped in total by £18.645m. The majority of slippage related to delays on the Early Years initiative and rising school rolls projects, lending to the National Housing Trust (NHT) and Edinburgh Living LLPs and major infrastructure projects, caused by factors largely outwith the Council's control, however acceleration in the programme of Asset Management Works significantly offset the slippage in these projects.

# MANAGEMENT COMMENTARY

## Financial Performance - continued

### Capital Expenditure

The Council received £59.246m of general capital grant during 2019/20. The support provided through general capital grant enables the Council to direct resources to its own priorities.

Capital expenditure for the year totalled £390.416m. Major capital projects undertaken during the year included:

- Investing in new council homes and enhancing existing assets through the Housing Revenue Account programme - £111.854m;
- Roads, carriageways and other transport infrastructure - £53.623m;
- Social housing through the housing development fund - £50.528m;
- Educational and other operational properties - £44.195m;
- Creation and expansion of educational properties - £27.639m;
- Trams to Newhaven project - £24.440m;
- Sports facilities - £16.728m;
- Providing funding for homes for mid-market rent from private developers through the Edinburgh Living LLP - £16.348m; and
- Providing funding for homes for mid market rent from private developers through the National Housing Trust - £11.790m.

### 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 five-year Housing Revenue Account Budget Strategy in February 2019. It set out the investment priorities on building new homes, modernising existing homes and helping tenants reduce their cost of living. The Council also approved the Housing Service Improvement Plan (HSIP) to address the financial pressures between 2022/23 to 2032/33 of the HRA Business Plan and to improve service efficiency and customers' satisfaction.

The HRA revenue account secured £103.980m income in 2019/20. Due to the comprehensive work on prevention and income maximisation, current tenancy rent arrears reduced by £2 million from an in-year high of £8.348m to £6.386m by the end of 2019/20.

The HRA Capital Programme is geared towards delivering the HRA Budget Strategy. The 2019/20 HRA capital programme was the largest ever programme with an approved budget of £108.954m. The year end outturn for 2019/20 was £111.854 million, i.e. £2.900m above the original approved budget, and represented a 38% increase from the 2018/19 outturn (£80.963m).

Following on from the achievements of previous years the Housebuilding Programme continues to grow, with currently in the region of 2,000 homes completed or under construction. Nearly 300 affordable homes were completed in 2019/20 at Royston, Dumbryden (Phase 1), Greendykes G, Hailesland Place, Crewe Road Gardens and North Sighthill. This includes 128 mid-market rented homes that were purchased by Edinburgh Living. At the end of the financial year, over 800 new homes were under construction, with nearly 3,400 homes in design and development stage. A significant sum of capital expenditure was also spent to secure land for affordable housing development.

More than £165 million has been invested to improve existing homes and estates, resulting in over 28,000 improvement measures delivered over the last five years. In 2019/20, the Improvement Programme has delivered 1,250 homes with new kitchen and bathrooms; 1,960 homes with new modern heating systems; 615 homes with electrical upgrades; 1,200 homes with external fabric upgrades; and nearly 100 major adaptations in tenants' homes and 100 locality environmental projects.

The Acquisition and Disposal Project is an integral part of the capital investment programme for existing homes, which helps to consolidate ownership within a block, and in turn to progress improvements in common areas. 38 homes were purchased through the project in 2019/20, helping to gain 100% ownership in 13 blocks and further consolidate ownership in another 25 blocks. The project sold 18 homes in 2019/20, helping to divest interest in 13 blocks, giving a net increase of 20 affordable homes.

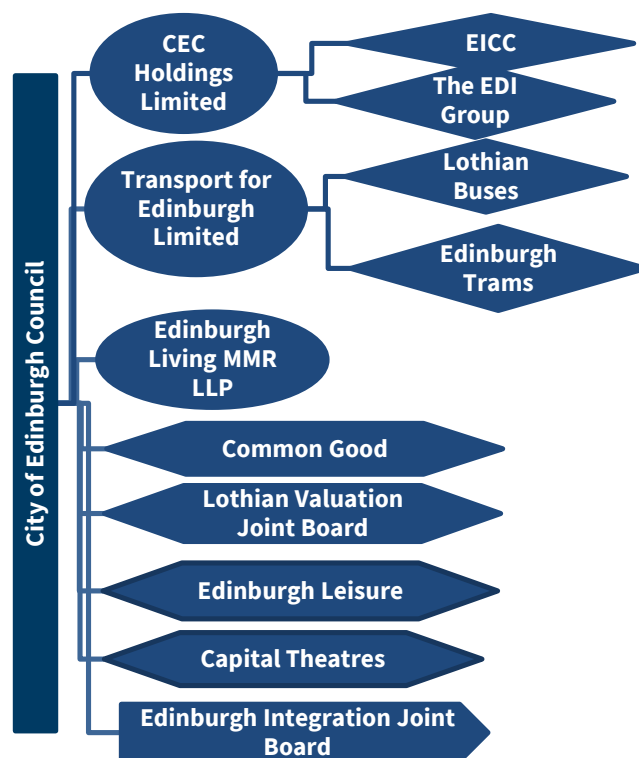
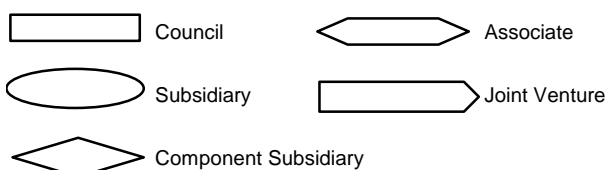
# MANAGEMENT COMMENTARY

## 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 109.

Key:



### 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 2020 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 1.4 million delegates from more than 120 countries, generating over £660m of economic impact for the city region.

In 2019, the Centre produced its best-ever operating profits and saw its operating and financial performance improve for the fifth successive year, notwithstanding limited clients' budgets, increased competition from a growing number of conference centres and aggressive price competition from venues across the globe. The Company's revenues for the year amounted to £9.359m, which was an increase of £0.596m on the previous year and generated a gross profit of £1.503m, an increase of 10.51%.

#### Transport for Edinburgh Ltd

The core purpose of Transport for Edinburgh Ltd (TfE) is to deliver a high-quality and integrated transport service for the city. It also delivers profit through a strong commercial focus and drive for efficiency across all of its activities. TfE's long-term vision is to be an integral part of the future success of the city and the Lothians, by providing world-class, environmentally-friendly and socially-inclusive public transport.

The Group retained a substantial share of the local public transport market in Edinburgh and the Lothians. Revenue has increased by 5.2% from the previous year to £185.6m with net reserves of £129.5m at the year end. The Group faced significant operating and cost pressures in 2019 and anticipate these pressures to persist in 2020. With the COVID-19 outbreak in March 2020 the Group needs to be extremely proactive to address and mitigate the impact of the revenue decline and cost pressures.

## 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 will deliver homes for mid-market rent to let households in housing need.

Edinburgh Living MMR LLP bought its first homes in January 2019 and over the course of the financial year purchased 150 homes across six developments in the city.

#### Lothian Valuation Joint Board (LVJB)

The Board reported a balanced budget for 2019/20 against a revised budget of £6.001m. The primary reasons for the reported position against budget were property costs coming under budget and an ongoing review of external survey requirements giving rise to savings which were balanced against increased expenditure in supplies and services due to the 2019 General Election and costs associated with the Valuation Appeal Committee. The cost of Individual Electoral Registration (IER) was fully funded by a grant, against which an underspend of £0.284m was carried forward to 2020/21 to mitigate the risk of the removal of Cabinet Office funding and ongoing legacy costs arising from IER.

#### Edinburgh Leisure

Edinburgh Leisure operates over fifty sport and leisure facilities across the city on behalf of the Council, attracting over four million visits each year, with the aim of inspiring Edinburgh to become a more active and healthy city. The range of facilities includes sport and leisure centres, swim centres, golf courses, tennis courts, bowling greens and sports pitches.

In 2019/20, an underlying deficit on unrestricted funds of £0.624m was achieved as a result of increasing competition and cost pressures and a reduced payment for service from the Council.

In view of the wider health risks arising from the COVID-19 pandemic, all venues were closed until further notice on 19 March 2020, with on-going social distancing requirements and public attitudes also likely to affect demand upon re-opening.

Edinburgh Leisure continues to work with the Council and other stakeholders on a range of projects, including Movement for Memories that will support people living with dementia to get active, the Ageing Well programme which provides opportunities for all ages to lead more active, healthy lives and the Active Mums project which encourages mums to incorporate physical activity into their lives.

#### Capital Theatres

2019/20 was a period of very positive trading for the Trust, welcoming around 504,000 paying visitors to the Trust's venues and hosting 115 shows on the Capital Theatre stages.

The Trust changed its name to Capital Theatres on 28 February 2018 to reflect the organisation's growth and to establish a brand for the Trust's three venues – the Festival Theatre, King's Theatre and The Studio.

The three venues have hosted a variety of productions during the year, including the renowned show, Phantom of the Opera, Scottish Ballet and Scottish Opera performances and several touring premieres. The King's pantomime, Goldilocks and the Three Bears, once again broke all records during the capital city's Christmas season.

The Trust's Learning and Participation work has continued in 2019/20, with the involvement in the Life Change Trust and contribution as co-funder of the Edinburgh Performing Arts Development (EPAD).

#### Edinburgh Integration Joint Board

The Edinburgh Integration Joint Board (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 2020, see note 9.3.

In August 2019, the Board agreed its strategic plan for 2019-2022. The plan defines the EIJB's vision for the future of health and social care in Edinburgh, explains how it intends to transition towards this and highlights the resources and enablers it must manage to achieve its objectives. There remains much to do but together it can create the conditions to deliver a sustainable health and social care model for the citizens of Edinburgh.

A deficit of £6.5m is being reported for 2019/20, reflecting the use of reserves to offset the opening budget deficit, leaving a remaining reserve of £3.2m which will be carried forward into 2020/21. All of this sum is ringfenced for specific purposes, with the vast majority being the investment in transformation agreed by the Board.

#### Group Summary

Net assets for 2019/20 include a combined group pension liability of £462.327m (2018/19 £600.979m), 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 2020. The actuarial valuation, which takes a longer-term view, will consider the appropriate employers' contribution rates and these, together with employee contributions and revenues generated from fund investments, will be utilised to meet the financing of these liabilities. It is therefore appropriate to adopt a going concern basis for the preparation of the group financial statements.



## MANAGEMENT COMMENTARY

### Wider Policy Environment and Future Developments

Since 2012/13, the Council has approved for delivery over £350m of savings, equivalent to around a third of its current net budget. This level of savings has been required as a result of cost pressures arising from increasing, mainly demographic-led demand, legislative reform, inflationary uplifts and rising expectations and a level of available grant funding, Council Tax and other income that has not kept pace. The cumulative impact of successive years' savings requirements has inevitably made the delivery of further incremental reductions and management of pressures increasingly challenging.

### COVID-19

#### Council and its Group's role and response

It is almost impossible to overstate the extent to which life within Edinburgh has changed as a result of the COVID-19 pandemic, with events moving at sometimes-overwhelming speed. The Council has, however, been at the heart of the city's emergency response, with business continuity and resilience arrangements quickly put in place with the aim of managing its effects as fully and effectively as possible. Direct service changes have included across-the-board school closures until August 2020 (with a resulting move to online learning) whilst securing continuing provision for children of key workers. The pandemic has also resulted in extensive revisions to waste collection services, suspension of parking charges until mid-June and closure of all libraries, museums, performing arts venues and community centres. At the same time, the demands on home and residential care services, primarily for older people and vulnerable or shielding groups, have greatly increased. Community resilience centres were therefore quickly established and homelessness services reconfigured to allow for effective social distancing. Council staff have played a crucial role in providing lifeline business grant support to local businesses, paying out over £104m in total. Vital payments have also been made as part of the newly-introduced Self-Employed Grant scheme and through additional Scottish Welfare Fund support. 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, whilst passenger numbers on buses and trams have been running at a fraction of normal levels whilst adhering to strict guidelines on social distancing.

#### Immediate and on-going financial impacts

Given the Coronavirus pandemic's unprecedented scale and consequent impact on the Council's activities, the full financial implications will only emerge over time, with numerous variables to be considered at both local and national level. Costs incurred in the immediate response phase have included additional hotel and other accommodation to allow for safe social distancing for homeless groups, free school meal vouchers and related food distribution to more vulnerable groups, additional security for unoccupied buildings, ICT to facilitate home and/or flexible working and extensive personal protective equipment (PPE) to protect both staff and service users. This has also been a time of huge uncertainty for all suppliers and Commercial and Procurement Services staff have worked closely with service areas in striking an appropriate balance between ensuring continuity of supply and securing best value, drawing on the temporary amendments to Contract Standing Orders agreed at the end of March.

Income losses include those relating to parking fees and fines, property rental income, licensing and planning applications, building warrants and cultural venues. Current disruption is also expected to result in reductions in in-year Council Tax collection rates (with evidence showing a year-on-year decrease thus far) and a lower level of increase in the Council Tax base. Having not received the budgeted £6m dividend from Lothian Buses in 2019/20, the Council expects this position to continue at least for 2020/21 and potentially further years thereafter.

A series of monthly assessments on the financial position has already been reported to elected members. **The most recent of these** was considered by the Finance and Resources Committee on 24 September, setting out an estimated overall COVID-related funding gap of £12.2m based on current modelling assumptions. This sum takes account of available external and internal funding, including some use of earmarked reserves, as well as the knock-on impact on delivery of previously-approved savings. Given the potential for this gap to increase further based on the pace of the city's recovery and/or further lockdowns, however, the position is being kept under active review, with the enduring impacts also likely to require a re-assessment of both the content and affordability of the 2020/23 revenue budget framework.

Elected members have therefore been asked to endorse the principle that any subsequent requests to Executive Committees or Council to incur additional, non-essential expenditure are considered only in cases where a specific funding source has been identified. This needs to take place, however, within the context of a more fundamental re-assessment of the Council's services, priorities and operating models as part of the Adaptation and Renewal Programme, informed by conversations with key stakeholders across the city. These conversations will also need to be conducted against a backdrop of on-going affordability, considering both service reduction and possible cessation.

**Assessment of the capital programme impacts**, particularly the timing and cost of completion of existing projects, is at an earlier stage, including capturing the effects of site closure, delay, remobilisation and reduced efficiency due to social distancing (particularly for indoor projects). While it is, as yet, too early to understand the implications in full, the overall costs of the programme are expected to increase significantly, with completion or commencement of schemes also pushed into future years. As with the revenue budget, prioritisation is therefore likely to play a key role in ensuring it remains affordable in the new environment.



# MANAGEMENT COMMENTARY

## COVID-19 (continued)

### 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 has therefore been established, co-ordinating all aspects of the Council and city's response. Five officer working groups have therefore been established as follows:

- **Public Health Advisory 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** – 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;
- **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 will continue to be reported to elected members and wider stakeholders.

### Change Strategy

Both the Council's Change Strategy and the Adaptation and Renewal Programme seek to prioritise decisions with positive impacts on poverty, well-being and sustainability; these priorities are arguably more, rather than less, relevant in a post-COVID world.

A number of key foundations for further development of the Strategy have therefore been put in place during 2019/20, including:

- improving general performance in Health and Social Care, including delayed discharge levels and introducing a radical new model of delivery which seeks to meet people's needs as early and holistically as possible;
- creating an independent Poverty Commission which recently published its final findings and recommendations which we are fully committed to implementing;
- delivering a country-leading programme of intelligent automation, improving response times and reducing bureaucracy;
- leading the way in successfully lobbying, working with COSLA, for the ability for councils to introduce transient visitor and workplace parking levies. Along with partners, we will now seek to implement these, at an appropriate time, in a way that works for Edinburgh;
- working with the Scottish Government in securing a much-needed ability to regulate short-term lets, including mandatory licensing, strengthened planning controls and ensuring operators pay their fair share of taxation. This aspect complements the tourist tax in sharing the costs incurred in supporting tourism more equitably;
- commencing construction works on the tram extension to Newhaven and putting in place a programme of actions to support residents and businesses affected by the transition;
- investigating a range of measures to combat homelessness, working towards our goal of ending the use of bed and breakfast accommodation; and
- overseeing an in-year reduction in 2018/19 carbon emissions of 20%.

ANDREW KERR

Chief Executive

Date

STEPHEN S. MOIR

Executive Director of Resources

Date

ADAM MCVEY

Council Leader

Date

# STATEMENT OF RESPONSIBILITIES FOR THE ANNUAL ACCOUNTS

## The Authority's Responsibilities

The Authority is required:

- to make arrangements for the proper administration of its financial affairs, including group interests, and to secure that the proper officer of the authority has the responsibility for the administration of those affairs (section 95 of the Local Government (Scotland) Act 1973). In this Authority, that officer is the Head of Finance.
- to manage its affairs to secure economic, efficient and effective use of its resources and safeguard its assets.
- to ensure the Annual Accounts are prepared in accordance with legislation (The Local Authority Accounts (Scotland) Regulations 2014), and so far as is compatible with that legislation, in accordance with proper accounting practices (section 12 of the Local Government in Scotland Act 2003).
- to approve the Annual Accounts for signature.

I confirm that these Annual Accounts were approved for signature by the Finance and Resources Committee at its meeting on 5 November 2020.

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 2020.

HUGH DUNN, CPFA  
Head of Finance  
Section 95 Officer

Date

## MOVEMENT IN RESERVES STATEMENT

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

<b>Council 2019/20</b>	<b>General Fund Balance</b>	<b>Housing Revenue Account Balance</b>	<b>Renewal and Repairs Fund</b>	<b>Capital Grants Unapplied Account</b>	<b>Donated Asset Fund</b>	<b>Capital Fund</b>	<b>Total Usable Reserves</b>	<b>Total Unusable Reserves</b>	<b>Total Reserves</b>
<b>2019/20</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Balance at 31 March 2019	144,845	0	26,346	15,784	0	55,908	242,883	2,386,886	2,629,769
<b>Movement during 2019/20</b>									
Total Comprehensive Income and Expenditure	(42,749)	31,547	0	0	0	0	(11,202)	332,612	321,410
Adjustments between accounting basis and funding basis under regulations (Note 11)	23,019	(33,149)	0	12,668	61,893	(6,974)	57,457	(57,457)	0
<b>Net increase / (decrease) before transfers to statutory reserves</b>	<b>(19,730)</b>	<b>(1,602)</b>	<b>0</b>	<b>12,668</b>	<b>61,893</b>	<b>(6,974)</b>	<b>46,255</b>	<b>275,155</b>	<b>321,410</b>
Transfer (to) / from other statutory reserves (Note 12.3)	(5,004)	1,602	3,402	0	0	0	0	0	0
Increase / (decrease) in year	(24,734)	0	3,402	12,668	61,893	(6,974)	46,255	275,155	321,410
<b>Balance at 31 March 2020</b>	<b>120,111</b>	<b>0</b>	<b>29,748</b>	<b>28,452</b>	<b>61,893</b>	<b>48,934</b>	<b>289,138</b>	<b>2,662,042</b>	<b>2,951,180</b>

<b>Group - 2019/20</b>	<b>Total Usable Reserves</b>	<b>Total Unusable Reserves</b>	<b>Council Total Reserves</b>	<b>Group Reserves</b>	<b>Total Reserves</b>
<b>2019/20</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Balance at 31 March 2019	242,883	2,386,886	2,629,769	197,522	2,827,291
<b>Movement during 2019/20</b>					
Total Comprehensive Income and Expenditure	(11,202)	332,612	321,410	20,694	342,104
Adjustments between accounting basis and funding basis under regulations (Note 11)	57,457	(57,457)	0	0	0
<b>Net increase / (decrease) before transfers to statutory reserves</b>	<b>46,255</b>	<b>275,155</b>	<b>321,410</b>	<b>20,694</b>	<b>342,104</b>
Transfer (to) / from other statutory reserves (Note 12.3)	0	0	0	0	0
Adjustments between group and authority accounts	0	0	0	(8,800)	(8,800)
Increase / (decrease) in year	46,255	275,155	321,410	11,894	333,304
<b>Balance at 31 March 2020</b>	<b>289,138</b>	<b>2,662,042</b>	<b>2,951,180</b>	<b>209,415</b>	<b>3,160,595</b>

## MOVEMENT IN RESERVES STATEMENT

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
<b>2018/19 Comparative Data</b>								
Balance at 31 March 2018	<u>151,285</u>	<u>0</u>	<u>58,123</u>	<u>4,796</u>	<u>63,558</u>	<u>277,762</u>	<u>2,240,857</u>	<u>2,518,619</u>
<b>Movement during 2018/19</b>								
Total Comprehensive Income and Expenditure	(155,471)	30,771	0	0	0	(124,700)	235,849	111,149
Adjustments between accounting basis and funding basis under regulations (Note 11)	143,298	(56,815)	0	10,988	(7,650)	89,821	(89,821)	0
<b>Net increase / (decrease) before transfers to statutory reserves</b>	<u>(12,173)</u>	<u>(26,044)</u>	<u>0</u>	<u>10,988</u>	<u>(7,650)</u>	<u>(34,879)</u>	<u>146,028</u>	<u>111,149</u>
Transfer (to) / from other statutory reserves (Note 12.3)	5,733	26,044	(31,777)	0	0	0	0	0
Increase / (decrease) in year	<u>(6,440)</u>	<u>0</u>	<u>(31,777)</u>	<u>10,988</u>	<u>(7,650)</u>	<u>(34,879)</u>	<u>146,028</u>	<u>111,149</u>
<b>Balance at 31 March 2019</b>	<u><b>144,845</b></u>	<u><b>0</b></u>	<u><b>26,346</b></u>	<u><b>15,784</b></u>	<u><b>55,908</b></u>	<u><b>242,883</b></u>	<u><b>2,386,886</b></u>	<u><b>2,629,769</b></u>

Group - 2018/19	Total Usable Reserves £000	Total Unusable Reserves £000	Total Reserves £000	Group Reserves £000	Total Reserves £000
Balance at 31 March 2018	<u>277,762</u>	<u>2,240,857</u>	<u>2,518,619</u>	<u>202,196</u>	<u>2,720,815</u>
<b>Movement during 2018/19</b>					
Total Comprehensive Income and Expenditure	(124,700)	235,849	111,149	(4,673)	106,476
Adjustments between accounting basis and funding basis under regulations (Note 11)	89,821	(89,821)	0	0	0
<b>Net increase / (decrease) before transfers to statutory reserves</b>	<u>(34,879)</u>	<u>146,028</u>	<u>111,149</u>	<u>(4,673)</u>	<u>106,476</u>
Transfer (to) / from other statutory reserves (Note 12.3)	0	0	0	0	0
Increase / (decrease) in year	<u>(34,879)</u>	<u>146,028</u>	<u>111,149</u>	<u>(4,673)</u>	<u>106,476</u>
<b>Balance at 31 March 2019</b>	<u><b>242,883</b></u>	<u><b>2,386,886</b></u>	<u><b>2,629,769</b></u>	<u><b>197,522</b></u>	<u><b>2,827,291</b></u>

## 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 2020

2018/19			Gross Expend.	Income	Net Expend.
£000	Notes	£000	£000	£000	£000
	<b>SERVICES</b>				
414,403	Communities and Families	547,799	(111,745)	436,054	
140,054	Place	334,703	(198,289)	136,414	
(22,130)	Housing Revenue Account	88,672	(103,980)	(15,308)	
215,677	Health and Social Care	547,817	(319,706)	228,111	
283,310	Resources	318,148	(47,231)	270,917	
10,469	Chief Executive	14,423	(3,835)	10,588	
3,575	Lothian Valuation Joint Board	3,678	0	3,678	
(811)	Net cost of benefits	180,602	(180,879)	(277)	
63,562	Other non-service specific costs	(9,718)	8,510	(1,208)	
7,706	Subsidiary Companies	197,528	(180,548)	16,980	
1,115,815	<b>COST OF SERVICES</b>	<u>2,223,652</u>	<u>(1,137,703)</u>	1,085,949	
(5,888)	Gains on disposal of non-current assets			(5,331)	
80,214	Financing and Investment Income and Exp.	13.		131,178	
(1,058,679)	Taxation and Non-Specific Grant Income	14.		(1,186,534)	
131,462	<b>(SURPLUS) / DEFICIT ON PROVISION OF SERVICES</b>			25,262	
(377)	Associates and Joint Ventures Accounted for on an Equity Basis			4,729	
(275)	Taxation of Group entities	14.		374	
<u>130,810</u>	<b>GROUP (SURPLUS) / DEFICIT</b>			<u>30,365</u>	
(316,011)	Surplus on Revaluation of Non-Current Assets		(147,821)		
(183,615)	Return on assets excluding amounts incl. in Financing and Investment Inc / Exp		195,313		
263,604	Changes in Financial and Demographic Assumptions / Other Experience		(379,337)		
(1,264)	Other Unrealised Gains		(40,624)		
(237,286)	Other Comprehensive Income and Expend.			(372,469)	
<u>(106,476)</u>	<b>TOTAL COMPREHENSIVE (INCOME) / EXPENDITURE</b>			<u>(342,104)</u>	

## COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

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

		for the year ended 31 March 2020		
2018/19		Gross Expend.	Income	Net Expend.
£000	SERVICES	£000	£000	£000
	Notes			
414,403	Communities and Families	547,799	(111,745)	436,054
140,054	Place	334,703	(198,289)	136,414
(22,130)	Housing Revenue Account	88,672	(103,980)	(15,308)
215,677	Health and Social Care	547,817	(319,706)	228,111
283,310	Resources	318,148	(47,231)	270,917
10,469	Chief Executive	14,423	(3,835)	10,588
3,575	Lothian Valuation Joint Board	3,678	0	3,678
(811)	Net cost of benefits	180,602	(180,879)	(277)
63,562	Other non-service specific costs	(9,718)	8,510	(1,208)
1,108,109	<b>COST OF SERVICES</b>	<b>2,026,124</b>	<b>(957,155)</b>	<b>1,068,969</b>
(6,001)	Gains on disposal of non-current assets			(5,464)
81,271	Financing and Investment Income and Exp.	13.		134,231
(1,058,679)	Taxation and Non-Specific Grant Income	14.		(1,186,534)
124,700	<b>(SURPLUS) / DEFICIT ON PROVISION OF SERVICES</b>			11,202
(316,011)	Surplus on Revaluation of Non-Current Assets		(147,821)	
(183,615)	Return on assets excluding amounts incl. in Financing and Investment Inc / Exp		195,313	
263,604	Changes in Financial and Demographic Assumptions / Other Experience		(379,337)	
173	Other Unrealised (Gains) / Losses		(767)	
(235,849)	Other Comprehensive Income and Expend.			(332,612)
(111,149)	<b>TOTAL COMPREHENSIVE (INCOME) / EXPENDITURE</b>			<b>(321,410)</b>
<b>RECONCILIATION OF THE COUNCIL'S POSITION TO THE GROUP POSITION</b>				
<b>£000</b>				<b>£000</b>
(111,149)	Total Comprehensive (Income) and Expenditure on the Council's Comprehensive Income and Expenditure Statement (CIES)			(321,410)
(5,815)	Subsidiary and associate transactions included in the Council's CIES			(21,319)
11,406	(Surplus) / deficit arising from other entities included in the Group Accounts Subsidiaries			(1,141)
(918)	Associates and Joint Ventures			1,766
(106,476)	Group total Comprehensive (Income) / Expenditure for the year			<b>(342,104)</b>

## BALANCE SHEET

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

31 March 2019			31 March 2020		
Group	Council		Notes	Group	Council
£000	£000			£000	£000
335	335	Intangible Assets	17.	444	444
4,600,761	4,485,705	Property, Plant and Equipment	15.	4,916,529	4,776,511
19,136	18,916	Investment Properties	16.	47,221	19,225
31,304	31,304	Heritage Assets	18.	32,077	32,077
1,586	1,586	Assets Held for Sale	23.	1,254	1,254
65,471	0	Other Long-Term Assets (Pension)		66,190	0
11,698	23,690	Long-Term Investments	22.	11,698	23,690
32,538	0	Investments in Associates and Joint Ventures		29,531	0
131,380	134,932	Long-Term Debtors	20.	128,492	158,755
<b>4,894,209</b>	<b>4,696,468</b>	<b>Long-Term Assets</b>		<b>5,233,436</b>	<b>5,011,956</b>
17,100	17,100	Short-Term Investments	22.	45,798	45,563
17,606	17,606	Assets Held for Sale	23.	21,139	21,139
25,959	25,959	Financial Assets	43.	67,936	67,936
13,285	2,984	Inventories	19.	13,472	3,451
124,485	106,294	Short-Term Debtors	20.	137,395	123,276
135,844	106,679	Cash and Cash Equivalents	21.	110,204	81,177
<b>334,279</b>	<b>276,622</b>	<b>Current Assets</b>		<b>395,944</b>	<b>342,542</b>
(75,002)	(73,722)	Short-Term Borrowing	43.	(77,396)	(75,288)
(216,567)	(175,270)	Short-Term Creditors	24.	(244,988)	(200,580)
(36,710)	(33,810)	Provisions	25.	(36,960)	(34,512)
<b>(328,279)</b>	<b>(282,802)</b>	<b>Current Liabilities</b>		<b>(359,344)</b>	<b>(310,380)</b>
(1,136,414)	(1,150,591)	Long-Term Borrowing	43.	(1,270,552)	(1,285,885)
(219,165)	(213,259)	Other Long-Term Liabilities	40.1	(255,990)	(241,440)
(15,957)	0	Deferred Tax		(10,932)	0
(37,201)	(37,201)	Deferred Liability	43.	(44,960)	(42,078)
(4,713)	0	Liabilities in Associates and Joint Ventures		(3,472)	0
(659,468)	(659,468)	Other Long-Term Liabilities (Pensions)	27.5	(523,535)	(523,535)
<b>(2,072,918)</b>	<b>(2,060,519)</b>	<b>Long-Term Liabilities</b>		<b>(2,109,441)</b>	<b>(2,092,938)</b>
<b>2,827,291</b>	<b>2,629,769</b>	<b>Net Assets</b>		<b>3,160,595</b>	<b>2,951,180</b>
2,505,652	2,386,886	<b>Unusable Reserves</b>	27.	2,799,889	2,662,042
321,639	242,883	<b>Usable Reserves</b>	12.	360,706	289,138
<b>2,827,291</b>	<b>2,629,769</b>	<b>Total Reserves</b>		<b>3,160,595</b>	<b>2,951,180</b>

The unaudited accounts were issued on 30 June 2020. The audited accounts were issued on 5 November 2020.

HUGH DUNN, CPFA  
Head of Finance  
Date

## CASH FLOW STATEMENT

The Cash Flow Statement shows the changes in cash and cash equivalents of the Council and Group during the reporting period. The statement shows how the Council and Group generate and use cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council and Group are funded by way of taxation and grant income or from the recipients of services provided by the Council and Group. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council and Group's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Council and Group.

Year to 31 March 2019			Year to 31 March 2020	
Group	Council		Group	Council
£000	£000	Notes	£000	£000
<b>Operating Activities</b>				
131,462	124,700	Surplus on the Provision of Services	25,262	11,202
(275)	0	Adjustment to Surplus / (Deficit) for Taxation of Group entities	374	0
(424,427)	(390,892)	Adjustments to Surplus on the Provision of Services for non-cash movements	(258,532)	(217,449)
14,799	13,742	Adjustments for items included in the Surplus on the Provision of Services that are investing or Financing Activities	58,081	55,027
<u>(278,441)</u>	<u>(252,450)</u>	Net cash flows from operating activities	<u>(174,815)</u>	<u>(151,220)</u>
<b>Investing Activities</b>				
204,420	187,703	Net cash flows from investing activities	349,554	314,867
<b>Financing Activities</b>				
<u>75,199</u>	<u>71,473</u>	Net cash flows from financing activities	<u>(149,099)</u>	<u>(138,145)</u>
<u>1,178</u>	<u>6,726</u>	<b>Net decrease in cash and cash equivalents</b>	<u>25,640</u>	<u>25,502</u>
<u>(137,022)</u>	<u>(113,405)</u>	Cash and cash equivalents at 1 April	<u>(135,844)</u>	<u>(106,679)</u>
<u>(135,844)</u>	<u>(106,679)</u>	Cash and cash equivalents at 31 March	<u>(110,204)</u>	<u>(81,177)</u>
<u>1,178</u>	<u>6,726</u>	<b>Net decrease in cash and cash equivalents</b>	<u>25,640</u>	<u>25,502</u>



# NOTES TO THE FINANCIAL STATEMENTS

## 1. Accounting Policies

The Annual Accounts summarise the authority's and the authority's group transactions for the 2019/20 financial year and its position at the year-end of 31 March 2020. 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 2019/20 (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 or misstatement. Materiality is an expression of the relative significance of a matter in the context of the annual accounts as a whole.

The assessment of materiality is based on 1% of gross expenditure, at net cost of services level, as this is considered to be the principal consideration for users when assessing the Group and Council's performance. The materiality assessment is set out in the table below.

Specific levels of materiality are considered appropriate for both the Trading Operation and the Housing Revenue Account. The trading operation has been assessed on 5% of its cumulative three year deficit and the Housing Revenue Account on 1% of gross expenditure.

Group	Council	HRA	Trading
£m	£m	£m	£m
22.286	20.305	0.829	0.013

The principle of materiality does not, however, override the need for relevant statutory disclosures (such as those included within the remuneration report), even if the amounts concerned would otherwise fall below the materiality threshold. Similarly, the assessment of materiality also considers the nature of transactions, irrespective of amount, insofar as these might influence a user of the financial statements.

### 1.2 Recognition of Income and Expenditure

- The revenue and capital accounts have been prepared on an accruals basis in accordance with the Code of Practice. Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

Income from service recipients is recognised when the goods or services are transferred to the service recipient.

Supplies are recorded as expenditure when they are consumed. Where there is a gap between the date the supplies are received and their consumption, they are carried as inventories on the Balance Sheet.

- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded on the Balance Sheet.
- Provision has been made in the relevant accounts for bad and doubtful debts.
- Revenue from Council Tax and Non Domestic Rates is recognised when it is probable that the economic benefits will flow and the amount of revenue can be measured reliably. Revenue is measured at the full amount receivable (net of any bad debt provision) as they are non-contractual, non-exchange transactions.

### 1.3 Value Added Tax

Value added tax (VAT) is excluded from the financial statements unless it is non-recoverable from HM Revenue and Customs.

### 1.4 Overheads

The costs of support services are reported in accordance with the current management structure. Certain support service costs are recovered through direct charges during the year.

### 1.5 Events after the balance sheet date

Events after the balance sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Annual Accounts are authorised for issue. Two types of events can be identified:

# NOTES TO THE FINANCIAL STATEMENTS

## 1. Accounting Policies - continued

### 1.5 Events after the balance sheet date - continued

- those that provide evidence of conditions that existed at the end of the reporting period - the Annual Accounts are adjusted to reflect such events.
- those that are indicative of conditions that arose after the reporting period - the Annual Accounts are not adjusted to reflect such events, but where the effect would have been material, disclosure is made in the notes of the nature of the event and its estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Annual Accounts.

### 1.6 Prior period adjustments, changes in accounting policies and estimates

Prior period adjustments may arise as a result of a change in accounting policy or to correct a material error. Changes in accounting policy are only made when required by proper accounting practice or to provide more reliable or relevant information on the Council's financial position. Where a change is made, it is applied retrospectively by adjusting opening balances and comparative amounts for the prior period, as if the new policy had always been applied. Changes in accounting estimation techniques are applied in the current and future years and do not give rise to a prior period adjustment.

### 1.7 Public Private Partnership - School Buildings, Maintenance and Other Facilities

Public Private Partnership (PPP) contracts are agreements to receive services, where the responsibility for making available the non-current assets required to provide the services passes to the PPP contractor. As the Council is deemed to control the services that are provided under this scheme and as ownership of the schools and other facilities will pass to the Council at the end of the contracts for no additional charge, the Council carries the non-current assets used under the contracts on its Balance Sheet.

Non-current assets recognised on the Balance Sheet are revalued and depreciated in the same way as other assets owned by the Council.

The amounts payable to the PPP operators each year are analysed into five elements:

- fair value of the services received during the year - debited to services in the Comprehensive Income and Expenditure Statement.
- finance cost - an interest charge of 8.968% (PPP1 scheme), 5.895% (PPP2 scheme), 8.197% (James Gillespie's High School) and 18.88% (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.

### 1.8 Fair Value measurement - surplus assets and investment properties

Surplus assets, investment properties and relevant financial instruments are measured at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value of an asset or liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

# NOTES TO THE FINANCIAL STATEMENTS

## 1. Accounting Policies - continued

### 1.8 Fair Value measurement - surplus assets and investment properties - continued

In measuring the fair value, the market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use is taken into account.

Appropriate valuation techniques have been applied, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy as:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities that the authority can access at the measurement date.
- Level 2 - inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 - unobservable inputs for the asset or liability.

### 1.9 Property, Plant and Equipment

#### • Categories of Assets

Property, plant and equipment is categorised into the following classes:

Council dwellings	Other land and buildings
Vehicles, plant, furniture and equipment	Infrastructure assets, e.g. roads and footways
Community assets, e.g. parks	Assets under construction
Surplus assets (assets that are surplus to requirements, but there are no clear plans to sell these at the current time)	

#### • Recognition

Expenditure on the acquisition, creation or enhancement of non-current assets has been capitalised on an accruals basis. Expenditure lower than £6,000 on individual assets is charged to revenue.

#### • Measurement

Infrastructure, community assets and assets under construction are measured at historical cost.

All other classes of property, plant and equipment are measured at fair value.

- Other land and buildings - fair value is the amount that would be paid for the assets in their existing use.
- Council dwellings - fair value is measured at existing use value - social housing.
- Vehicles, plant, furniture and equipment - fair value is the amount equivalent to depreciated historical cost for short life and/or low value assets. For assets with longer lives and/or high values, fair value is the amount that would be paid for the asset in its existing use or depreciated replacement cost for specialised /rarely sold assets where insufficient market-based evidence exists.
- Surplus assets - fair value is the price that would be paid for an asset in its highest and best use.

# NOTES TO THE FINANCIAL STATEMENTS

## 1. Accounting Policies - continued

### 1.9 Property, Plant and Equipment - continued

- **Depreciation**

Depreciation is provided on all property, plant and equipment, other than freehold land, community assets and assets under construction.

The Council depreciates its non-current assets in the year of acquisition. The Council operates a five-year rolling revaluation programme for assets and provides for depreciation on a straight line basis on the opening book value plus the cost of acquisitions and enhancements during the year over the remaining useful life of the asset. Thus the charge to the Comprehensive Income and Expenditure Statement for the year is impacted by changes in asset value during the year arising from enhancements but not revaluation.

Component accounting is applied as part of the revaluation process. As a result, where a building asset is split down into further components for the first time in year, the depreciation charge is based on the opening book value over the opening remaining useful life of the asset rather than subsequent component values and associated lives. The difference is not considered material.

- **Charges to Revenue for use of Non-Current Assets**

Service revenue accounts, support services and trading accounts are debited with the following amounts to record the real cost of holding non-current assets during the year:

- depreciation attributable to the assets used by the relevant service.
- impairment losses attributable to the clear consumption of economic benefits on property, plant and equipment used by the service and other losses where there are no accumulated gains in the Revaluation Reserve against which they can be written off.

The Council is not required to raise Council Tax to cover depreciation or impairment losses. Depreciation and impairment losses are therefore a reconciling item in the Movement in Reserves Statement for the General Fund and Housing Revenue Account by way of an adjusting transaction with the capital adjustment account.

- **Revaluations**

Where assets are included in the Balance Sheet at fair value, revaluations are carried out at intervals of no more than five years. The Council operates a rolling programme for revaluations. The determination of fair value of land and buildings is undertaken by the Council's Operational Estate Manager.

- **De-recognition**

An asset is de-recognised either on its disposal, or where no future economic benefits or service potential are expected from its use or disposal. The gain or loss arising from de-recognition of an asset is included in 'surplus or deficit on the provision of services' within the Comprehensive Income and Expenditure Statement when the asset is de-recognised.

The gain or loss on de-recognition of property, plant and equipment assets is a reconciling item in the Movement in Reserves Statement for the General Fund and Housing Revenue Account.

- **Components**

Component accounting is applied to all assets that comprise land and buildings. Land and buildings are treated as separate components of an asset and accounted for separately.

The building component of an asset is separated into further components primarily to those with a carrying value of over £5 million. This policy is also applied to buildings with a carrying value of less than £5 million where enhancement expenditure is considered significant in relation to the overall carrying value of the building component.

# NOTES TO THE FINANCIAL STATEMENTS

## 1. Accounting Policies - continued

### 1.9 Property, Plant and Equipment - continued

Where it is necessary to break a building down into further components, the following categories are applied:

- Structural - includes external and internal walls, traditional roofing, doors, etc.
- Non-traditional roofing - includes flat roof, non-traditional roof coverings and industrial type roofs.
- Finishes - includes doors, windows and room finishes.
- Mechanical and electrical services - includes water, heat, ventilation, electrical, lifts, fire and communications.
- Fittings and furnishings - includes fittings, furnishings and sanitary appliances.

### 1.10 Revenue Expenditure Funded from Capital Under Statute

Expenditure that may be capitalised under statutory provisions that does not result in the creation of assets for the Council has been charged to the 'cost of services' in the Comprehensive Income and Expenditure Statement.

These costs are a reconciling item in the Movement in Reserves Statement for the General Fund by way of an adjusting transaction with the capital adjustment account.

### 1.11 Group Account Consolidation

The group has reviewed its investments in other entities to assess whether the conclusion to consolidate is different under IFRS 10 than under IAS 27. No differences were found.

Group accounts have been prepared on the following basis:

- Accounting policies for group members have been aligned where possible.
- The following methods of consolidation have been used:
  - Subsidiaries - line-by-line basis;
  - Associates - equity method.
- Transport for Edinburgh Limited's, 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 COVID-19 pandemic on the financial position of the companies. An adjustment was made for the pension valuation of Transport for Edinburgh, as a result of this review, 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 2019. The Council is not required to adopt this standard until 1 April 2021 and therefore consolidation adjustments have been made.
- 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. Expenditure and Funding Analysis - Council

The objective of the Expenditure and Funding Analysis is to demonstrate to Council Tax and rent payers how the funding available to the authority (i.e. government and other grants, rents, fees and charges, Council Tax and business rates) for the year has been used in providing services in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. The Expenditure and Funding Analysis also shows how this expenditure is allocated for decision making purposes between the Council's services. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement on Page 20.

2019/20	Net Expend. Chargeable to the General Fund and HRA Balances £000	Adjustments £000	Net Expenditure in the CIES £000
Communities and Families Place	423,570	12,484	436,054
Housing Revenue Account	53,269	83,145	136,414
Health and Social Care Resources	0	(15,308)	(15,308)
Chief Executive	218,472	9,639	228,111
Lothian Valuation Joint Board	167,555	103,362	270,917
	9,050	1,538	10,588
	3,678	0	3,678
<b>Cost of Services</b>	<b>875,594</b>	<b>194,860</b>	<b>1,070,454</b>
<b>Other income and expenditure</b>			
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)	(1,935)	(5,139)
Interest payable and similar charges ( <i>loan charges in management reporting</i> )	104,710	20,259	124,969
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 to Renewal and Repairs Fund	0	0	0
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)
Donated asset income	0	(61,453)	(61,453)
Capital grants and contributions	0	(127,806)	(127,806)
<b>(Surplus) / Deficit on the provision of services</b>	<b>4,907</b>	<b>6,295</b>	<b>11,202</b>
Opening General Fund and HRA Balance	144,845		
Contributions to / (from) reserves, including those within services ( <i>see notes 12.1 and 12.3 for detail</i> )	(19,827)		
Deficit on the provision of services	(4,907)		
Closing General Fund and HRA Balance at 31 March	120,111		

For a split of the balance between the General Fund and the HRA, see the Movement in Reserves Statement on page 17.

## NOTES TO THE FINANCIAL STATEMENTS

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

2018/19 Comparative Data	Net Expend. Chargeable to the General Fund and HRA		Net Expenditure in the CIES
	Balances £000	Adjustments £000	
Communities and Families Place	397,307	17,096	414,403
Housing Revenue Account	54,295	85,759	140,054
Health and Social Care Resources	0	(22,130)	(22,130)
Chief Executive	208,237	7,440	215,677
Lothian Valuation Joint Board	172,582	110,728	283,310
	9,656	813	10,469
	3,575	0	3,575
<b>Cost of Services</b>	<b>845,652</b>	<b>199,706</b>	<b>1,045,358</b>
<b>Other income and expenditure</b>			
Net cost of benefits	(811)	0	(811)
Other non-service specific costs	23,246	40,316	63,562
Net deficit on trading activities	0	36	36
Net income and changes in relation to investment properties and changes in their fair value	0	(2,768)	(2,768)
Interest and investment income	(12,020)	(386)	(12,406)
Interest payable and similar charges ( <i>loan charges in management reporting</i> )	107,521	(25,086)	82,435
Net pension interest cost	0	14,129	14,129
Gains on disposal of assets	0	(6,001)	(6,001)
Gains on derecognition or revaluation of financial assets	0	(155)	(155)
Contribution to Renewal and Repairs Fund	173	(173)	0
Contribution from Capital Fund	(980)	980	0
Contribution from General Fund	(697)	697	0
Income from Council tax	(259,435)	0	(259,435)
Government Grants	(363,757)	0	(363,757)
Distribution from NDR1 pool	(340,474)	0	(340,474)
Capital grants and contributions	0	(95,013)	(95,013)
<b>Surplus on the provision of services</b>	<b>(1,582)</b>	<b>126,282</b>	<b>124,700</b>
Opening General Fund and HRA Balance	151,285		
Contributions to / (from) reserves, including those within services ( <i>see notes 12.1 and 12.3 for detail</i> )	(8,022)		
Surplus on the provision of services	1,582		
Closing General Fund and HRA Balance at 31 March	144,845		

For a split of the balance between the General Fund and the HRA, see the Movement in Reserves Statement on page 18.

## NOTES TO THE FINANCIAL STATEMENTS

### 2. Expenditure and Funding Analysis - Council

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

##### Statement amounts

2019/20	Adjusts. For Capital Purposes £000	Net Change for Pensions Adjusts. £000	Other Differences £000	Total Statutory Adjusts. £000
Communities and Families Place	(5,735)	17,964	(311)	11,918
Housing Revenue Account	75,240	10,873	(842)	85,271
Health and Social Care Resources	(44,544)	811	12,970	(30,763)
Chief Executive	72	9,981	26	10,079
	108,327	9,050	(898)	116,479
	1	1,046	(81)	966
<b>Cost of Services</b>	<b>133,361</b>	<b>49,725</b>	<b>10,864</b>	<b>193,950</b>
<b>Other income and expenditure</b>				
Other non-service specific costs	(3,117)	(18,046)	(1)	(21,164)
Net income and changes in relation to investment properties and changes in their fair value	0	0	(309)	(309)
Interest and investment income	(1,188)	0	0	(1,188)
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	(61,453)	0	0	(61,453)
<b>Total Adjustments</b>	<b>(100,781)</b>	<b>48,089</b>	<b>41,900</b>	<b>(10,792)</b>

Notes -

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

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

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



## NOTES TO THE FINANCIAL STATEMENTS

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

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

2019/20	Total Statutory Adjusts. b/fwd £000	Presentation Adjusts. £000	Use of Reserves £000	Total Adjusts. £000
Communities and Families Place	11,918	(81)	647	12,484
Housing Revenue Account	85,271	(1,181)	(945)	83,145
Health and Social Care Resources	(30,763)	0	15,455	(15,308)
Chief Executive	10,079	(440)	0	9,639
	116,479	(16,586)	3,469	103,362
	966	0	572	1,538
<b>Cost of Services</b>	<b>193,950</b>	<b>(18,288)</b>	<b>19,198</b>	<b>194,860</b>
<b>Other income and expenditure</b>				
Other non-service specific costs	(21,164)	(3,504)	(1,652)	(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	(1,188)	(535)	(212)	(1,935)
Interest payable and similar charges	(3,768)	24,027	0	20,259
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	(61,453)	0	0	(61,453)
<b>Total Adjustments</b>	<b>(10,792)</b>	<b>0</b>	<b>17,087</b>	<b>6,295</b>

Notes -

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

## NOTES TO THE FINANCIAL STATEMENTS

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

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

Re-stated

2018/19 Comparative Data	Adjusts. For Capital Purposes £000	Net Change for Pensions Adjusts. £000	Other Differences £000	Total Statutory Adjusts. £000
Communities and Families Place	409	13,891	1,112	15,412
Housing Revenue Account	73,122	8,787	146	82,055
Health and Social Care Resources	(49,685)	2,035	(523)	(48,173)
Chief Executive	192	8,179	(59)	8,312
	110,913	7,415	60	118,388
	9	779	(4)	784
<b>Cost of Services</b>	<b>134,960</b>	<b>41,086</b>	<b>732</b>	<b>176,778</b>
<b>Other income and expenditure</b>				
Other non-service specific costs	(1,333)	41,770	(3)	40,434
Net income and changes in relation to investment properties and changes in their fair value	0	0	(1,026)	(1,026)
Interest and investment income	(115)	0	1	(114)
Interest payable and similar charges	(42,460)	0	(1,334)	(43,794)
Net pension interest cost		14,129	0	14,129
Gains on disposal of assets	(6,001)	0	0	(6,001)
Gains on derecognition or revaluation of financial assets	0	0	0	0
Capital grants and contributions	(95,013)	0	0	(95,013)
<b>Total Adjustments</b>	<b>(9,962)</b>	<b>96,985</b>	<b>(1,630)</b>	<b>85,393</b>

Notes -

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS

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

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

Re-stated

	Total Statutory Adjusts. b/fwd £000	Presentation Adjusts. £000	Use of Reserves £000	Total Adjusts. £000
<b>2018/19 Comparative Data</b>				
Communities and Families Place	15,412	(783)	2,467	17,096
Housing Revenue Account	82,055	422	3,282	85,759
Health and Social Care Resources	(48,173)	0	26,043	(22,130)
Chief Executive	8,312	(880)	8	7,440
	118,388	(16,081)	8,421	110,728
	784	0	29	813
<b>Cost of Services</b>	<b>176,778</b>	<b>(17,322)</b>	<b>40,250</b>	<b>199,706</b>
<b>Other income and expenditure</b>				
Other non-service specific costs	40,434	3,738	(3,856)	40,316
Net deficit on trading activities	0	36	0	36
Net income and changes in relation to investment properties and changes in their fair value	(1,026)	(1,742)	0	(2,768)
Interest and investment income	(114)	0	(272)	(386)
Interest payable and similar charges	(43,794)	18,708	0	(25,086)
Net pension interest cost	14,129	0	0	14,129
Gains on disposal of assets	(6,001)	0	0	(6,001)
Gains on derecognition or revaluation of financial assets	0	(155)	0	(155)
Use of reserves	0	(3,263)	4,767	1,504
Capital grants and contributions	(95,013)	0	0	(95,013)
<b>Total Adjustments</b>	<b>85,393</b>	<b>0</b>	<b>40,889</b>	<b>126,282</b>

Notes -

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

## NOTES TO THE FINANCIAL STATEMENTS

### 2. Expenditure and Funding Analysis - Council

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

2019/20	Communities and Families		Housing Revenue Account	Health and Social Care
	£000	Place £000	£000	£000
<b>Expenditure</b>				
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	1,737	18,001	0
Debt repayments ( <i>HRA only</i> )	0	0	43,695	0
<b>Total Expenditure</b>	<b>542,954</b>	<b>265,441</b>	<b>121,470</b>	<b>319,646</b>
<b>Income</b>				
Revenues from external customers	(53,075)	(142,270)	(98,098)	(19,432)
Income from recharges for services	(16)	(435)	(166)	0
Government grants and other contribs.	(66,293)	(69,467)	(22,018)	(81,742)
Interest and investment income	0	0	(1,188)	0
<b>Total Income</b>	<b>(119,384)</b>	<b>(212,172)</b>	<b>(121,470)</b>	<b>(101,174)</b>
<b>Cost of Services</b>	<b>423,570</b>	<b>53,269</b>	<b>0</b>	<b>218,472</b>

Expenditure	Resources	Chief Executive	Lothian Valuation Joint Board	Council Total
	£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	38,011
Debt repayments ( <i>HRA only</i> )	0	0	0	43,695
<b>Total Expenditure</b>	<b>225,693</b>	<b>13,542</b>	<b>3,678</b>	<b>1,492,424</b>
<b>Income</b>				
Revenues from external customers	(29,342)	(780)	0	(342,997)
Income from recharges for services	(9,938)	(475)	0	(11,030)
Government grants and other contribs.	(18,858)	(3,237)	0	(261,615)
Interest and investment income	0	0	0	(1,188)
<b>Total Income</b>	<b>(58,138)</b>	<b>(4,492)</b>	<b>0</b>	<b>(616,830)</b>
<b>Cost of Services</b>	<b>167,555</b>	<b>9,050</b>	<b>3,678</b>	<b>875,594</b>

Expenditure	Subsidiaries	Associates and Joint Ventures	Group Total
	£000	£000	£000
Employee expenses	119,178	0	726,447
Other service expenses	53,917	0	850,306
Support service recharges	0	0	7,060
Depreciation, amortisation and impairment	24,433	0	24,433
Interest payments	0	0	38,011
Debt repayments ( <i>HRA only</i> )	0	0	43,695
Net expend from Associates and Joint Ventures	0	5,190	5,190
<b>Total Expenditure</b>	<b>197,528</b>	<b>5,190</b>	<b>1,695,142</b>
<b>Income</b>			
Revenues from external customers	(214,616)	0	(557,613)
Income from recharges for services	0	0	(11,030)
Government grants and other contribs.	34,068	0	(227,547)
Interest and investment income	0	0	(1,188)
Net income from Associates and Joint Ventures	0	(461)	(461)
<b>Total Income</b>	<b>(180,548)</b>	<b>(461)</b>	<b>(797,839)</b>
<b>Cost of Services</b>	<b>16,980</b>	<b>4,729</b>	<b>897,303</b>

## NOTES TO THE FINANCIAL STATEMENTS

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

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

2018/19 Comparative Data	Communities and Families		Housing Revenue	Health and Social Care
	£000	Place £000	Account £000	£000
<b>Expenditure</b>				
Employee expenses	309,712	81,762	10,758	88,237
Other service expenses	182,626	189,852	44,496	215,450
Support service recharges	0	0	6,742	0
Interest payments	78	0	18,897	0
Debt repayments ( <i>HRA only</i> )	0	0	52,916	0
<b>Total Expenditure</b>	<b>492,416</b>	<b>271,614</b>	<b>133,809</b>	<b>303,687</b>
<b>Income</b>				
Revenues from external customers	(46,125)	(139,043)	(102,814)	(20,924)
Income from recharges for services	(44)	(458)	(150)	0
Government grants and other contribs.	(48,940)	(77,818)	(30,730)	(74,526)
Interest and investment income	0	0	(115)	0
<b>Total Income</b>	<b>(95,109)</b>	<b>(217,319)</b>	<b>(133,809)</b>	<b>(95,450)</b>
<b>Cost of Services</b>	<b>397,307</b>	<b>54,295</b>	<b>0</b>	<b>208,237</b>
			Lothian	
			Chief	
			Valuation	
	Resources	Executive	Joint Board	Council Total
<b>Expenditure</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Employee expenses	75,112	7,376	0	572,957
Other service expenses	130,942	3,781	3,575	770,722
Support service recharges	40	0	0	6,782
Interest payments	18,521	0	0	37,496
Debt repayments ( <i>HRA only</i> )	0	0	0	52,916
<b>Total Expenditure</b>	<b>224,615</b>	<b>11,157</b>	<b>3,575</b>	<b>1,440,873</b>
<b>Income</b>				
Revenues from external customers	(29,790)	(431)	0	(339,127)
Income from recharges for services	(9,546)	(462)	0	(10,660)
Government grants and other contribs.	(12,697)	(608)	0	(245,319)
Interest and investment income	0	0	0	(115)
<b>Total Income</b>	<b>(52,033)</b>	<b>(1,501)</b>	<b>0</b>	<b>(595,221)</b>
<b>Cost of Services</b>	<b>172,582</b>	<b>9,656</b>	<b>3,575</b>	<b>845,652</b>
			Associates and Joint	
			Ventures	
			Subsidiaries	Group Total
<b>Expenditure</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Employee expenses	102,332	0	0	675,289
Other service expenses	75,754	0	0	846,476
Support service recharges	0	0	0	6,782
Depreciation, amortisation and impairment	19,950	0	0	19,950
Interest payments	0	0	0	37,496
Debt repayments ( <i>HRA only</i> )	0	0	0	52,916
Net expend from Associates and Joint Ventures	0	0	984	984
<b>Total Expenditure</b>	<b>198,036</b>	<b>984</b>	<b>984</b>	<b>1,639,893</b>
<b>Income</b>				
Revenues from external customers	(190,361)	0	0	(529,488)
Income from recharges for services	0	0	0	(10,660)
Government grants and other contribs.	31	0	0	(245,288)
Interest and investment income	0	0	0	(115)
Net income from Associates and Joint Ventures	0	0	(1,361)	(1,361)
<b>Total Income</b>	<b>(190,330)</b>	<b>(1,361)</b>	<b>(1,361)</b>	<b>(786,912)</b>
<b>Cost of Services</b>	<b>7,706</b>	<b>(377)</b>	<b>852,981</b>	

## NOTES TO THE FINANCIAL STATEMENTS

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

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

	<b>2019/20</b>	<b>2018/19</b>
	<b>£000</b>	<b>£000</b>
<b>Expenditure</b>		
Employee expenses	764,758	766,484
Other service expenses	1,206,642	1,215,609
Support service recharges	7,059	6,782
Depreciation, amortisation and impairment	245,613	239,622
Interest payments	228,640	181,511
Net Interest in the profit/loss of associates and joint ventures	4,729	(377)
<b>Total Expenditure</b>	<b><u>2,457,441</u></b>	<b><u>2,409,631</u></b>
<b>Income</b>		
Fees, charges and other service income	(927,794)	(887,603)
(Gain) / Loss on the disposal of assets	(5,331)	(5,888)
Donated asset income	(61,453)	0
Interest and investment income	(97,419)	(101,331)
Income from Council Tax and Non-Domestic Rates	(637,068)	(599,909)
Government grants and other contributions	(570,205)	(589,077)
Recognised capital income	(127,806)	(95,013)
<b>Total Income</b>	<b><u>(2,427,076)</u></b>	<b><u>(2,278,821)</u></b>
<b>Group Deficit</b>	<b><u>30,365</u></b>	<b><u>130,810</u></b>

#### Council

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

	<b>2019/20</b>	<b>2018/19</b>
	<b>£000</b>	<b>£000</b>
<b>Expenditure</b>		
Employee expenses	645,580	664,152
Other service expenses	1,152,351	1,139,978
Support service recharges	7,059	6,782
Depreciation, amortisation and impairment	221,180	219,672
Interest payments	212,638	169,882
<b>Total Expenditure</b>	<b><u>2,238,808</u></b>	<b><u>2,200,466</u></b>
<b>Income</b>		
Fees, charges and other service income	(713,177)	(697,243)
(Gain) / Loss on the disposal of assets	(5,464)	(6,001)
Interest and investment income	(78,364)	(88,492)
Income from Council Tax and Non-Domestic Rates	(637,069)	(599,909)
Government grants and other contributions	(604,273)	(589,108)
Recognised capital income	(127,806)	(95,013)
Donated asset income	(61,453)	0
<b>Total Income</b>	<b><u>(2,227,606)</u></b>	<b><u>(2,075,766)</u></b>
<b>Deficit on the Provision of Services</b>	<b><u>11,202</u></b>	<b><u>124,700</u></b>

## NOTES TO THE FINANCIAL STATEMENTS

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

The Code requires the disclosure of information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. This applies to the adoption of the following new or amended standards within the 2020/21 Code:

The Code requires implementation from 1 April 2020 and there is therefore no impact on the 2019/20 financial statements.

- Amendments to IAS 28 Investments in Associates and Joint Ventures: Long-term Interests in Associates and Joint Ventures
- Amendments to IFRS 3 Business Combinations and IFRS 11 Joint Arrangements.
- Amendments to IAS 12 Income Taxes
- Amendments to IAS 23 Borrowing Costs
- Annual Improvements to IFRS Standards 2015-2017 Cycle
- Amendments to IAS 19 Employee Benefits: Plan amendment, curtailment or settlement
- Amendments to References to the Conceptual Framework in IFRS Standards
- Amendment to line item specifications for the net assets statement as detailed in Section 6.5, paragraph 6.5.3.6.b

### 5. Judgements Made in Applying Accounting Policies

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

#### 5.1 Provision of School Buildings and Waste Facility

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

The 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 £519.948m and £100.955m respectively at 31 March 2020) are recognised as Property, Plant and Equipment on the Council's Balance Sheet.

#### 5.2 Group Membership

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS

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

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

Item	Uncertainty	Effect if Actual Results Differ from Assumptions
Property, Plant and Equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. A reduction in spending on repairs and maintenance would bring into doubt the useful lives assigned to the assets. Council dwellings are valued using the Beacon Method which aggregates the vacant possession values of each unit of housing stock. The beacon discount factor is determined by applying a capitalisation yield to the gross rental income and comparing this to the aggregate value. This methodology takes account of regional variations in capital values, stock condition, rent arrears and voids. The discount factor applied in the 2019-20 revaluations is 38% with a 4% uplift (38% previously).	If the useful life of assets is reduced, depreciation increases and the carrying value of the assets falls.
	There are potential impacts on the valuation of non-HRA PPE and investment properties as a result of the Covid-19 pandemic, with additional detail included in Note 15.7.	It is estimated that the annual depreciation charge would increase and the carrying value would fall by £13.821m for each year that useful lives were reduced.
		If the discount factor is increased by 1%, this would lead to a corresponding reduction in the total value of council dwellings of £25.262m.
		The range of uncertainty on the valuation of non-HRA PPE has not been identified and therefore we are unable to quantify the potential impact on the accounts.
Pensions Liability	<p>Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.</p> <p>The interim solution to avoid inequalities between men and women's benefits following the introduction of the Single Status Pension in 2016 has resulted in a recalculation of pension liabilities related to the estimated impact of Guaranteed minimum pension (GMP) indexation changes.</p> <p>Legislation requires the Local Government Pension Scheme (LGPS) to undertake periodic valuations to monitor the cost of the LGPS to ensure it remains sustainable and affordable. The costs management process has been paused following the Court of Appeal ruling that the transitional arrangements in both the Judges' Pension Scheme (McCloud) and Firefighters' Pension Scheme (Sargeant) were age discriminatory. These cases could have knock on implications for the LGPS (potentially increasing the liabilities).</p> <p>The 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.</p>	<p>The effects on the net pensions liability of changes in individual assumptions can be measured.</p> <p>Note 42.6 provides further information on the Council's pension liability.</p> <p>The estimate for the Council is that total liabilities could be approximately £10.32m higher. The increased liability has been reflected in the pension liability as a past service cost. This estimate will be revised at the upcoming valuation.</p> <p>The Council's actuary has included an estimate within the pension liability as a past service cost. The allowance has been reduced in the current valuation to reflect the recent proposed changes to eligibility.</p> <p>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.</p>



## NOTES TO THE FINANCIAL STATEMENTS

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

Arrears	At 31 March, the Council had a balance of sundry debtors of £28.035m. A review of significant balances suggested that an impairment of doubtful debts of £3.156m (11.3%) was appropriate. In the current economic climate it is not certain that this will be sufficient.	If collection rates were to deteriorate, a 5% increase in the rate of the impairment of doubtful debts would require an additional £1.402m to be set aside as an allowance.
House Rent Arrears	At 31 March, the Council had a balance of housing rent arrears of £7.569m. A review of significant balances suggested that an impairment of doubtful debts of £6.386m (84.4%) was appropriate. In the current economic climate it is not certain that this will be sufficient.	There is a relatively high level of arrears and the impairment set aside should help protect against potential loss of income to the Council arising from welfare reforms such as Universal Credit and the reduction in the benefits cap announced in the UK Government's budget, which will potentially impact on the level of rent arrears.

This list does not include assets and liabilities that are carried at fair value based on recently observed market prices.

### 7. Material Items of Income and Expense

There are no material items of Income and Expense that require to be highlighted in this disclosure.

### 8. Events After the Balance Sheet Date

As with organisations across Scotland, the UK and indeed the world, the COVID-19 pandemic has already had a massive impact on the Council's service delivery models and financial stability. Further details of these impacts and remedial steps taken and planned are included in the Management Commentary.

### 9. Subsidiaries and Associates

The Council holds shares in various trading companies, either as a controlling or minority shareholder.

The Council is also represented on the Boards of various companies that are limited by guarantee and have no share capital. It participates in these companies by means of Board membership and the provision of funding and management support.

The following entities have a significant impact on the Council's operations and have been consolidated into the Group Accounts:

<b>Subsidiaries:</b>	<b>Shareholding</b>	
• CEC Holdings Limited	100.00%	
• Transport for Edinburgh Limited	100.00%	
• Edinburgh Living MMR LLP	99.999%	
<b>Associates:</b>		
• Edinburgh Leisure	33.33%	Board representation
• Capital Theatres	33.33%	Board representation
• Lothian Valuation Joint Board	61.29%	Funding percentage
• Common Good	100.00%	
<b>Joint Venture</b>	<b>Interest</b>	
• Edinburgh Integration Joint Board	50.00%	Board representation

## NOTES TO THE FINANCIAL STATEMENTS

### 9. Subsidiaries and Associates - continued

The following companies are not consolidated into the Group Accounts. An assessment has been carried out on these companies, their activities and the level of Council control. These companies are not considered to be a material part of the Group and have therefore been excluded from the Group Accounts:

	<b>Shareholding</b>
• 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 31.12.19)
• Telford NHT LLP	> 75% controlling interest

In January 2019 the Council bought out the developer's share in Telford NHT LLP and now holds majority control of this associate, in conjunction with the Scottish Futures Trust.

LFPE Limited and LPFI Limited are now consolidated in the annual accounts of Lothian Pension Fund. Unless otherwise stated, the accounts of these bodies may be accessed, as they become available, through [the Council's website](#).

#### 9.1 Subsidiary Companies

##### • CEC Holdings Limited

The principal activities of the company are property development and the operation of an international conference centre. The company is wholly owned by the City of Edinburgh Council.

The most recent audited results of the company are as follows:	<b>31.12.19</b>	<b>31.12.18</b>
	<b>£000</b>	<b>£000</b>
Net assets	20,416	18,137
Net (profit) / loss before taxation	(3,058)	(158)
Retained profit / (loss) carried forward	(49,497)	(51,059)

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:

	<b>31.12.19</b>	<b>31.12.18</b>
	<b>£000</b>	<b>£000</b>
<b>Transport for Edinburgh Limited (Consolidated Group)</b>		
Net assets	129,486	148,768
Net (profit) / loss before taxation	16,873	6,920
Retained earnings	22,223	58,789
Dividend paid in March 2019 and March 2018	7,000	6,180

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 unaudited results of the partnership are as follows:	<b>31.12.19</b>	<b>31.12.18</b>
	<b>£000</b>	<b>£000</b>
Net assets	209	0
Net (profit) / loss before taxation	(8,229)	0
Retained (profit) / loss carried forward	(8,229)	0

## NOTES TO THE FINANCIAL STATEMENTS

### 9. Subsidiaries and Associates - continued

#### 9.2 Associates

- **Edinburgh Leisure**

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

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

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

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

The most recent audited results of the company are as follows:	<b>31.03.20</b>	<b>31.03.19</b>
	<b>£000</b>	<b>£000</b>
Net assets / (liabilities)	(1,223)	610
Net operating (profit) / loss	4,901	(1,114)
Earnings / (Losses) carried forward	(1,223)	610

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:	<b>31.03.20</b>	<b>31.03.19</b>
	<b>£000</b>	<b>£000</b>
Net assets	5,323	4,877
Net operational (profit) / loss	(561)	(828)
Fund balances carried forward	5,323	4,877

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

- **Lothian Valuation Joint Board**

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

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

	<b>31.03.20</b>	<b>31.03.19</b>
	<b>£000</b>	<b>£000</b>
Deficit for the year	478	1,520
Net Liabilities	(5,002)	(7,709)
Usable reserves	897	897
Unusable reserves	(5,899)	(8,606)
Total reserves	<u>(5,002)</u>	<u>(7,709)</u>

# NOTES TO THE FINANCIAL STATEMENTS

## 9.3 Joint Ventures

### • Edinburgh Integration Joint Board

The Edinburgh Integration Joint Board (EIJB) was established by order of Scottish Ministers on 27 June 2015 under the Public Bodies (Joint Working) (Scotland) Act 2014.

The Board comprises 10 voting members, made up of five elected members appointed by the City of Edinburgh Council and five NHS non-executive directors appointed by NHS Lothian, along with a number of non voting members.

The expenditure incurred by the EIJB is covered in full by income received from the partner bodies, NHS Lothian and the City of Edinburgh Council. EIJB therefore commission services from the parent bodies based on the approved strategic plan.

The most recent audited results of the Board are as follows:	<b>31.03.20</b>	<b>31.03.19</b>
	<b>£000</b>	<b>£000</b>
Gross expenditure	762,032	726,394
(Surplus) / Deficit for the year	6,528	(1,342)
Usable reserves	3,166	9,694

## 9.4 Audit Opinions noted on the Accounts of the Companies

Unless otherwise indicated, the companies' accounts are audited.

## 9.5 Shareholder Support to Council Companies

A number of companies within the group are currently dependent on the continued financial support of the Council. The companies are EICC Limited, a subsidiary of CEC Holdings Limited - (the Council owns 100% of the shares in CEC Holdings Limited), Transport for Edinburgh Ltd - (including Lothian Buses and Edinburgh Trams Ltd), Capital Theatres and Edinburgh Leisure.

## 9.6 Financial Impact of Consolidation

The effect of inclusion of subsidiaries and associates on the Group Balance Sheet is to increase both reserves and net assets by £209.415m (2018/19 £197.522m) representing the Council's share of the realisable surpluses or deficits in these companies.

## 10. Contingent Liabilities

Contingent Assets and Liabilities are not recognised in the accounting statements. Where there is probable inflow or outflow of economic benefits or service potential, these are disclosed in the notes to the financial statements.

There may be outstanding liability claims or claims to be submitted against the Council in relation to insured and uninsured losses or incidents. The actual cost and timing of any claims cannot be estimated with reasonable accuracy and consequently no specific provision has been made in the financial statements in respect of any such claims.

The Scottish Child Abuse Inquiry was set up in October 2015 to examine the abuse of children in care from the 1930s to the present day and has identified a number of care institutions it wishes to investigate, including four council establishments - Howdenhall Centre, St Katherine's and two children's homes that closed in the 1980s. The Council has set up a project team to support the inquiry, review historic records and ensure that the evidence required by the Inquiry can be provided. There is a possibility that these investigations may give rise to significant claims against local authorities in Scotland, including the Council.

The Inquiry has given rise to a number of allegations in respect of Council-operated or commissioned facilities which are at varying stages of consideration. There are currently 19 open claims with an estimated potential financial exposure of £2-3m. The resulting overall cost to the Council will reflect a number of factors, including any resulting amounts of settlement, extent of relevant insurance coverage and potential direct contributions to a Scotland-wide statutory redress scheme, an accompanying bill for which was introduced in the Scottish Parliament in August 2020.

## NOTES TO THE FINANCIAL STATEMENTS

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

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the Council in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure.

2019/20	Usable Reserves		
	General Fund Balance £000	Housing Revenue Account Balance £000	Capital Receipts Reserve £000
<b>Adjustments primarily involving the Capital Adjustment Account</b>			
<b>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement (CIES)</b>			
Charges for depreciation and impairment of non-current assets	192,044	29,078	0
Movements in the market value of investment properties	(351)	42	0
Amortisation and impairment 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	(61,453)	0	0
Capital fund used to finance new capital expenditure	0	0	0
Revenue expenditure funded from capital under statute	52,778	0	0
<b>Insertion of items not debited or credited to the CIES</b>			
Statutory provision for the financing of capital investment	(76,301)	(20,695)	0
Capital expenditure charged against General Fund and HRA balances	(52,778)	0	0
<b>Adjustments primarily involving the Capital Grant Unapplied Account</b>			
Application of grants to capital financing transferred to the Capital Adjustment Account	0	0	0
<b>Adjustments primarily involving the Capital Receipts Reserve</b>			
Net (gain) / loss on sale of property, plant and equipment and assets held for sale	(1,910)	(3,554)	9,640
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	(9,640)
<b>Adjustments primarily involving the Financial Instruments Adjustment Account</b>			
Amount by which finance costs charged are different from finance costs chargeable in the year in accordance with statutory requirements	31,346	13,113	0
<b>Adjustments primarily involving the Pensions Reserve</b>			
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
<b>Adjustments primarily involving the Employee Statutory Adjustment Account</b>			
Amount by which officer remuneration charges to the CIES are different from remuneration chargeable in the year in accordance with statutory requirements	(2,107)	(144)	0
<b>Total Adjustments</b>	<b>23,019</b>	<b>(33,149)</b>	<b>0</b>

# NOTES TO THE FINANCIAL STATEMENTS

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

2019/20	Usable Reserves			Movement in Unusable Reserves £000
	Capital Grants Unapplied Account £000	Donated Asset Reserve £000	Capital Fund £000	
<b>Adjustments primarily involving the Capital Adjustment Account</b>				
<b>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement (CIES)</b>				
Charges for depreciation and impairment of non-current assets	0	0	0	(221,122)
Movements in the market value of investment properties	0	0	0	309
Amortisation of intangible assets	0	0	0	(58)
Capital grants and contributions applied	13,473	0	0	114,333
Capital funded from revenue	0	0	0	29,581
Donated assets	0	61,893	0	(440)
Capital fund used to finance new capital expenditure	0	0	(6,311)	6,311
Revenue expenditure funded from capital under statute	0	0	0	(52,778)
<b>Insertion of items not debited or credited to the CIES</b>	0	0	0	0
Statutory provision for the financing of capital investment	0	0	(663)	97,659
Capital expenditure charged against General Fund and HRA balances	0	0	0	52,778
<b>Adjustments primarily involving the Capital Grant Unapplied Account</b>				
Application of grants to capital financing transferred to the Capital Adjustment Account	(805)	0	0	805
<b>Adjustments primarily involving the Capital Receipts Reserve</b>				
Net gain / (loss) on sale of property, plant and equipment and assets held for sale	0	0	0	(4,176)
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	0	9,640
<b>Adjustments primarily involving the Financial Instruments Adjustment Account</b>				
Amount by which finance costs charged are different from finance costs chargeable in the year in accordance with statutory requirements	0	0	0	(44,459)
<b>Adjustments primarily involving the Pensions Reserve</b>				
Reversal of items relating to retirement benefits debited or credited to the CIES	0	0	0	(117,546)
Employer's pension contributions and direct payments to pensioners payable in the year	0	0	0	69,455
<b>Adjustments primarily involving the Employee Statutory Adjustment Account</b>				
Amount by which officer remuneration charges to the CIES are different from remuneration chargeable in the year in accordance with statutory requirements	0	0	0	2,251
<b>Total Adjustments</b>	<b>12,668</b>	<b>61,893</b>	<b>(6,974)</b>	<b>(57,457)</b>

## NOTES TO THE FINANCIAL STATEMENTS

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

2018/19 Comparative Data	Usable Reserves		
	General Fund Balance £000	Housing Revenue Account Balance £000	Capital Receipts Reserve £000
<b>Adjustments primarily involving the Capital Adjustment Account</b>			
<b>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement (CIES)</b>			
Charges for depreciation and impairment of non-current assets	196,986	21,446	0
Movements in the market value of investment properties	(965)	(60)	0
Amortisation of intangible assets	1,240	0	0
Capital grants and contributions applied	(67,951)	(24,789)	0
Capital funded from revenue	(6,088)	(32,800)	0
Donated assets	(2,273)	0	0
Capital fund used to finance new capital expenditure	0	0	0
Revenue expenditure funded from capital under statute	59,774	0	0
<b>Insertion of items not debited or credited to the CIES</b>			
Statutory provision for the financing of capital investment	(68,529)	(20,115)	0
Capital expenditure charged against General Fund and HRA balances	(59,774)	0	0
<b>Adjustments primarily involving the Capital Grant Unapplied Account</b>			
Application of grants to capital financing transferred to the Capital Adjustment Account	0	0	0
<b>Adjustments primarily involving the Capital Receipts Reserve</b>			
Net loss / (gain) on sale of property, plant and equipment and assets held for sale	(3,619)	(2,382)	25,953
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	(25,953)
<b>Adjustments primarily involving the Financial Instruments Adjustment Account</b>			
Amount by which finance costs charged are different from finance costs chargeable in the year in accordance with statutory requirements	(1,334)	(567)	0
<b>Adjustments primarily involving the Pensions Reserve</b>			
Reversal of items relating to retirement benefits debited or credited to the CIES	158,464	3,910	0
Employer's pension contributions and direct payments to pensioners payable in the year	(63,886)	(1,502)	0
<b>Adjustments primarily involving the Employee Statutory Adjustment Account</b>			
Amount by which officer remuneration charges to the CIES are different from remuneration chargeable in the year in accordance with statutory requirements	1,253	44	0
<b>Total Adjustments</b>	<b>143,298</b>	<b>(56,815)</b>	<b>0</b>

## NOTES TO THE FINANCIAL STATEMENTS

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

2018/19 Comparative Data	Usable Reserves		Movement in Unusable Reserves £000
	Capital Grants Unapplied Account £000	Capital Fund £000	
<b>Adjustments primarily involving the Capital Adjustment Account</b>			
<b>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement (CIES)</b>			
Charges for depreciation and impairment of non-current assets	0	0	(218,432)
Movements in the market value of investment properties	0	0	1,025
Amortisation of intangible assets	0	0	(1,240)
Capital grants and contributions applied	12,339	0	80,401
Capital funded from revenue	0	0	38,888
Donated assets	0	0	2,273
Capital fund used to finance new capital expenditure	0	(7,385)	7,385
Revenue expenditure funded from capital under statute	0	0	(59,774)
<b>Insertion of items not debited or credited to the CIES</b>			
Statutory provision for the financing of capital investment	0	(265)	88,909
Capital expenditure charged against General Fund and HRA balances	0	0	59,774
<b>Adjustments primarily involving the Capital Grant Unapplied Account</b>			
Application of grants to capital financing transferred to the Capital Adjustment Account	(1,351)	0	1,351
<b>Adjustments primarily involving the Capital Receipts Reserve</b>			
Net (loss) / gain on sale of property, plant and equipment and assets held for sale	0	0	(19,952)
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	25,953
<b>Adjustments primarily involving the Financial Instruments Adjustment Account</b>			
Amount by which finance costs charged are different from finance costs chargeable in the year in accordance with statutory requirements	0	0	1,901
<b>Adjustments primarily involving the Pensions Reserve</b>			
Reversal of items relating to retirement benefits debited or credited to the CIES	0	0	(162,374)
Employer's pension contributions and direct payments to pensioners payable in the year	0	0	65,388
<b>Adjustments primarily involving the Employee Statutory Adjustment Account</b>			
Amount by which officer remuneration charges to the CIES are different from remuneration chargeable in the year in accordance with statutory requirements	0	0	(1,297)
<b>Total Adjustments</b>	<b>10,988</b>	<b>(7,650)</b>	<b>(89,821)</b>



## NOTES TO THE FINANCIAL STATEMENTS

### 12. Usable Reserves

#### 12.1 Transfers to and from Usable Reserves

This note sets out the amounts set aside in the Group's and the Council's usable reserves and the amounts posted back from these reserves to meet expenditure during the year.

	Balance at 01.04.19 £000	Net Transfers Out 2019/20 £000	Net Transfers In 2019/20 £000	Balance at 31.03.20 £000
<b>Group Reserves</b>				
<b>Subsidiaries</b>				
CEC Holdings Limited				
Revenue reserves	(51,059)	0	1,562	(49,497)
Capital grants unapplied account	1,521	(216)	0	1,305
Transport for Edinburgh Limited				
Revenue reserves	118,718	(5,116)	0	113,602
Edinburgh Living MMR LLP				
Revenue reserves	0	(6)	0	(6)
<b>Total Usable Reserves - Subsidiaries</b>	<b>69,180</b>	<b>(5,338)</b>	<b>1,562</b>	<b>65,404</b>
<b>Associates and Joint Ventures</b>				
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	548	0	2	550
Edinburgh Integration Joint Board - Reserves	4,847	(3,264)	0	1,583
<b>Total Usable Reserves - Associates and Joint Ventures</b>	<b>9,576</b>	<b>(3,875)</b>	<b>463</b>	<b>6,164</b>
<b>Total Usable Reserves - Subsidiaries, Associates and Joint Ventures</b>	<b>78,756</b>	<b>(9,213)</b>	<b>2,025</b>	<b>71,568</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 12. Usable Reserves - continued

#### 12.1 Transfers to and from Usable Reserves - continued

	Balance at 01.04.18 £000	Net Transfers Out 2018/19 £000	Net Transfers In 2018/19 £000	Balance at 31.03.19 £000
<b>Group Reserves</b>				
<b>Subsidiaries</b>				
CEC Holdings Limited				
Revenue reserves	(51,338)	0	279	(51,059)
Capital grants unapplied account	1,803	(282)	0	1,521
Transport for Edinburgh				
Revenue reserves	123,852	(5,134)	0	118,718
<b>Total Usable Reserves - Subsidiaries</b>	<b>74,317</b>	<b>(5,416)</b>	<b>279</b>	<b>69,180</b>
<b>Associates and Joint Ventures</b>				
Common Good Fund - Reserves	2,387	(35)	0	2,352
Edinburgh Leisure - Reserves	69	0	134	203
International Conference Centre Trusts				
Income Trust	1	(1)	0	0
Expenditure Trust	20	(20)	0	0
Capital Theatres - Reserves	1,307	0	319	1,626
Lothian Valuation Joint Board - Reserves	488	0	60	548
Edinburgh Integration Joint Board - Reserves	4,176	0	671	4,847
<b>Total Usable Reserves - Associates and Joint Ventures</b>	<b>8,448</b>	<b>(56)</b>	<b>1,184</b>	<b>9,576</b>
<b>Total Usable Reserves - Subsidiaries, Associates and Joint Ventures</b>	<b>82,765</b>	<b>(5,472)</b>	<b>1,463</b>	<b>78,756</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 12. Usable Reserves - continued

#### 12.1 Transfers to and from Usable Reserves - continued

	Balance at 01.04.19 £000	Transfers Out 2019/20 £000	Transfers In 2019/20 £000	Balance at 31.03.20 £000
<b>Council's Usable Reserves</b>				
<b>General Fund</b>				
<b>Balances Set Aside to Manage Financial Risks and for Specific Investment</b>				
Balances set aside for specific inv.	42,296	(12,110)	13,270	43,456
Council Priorities Fund	6,625	(9,154)	3,286	757
Contingency funding, workforce mgmt.	18,194	(7,160)	2,554	13,588
Dilapidations Fund	5,721	(2,493)	0	3,228
Insurance Funds	19,585	(841)	1,353	20,097
	<u>92,421</u>	<u>(31,758)</u>	<u>20,463</u>	<u>81,126</u>
<b>Balances Set Aside from Income Received in Advance</b>				
Licensing and Registration Income	2,584	(118)	516	2,982
Revenue grants and contributions received in advance of planned expenditure	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
	<u>30,364</u>	<u>(20,700)</u>	<u>7,422</u>	<u>17,086</u>
<b>Balances Set Aside for Investment in Specific Projects which will Generate Future Savings</b>				
Energy Efficiency Fund	244	0	51	295
Spend to Save Fund and similar projects	2,718	(245)	533	3,006
	<u>2,962</u>	<u>(245)</u>	<u>584</u>	<u>3,301</u>
<b>Balances Set Aside under Devolved School Management Scheme and Pupil Equity Fund</b>				
Balances held by schools under Devolved School Management (DSM) and Pupil Equity Fund (PEF)	6,073	(6,034)	4,632	4,671
<b>Surplus on Housing Revenue Account transferred to Renewal and Repairs Fund</b>	0	0	0	0
<b>Unallocated General Fund</b>	<u>13,025</u>	<u>0</u>	<u>902</u>	<u>13,927</u>
<b>Total General Fund</b>	<u>144,845</u>	<u>(58,737)</u>	<u>34,003</u>	<u>120,111</u>
<b>Housing Revenue Account Balance</b>	0	0	0	0
<b>Renewal and Repairs Fund</b>	26,346	(5,123)	8,525	29,748
<b>Donated Assets Reserve</b>	0	0	61,893	61,893
<b>Capital Fund</b>	55,908	(8,454)	1,480	48,934
<b>Capital Receipts Reserve</b>	0	(279,048)	279,048	0
<b>Capital Grants Unapplied Account</b>	15,784	(805)	13,473	28,452
<b>Total Usable Reserves - Council</b>	<u>242,883</u>	<u>(352,167)</u>	<u>398,422</u>	<u>289,138</u>
<b>Total Usable Reserves - Group</b>	<u>321,639</u>	<u>(361,380)</u>	<u>400,447</u>	<u>360,706</u>

## NOTES TO THE FINANCIAL STATEMENTS

### 12. Usable Reserves - continued

#### 12.1 Transfers to and from Usable Reserves - continued

	Balance at 01.04.18 £000	Transfers Out 2018/19 £000	Transfers In 2018/19 £000	Balance at 31.03.19 £000
<b>General Fund</b>				
<b>Balances Set Aside to Manage Financial Risks and for Specific Investment</b>				
Balances set aside for specific inv.	40,649	(13,147)	14,794	42,296
Council Priorities Fund	7,691	(2,852)	1,786	6,625
Contingency funding, workforce mgmt.	18,143	0	51	18,194
Dilapidations Fund	5,077	(356)	1,000	5,721
Insurance Funds	15,875	(83)	3,793	19,585
	<u>87,435</u>	<u>(16,438)</u>	<u>21,424</u>	<u>92,421</u>
<b>Balances Set Aside from Income Received in Advance</b>				
Licensing Income	3,080	(855)	359	2,584
Recycling balances	697	(697)	0	0
Revenue grants and contributions received in advance of planned expend.	4,830	(1,620)	2,184	5,394
Council Tax Discount Fund	27,432	(12,346)	3,545	18,631
Other earmarked balances	218	(16)	1	203
City Strategic Investment Fund	5,461	(2,054)	145	3,552
	<u>41,718</u>	<u>(17,588)</u>	<u>6,234</u>	<u>30,364</u>
<b>Balances Set Aside for Investment in Specific Projects which will Generate Future Savings</b>				
Energy Efficiency Fund	178	0	66	244
Spend to Save Fund and similar projects	3,171	(716)	263	2,718
	<u>3,349</u>	<u>(716)</u>	<u>329</u>	<u>2,962</u>
<b>Balances Set Aside under Devolved School Management Scheme</b>				
Balances held by schools under Devolved School Management (DSM) and Pupil Equity Fund (PEF)	5,758	(5,758)	6,073	6,073
	<u>5,758</u>	<u>(5,758)</u>	<u>6,073</u>	<u>6,073</u>
<b>Surplus on Housing Revenue Account transferred to Renewal and Repairs Fund</b>				
	0	0	0	0
<b>Unallocated General Fund</b>				
	<u>13,025</u>	<u>0</u>	<u>0</u>	<u>13,025</u>
<b>Total General Fund</b>				
	<u>151,285</u>	<u>(40,500)</u>	<u>34,060</u>	<u>144,845</u>
<b>Housing Revenue Account Balance</b>				
	0	0	0	0
<b>Renewal and Repairs Fund</b>				
	58,123	(35,273)	3,496	26,346
<b>Capital Fund</b>				
	63,558	(8,892)	1,242	55,908
<b>Capital Receipts Reserve</b>				
	0	(25,953)	25,953	0
<b>Capital Grants Unapplied Account</b>				
	4,796	(1,351)	12,339	15,784
<b>Total Usable Reserves - Council</b>				
	<u>277,762</u>	<u>(111,969)</u>	<u>77,090</u>	<u>242,883</u>
<b>Total Usable Reserves - Group</b>				
	<u>360,527</u>	<u>(117,441)</u>	<u>78,553</u>	<u>321,639</u>

## NOTES TO THE FINANCIAL STATEMENTS

### 12. Usable Reserves - continued

#### 12.2 Devolved School Management and Pupil Equity Funding

A net credit balance of £4.671m (2018/19 £6.073m) 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

2019/20	General Fund £000	HRA Balance £000	Renewal / Repairs Fund £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000
Transfers out	(58,737)	0	(5,123)	(279,048)	(805)
Transfers in	34,003	0	8,525	279,048	13,473
Total movements in fund	<u>(24,734)</u>	<u>0</u>	<u>3,402</u>	<u>0</u>	<u>12,668</u>
Recognised in Comprehensive Income and Expenditure Statement	(19,730)	(1,602)	0	0	12,668
Transfers to other earmarked reserves	<u>(5,004)</u>	<u>1,602</u>	<u>3,402</u>	<u>0</u>	<u>0</u>
Total movements in fund	<u>(24,734)</u>	<u>0</u>	<u>3,402</u>	<u>0</u>	<u>12,668</u>

	Donated Assets Reserve £000	Capital Fund £000	Group Usable Reserves £000	Total £000
Transfers out	0	(8,454)	(9,213)	<b>(361,380)</b>
Transfers in	61,893	1,480	2,025	<b>400,447</b>
Total movements in fund	<u>61,893</u>	<u>(6,974)</u>	<u>(7,188)</u>	<u><b>39,067</b></u>
Recognised in Comprehensive Income and Expenditure Statement	61,893	(6,974)	101	<b>46,356</b>
Transfers to other earmarked reserves	0	0	0	<b>0</b>
Group account adjustments unusable reserves	0	0	(7,289)	<b>(7,289)</b>
Total movements in fund	<u>61,893</u>	<u>(6,974)</u>	<u>(7,188)</u>	<u><b>39,067</b></u>

#### 2018/19 Comparative Data

	General Fund £000	HRA Balance £000	Renewal / Repairs Fund £000	Capital Receipts Reserve £000
Transfers out	(40,500)	0	(35,273)	(25,953)
Transfers in	34,060	0	3,496	25,953
Total movements in fund	<u>(6,440)</u>	<u>0</u>	<u>(31,777)</u>	<u>0</u>
Recognised in Comprehensive Income and Expenditure Statement	(12,173)	(26,044)	0	0
Transfers to other earmarked reserves	<u>5,733</u>	<u>26,044</u>	<u>(31,777)</u>	<u>0</u>
Total movements in fund	<u>(6,440)</u>	<u>0</u>	<u>(31,777)</u>	<u>0</u>

## NOTES TO THE FINANCIAL STATEMENTS

### 12. Usable Reserves - continued

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

2018/19 Comparative Data	Capital	Capital	Re-stated	Total
	Grants Unapplied £000	Fund £000	Group Usable Reserves £000	
Transfers out	(1,351)	(8,892)	(5,472)	(117,441)
Transfers in	12,339	1,242	1,463	78,553
Total movements in fund	<u>10,988</u>	<u>(7,650)</u>	<u>(4,009)</u>	<u>(38,888)</u>
Recognised in Comprehensive Income and Expenditure Statement	10,988	(7,650)	(3,553)	(38,432)
Transfers to other earmarked reserves	0	0	(456)	(456)
Total movements in fund	<u>10,988</u>	<u>(7,650)</u>	<u>(4,009)</u>	<u>(38,888)</u>

### 13. Financing and Investment Income and Expenditure

	2019/20		Re-stated 2018/19	
	Group £000	Council £000	Group £000	Council £000
Interest payable and similar charges	78,177	78,026	82,444	82,435
Premiums arising from refinancing	46,943	46,943	0	0
Interest cost on defined benefit obligation	103,520	87,668	99,067	87,447
Interest receivable and similar income	(6,295)	(5,139)	(12,201)	(12,406)
Interest income on plan assets	(89,130)	(71,258)	(86,361)	(73,318)
Net income in relation to investment properties and changes in their fair value	(1,995)	(1,967)	(2,616)	(2,768)
Net income in relation to financial assets derecognised or revalued	(90)	(90)	(155)	(155)
Net (surplus) / deficit from trading activities	48	48	36	36
	<u>131,178</u>	<u>134,231</u>	<u>80,214</u>	<u>81,271</u>

### 14. Taxation and Non-Specific Grant Income

	2019/20		2018/19	
	Group £000	Council £000	Group £000	Council £000
Council Tax income	(271,044)	(271,044)	(259,435)	(259,435)
Non-domestic rates	(366,025)	(366,025)	(340,474)	(340,474)
Non-ring fenced government grants	(360,206)	(360,206)	(363,757)	(363,757)
Capital grants and contributions	(127,806)	(127,806)	(95,013)	(95,013)
Donated asset income	(61,453)	(61,453)	0	0
Taxation expenses	374	0	(275)	0
	<u>(1,186,160)</u>	<u>(1,186,534)</u>	<u>(1,058,954)</u>	<u>(1,058,679)</u>

## NOTES TO THE FINANCIAL STATEMENTS

### 15. Property, Plant and Equipment

#### 15.1 Depreciation

Depreciation is provided in the year of an asset's purchase. Assets in the course of construction are not depreciated until they are brought into use. Where depreciation is provided for, assets are depreciated using the straight line method over the following periods:

Council dwellings	50 years
Buildings	Up to 80 years (assets not subject to component accounting)
Buildings - structural	50 years
Buildings - non-traditional roofing	35 years
Buildings - finishes	25 years
Buildings - mechanical and electrical	20 years
Buildings - fittings and furnishings	15 years
PPP - Millerhill Residual Waste Facility	30 years
PPP - Schools	40 years (PPP1 schools) and 35 years (PPP2 schools)
Infrastructure assets	20 years
Vehicles, plant, furniture and equipment	5 years to 30 years, to reflect estimated useful life 3 years to 15 years, Group Companies

#### 15.2 Capital Commitments

At 31 March 2020, the Council had entered into a number of contracts for the construction or enhancement of property, plant and equipment. These are budgeted to cost £221.649m. A number of these amounts relate to contract retentions, as projects are now complete. Similar commitments at 31 March 2019 were £295.064m.

	£000	Expected Completion Date
Millerhill - Zero Waste	29,520	Q1 20/21
St James Redevelopment - Growth Accelerator Model *	61,400	Q1 21/22
Picardy Place Public Realm *	1,500	Q1 21/22
North Bridge Refurbishment	11,650	21/22
Victoria Primary School	7,022	21/22
New South Edinburgh Primary School	11,566	21/22
Energy Efficiency Street Lighting Project (LED Project)	11,362	21/22
Castlebrae High School	21,313	21/22
St Crispin's Special School	8,584	21/22
General Fund - Other	5,958	21/22
National Housing Trust	8,760	21/22
Meadowbank Sports Centre	17,823	21/22
Pennywell Phase 3	8,056	22/23
Pennywell Town Centre	12,713	22/23
HRA - Other	4,422	23/24
	<b><u>221,649</u></b>	

Per the 'Capital Budget Update – 2019/20 Provisional Outturn and 2020/21 COVID-19 Forecast' reported to the Policy and Sustainability Committee on 25 June 2020, there is likely to be significant slippage (currently estimated at £161.257m) in the 2020/21 Capital Programme which may result in the timescales above being delayed.

\* The Picardy Place public realm payment will be made following the completion of the wider St James Redevelopment.

## NOTES TO THE FINANCIAL STATEMENTS

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

#### 15.3 Movements on Balances - Group Movements in 2019/20

	Council Dwellings £000	Other Land and Buildings £000	Vehicles, Plant, Furniture and Equipment £000	Infrastructure Assets £000
<b>Cost or Valuation</b>				
At 1 April 2019	1,484,507	2,155,479	335,351	1,465,451
Additions	35,034	180,542	37,627	76,980
Revaluation increases / (decreases) recognised in the Revaluation Reserve	39,167	92,703	0	0
Revaluation increases / (decreases) recognised in the Surplus on the Provision of Services	137	(44,531)	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	<u>1,569,110</u>	<u>2,346,880</u>	<u>359,079</u>	<u>1,542,431</u>
<b>Accumulated Depreciation and Impairment</b>				
At 1 April 2019	(141)	(97,601)	(160,194)	(701,660)
Depreciation charge	(29,510)	(69,576)	(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
Depreciation on assets transferred to Held for Sale	0	0	0	0
At 31 March 2020	<u>(9,012)</u>	<u>(150,974)</u>	<u>(172,287)</u>	<u>(771,663)</u>
<b>Net book value</b>				
At 31 March 2020	<u>1,560,098</u>	<u>2,195,906</u>	<u>186,792</u>	<u>770,768</u>
At 31 March 2019	<u>1,484,366</u>	<u>2,057,878</u>	<u>175,157</u>	<u>763,791</u>



## NOTES TO THE FINANCIAL STATEMENTS

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

#### 15.3 Movements on Balances - Group Movements in 2019/20

	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	Right of Use Asset £000	Total Property Plant and Equipment £000
<b>Cost or Valuation</b>					
At 1 April 2019	8,987	1,421	109,161	0	<b>5,560,357</b>
Additions	2,055	0	76,756	1,160	<b>410,154</b>
Revaluation increases / (decreases) recognised in the Revaluation Reserve	347	0	0	0	<b>132,217</b>
Revaluation increases / (decreases) recognised in the Surplus on the Provision of Services	(4,195)	0	0	0	<b>(48,589)</b>
Derecognition - disposals	0	0	(14,986)	0	<b>(33,109)</b>
Derecognition - other	0	0	0	0	<b>0</b>
Assets reclassified (to) / from held for sale	0	0	0	0	<b>0</b>
Other increases / (decreases) in cost or valuation	1	(1,401)	23,784	0	<b>(440)</b>
At 31 March 2020	<u>7,195</u>	<u>20</u>	<u>194,715</u>	<u>1,160</u>	<u><b>6,020,590</b></u>
<b>Accumulated Depreciation and Impairment</b>					
At 1 April 2019	0	0	0	0	<b>(959,596)</b>
Depreciation charge	0	0	0	(125)	<b>(194,109)</b>
Depreciation charge written out to Revaluation Reserve	0	0	0	0	<b>35,231</b>
Depreciation written out to the Surplus on the Provision of Services	0	0	0	0	<b>1,576</b>
Derecognition - disposals	0	0	0	0	<b>12,837</b>
Derecognition - other	0	0	0	0	<b>0</b>
Impairment losses recognised in the Surplus on the Provision of Services	0	0	0	0	<b>0</b>
Depreciation on assets transferred to Held for Sale	0	0	0	0	<b>0</b>
At 31 March 2020	<u>0</u>	<u>0</u>	<u>0</u>	<u>(125)</u>	<u><b>(1,104,061)</b></u>
<b>Net book value</b>					
At 31 March 2020	<u>7,195</u>	<u>20</u>	<u>194,715</u>	<u>1,035</u>	<u><b>4,916,529</b></u>
At 31 March 2019	<u>8,987</u>	<u>1,421</u>	<u>109,161</u>	<u>0</u>	<u><b>4,600,761</b></u>

## NOTES TO THE FINANCIAL STATEMENTS

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

#### 15.4 Movements on Balances - Group Accounts 2018/19 Comparative Data

	Council Dwellings £000	Other Land and Buildings £000	Vehicles, Plant, Furniture and Equipment £000	Infrastructure Assets £000
<b>Cost or Valuation</b>				
At 1 April 2018	1,370,303	2,075,364	323,984	1,431,378
Additions	30,349	40,233	26,348	34,073
Revaluation increases / (decreases) recognised in the Revaluation Reserve	66,921	89,305	(124)	0
Revaluation decreases recognised in the Surplus on the Provision of Services	(217)	(55,688)	(2,382)	0
Derecognition - disposals	(1,842)	(799)	(10,091)	0
Derecognition - other	0	0	(2,384)	0
Assets reclassified (to) / from held for sale	0	(6,016)	0	0
Other increases / (decreases) in cost or valuation	18,993	13,080	0	0
At 31 March 2019	<u>1,484,507</u>	<u>2,155,479</u>	<u>335,351</u>	<u>1,465,451</u>
<b>Accumulated Depreciation and Impairment</b>				
At 1 April 2018	(71,600)	(108,452)	(142,816)	(633,143)
Depreciation charge	(20,329)	(61,266)	(29,342)	(68,517)
Depreciation charge written out to Revaluation Reserve	91,605	68,556	0	0
Depreciation written out to the Surplus on the Provision of Services	27	3,471	334	0
Derecognition - disposals	156	35	9,246	0
Derecognition - other	0	0	2,384	0
Impairment losses recognised in the Surplus on the Provision of Services	0	0	0	0
At 31 March 2019	<u>(141)</u>	<u>(97,601)</u>	<u>(160,194)</u>	<u>(701,660)</u>
<b>Net book value</b>				
At 31 March 2019	<u>1,484,366</u>	<u>2,057,878</u>	<u>175,157</u>	<u>763,791</u>
At 31 March 2018	<u>1,298,703</u>	<u>1,966,912</u>	<u>181,168</u>	<u>798,235</u>

## NOTES TO THE FINANCIAL STATEMENTS

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

#### 15.4 Movements on Balances - Group 2018/19 Comparative Data

	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	Total Property Plant and Equipment £000
<b>Cost or Valuation</b>				
At 1 April 2018	14,050	1,421	56,299	5,272,799
Additions	5,087	0	87,742	223,832
Revaluation increases / (decreases) recognised in the Revaluation Reserve	(238)	0	0	155,864
Revaluation decreases recognised in the Surplus on the Provision of Services	(8,318)	0	0	(66,605)
Derecognition - disposals	(1,594)	0	(2,809)	(17,135)
Derecognition - other	0	0	0	(2,384)
Assets reclassified (to) / from held for sale	0	0	0	(6,016)
Other increases / (decreases) in cost or valuation	0	0	(32,071)	2
At 31 March 2019	<u>8,987</u>	<u>1,421</u>	<u>109,161</u>	<u>5,560,357</u>
<b>Accumulated Depreciation and Impairment</b>				
At 1 April 2018	0	0	0	(956,011)
Depreciation charge	0	0	0	(179,454)
Depreciation charge written out to Revaluation Reserve	0	0	0	160,161
Depreciation written out to the Surplus on the Provision of Services	0	0	0	3,832
Derecognition - disposals	0	0	0	9,437
Derecognition - other	0	0	0	2,384
Impairment losses recognised in the Surplus on the Provision of Services	0	0	0	0
At 31 March 2019	<u>0</u>	<u>0</u>	<u>0</u>	<u>(959,596)</u>
<b>Net book value</b>				
At 31 March 2019	<u>8,987</u>	<u>1,421</u>	<u>109,161</u>	<u>4,600,761</u>
At 31 March 2018	<u>14,050</u>	<u>1,421</u>	<u>56,299</u>	<u>4,316,788</u>

## NOTES TO THE FINANCIAL STATEMENTS

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

#### 15.5 Movements on Balances - Council Movements in 2019/20

	Council Dwellings £000	Other Land and Buildings £000	Vehicles, Plant, Furniture and Equipment £000	Infrastructure Assets £000
<b>Cost or Valuation</b>				
At 1 April 2019	1,484,507	2,093,576	163,562	1,458,781
Additions	35,034	179,458	7,069	76,980
Revaluation increases / (decreases) recognised in the Revaluation Reserve	39,167	83,677	0	0
Revaluation increases / (decreases) recognised in the Surplus on the Provision of Services	137	(45,423)	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	<u>1,569,110</u>	<u>2,273,975</u>	<u>169,398</u>	<u>1,535,761</u>
<b>Accumulated Depreciation and Impairment</b>				
At 1 April 2019	(141)	(66,106)	(72,866)	(695,177)
Depreciation charge	(29,510)	(69,390)	(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
Other increases / (decreases) in cost or valuation	0	0	0	0
At 31 March 2020	<u>(9,012)</u>	<u>(119,293)</u>	<u>(80,290)</u>	<u>(765,068)</u>
<b>Net book value</b>				
At 31 March 2020	<u><u>1,560,098</u></u>	<u><u>2,154,682</u></u>	<u><u>89,108</u></u>	<u><u>770,693</u></u>
At 31 March 2019	<u><u>1,484,366</u></u>	<u><u>2,027,470</u></u>	<u><u>90,696</u></u>	<u><u>763,604</u></u>

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.

## NOTES TO THE FINANCIAL STATEMENTS

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

#### 15.5 Movements on Balances - Council

##### Movements in 2019/20

	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	Total Property Plant and Equipment £000	PPP and similar Assets £000
<b>Cost or Valuation</b>					
At 1 April 2019	8,987	1,421	109,161	5,319,995	520,170
Additions	2,055	0	76,756	377,352	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	(49,481)	(7,955)
Derecognition - disposals	0	0	(14,986)	(20,443)	0
Derecognition - other	0	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	<u>7,195</u>	<u>20</u>	<u>194,715</u>	<u>5,750,174</u>	<u>642,189</u>
<b>Accumulated Depreciation and Impairment</b>					
At 1 April 2019	0	0	0	(834,290)	(8,542)
Depreciation charge	0	0	0	(177,447)	(12,744)
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 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 2020	<u>0</u>	<u>0</u>	<u>0</u>	<u>(973,663)</u>	<u>(21,286)</u>
<b>Net book value</b>					
At 31 March 2020	<u>7,195</u>	<u>20</u>	<u>194,715</u>	<u>4,776,511</u>	<u>620,903</u>
At 31 March 2019	<u>8,987</u>	<u>1,421</u>	<u>109,161</u>	<u>4,485,705</u>	<u>511,628</u>

The disclosure for PPP and similar assets is for information only. The costs and depreciation are included in 'Other Land and Buildings' and 'Assets Under Construction'.

## NOTES TO THE FINANCIAL STATEMENTS

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

#### 15.6 Movements on Balances - Council 2018/19 Comparative Data

<b>Cost or Valuation</b>	<b>Council Dwellings £000</b>	<b>Other Land and Buildings £000</b>	<b>Vehicles, Plant, Furniture and Equipment £000</b>	<b>Infrastructure Assets £000</b>
At 1 April 2018	1,370,303	2,013,461	156,538	1,424,708
Additions	30,349	40,233	14,252	34,073
Revaluation increases / (decreases) recognised in the Revaluation Reserve	66,921	89,305	(124)	0
Revaluation decreases recognised in the Surplus on the Provision of Services	(217)	(55,688)	(2,382)	0
Derecognition - disposals	(1,842)	(799)	(2,338)	0
Derecognition - other	0	0	(2,384)	0
Assets reclassified (to) / from held for sale	0	(6,016)	0	0
Other increases / (decreases) in cost or valuation	18,993	13,080	0	0
At 31 March 2019	<u>1,484,507</u>	<u>2,093,576</u>	<u>163,562</u>	<u>1,458,781</u>
<b>Accumulated Depreciation and Impairment</b>				
At 1 April 2018	(71,600)	(77,150)	(68,036)	(626,940)
Depreciation charge	(20,329)	(61,073)	(9,865)	(68,237)
Depreciation charge written out to Revaluation Reserve	91,605	68,556	0	0
Depreciation written out to the Surplus on the Provision of Services	27	3,471	334	0
Derecognition - disposals	156	35	2,317	0
Derecognition - other	0	0	2,384	0
Impairment losses recognised in the Surplus on the Provision of Services	0	0	0	0
At 31 March 2019	<u>(141)</u>	<u>(66,106)</u>	<u>(72,866)</u>	<u>(695,177)</u>
<b>Net book value</b>				
At 31 March 2019	<u>1,484,366</u>	<u>2,027,470</u>	<u>90,696</u>	<u>763,604</u>
At 31 March 2018	<u>1,298,703</u>	<u>1,936,311</u>	<u>88,502</u>	<u>797,768</u>

Included within Other Land and Buildings is £2.274m for donated assets related to timing of PPP lifecycle maintenance spend by the contract provider, ahead of the planned programme.

## NOTES TO THE FINANCIAL STATEMENTS

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

#### 15.6 Movements on Balances - Council

##### 2018/19 Comparative Data

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

The disclosure for PPP and similar assets is for information only. The costs and depreciation are included in 'Other Land and Buildings' and 'Assets Under Construction'.

## NOTES TO THE FINANCIAL STATEMENTS

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

#### 15.7 Council Dwellings, Other Land and Buildings and Investment Properties

The Council carries out a rolling programme of revaluations that ensures that all property, plant and equipment required to be measured at fair value is revalued at least every five years. All valuations were carried out internally. Valuations of land and buildings were carried out under the direction of the Council's Operational Estate Manager, L. Turner RICS, in accordance with the Statements of Asset Valuation Practice and Guidance Notes of The Royal Institution of Chartered Surveyors. Fixtures and fittings are included in the valuation of the buildings where appropriate.

The outbreak of the Novel Coronavirus (COVID-19), declared by the World Health Organisation as a "Global Pandemic" on 11 March 2020, has impacted global financial markets. Travel restrictions have been implemented by many countries.

Market activity is being impacted in many sectors. As at the valuation date, we consider that we can attach less weight to previous market evidence for comparison purposes, to inform opinions of value. Indeed, the current response to COVID-19 means that we are faced with an unprecedented set of circumstances on which to base a judgement.

Our valuations are therefore reported on the basis of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently, less certainty – and a higher degree of caution – should be attached to our valuation than would normally be the case. Given the unknown future impact that COVID-19 might have on the real estate market, valuations of this property will be kept under review.

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.

<b>Council assets</b>	<b>Council Dwellings £000</b>	<b>Other Land and Buildings £000</b>	<b>Vehicles, Plant, Furniture and Equipment £000</b>	<b>Infrastructure Assets £000</b>
Carried at historical cost	103	86,497	169,398	1,535,761
Valued at fair value as at:				
31 March 2020	1,566,888	367,618	0	0
31 March 2019	608	768,844	0	0
31 March 2018	502	725,676	0	0
31 March 2017	0	188,560	0	0
31 March 2016	1,009	136,780	0	0
<b>Total cost or valuation</b>	<b>1,569,110</b>	<b>2,273,975</b>	<b>169,398</b>	<b>1,535,761</b>

<b>Council assets</b>	<b>Community Assets £000</b>	<b>Surplus Assets £000</b>	<b>Assets Under Construction £000</b>	<b>Total £000</b>
Carried at historical cost	7,195	0	194,715	1,993,669
Valued at fair value as at:				
31 March 2020	0	0	0	1,934,506
31 March 2019	0	0	0	769,452
31 March 2018	0	0	0	726,178
31 March 2017	0	0	0	188,560
31 March 2016	0	20	0	137,809
<b>Total cost or valuation</b>	<b>7,195</b>	<b>20</b>	<b>194,715</b>	<b>5,750,174</b>



## NOTES TO THE FINANCIAL STATEMENTS

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

#### 15.8 Surplus Assets and Investment Properties - Fair Value Disclosure

Recurring fair value measurements using:	Quoted prices in active markets for identical assets (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Fair Value as at 31 March 2020
	£000	£000	£000	£000
Surplus assets	0	20	0	20
Investment properties - advertising hoardings	0	19,225	0	19,225
<b>Total cost or valuation</b>	<b>0</b>	<b>19,245</b>	<b>0</b>	<b>19,245</b>

- There were no transfers between levels during the year.
- The fair value for surplus assets has been based on the market approach using current market conditions and recent sales prices and other relevant information for similar assets in similar locations. Market conditions are such that similar properties are actively purchased and sold and the level of observable inputs is significant, leading to the properties being categorised at level 2 in the fair value hierarchy. In estimating the fair value of the Council's surplus assets, the assumption has been made that these would be disposed of for highest and best use consideration.
- The fair value for investment properties has been based on the market approach using current rent receivable with a capitalisation rate applied. The rate reflects the return that an investor would expect from the capital employed. There is evidence of lettings from the Council's property information systems which have been used to determine valuation parameters and the level of observable inputs is significant, leading to the investment properties being categorised at level 2 in the fair value hierarchy. In estimating the fair value of the Council's investment properties, the highest and best use of the properties is their current use.

### 16. Investment Properties

#### Policy

Investment properties are initially measured at cost. After initial recognition, investment properties are measured at fair value (the price that would be received for the asset in its highest and best use).

Any gains or losses arising from a change in the fair value of investment properties are recognised in the Comprehensive Income and Expenditure Statement for the period in which they arise.

Investment properties are revalued annually.

Investment properties held at fair value are not depreciated.

Investment properties are de-recognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

The gain or loss arising from the retirement or disposal of an investment property is recognised in the 'surplus or deficit on provision of services' within the Comprehensive Income and Expenditure Statement in the period of the retirement or disposal.

#### Note

#### 16.1 Income and Expenses on Investment Properties

Income of £1.658m (£1.743m 2018/19) and expense £Nil (£Nil 2018/19) have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

There are no restrictions on the Council's ability to realise the value inherent in its investment properties or on the Council's right to the remittance of income and the proceeds of disposal.

## NOTES TO THE FINANCIAL STATEMENTS

### 16. Investment Properties - continued

#### 16.2 Movement in Fair Value - continued

The following table summarises the movement in the fair value of investment properties over the year.

	2019/20		2018/19	
	Group £000	Council £000	Group £000	Council £000
Value at 1 April	19,136	18,916	18,321	17,891
Additions	19,513	0	0	0
Disposals	0	0	0	0
Net (loss) / gain from fair value adjustments	8,572	309	815	1,025
	<u>47,221</u>	<u>19,225</u>	<u>19,136</u>	<u>18,916</u>
Value at 31 March	<u>47,221</u>	<u>19,225</u>	<u>19,136</u>	<u>18,916</u>

### 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 £0.444m in 2019/20 (£0.335m in 2018/19).

The carrying amount of intangible assets is amortised on a straight-line basis. The amortisation of £0.058m in 2019/20 (2018/19 £1.240m) was charged to Resources.

### 18. Heritage Assets

#### Policy

Heritage assets comprise the following:

Monuments and statues	Civic regalia and artefacts
Archival collections	Libraries' special collections
Museum and gallery collections	

Intangible heritage assets represent three private vehicle registration plates.

It has not been practical or possible to split out all heritage assets belonging to the common good fund, charities or trusts. Therefore, the Council's Balance Sheet may hold elements of heritage assets that belong to other entities. Work is on-going to establish and maintain a common good register, in accordance with the Community Empowerment (Scotland) Act 2015.

Expenditure on the acquisition, creation or enhancement of heritage assets has been capitalised on an accruals basis.

Heritage asset valuations may be made by any method that is appropriate and relevant. Furthermore valuations need not be carried out by external valuers and there is no prescribed period between valuations.

## NOTES TO THE FINANCIAL STATEMENTS

### 18. Heritage Assets - continued

The following measurement bases have been applied, based on the most relevant and appropriate information available. This is set in the context where it is not practicable to obtain up to date valuations for all heritage assets at a cost which is commensurate with the benefits to users of the Council's financial statements.

Monuments and statues	Historic value
Civic regalia and artefacts	Insurance purposes valuation
Archival collections	Insurance purposes valuation, based on restoration costs
Libraries' special collections	Insurance purposes valuation
Museum and gallery collections	Insurance purposes valuation
Private vehicle registration plates	Cost or current value information is not readily available, therefore these assets have not been recognised on the Council's Balance Sheet

Heritage assets are deemed to have indeterminate lives and a high residual value; hence it is not considered appropriate to charge depreciation.

### 18.1 Reconciliation of the Carrying Value of Heritage Assets Note

#### Movements in 2019/20

	<b>Monuments and Statues £000</b>	<b>Civic Regalia and Artefacts £000</b>	<b>Archival Collections £000</b>
<b>Cost or Valuation</b>			
At 1 April 2019	842	2,047	6,797
Additions	773	0	0
At 31 March 2020	<u>1,615</u>	<u>2,047</u>	<u>6,797</u>
<b>Net book value</b>			
At 31 March 2020	<u>1,615</u>	<u>2,047</u>	<u>6,797</u>
At 31 March 2019	<u>842</u>	<u>2,047</u>	<u>6,797</u>
		<b>Museum and Gallery Collections £000</b>	<b>Total Heritage Assets £000</b>
<b>Cost or Valuation</b>			
At 1 April 2019	1,975	19,643	31,304
Additions	0	0	773
At 31 March 2020	<u>1,975</u>	<u>19,643</u>	<u>32,077</u>
<b>Net book value</b>			
At 31 March 2020	<u>1,975</u>	<u>19,643</u>	<u>32,077</u>
At 31 March 2019	<u>1,975</u>	<u>19,643</u>	<u>31,304</u>

## NOTES TO THE FINANCIAL STATEMENTS

### 18. Heritage Assets - continued

#### 18.1 Reconciliation of the Carrying Value of Heritage Assets - continued 2018/19 Comparative Data

<b>Cost or Valuation</b>	<b>Monuments and Statues £000</b>	<b>Civic Regalia and Artefacts £000</b>	<b>Archival Collections £000</b>
At 1 April 2018	423	2,047	6,797
Additions	155	0	0
Revaluation increases / (decreases) recognised in the Revaluation Reverse	317	0	0
Revaluation increases / (decreases) recognised in the Surplus on the Provision of Services	(9)	0	0
Transferred to Common Good	(44)	0	0
At 31 March 2019	<u>842</u>	<u>2,047</u>	<u>6,797</u>
<b>Net book value</b>			
At 31 March 2019	<u>842</u>	<u>2,047</u>	<u>6,797</u>
At 31 March 2018	<u>423</u>	<u>2,047</u>	<u>6,797</u>

<b>Cost or Valuation</b>	<b>Libraries' Special Collections £000</b>	<b>Museum and Gallery Collections £000</b>	<b>Total Heritage Assets £000</b>
At 1 April 2018	1,975	19,643	30,885
Additions	0	0	155
Revaluation increases / (decreases) recognised in the Revaluation Reverse	0	0	317
Revaluation increases / (decreases) recognised in the Surplus on the Provision of Services	0	0	(9)
Transferred to Common Good	0	0	(44)
At 31 March 2019	<u>1,975</u>	<u>19,643</u>	<u>31,304</u>
<b>Net book value</b>			
At 31 March 2019	<u>1,975</u>	<u>19,643</u>	<u>31,304</u>
At 31 March 2018	<u>1,975</u>	<u>19,643</u>	<u>30,885</u>

## NOTES TO THE FINANCIAL STATEMENTS

### 18. Heritage Assets - continued

#### 18.2 Details of Heritage Assets

- Valuations on Monuments and Statues are carried out under the direction of the Council's Operational Estate Manager. Monuments and Statues are valued on a historic basis.
- Civic Regalia and artefacts include items such as the Lord Provost's Badge and Chain of Office and the Rosebery Jewel. The value of these assets is based on an insurance purposes valuation carried out in 1998.
- Archival collections include historical records which relate to the history of Edinburgh and its surrounding areas. The value of these assets is based on a current insurance purposes valuation based on restoration costs only. This valuation has not changed since 2008/09.
- Libraries' special collections include items such as rare book collections and pictures in Calotype. The value of these assets is based on an insurance purposes valuation carried out in 2007 with a minor proportions valuation being updated in 2014.
- Museums and Gallery collections include various collections held at a number of museums across Edinburgh. They include items held within the Social History, Applied Art, Writers' Museum, Childhood, City Art Centre and Picture Loan Scheme. The value of these assets is based on insurance purposes valuations carried out in 2003 along with a minor proportions valuation being updated in 2014. A small minority of the assets are based on insurance purposes valuations carried out in 1996.
- The valuations for heritage assets have all been carried out internally and although they are from earlier periods, they are considered the most appropriate and relevant. Carrying out valuations for the majority of collections held is very costly and time consuming so it is not practicable to obtain recent valuations at a cost which is commensurate with the benefits to users of the financial statements. The carrying amounts of these heritage assets will be reviewed with sufficient regularity in the future to ensure they are brought up to date and remain appropriate.
- It has not been practical or possible to split out all heritage assets belonging to common good, charities or trusts. Therefore, the Council's balance sheet may hold this element of heritage assets that belong to other entities.
- The Council has three private vehicle registration plates which meet the definition of intangible heritage assets. These have not been recognised on the balance sheet due to lack of information on cost or current value. They are limited registration numbers that rarely become available for sale and therefore no relevant or appropriate current value can be placed on these. 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	2019/20		2018/19	
	Group £000	Council £000	Group £000	Council £000
Total				
Balance at 1 April	13,285	2,984	13,958	2,513
Purchases	62,285	15,437	60,057	15,184
Held by a third party	62	62	192	192
Recognised as an expense in the year	(62,127)	(14,999)	(60,403)	(14,872)
Stock written off	(33)	(33)	(519)	(33)
Balance at 31 March	<u>13,472</u>	<u>3,451</u>	<u>13,285</u>	<u>2,984</u>

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

	2019/20		2018/19	
	Group £000	Council £000	Group £000	Council £000
Council Tax	87,063	87,063	89,366	89,366
Trade Debtors	44,516	44,516	41,421	41,421
Other Debtors	127,956	158,219	121,562	125,114
Total long-term debtors before provision for impairment	259,535	289,798	252,349	255,901
Less: Provision for impairment	(131,043)	(131,043)	(120,969)	(120,969)
Total net long-term debtors	128,492	158,755	131,380	134,932

Long-term debtors include £10.667m (2018/19 £11.184m) for sums recoverable from Police Scotland. These sums relate to monies advanced to the former joint board for capital expenditure.

#### 20.2 Current Debtors

	2019/20		2018/19	
	Group £000	Council £000	Group £000	Council £000
Council Tax	120,416	120,416	112,089	112,089
Trade Debtors	35,260	32,092	54,818	49,225
Prepayments	6,265	3,469	5,086	2,528
Other Debtors	97,911	89,756	64,248	54,208
Total current debtors before provision for impairment	259,852	245,733	236,241	218,050
Less: Provision for impairment	(122,457)	(122,457)	(111,756)	(111,756)
Total net current debtors	137,395	123,276	124,485	106,294

#### 20.3 Provision for Impairment

	2019/20		2018/19	
	Group £000	Council £000	Group £000	Council £000
<b>Long-term provision for impairment</b>				
Council Tax	(81,340)	(81,340)	(83,290)	(83,290)
Trade Debtors	(25,856)	(25,856)	(22,043)	(22,043)
Other Debtors	(23,847)	(23,847)	(15,636)	(15,636)
Total long-term provision for impairment	(131,043)	(131,043)	(120,969)	(120,969)
<b>Current provision for impairment</b>				
Council Tax	(109,827)	(109,827)	(102,082)	(102,082)
Trade Debtors	(12,451)	(12,451)	(9,534)	(9,534)
Other Debtors	(179)	(179)	(140)	(140)
Total current provision for impairment	(122,457)	(122,457)	(111,756)	(111,756)

### 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.

	2019/20		2018/19	
	Group £000	Council £000	Group £000	Council £000
Cash held	351	351	353	353
Bank current accounts	14,022	(15,005)	29,323	158
Short-term deposits:				
With banks or building societies	28,364	28,364	32,936	32,936
With other local authorities	67,467	67,467	73,232	73,232
	110,204	81,177	135,844	106,679

## NOTES TO THE FINANCIAL STATEMENTS

### 22. Investments

#### 22.1 Long-Term Investments

	2019/20		2018/19	
	Group £000	Council £000	Group £000	Council £000
Transport for Edinburgh	0	5,824	0	5,824
Tudor Trust	350	350	350	350
TIE	1	1	1	1
CEC Holdings	7,876	14,044	7,876	14,044
Telford NHT	3,471	3,471	3,471	3,471
	<u>11,698</u>	<u>23,690</u>	<u>11,698</u>	<u>23,690</u>

#### 22.2 Short-Term Investments

	2019/20		2018/19	
	Group £000	Council £000	Group £000	Council £000
Local Authority Loans	45,798	45,563	17,100	17,100
	<u>45,798</u>	<u>45,563</u>	<u>17,100</u>	<u>17,100</u>

### 23. Assets Held for Sale Policy

Current assets held for sale are assets that the Council has identified as surplus to requirements, are being actively marketed and it is expected that the sale will be realised within twelve months of the Balance Sheet date.

Non-current assets held for sale are assets that the Council has identified as surplus to requirements, are being actively marketed, but it is not expected that the sale will be realised within twelve months of the Balance Sheet date.

Assets held for sale are measured at the lower of carrying value and fair value less costs to sell at the Balance Sheet date. Where the sale is expected to occur in more than twelve months, the cost is measured at present value.

Current and non-current assets held for sale are not depreciated.

#### Note

	2019/20		2018/19	
	Group £000	Council £000	Group £000	Council £000
<b>23.1 Non-Current Assets - Held for Sale</b>				
Balance at 1 April	1,586	1,586	2,580	2,580
Additions	2	2	25	25
Revaluation gains/(losses) recognised in the revaluation reserve	(316)	(316)	0	0
Revaluation gains/(losses) recognised in Surplus on the Provision of Services	(18)	(18)	0	0
Assets sold	0	0	(19)	(19)
Transfers from non-current to current	0	0	(1,000)	(1,000)
	<u>1,254</u>	<u>1,254</u>	<u>1,586</u>	<u>1,586</u>

#### 23.2 Current Assets - Held for Sale

	2019/20		2018/19	
	Group £000	Council £000	Group £000	Council £000
Balance at 1 April	17,606	17,606	20,126	20,126
Additions	296	296	193	193
Revaluation gains/(losses) recognised in the revaluation reserve	2,631	2,631	4,000	4,000
Revaluation gains/(losses) recognised in Surplus on the Provision of Services	606	606	0	0
Assets reclassified as held for sale:				
Property, Plant and Equipment	0	0	5,960	5,960
Assets sold	0	0	(13,673)	(13,673)
Transfers from non-current to current	0	0	1,000	1,000
	<u>21,139</u>	<u>21,139</u>	<u>17,606</u>	<u>17,606</u>

## NOTES TO THE FINANCIAL STATEMENTS

24. Creditors	2019/20		2018/19	
	Group £000	Council £000	Group £000	Council £000
Trade Creditors	(101,300)	(98,434)	(84,173)	(79,330)
Council Tax refundable to taxpayer	(5,029)	(5,029)	(1,980)	(1,980)
Other Tax payable	(13,068)	(10,282)	(13,914)	(10,598)
Other Creditors	(78,243)	(48,319)	(105,160)	(73,971)
PFI Creditor (Note 40.1)	(36,648)	(36,648)	(8,206)	(8,206)
Finance Leases (non PFI - Note 40.1)	(10,700)	(1,868)	(3,134)	(1,185)
	<u>(244,988)</u>	<u>(200,580)</u>	<u>(216,567)</u>	<u>(175,270)</u>

### 25. Provisions Policy

The value of provisions is based upon the Council's obligations arising from past events, the probability that a transfer of economic benefit will take place and a reasonable estimate of the obligation.

#### Note

Provision has been made within the Group Financial Statements for outstanding payments of £36.960m (2018/19 £36.710m).

Of this amount, £34.512m (2018/19 £33.810m) relates to the Council. These include estimates of settlements on outstanding equal pay, compensation, insurance and other claims, contract arrangements, land acquisition costs for the tram project and Council Tax discounts that require to be set aside for housing projects. The precise amount of these payments is unknown, however, provision has been made in the accounts, based on the Council's assessment of the costs.

	Group £000	Council £000
Balance at 1 April 2019	(36,710)	(33,810)
Additional provisions made during the year	(7,755)	(5,878)
Amounts used during the year	4,397	2,067
Unused amounts reversed during the year	3,108	3,109
Balance at 31 March 2020	<u>(36,960)</u>	<u>(34,512)</u>

### 26. Reserves Policy

Reserves held on the Balance Sheet are classified as either usable or unusable reserves.

Usable reserves hold monies that can be applied to fund expenditure or reduce Council Tax.

Unusable reserves cannot be applied to fund expenditure.

#### Usable Reserves

The Council operates the following usable reserves:

- Capital receipts reserve - this represents capital receipts available to finance capital expenditure in future years.
- Capital grants unapplied account - holds capital grants and contributions that have been received towards specific works that have yet to be completed.
- Capital fund - under Schedule 3 of the Local Government (Scotland) Act 1975, certain receipts derived from the sale of property may also be used to create a capital fund "to be used for defraying any expenditure of the authority to which capital is properly applicable, or in providing money for repayment of the principal of loans".
- Renewal and repairs fund - holds monies set aside for the renewal and repair of Council property and funds for PPP school lifecycle maintenance. This fund is operated under the terms of Schedule 3 to the Local Government (Scotland) Act 1975.
- General Fund - held to mitigate financial consequences of risks and other events impacting on the Council's resources. Monies within the General Fund can be earmarked for specific purposes.
- Donated asset reserve - provides a mechanism to represent the financing associated with the use of donated assets, with sums released from the reserve to offset the effect of depreciation charged to the CIES in respect of those assets' use.

#### Note

Movements in the Group and the Council's usable reserves are detailed in the Movement in Reserves Statement (on pages 17 to 18) and Note 12.



## NOTES TO THE FINANCIAL STATEMENTS

### 27. Unusable Reserves

#### Policy

The Council operates the following unusable reserves:

- Revaluation reserve - holds unrealised gains arising since 1 April 2007 from holding non-current assets.
- Capital adjustment account - provides a mechanism between the different rates at which assets are depreciated and are financed through the capital controls system.
- Financial instruments adjustment account - provides a mechanism between the different rates at which gains and losses (such as premiums on the early repayment of debt) are recognised under the Code and are required by statute to be met from the General Fund.
- 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

	<b>Balance as at:</b>	
	<b>31 March 2020 £000</b>	<b>31 March 2019 £000</b>
Revaluation Reserve	1,758,446	1,666,037
Capital Adjustment Account	1,526,902	1,437,923
Financial Instruments Adjustment Account	(85,964)	(41,548)
Pensions Reserve	(523,535)	(659,468)
Employee Statutory Adjustment Account	(13,807)	(16,058)
Total Council Unusable Reserves	<u>2,662,042</u>	<u>2,386,886</u>
Subsidiaries, Associates and Joint Ventures	137,847	118,766
Total Group Unusable Reserves	<u><u>2,799,889</u></u>	<u><u>2,505,652</u></u>

#### 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.

	<b>2019/20 £000</b>	<b>2018/19 £000</b>
Balance at 1 April	1,666,037	1,378,280
Upward revaluation of assets	178,646	405,501
Downward revaluation of assets and impairment losses not charged to the Surplus on the Provision of Services	(30,825)	(89,490)
Surplus on revaluation of non-current assets not posted to the Surplus on the Provision of Service	<u>147,821</u>	<u>316,011</u>
Difference between fair value depreciation and historical cost depreciation	(53,963)	(130)
Accumulated gains on assets sold	<u>(1,449)</u>	<u>(28,124)</u>
Amount written off to the capital adjustment account	(55,412)	(28,254)
Balance at 31 March	<u><u>1,758,446</u></u>	<u><u>1,666,037</u></u>

## NOTES TO THE FINANCIAL STATEMENTS

### 27. Unusable Reserves - continued

#### 27.3 Capital Adjustment Account

The capital adjustment account provides a balancing mechanism for timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (CIES) (with reconciling postings from the revaluation reserve to convert fair value figures to a historical cost basis). The account is credited with the amounts set aside by the Council to finance the costs for acquisition, construction and enhancement of non-current assets. The account also holds accumulated gains and losses on investment properties and revaluation gains accumulated on property, plant and equipment prior to 1 April 2007.

Note 11 provides details of the source of the transactions posted to this account, except those involving the revaluation reserve.

	2019/20 £000	2018/19 £000
Balance at 1 April	1,437,923	1,403,298
<u>Reversal of items relating to capital expenditure debited or credited to the CIES</u>		
Charges for depreciation and impairment of non-current assets	(183,849)	(157,814)
Revaluation losses on property, plant and equipment heritage assets and assets held for sale	(37,272)	(60,619)
Amortisation and impairment of intangible assets	(58)	(1,240)
Capital funded from revenue	29,581	38,888
Revenue exp. funded from capital under statute	(52,778)	(59,774)
Amounts of non-current assets written off on disposal or sale as part of the gain / loss on disposal to the CIES	(3,847)	(19,952)
	<u>(248,223)</u>	<u>(260,511)</u>
Adjusting amounts written out of the revaluation reserve	55,412	28,254
Net written out amount of the costs of non-current assets consumed in the year	(192,811)	(232,257)
<u>Capital financing applied in the year:</u>		
Use of the capital receipts reserve to finance new capital expenditure	9,640	25,953
Donated assets	(440)	2,273
Use of capital fund for new capital expenditure	6,311	7,385
Capital grants and contributions credited to the CIES that have been applied to capital financing	114,333	80,401
Application of grants from the capital grants unapplied account / capital fund	805	1,351
Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	97,659	88,909
Capital expenditure charged against the General Fund and HRA balances	52,778	59,774
	<u>281,086</u>	<u>266,046</u>
Movements in the market value of investment properties credited to the CIES	309	1,025
Other unrealised losses debited to the CIES	395	(189)
Balance at 31 March	<u><u>1,526,902</u></u>	<u><u>1,437,923</u></u>

## NOTES TO THE FINANCIAL STATEMENTS

### 27. Unusable Reserves - continued

#### 27.4 Financial Instruments Adjustment Account

The financial instruments adjustment account provides a balancing mechanism between the different rates at which gains and losses (such as premiums on the early repayment of debt) are recognised under the Code and are required by statute to be met from the General Fund and Housing Revenue Account. This account also holds the equivalent interest rate adjustment on lender option / borrower option loans.

	<b>2019/20</b>	<b>2018/19</b>
	<b>£000</b>	<b>£000</b>
Balance at 1 April	(41,548)	(43,467)
Proportion of premiums incurred in previous financial years to be charged against the General Fund and HRA balances in accordance with statutory requirements	2,376	1,849
Premium on refinancing of loans	(46,900)	0
Proportion of equivalent interest rate calculation on lender option / borrower option loans (LOBOs)	108	70
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in accordance with statutory requirements	(44,416)	1,919
Balance at 31 March	<u>(85,964)</u>	<u>(41,548)</u>

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

#### 27.5 Pensions Reserve

The pensions reserve provides a balancing mechanism arising from the different arrangements for accounting for post employment benefits (pension costs) and for funding pensions in accordance with statutory provisions. The Council accounts for pensions in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs.

Statutory arrangements, however, require benefits to be financed as the Council makes its contributions to Lothian Pension Fund or pays any pensions for which it is directly responsible.

## NOTES TO THE FINANCIAL STATEMENTS

### 27. Unusable Reserves - continued

#### 27.5 Pensions Reserve - continued

The debit balance on the pension reserve therefore shows a substantial shortfall 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.

	<b>2019/20</b> <b>£000</b>	<b>2018/19</b> <b>£000</b>
Balance at 1 April	(659,468)	(482,493)
Actuarial gains or (losses) on pension assets and liabilities	184,024	(79,989)
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	(117,546)	(162,374)
Employer's pension contributions and direct payments to pensioners payable in the year	69,455	65,388
Balance at 31 March	<u>(523,535)</u>	<u>(659,468)</u>

#### 27.6 Employee Statutory Adjustment Account

The employee statutory adjustment account provides a balancing mechanism arising from the different arrangements that would otherwise impact on the General Fund and HRA balances from accruing for compensated absences earned but not taken in the year (annual leave entitlement carried forward at 31 March). Statutory arrangements require that the impact on the General Fund and HRA balances is mitigated by transfers to or from this account.

	<b>2019/20</b> <b>£000</b>	<b>2018/19</b> <b>£000</b>
Balance at 1 April	(16,058)	(14,761)
Settlement or cancellation of accrual made at the end of the preceding year	16,058	14,761
Amount accrued at the end of the current year	<u>(13,807)</u>	<u>(16,058)</u>
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	2,251	(1,297)
Balance at 31 March	<u>(13,807)</u>	<u>(16,058)</u>

## NOTES TO THE FINANCIAL STATEMENTS

### 27. Unusable Reserves - continued

#### 27.8 Unusable Reserves - Group Members

	Balance as at:	
	31 March 2020 £000	31 March 2019 £000
<b>Subsidiaries</b>		
CEC Holdings Limited	77,009	76,292
Transport for Edinburgh	32,710	24,226
Edinburgh Living MMR LLP	8,235	0
<b>Associates and Joint Ventures</b>		
Common Good	23,509	23,510
Lothian Valuation Joint Board	(3,616)	(5,262)
<b>Total Unusable Reserves - Subsidiaries, Associates and Joint Ventures</b>	<u>137,847</u>	<u>118,766</u>

### 28. Cash Flow Statement - Operating Activities

The cash flows for operating activities include the following items:

	2019/20		2018/19	
	Group £000	Council £000	Group £000	Council £000
Cash paid to and on behalf of employees	641,666	641,666	571,307	571,307
General Revenue Grant	(360,206)	(360,206)	(363,757)	(363,757)
Non-Domestic Rates receipts from national pool	(366,025)	(366,025)	(340,474)	(340,474)
Other net operating cash payments / (receipts)	(66,654)	(66,654)	(116,137)	(116,137)
Net cash flows from subsidiary companies	(23,595)	0	(26,028)	0
<b>Net cash flows from operating activities</b>	<u>(174,814)</u>	<u>(151,219)</u>	<u>(275,089)</u>	<u>(249,061)</u>

### 29. Cash Flow Statement - Operating Activities - continued

The cash flows for operating activities include the following items:

	2019/20		2018/19	
	Group £000	Council £000	Group £000	Council £000
Interest received	(4,219)	(4,093)	(5,519)	(5,406)
Interest paid	78,156	77,504	82,766	82,435
Investment income received	(1,047)	(1,047)	(7,000)	(7,000)

## NOTES TO THE FINANCIAL STATEMENTS

### 30. Cash Flow Statement - Investing Activities

	2019/20		2018/19	
	Group £000	Council £000	Group £000	Council £000
Purchase of Property, Plant and Equipment, Investment Property and Intangible Assets	354,154	325,424	230,998	218,902
Proceeds from the Sale of Property, Plant and Equipment, Investment Property and Intangible Assets	(77,873)	(76,910)	(19,563)	(18,770)
Net purchase of Short-Term and Long-Term Investments	70,439	70,439	(1,800)	(1,053)
Other payments for investing activities	53,430	46,510	55,316	49,136
Other receipts from investing activities	(50,596)	(50,596)	(60,531)	(60,512)
<b>Net cash flows from investing activities</b>	<b>349,554</b>	<b>314,867</b>	<b>204,420</b>	<b>187,703</b>

### 31. Cash Flow Statement - Financing Activities

	2019/20		2018/19	
	Group £000	Council £000	Group £000	Council £000
Cash Receipts of Short- and Long-Term Borrowing	(236,129)	(236,348)	(654)	(2,875)
Other Receipts for Financing Activities	30,986	30,986	22,243	22,243
Cash Payments for the Reduction of the Outstanding Liability relating to Finance Leases and on-Balance Sheet PPP Contracts	22,831	8,580	3,650	2,145
Repayment of short-term and long-term borrowing	33,213	58,637	49,960	49,960
<b>Net cash flows from financing activities</b>	<b>(149,099)</b>	<b>(138,145)</b>	<b>75,199</b>	<b>71,473</b>

### 32. Trading Operations

Edinburgh Catering Services - Other Catering continues to meet the definition of a significant trading operation under the terms of the Local Government in Scotland Act 2003, as amended.

#### 32.1 Edinburgh Catering Services - Other Catering

Edinburgh Catering Services - Other Catering is a quality accredited trading operation providing a catering service to staff and the public across seven Council buildings which includes civic hospitality in Waverley Court and the City Chambers.

	2019/20 £000	2018/19 £000	2017/18 £000	Cumulative £000
Turnover	921	966	931	n/a
Deficit	(48)	(36)	(42)	(126)

Edinburgh Catering Services - Other Catering failed to achieved its statutory obligation to break even over the three-year period.

The impact of COVID-19 will make achieving a breakeven position challenging. A tariff increase in line with inflation is due on re-commencement of services. Re-modelling the service will be considered, to accommodate changes in demand and the lack of commercial activity at the City Chambers

The results of Edinburgh Catering Services - Other Catering are included within 'Financing and Investment Income and Expenditure' in the Comprehensive Income and Expenditure Statement.

## NOTES TO THE FINANCIAL STATEMENTS

### 33. Financial Support and Guarantees

#### 33.1 Loans and guarantees

The Council has made loans to the following organisations at less than market interest rates (soft loans).

	2019/20 £000	2018/19 £000	2019/20 £000	2018/19 £000
	Transport for Edinburgh Ltd.	Transport for Edinburgh Ltd.	Spartans Community Football Academy	Spartans Community Football Academy
Opening Balance	0	939	57	55
New Loans	0	0	0	0
Increase in the Discounted Amount	0	42	4	5
Fair Value Adjustment	0	0	0	0
Loan Repayment	0	(981)	(3)	(3)
Balance Carried Forward	<u>0</u>	<u>0</u>	<u>58</u>	<u>57</u>
Nominal Value Carried Forward	<u>0</u>	<u>0</u>	<u>93</u>	<u>96</u>

Adjustments have been made under the requirements of IFRS 9 Financial Instruments, as required by the Code.

The Transport for Edinburgh loans were fully repaid during the year to 31 March 2019.

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

#### 33.2 Guarantees

In February 2018 the Council agreed to provide a formal pension guarantee to Lothian Pension Fund on behalf of Edinburgh Leisure.

From 1 April 2018 Lothian Pension Fund introduced a new investment strategy, whereby for those employers closed to new entrants but who do not meet the criteria for the 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.

## NOTES TO THE FINANCIAL STATEMENTS

### 33. Financial Support and Guarantees - continued

#### 33.3 Shared Equity Scheme / Scheme of Assistance

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

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

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

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

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

In June 2018 the Council purchased the interest in a shared equity loan scheme from PARC for £0.512m. The scheme provided assistance to buyers to purchase homes from PARC and twenty two loans remain in the scheme. These sums are included in long-term debtors.

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

#### 33.4 National Housing Trust

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

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

The Telford NHT LLP with Miller Homes was bought over by the Council in January 2019.

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 remaining 57 homes are due to complete before the end of 2020. However, delays in the construction programme will result in overall slippage, possibly into 2021/22.



## NOTES TO THE FINANCIAL STATEMENTS

### 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 2019/20 £000	Repaid 2019/20 £000	Prior Years £000	Total £000
Places for People	Lochend North	1	106	0	(3,572)	13,323	9,751
Places for People	Lighthouse Court	1	56	0	(1,096)	6,492	5,396
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	6,005	0	11,279	17,284
Places for People	Shrubhill	3	93	5,784	0	9,139	14,923
			<b>803</b>	<b>11,789</b>	<b>(4,668)</b>	<b>87,144</b>	<b>94,265</b>

These sums are included within long-term debtors, as detailed in note 20.1.

### 34. Agency Income and Expenditure

The Council has entered into agency agreements with other local public bodies to provide and receive services, the income and expenditure for which is included in the Comprehensive Income and Expenditure Statement.

During the financial year the total Agency income was £101.877m (2018/19 £11.799m) and Agency Expenditure £96.167m (2018/19 £8.619m).

The Council undertakes, on an agency basis, the financial administration on behalf of the Scottish Cities Alliance. During the year £0.323m (2018/19 £0.653m) 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 £1.195m (2018/19 £1.185m) was collected and £1.240m (2018/19 £1.138m) paid out to BID schemes, included in the totals above.

In August 2018 the Edinburgh and South-East Scotland City Region Deal (ESES CR 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 the funds amounted to agency income of £89.159m and agency expenditure of £89.159m (2018/19 £Nil).

### 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 £0.623m (2018/19 £0.594m).

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 £0.003m during 2019/20 (2018/19 £0.003m) for the audit of the 2018/19 financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

### 36. Grant Income

#### Policy

##### • Revenue

Revenue grants and contributions have been included in the financial statements on an accruals basis.

Where such funds remain unapplied at the Balance Sheet date, but approval has been given to carry these funds forward to the next financial year, these amounts have been set aside in the General Fund.

##### • Capital

Capital grants and contributions are recognised in the Comprehensive Income and Expenditure Statement except to the extent there are conditions attached to them that have not been met.

Where there are no conditions attached to capital grants and contributions, these funds are a reconciling item in the Movement in Reserves Statement for the General Fund and Housing Revenue Account by way of an adjusting transaction with the capital adjustment account, where expenditure has been incurred, and the unapplied capital grants account, where expenditure has not been incurred.

Where there are outstanding conditions attached to capital grants and contributions that have not been met at the Balance Sheet date, the grant or contribution will be recognised as part of capital grants receipts in advance. Once the condition has been met, the grant or contribution will be transferred from capital grants received in advance and recognised as income in the Comprehensive Income and Expenditure Statement, as above.

#### Note

Grants and contributions credited to the Comprehensive Income and Expenditure Statement include the following:

	2019/20		2018/19	
	£000	£000	£000	£000
<b>Credited to taxation and non-specific grant income</b>				
General revenue funding	(360,206)		(363,757)	
Non-domestic rates	(366,025)		(340,474)	
Capital grants and contributions	<u>(127,806)</u>		<u>(95,013)</u>	
		(854,037)		(799,244)
<b>Credited to services</b>				
Central Government Bodies	(225,700)		(202,802)	
Other Local Authorities	(2,907)		(3,288)	
NHS bodies	(78,050)		(70,336)	
Other entities and individuals	<u>(23,419)</u>		<u>(10,469)</u>	
		<u>(330,076)</u>		<u>(286,895)</u>
<b>Total</b>		<u><u>(1,184,113)</u></u>		<u><u>(1,086,139)</u></u>

## NOTES TO THE FINANCIAL STATEMENTS

### 37. Related Parties

During the year, the Council entered into a number of transactions with related parties. The most material of these transactions, not disclosed elsewhere, are shown below.

	2019/20	2019/20	2019/20	2018/19	2018/19
	Expenditure	Income	Debtor / (Creditor)	Net Expenditure / (Income)	Debtor / (Creditor)
	£000	£000	£000	£000	£000
Capital City Partnership	3,847	(470)	(7)	4,075	216
CEC Holdings (incl. EDI Group, EICC)	190	(374)	4,723	(53)	3,784
Capital Theatres	204	(686)	0	481	0
Edinburgh Leisure Limited	8,685	(620)	99	10,712	147
Edinburgh Trams Ltd	2,418	(34,013)	4,110	638	1,442
Lothian Buses	1,540	(97)	5,911	1,638	10
Edinburgh Living MMR	16,348	0	19,212	996	2,748
Edinburgh Integration Joint Board	212,252	(240,686)	(3,992)	(21,967)	(12,373)
Lothian Valuation Joint Board	3,686	(54)	(1,437)	3,527	(1,715)
Telford NHT	0	0	3	3,454	0
NHS Bodies	4,194	(28,261)	1,527	(23,207)	219
Other Local Authorities	3,985	(2,435)	76	1,036	126
HMRC	0	0	1,862	0	(1,769)
Lothian Pension Fund	12	(358)	(4,943)	(242)	(3,722)
Scottish Government	12,283	(2,281)	59,826	11,581	28,623
Scottish Police Authority	2,284	(39)	0	2,207	0
Scottish Qualifications Authority	1,523	0	0	1,538	0
<u>Other</u>					
Audit Scotland	652	0	(388)	665	(382)
Autism Initiative UK	4,423	0	0	4,408	0
Bethany Christian Trust	969	0	0	799	0
Criminal Justice Bodies	591	0	0	555	0
Dean and Cauvin Charitable Trust	1,028	0	0	935	0
Edinburgh International Festival Society	2,133	0	0	1,947	43
Edinburgh Military Tattoo	0	(406)	0	(406)	0
Edinburgh Vol. Org. Council	526	0	0	1,314	0
Festivals Edinburgh Ltd	149	0	0	153	0
Handicab	620	0	248	452	0
Hubco	3,223	0	0	8,941	0
Lifecare Edinburgh	388	0	0	354	0
Marketing Edinburgh	721	(26)	0	1,336	11
Police Scotland	13	(1,053)	10,684	(1,629)	11,154
Port of Leith Housing	10,525	0	0	4,369	0
Royal Blind Asylum and School	1,442	(256)	0	1,636	0
Royal Lyceum Theatre Co Ltd	356	0	0	304	0
Scottish Fire and Rescue Service	99	(6)	0	(296)	(15)
Scottish Water	806	(12)	70	4	70
SESTRAN	1	(16)	163	(24)	356
Spartans	94	(5)	0	55	57
SUSTRANS	3,566	0	2,746	2,930	1,685
Transport Scotland	2	0	1,811	20	0
<b>Total</b>	<b>305,778</b>	<b>(312,154)</b>	<b>102,304</b>	<b>25,233</b>	<b>30,714</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 38. Capital Expenditure and Capital Financing

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

	2019/20		Re-stated 2018/19	
	£000	£000	£000	£000
Opening capital financing requirement		1,567,368		1,575,864
<b>Capital Investment</b>				
Property, plant and equipment	377,352		211,736	
Heritage Assets	773		155	
Assets held for sale	298		218	
Intangible assets	168		131	
Capital Receipts transferred to Capital Fund	0		825	
National Housing Trust - Consent to borrow (see note 33.4)	11,789		20,418	
Edinburgh Living LLP - Consent to borrow	16,348		2,734	
Acquisition of Long Term Investment	0		3,471	
Revenue expenditure funded from capital under statute	52,778		59,774	
PPP Lease Agreements Recognised In-Year	<u>16,691</u>		<u>17,902</u>	
		476,197		317,364
<b>Sources of Finance</b>				
Capital receipts	(9,640)		(25,953)	
Capital Funded from Current Revenue	(29,581)		(38,888)	
Government grants and other contributions	(174,227)		(148,910)	
Write down of EDI Loan Stock	0		(2,200)	
PPP schools - - under construction and lifecycle additions	(16,691)		(20,175)	
Loans fund / finance lease repayments	<u>(104,710)</u>		<u>(89,734)</u>	
		<u>(334,849)</u>		<u>(325,860)</u>
<b>Closing capital financing requirement</b>		<u><u>1,708,716</u></u>		<u><u>1,567,368</u></u>
<b>Explanation of movements in year</b>				
(Decrease) / increase in underlying need to borrow or fund from credit arrangements		9,426		(35,886)
Assets acquired under finance leases		131,922		27,390
<b>(Decrease) / Increase in capital financing requirement</b>		<u><u>141,348</u></u>		<u><u>(8,496)</u></u>

## NOTES TO THE FINANCIAL STATEMENTS

### 39. Leases

#### 39.1 Assets Leased in - Finance Leases

##### Policy

Finance leases, which have substantially transferred to the authority the benefits and risks of ownership of a non-current asset, are treated as if the asset had been purchased outright.

Assets acquired under finance leases are included in non-current assets at the lower of the fair value or the present value of the minimum lease payments. The capital element of the lease is included as obligations under finance leases / creditors.

The lease rentals comprise capital and interest elements. The capital element is applied to reduce the outstanding obligation and the interest element is charged to revenue on a straight line basis over the terms of the lease.

##### Note

The Council has acquired a waste treatment facility and its IT equipment under finance leases. The assets classified under these leases are included in property, plant and equipment in the Balance Sheet.

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 2021, 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.

	2019/20		Re-stated 2018/19	
	Group £000	Council £000	Group £000	Council £000
Value at 1 April	17,867	8,683	10,013	0
Additions during the year	23,506	2,856	9,488	9,488
Depreciation charge for the year	(3,467)	(1,553)	(1,634)	(805)
Value at 31 March	<u>37,906</u>	<u>9,986</u>	<u>17,867</u>	<u>8,683</u>
Vehicles, plant, equipment and furniture	<u>37,906</u>	<u>9,986</u>	<u>17,867</u>	<u>8,683</u>
Value at 31 March	<u><u>37,906</u></u>	<u><u>9,986</u></u>	<u><u>17,867</u></u>	<u><u>8,683</u></u>
<b>Analysed by:</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Current	10,700	1,868	3,133	1,185
Non-Current	21,302	8,118	12,695	7,499
Finance costs payable in future years	1,615	985	1,405	1,094
	<u>33,617</u>	<u>10,971</u>	<u>17,233</u>	<u>9,778</u>
<b>Finance Lease Liabilities</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Within one year	11,167	2,082	3,386	1,353
Between 2 and 5 years	18,618	5,057	9,529	4,107
Over 5 years	3,832	3,832	4,318	4,318
Total liabilities	<u>33,617</u>	<u>10,971</u>	<u>17,233</u>	<u>9,778</u>

#### 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.

## NOTES TO THE FINANCIAL STATEMENTS

### 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 2021, 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:

	2019/20		2018/19	
	Group £000	Council £000	Group £000	Council £000
<b>Future Repayment Period</b>				
Not later than one year	9,910	870	9,610	741
Later than one year and not later than five years	37,949	1,977	37,615	2,172
Later than five years	71,897	1,190	78,025	3,559
	<b>119,756</b>	<b>4,037</b>	<b>125,250</b>	<b>6,472</b>
<b>Value at 31 March</b>				
Other land and buildings	13,691	3,637	7,992	6,454
Vehicles, plant, equipment and furniture	106,065	400	117,258	18
	<b>119,756</b>	<b>4,037</b>	<b>125,250</b>	<b>6,472</b>
<b>Recognised as an expense during the year</b>	<b>10,252</b>	<b>1,216</b>	<b>10,511</b>	<b>1,508</b>

#### 39.3 Assets Leased Out by the Council - Operating Leases

##### Policy

Rental income received under operating leases is credited to the relevant service in accordance with the terms specified in the lease agreement.

##### Note

The Council leases out property, equipment and infrastructure under operating leases for a number of purposes, including:

- for economic development purposes, including regeneration and to provide suitable affordable accommodation for local businesses.
- to arm's-length companies for the provision of services such as sport and leisure and theatres.
- 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:

	2019/20 £000	2018/19 £000
Not later than one year	22,486	21,239
Later than one year and not later than five years	78,534	72,298
Later than five years	339,362	324,856
Total liabilities	<b>440,382</b>	<b>418,393</b>

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

## NOTES TO THE FINANCIAL STATEMENTS

### 40. Public Private Partnerships and Similar Contracts

#### 40.1 PPP, Finance Lease and Other Liabilities

	Note	2019/20		2018/19	
		Group	Council	Group	Council
		£000	£000	£000	£000
<b>Short Term Creditors</b>					
PPP Residual Waste	40.2	27,224	27,224	0	0
PPP Education	40.3	8,439	8,439	8,206	8,206
PPP Queensferry High School		984	984	0	0
Finance Leases	39.1	10,700	1,868	3,134	1,185
		<u>47,347</u>	<u>38,515</u>	<u>11,340</u>	<u>9,391</u>
<b>Other Long-Term Liabilities</b>					
PPP Residual Waste	40.2	20,294	20,294	0	0
PPP Education	40.3	179,419	179,419	187,858	187,858
PPP Queensferry High School		33,609	33,609	17,902	17,902
Finance Leases	39.1	21,302	8,118	12,695	7,499
Group other liabilities		1,366	0	710	0
		<u>255,990</u>	<u>241,440</u>	<u>219,165</u>	<u>213,259</u>

#### 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, which includes £62m of a donated asset.

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 2020/21	3,975	27,224	6,431	37,630
Within two to five years	17,469	872	15,032	33,373
Within six to ten years	25,071	1,030	17,898	43,999
Within eleven to fifteen years	27,853	2,546	16,447	46,846
Within sixteen to twenty years	31,481	5,771	12,814	50,066
Within twenty one to twenty five years	28,827	10,076	4,826	43,729
	<u>134,676</u>	<u>47,519</u>	<u>73,448</u>	<u>255,643</u>

Payments due under the scheme have been inflated by 1.06% per annum reflecting the terms of the contracts.

## NOTES TO THE FINANCIAL STATEMENTS

### 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.

Under the agreements the Council is committed to paying the following sums as detailed in the contractor's final bid model:

	<b>Payment for Services £000</b>	<b>Reimburse. of Capital Expenditure £000</b>	<b>Interest £000</b>	<b>Total £000</b>
Payable in 2020/21	20,367	8,439	17,977	46,783
Payable within two to five years	94,009	32,251	67,280	193,540
Payable within six to ten years	132,301	49,230	75,549	257,080
Payable within eleven to fifteen years	126,966	56,533	58,898	242,397
Payable within sixteen to twenty years	61,781	37,468	26,924	126,173
Payable within twenty one to twenty five years	782	3,938	591	5,311
	<u>436,206</u>	<u>187,859</u>	<u>247,219</u>	<u>871,284</u>

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

The amounts disclosed as reimbursement of capital expenditure are included in creditors and other long-term liabilities on the Balance Sheet. These are not subject to the above inflationary uplifts.

The unitary charges paid to the service providers include amounts to compensate them for the capital expenditure incurred and interest payable whilst the capital expenditure remains to be reimbursed. The liability outstanding to pay the service providers for capital expenditure incurred is as follows:

	<b>2019/20 £000</b>	<b>2018/19 £000</b>
Balance at 1 April	196,065	204,089
PPP unitary charge restatement adjustment	0	(1)
Repayments during the year	<u>(8,206)</u>	<u>(8,023)</u>
Balance at 31 March	<u>187,859</u>	<u>196,065</u>

The Council has entered into a DBFM agreement with Hub South East Scotland for the provision of the new Queensferry High School. Capital expenditure of £34.593m related to the construction of the school is reported as Assets Under Construction within the balance sheet and as a future finance lease liability.



## NOTES TO THE FINANCIAL STATEMENTS

### 40. Public Private Partnerships and Similar Contracts - 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.

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	£000	Inflationary Uplift
Period		
2020/21	27,347	1.4%
2021/22 - 2022/23	<u>46,372</u>	2.5%
	<u><u>73,719</u></u>	

#### 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	£000
Period	
2020/21	7,000
2021/22 - 2024/25	<u>24,500</u>
	<u><u>31,500</u></u>

#### 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 £36.307m.

### 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.

	2019/20		2018/19	
	£000	%	£000	%
Amount paid to Scottish Government in respect of teachers' pension costs	31,974		22,873	
As a percentage of teachers' pensionable pay Apr - Aug		17.20		17.20
As a percentage of teachers' pensionable pay Sep - Mar		23.00		17.20
Amount paid in respect of added years	0		0	
As a percentage of teachers' pensionable pay		0.00		0.00
Capitalised value of discretionary awards entered into prior to 2018/19	15,978		18,949	

At 31 March 2020, creditors include £4.166m (2018/19 £3.673m) in respect of teachers' superannuation.

### 42. Defined Pension Schemes

#### 42.1 Participation in Pension Scheme

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

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

## NOTES TO THE FINANCIAL STATEMENTS

### 42. Defined Pension Schemes - continued

#### 42.1 Participation in Pension Scheme - continued

In terms of this scheme, in 2019/20 the Council paid an employer's contribution of £63.062m (2018/19 £58.521m) into the Lothian Pension Fund, representing 22.3% (2018/19 22.5%) of pensionable pay. Contribution rates are determined by the Fund's Actuary based on triennial actuarial valuations of the pension fund. The data is based on the latest available valuations as at March 2017.

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

#### 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.

Comprehensive Income and Expenditure Statement	2019/20		2018/19	
	£000	£000	£000	£000
<i>Cost of services:</i>				
Service cost, comprising:				
Current service costs	117,983		103,040	
Past service costs	(16,847)		45,205	
		101,136		148,245
<i>Financing and investment income:</i>				
Net interest expense		16,410		14,129
<b>Total post employee benefit charged to the surplus on the provision of services</b>		117,546		162,374
<i>Other post-employment benefits charges to the Comprehensive Income / Expenditure Statement</i>				
Re-measurement of the net defined liability, comprising:				
Return on plan assets, excluding the amount incl. in the net interest expense above.	195,313		(183,615)	
Actuarial (gains) and losses arising on changes in financial assumptions	(354,198)		259,229	
Actuarial (gains) and losses arising on changes in demographic assumptions	0		0	
Other experience	(25,139)		4,375	
		(184,024)		79,989
<b>Total post-employment benefits charged to the Comprehensive Income / Expenditure Statement</b>		(66,478)		242,363
<b>Movement in Reserves Statement</b>				
Reversal of net charges made to the surplus on the provision of services for post-employment benefits in accordance with the Code.		(117,546)		(162,374)
<b>Actual amount charged against the General Fund Balance for pensions in the year:</b>				
Employer's contributions payable to the scheme		64,097		59,815
Contributions in respect of unfunded benefits		5,358		5,573
		69,455		65,388

## NOTES TO THE FINANCIAL STATEMENTS

### 42. Defined Pension Schemes - continued

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

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

	<b>2019/20</b>	<b>2018/19</b>
	<b>£000</b>	<b>£000</b>
Fair value of employer assets	2,843,437	2,970,647
Present value of funded liabilities	(3,296,740)	(3,548,983)
Present value of unfunded liabilities	<u>(70,232)</u>	<u>(81,132)</u>
Net liability arising from defined benefit obligation	<u>(523,535)</u>	<u>(659,468)</u>

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

	<b>2019/20</b>	<b>2018/19</b>
	<b>£000</b>	<b>£000</b>
Opening fair value of scheme assets	2,970,647	2,720,975
Effect of settlements	0	0
Interest income	71,258	73,318
Re-measurement gain / (loss):		
Return on plan assets, excluding the amount included in the net interest expense	(195,313)	183,615
Contributions from employer	64,097	59,815
Contributions from employees into the scheme	17,430	16,446
Contributions in respect of unfunded benefits	5,358	5,573
Benefits paid	(84,682)	(83,522)
Unfunded benefits paid	<u>(5,358)</u>	<u>(5,573)</u>
Closing fair value of scheme assets	<u>2,843,437</u>	<u>2,970,647</u>

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

	<b>2019/20</b>	<b>2018/19</b>
	<b>£000</b>	<b>£000</b>
Present value of funded liabilities	(3,548,983)	(3,124,427)
Present value of unfunded liabilities	<u>(81,132)</u>	<u>(79,041)</u>
Opening balance at 1 April	(3,630,115)	(3,203,468)
Current service cost	(117,983)	(103,040)
Interest cost	(87,668)	(87,447)
Contributions from employees into the scheme	(17,430)	(16,446)
Re-measurement gain / (loss):		
Change in financial assumptions	354,198	(259,229)
Other experience	25,139	(4,375)
Past service (cost) / gain	16,847	(45,205)
Benefits paid	84,682	83,522
Unfunded benefits paid	<u>5,358</u>	<u>5,573</u>
Closing balance at 31 March	<u>(3,366,972)</u>	<u>(3,630,115)</u>

## NOTES TO THE FINANCIAL STATEMENTS

### 42. Defined Pension Schemes - continued

#### 42.5 Fair Value of Employer Assets

The following asset values are at bid value as required under IAS19.

	2019/20		2018/19	
	£000	%	£000	%
Consumer *	271,003	10	316,076	11
Manufacturing *	410,093	15	365,504	9
Energy and Utilities *	181,357	6	224,417	7
Financial Institutions *	184,931	7	249,909	8
Health and Care *	196,766	7	161,397	6
Information technology *	122,907	4	96,757	3
Other *	<u>207,594</u>	7	<u>289,656</u>	12
Sub-total Equity Securities	<u>1,574,651</u>		<u>1,703,715</u>	
Debt Securities:				
UK Government *	175,051	6	301,834	11
Corporate Bonds (investment grade) *	47,625	2	0	0
Corporate Bonds (investment grade)	<u>104,649</u>	4	<u>0</u>	0
Sub-total Debt Securities	<u>327,325</u>		<u>301,834</u>	
Private Equity				
All	<u>24,740</u>	1	<u>40,287</u>	1
Sub-total Private Equity	<u>24,740</u>		<u>40,287</u>	
Real Estate:				
UK Property *	32,704	1	0	0
UK Property	153,614	5	201,206	6
Overseas Property	<u>2,505</u>	0	<u>0</u>	0
Sub-total Real Estate	<u>188,823</u>		<u>201,206</u>	
Investment Funds and Unit Trusts:				
Equities *	34,815	1	29,345	1
Bonds	12,205	0	75,308	3
Infrastructure	<u>399,797</u>	14	<u>368,743</u>	12
Sub-total Investment Funds and Unit Trusts	<u>446,817</u>		<u>473,397</u>	
Derivatives:				
Foreign Exchange *	<u>5,801</u>	0	<u>750</u>	0
Sub-total Derivatives	<u>5,801</u>		<u>750</u>	
Cash and Cash Equivalents				
All *	<u>275,280</u>	10	<u>249,458</u>	8
Sub-total Cash and Cash Equivalents	<u>275,280</u>		<u>249,458</u>	
Total Fair Value of Employer Assets	<u><u>2,843,437</u></u>	<u>100</u>	<u><u>2,970,647</u></u>	<u>100</u>

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

## NOTES TO THE FINANCIAL STATEMENTS

### 42. Defined Pension Schemes - continued

#### 42.6 Basis for Estimating Assets and Liabilities

Hymans Robertson, the independent actuaries to Lothian Pension Fund, have advised that the financial assumptions used to calculate the components of the pension expense for the year ended 31 March 2020 were those from the beginning of the year (i.e. 31 March 2019) and have not been changed during the year. The main assumptions in the calculations are:

#### Investment returns

Actual return for period from 31 March 2019 to 31 March 2020	(4.20%)
Total return for period from 1 April 2019 to 31 March 2020	(4.20%)

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

	31.03.20	31.03.19
Current pensioners	male 21.7 years	21.7 years
Current pensioners	female 24.3 years	24.3 years
Future pensioners	male 24.7 years	24.7 years
Future pensioners	female 27.5 years	27.5 years
Period ended	<b>31.03.20</b>	<b>31.03.19</b>
Pension increase rate	1.9%	2.5%
Salary Increase rate	3.5%	4.2%
Discount rate	2.3%	2.4%

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 2020 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 2020	Approximate % Increase to Employer	Approximate Monetary Amount £000
0.5% decrease in Real Discount Rate	10%	339,178
0.5% increase in the Salary Increase Rate	2%	54,607
0.5% increase in the Pension Increase Rate	8%	279,445

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

The objectives of the scheme are to keep employers' contributions at as constant a rate as possible. The Council agreed a contribution stability mechanism with the scheme's actuary until 31 March 2018. The rate was increased by 0.5% from 1 April 2018 and thereafter, for the remainder of the actuarial valuation period of one year, rates could vary from this rate by a maximum increase of 0.5% or a maximum decrease of (0.5%) per annum.

#### 42.8 Information about the defined benefit obligation

	£000	%
Active members	1,657,758	50.0
Deferred members	431,059	13.0
Pensioner members	1,225,141	37.0
Total	<u>3,313,958</u>	<u>100.0</u>

## NOTES TO THE FINANCIAL STATEMENTS

### 42. Defined Pension Schemes - continued

#### 42.8 Information about the defined benefit obligation - continued

The figures are for funded obligations only and do not include the unfunded pensioner liabilities. The durations are effective as at the previous formal valuation as at 31 March 2017.

The unfunded pensioner liability at 31 March 2020 comprises approximately £54.254m (2018/19 £62.183m) in respect of LGPS unfunded pensions and £15.978m (2018/19 £18.949m) in respect of teachers' unfunded pensions. For unfunded liabilities as at 31 March 2020, 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; the Transport for Edinburgh pension liability for 2019/20 is at 31 March 2020.

	<b>2019/20</b>	<b>2018/19</b>
	<b>Pension</b>	<b>Pension</b>
	<b>Reserve</b>	<b>Reserve</b>
	<b>£000</b>	<b>£000</b>
<b>Unusable Reserves</b>		
Council	(523,535)	(659,468)
Lothian Valuation Joint Board	<u>(3,750)</u>	<u>(5,432)</u>
	<u>(527,285)</u>	<u>(664,900)</u>
	<b>2019/20</b>	<b>2018/19</b>
	<b>£000</b>	<b>£000</b>
<b>Usable Reserves</b>		
Edinburgh Leisure	(1,232)	(1,550)
Transport for Edinburgh Ltd	<u>66,190</u>	<u>65,471</u>
	<u>64,958</u>	<u>63,921</u>
<b>Net Pension Reserves</b>	<u>(462,327)</u>	<u>(600,979)</u>

#### 42.10 Analysis of projected amount to be charged to profit or loss for the period to 31 March 2021

	<b>Assets</b>	<b>Obligations</b>	<b>Net (liability) / asset</b>	
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>% of pay</b>
Current service cost	<u>0</u>	<u>(99,409)</u>	<u>(99,409)</u>	<u>(37.0%)</u>
Past service cost including curtailments	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.0%</u>
Effect of settlements	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.0%</u>
Total Service Cost	<u>0</u>	<u>(99,409)</u>	<u>(99,409)</u>	<u>(37.0%)</u>
Interest income on plan assets	<u>65,271</u>	<u>0</u>	<u>65,271</u>	<u>24.3%</u>
Interest cost on defined benefit obligation	<u>0</u>	<u>(77,687)</u>	<u>(77,687)</u>	<u>(28.9%)</u>
Total Net Interest Cost	<u>65,271</u>	<u>(77,687)</u>	<u>(12,416)</u>	<u>(4.6%)</u>
Total included in Profit or Loss	<u>65,271</u>	<u>(177,096)</u>	<u>(111,825)</u>	<u>(41.6%)</u>

The Council's estimated contribution to Lothian Pension Fund for 2020/21 is £61.115m.

# NOTES TO THE FINANCIAL STATEMENTS

## 42. Defined Pension Schemes - continued

### 42.11 Strain on the Pension Fund

Lothian Pension Fund has the right to require the Council to make additional payments to the pension fund to reflect the extra cost to the pension fund of immediate payment of benefits to employees who retire early on efficiency, redundancy or voluntary grounds. This amounted to £1.186m, including accrued payments (2018/19 £1.172m).

### 42.12 Further Information

Further information on Lothian Pension Fund can be found in the Council's Pension Fund's Annual Report which is available upon application to the Chief Executive Officer, Lothian Pension Fund, Atria One, 144 Morrison Street, Edinburgh, EH3 8EX.

## 43. Financial Instruments

### Policy

#### Classifications

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Non-exchange transactions, such as those relating to taxes, benefits and government grants, do not give rise to financial instruments.

#### Financial Liabilities

A financial liability is an obligation to transfer economic benefits controlled by the Council and can be represented by a contractual obligation to deliver cash or financial assets or an obligation to exchange financial assets and liabilities with another entity that is potentially unfavourable to the Council.

All of the Council's financial liabilities held during the year are measured at amortised cost and comprised:

- long-term loans from the Public Works Loan Board and commercial lenders,
- lease payables detailed in note 39,
- Private Finance Initiative contracts detailed in note 40, and
- trade payables for goods and services received.

#### Financial Assets

A financial asset is a right to future economic benefits controlled by the Council that is represented by cash, equity instruments or a contractual right to receive cash or other financial assets or a right to exchange financial assets and liabilities with another entity that is potentially favourable to the Council. The financial assets held by the Council during the year are accounted for under the following classifications:

Amortised cost (where cash flows are solely payments of principal and interest and the Council's business model is to collect those cash flow) comprising:

- cash in hand,
- current, call and notice accounts with banks
- fixed term deposits with banks and building societies,
- loans to other local authorities,
- certificates of deposit and covered bonds issued by banks and building societies,
- treasury bills and gilts issued by the UK Government,
- trade receivables for goods and services provided.

Fair value through other comprehensive income (where cash flows are solely payments of principal and interest and the Council's business model is to both collect those cash flows and sell the instrument; and equity investments that the Council has elected into this category) comprising:

- money market funds

Financial assets held at amortised cost are shown net of a loss allowance reflecting the statistical likelihood that the borrower or debtor will be unable to meet their contractual commitments to the Council.

## NOTES TO THE FINANCIAL STATEMENTS

### 43. Financial Instruments - continued

#### 43.1 Categories of Financial Instruments

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

	2019/20		2018/19	
	Long-Term £000	Current £000	Long-Term £000	Current £000
<b>Assets</b>				
At amortised cost				
- Bank Call Accounts (Note 21)	0	28,364	0	32,936
- Local Authority Loans - S-T (Note 22)	0	45,563	0	17,100
- Local Authority Loans - S-T (Note 21)	0	67,467	0	73,232
		<u>141,394</u>		<u>123,268</u>
At fair value through profit and loss				
- Money Market Funds	0	67,935	0	25,959
		<u>67,935</u>		<u>25,959</u>
Total Financial Instruments - Assets	0	209,329	0	149,227
The Investment total does not include £23.34m (2018/19 £23.34m) in unquoted equity in subsidiary companies which are not deemed to be Financial Instruments.				
<b>Debtors</b>				
At amortised cost	160,515	103,164	118,708	68,471
Total debtors	<u>160,515</u>	<u>103,164</u>	<u>118,708</u>	<u>68,471</u>
<b>Borrowings</b>				
- Public Works Loans Board	(1,041,404)	(71,783)	(863,875)	(69,968)
- Salix	(722)	(302)	(1,024)	(289)
- Market debt	(243,760)	(3,203)	(285,692)	(3,465)
Total borrowings	<u>(1,285,886)</u>	<u>(75,288)</u>	<u>(1,150,591)</u>	<u>(73,722)</u>
<b>Other Liabilities</b>				
Financial liabilities at amortised cost	0	(19,008)	0	(26,901)
PPP and finance lease liabilities	(241,440)	(38,516)	(213,259)	(9,391)
Deferred liability	(42,078)	0	(37,201)	0
Total other long-term liabilities	<u>(283,518)</u>	<u>(57,524)</u>	<u>(250,460)</u>	<u>(36,292)</u>

In August 2018, the Council undertook a fixed rate forward starting loan transaction. The Council has committed to drawing down a £60m loan in October 2020 repayable over 25 years on a semi annual annuity basis.

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



## NOTES TO THE FINANCIAL STATEMENTS

### 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

	<b>Financial Liabilities: Measured at Amortised Cost £000</b>	<b>Financial Assets: Measured at Amortised Cost £000</b>	<b>Fair Value through Profit / Loss £000</b>	<b>Total £000</b>
Interest expense	59,660	0	0	59,660
Interest on leases	21,785	0	0	21,785
Total expense in Surplus on the Provision of Services	81,445	0	0	81,445
Interest income	0	(1,439)	(469)	(1,908)
Total Interest and investment income	0	(1,439)	(469)	(1,908)
Net (gain) / loss for the year	81,445	(1,439)	(469)	79,537

In addition to the above interest expense, £2.419m (2018/19 £1.849m) was charged to the loans pool from the financial instruments adjustment account during the year, but not reflected in the Comprehensive Income and Expenditure Statement. The increase relates to the charging of premiums incurred on the restructuring of the Council's Inverse LOBO loans. It also excludes £0.232m (2018/19 £0.427m) of loans fund expenses charged to the Council.

Dividend income of £1.047m (2018/19 £7m) 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 2020, using the following methods and assumptions:

- Loans, including PWLB loans, borrowed by the Council have been valued by discounting the contractual cash flows over the whole life of the instrument at the appropriate market rate for local authority loans.
- The value of "Lender's Option Borrower's Option" (LOBO) loans has been increased by the value of the embedded options.
- The fair values of other long-term loans and investments have been discounted at the market rates for similar instruments with similar remaining terms to maturity on 31 March.
- The fair values of finance lease assets and liabilities and of PFI scheme liabilities have been calculated by discounting the contractual cash flows (excluding service charge elements) at the appropriate AA-rated corporate bond yield.

## NOTES TO THE FINANCIAL STATEMENTS

### 43. Financial Instruments - continued

#### 43.3 Fair Value of Assets and Liabilities - continued

- The fair value of soft loan assets has been calculated using the cash flows implied by the appropriate market interest rate which has been deemed to be the appropriate PWLB rate plus a credit spread of between 2% and 5% depending on the party to whom the advance has been made.
- The fair value of short-term instruments, including trade payables and receivables, is assumed to approximate to the carrying amount.

Fair values are shown in the table below, split by their level in the fair value hierarchy:

- Level 1 – fair value is only derived from quoted prices in active markets for identical assets or liabilities, e.g. bond prices.
- Level 2 – fair value is calculated from inputs other than quoted prices that are observable for the asset or liability, e.g. interest rates or yields for similar instruments.
- Level 3 – fair value is determined using unobservable inputs, e.g. non-market data such as cash flow forecasts or estimated creditworthiness.

The fair values are calculated as follows:

	Fair Value Level	2019/20		2018/19		
		Principal Outstanding £000	Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000
Public Works Loans Board	2	(1,100,213)	(1,113,186)	(1,400,813)	(933,843)	(1,221,824)
Salix	2	(1,058)	(1,024)	(1,003)	(1,313)	(1,290)
Market debt	2	(234,900)	(246,964)	(456,213)	(289,157)	(523,985)
Borrowings		(1,336,171)	(1,361,174)	(1,858,029)	(1,224,313)	(1,747,099)
Other long-term liabilities	n/a	(42,078)	(42,078)	(42,078)	(37,201)	(37,201)
Trade creditors	n/a	(19,008)	(19,008)	(19,008)	(26,901)	(26,901)
PPP and Finance Leases	3	(279,956)	(279,956)	(355,129)	(222,650)	(308,033)
Financial liabilities		<u>(1,677,213)</u>	<u>(1,702,216)</u>	<u>(2,274,244)</u>	<u>(1,511,065)</u>	<u>(2,119,234)</u>

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

	Fair Value Level	2019/20		2018/19	
		Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000
<b>Investments held at Fair Value through Profit and Loss</b>					
Money Market Funds	1	67,936	67,936	25,959	25,959
		<u>67,936</u>	<u>67,936</u>	<u>25,959</u>	<u>25,959</u>
<b>Investment held at Amortised Cost</b>					
Bank Call Accounts	n/a	28,364	28,361	32,936	32,936
Local Authority Loans	2	113,029	113,125	90,332	90,267
		<u>141,393</u>	<u>141,486</u>	<u>123,268</u>	<u>123,203</u>
<b>Debtors</b>					
Loan Stock	n/a	2,240	2,240	2,339	2,339
Soft Loans	3	56	56	55	55
Other trade debtors	n/a	103,164	103,164	68,471	68,471
		<u>105,460</u>	<u>105,460</u>	<u>70,865</u>	<u>70,865</u>
<b>Total Investments</b>		<u>314,789</u>	<u>314,882</u>	<u>220,092</u>	<u>220,027</u>

## NOTES TO THE FINANCIAL STATEMENTS

### 43. Financial Instruments - continued

#### 43.4 Financial Assets classified as Fair Value through Profit and Loss

	Fair Value Level	2019/20		2018/19	
		Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000
<b>Investments held at Fair Value through Profit and Loss</b>					
Money Market Funds	1	67,936	67,935	25,959	25,959
		<u>67,936</u>	<u>67,935</u>	<u>25,959</u>	<u>25,959</u>

There was no unrealised gain on the available for sale financial assets (2018/19 £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 12 March 2020 and is available on the Council website. The key issues within the strategy are:

- The authorised limit for 2020/21 has been set at £2.266bn. This is the maximum limit for external borrowings and other short and long term liabilities.
- The operational boundary for 2020/21 has been set at £2.085bn. This is the expected upper level of borrowing and other short and long term liabilities during the year.

The prudential indicators are reported and approved as part of the Council's annual budget setting process. Actual performance is also **reported annually** to members of the Council.

#### 44.2 Key Risks

The Council's activities expose it to a variety of financial risks, the key risks are:

- Credit risk – the possibility that other parties might fail to pay amounts due to the Council;
- Liquidity risk – the possibility that the Council might not have funds available to meet its commitments to make payments;
- Re-financing risk – the possibility that the Council might be requiring to renew a financial instrument on maturity at disadvantageous interest rates or terms;
- Market risk - the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates movements.

## NOTES TO THE FINANCIAL STATEMENTS

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

#### 44.3 Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers. Deposits are with banks, building societies, and other institutions in line with the Council's prevailing counterparty limits as set out in the Council's treasury policy statement. Investment decisions are considered daily as part of the daily cash flow management by the Council's Treasury Team who can, and do, restrict the list further in light of market conditions.

The Council's funds are managed along with those of Lothian Pension Fund and some other related organisations which are pooled for investment purposes as a treasury cash fund. Management of the cash fund is on a low risk, low return basis, with security of the investments the key consideration while at the same time seeking innovative and secure cash investment opportunities. This arrangement has allowed a better management of the Council's risk in the exceptional financial and market circumstances in recent years.

As well as lending monies to other local authorities, the Council purchases UK Government Treasury Bills and has previously purchased Bonds and Floating Rate Notes with an explicit UK Government Guarantee. At 31 March 2020, the Council had £45.6m in short term investments, all of which were loans to other local authorities. Of the net Cash and Cash Equivalents, 41.2% were loans to other local authorities, a further 41.5% was held in three AAA rated Money Market Funds, leaving only 17.3% with banks. All of the monies held on deposit with banks at 31 March 2020 were in call or near call accounts.

The principal outstanding on monies held by the Council under its treasury management arrangements at 31 March 2020 was £209.0m (31 March 2019: £149.1m). This was held with the following institutions:

	Standard and Poor's Rating	Principal Outstanding 31.03.20 £000	Carry Value 31.03.20 £000	Fair Value 31.03.20 £000	Carry Value 31.03.19 £000
<b>Summary</b>					
Money Market Funds					
Deutsche Bank AG, London	AAAm	25,130	25,141	25,141	4,006
Goldman Sachs	AAAm	15,021	15,022	15,022	59
Standard Life	AAAm	27,758	27,772	27,772	21,895
Bank Call Accounts					
Bank of Scotland	A	5,787	5,789	5,789	14,678
Royal Bank of Scotland	A-	11,630	11,630	11,630	577
Santander UK	A	1	1	1	1
Barclays Bank	A	14	14	14	13
Svenska Handelsbanken	AA-	7	7	7	7
HSBC Bank Plc 31 dn	AA-	10,918	10,918	10,916	17,647
HSBC Bank Plc	AA-	5	5	5	14
UK Pseudo-Sovereign Risk Instruments					
Local Authorities (see below)	n/a	112,777	113,030	113,125	90,332
UK Government Treasury Bills	Aau	0	0	0	0
<b>Total</b>		<b>209,048</b>	<b>209,329</b>	<b>209,422</b>	<b>149,229</b>

Local Authorities are generally assumed to have a pseudo-sovereign credit rating (which in the UK at 31 March 2020 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 £28.4m 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 2020 that this risk was likely to crystallise.

## NOTES TO THE FINANCIAL STATEMENTS

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

#### 44.3 Credit Risk - continued

No breaches of the Council's counterparty criteria occurred during the reporting period and the Council does not expect any losses from non-performance by any of its counterparties in relation to deposits.

In 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 2020 meeting. The papers are available on the Council's website. A full list of the deposits outstanding at 31 March 2020 is contained in the Treasury Cash Fund Investment Report for Quarter 1 2020. This is available on request from [corporate.finance2@edinburgh.gov.uk](mailto:corporate.finance2@edinburgh.gov.uk), marked for the attention of Treasury.

All Council invoices become due for payment on issue. Excluding pre-payments of £0.569m (2018/19 £2.246m), trade debtors past due date can be analysed by age as follows:

	<b>2019/20</b>	<b>2018/19</b>
	<b>£000</b>	<b>£000</b>
Less than two months	15,170	12,325
Two to four months	1,662	1,774
Four to six months	699	977
Six months to one year	1,609	2,153
More than one year	7,212	6,566
Total	<u>26,352</u>	<u>23,795</u>

Collateral – During the reporting period the Council held no collateral as security.

#### Credit Risk: Trade Debtors

Loss allowances on debtors have been calculated by reference to the Council's historic experience of default.

Debtors are collectively assessed for credit risk in the following groups:

		<b>31.03.20</b>	
	<b>Range</b>	<b>Gross Receivable</b>	<b>Loss Allowance</b>
Council Tax	3% - 100%	207,479	(191,167)
Non Domestic Rates	1% - 100%	3,316	(1,880)
HRA tenants and other debtors	5% - 95%	7,554	(6,387)
Housing Benefits	75% - 80%	27,768	(21,375)
Trade and Other Debtors	7.5% - 60%	45,154	(32,691)
Total		<u>291,271</u>	<u>(253,500)</u>

#### 44.4 Liquidity risk

The Council carries out short and medium term cash flow management to ensure that it will have sufficient liquidity to cover all of its payment obligations. This includes monitoring the maturity profile of investments to ensure sufficient liquidity is available for the Council's day to day cash flow needs. The Council also has ready access to borrowings from the money markets to cover any day to day cash flow needs. It is anticipated that some short to medium term borrowing may be required within the next financial year to meet cashflow and working capital requirements. This will be managed as part of the Council's short- and medium-term cashflow monitoring as required.

## NOTES TO THE FINANCIAL STATEMENTS

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

#### 44.4 Liquidity risk - continued

Whilst the PWLB provides access to longer term funds, it also acts as a lender of last resort to the Council. The Council is also required by statute to achieve a balanced budget, which ensures sufficient monies are raised to cover annual expenditure. There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

The Council manages its liquidity position through the risk management procedures above (the setting and approval of prudential indicators and the approval of the treasury and investment strategy reports), as well as through cash flow management procedures required by the Code of Practice.

#### 44.5 Re-financing and Maturity Risk

The Council maintains significant debt and investment portfolios. The re-financing risk to the Council relates to managing the exposure to replacing financial instruments as they mature. As shown in the chart in 44.6, the majority of the Council's debt portfolio consists of fixed rate longer term loans, and as such, the Council has a relatively low re-financing risk on its liabilities. However, the Council has market debt which allows the lender the option to ask for a rate increase at set dates and at that point the Council may choose to repay the loan at no additional cost. This gives a potential re-financing risk which the Council monitors and manages.

The Council's approved treasury strategy addresses the main risks and the treasury team address the operational risks within approved parameters. This includes monitoring the maturity profile of financial liabilities and amending the profile through either new borrowing or the rescheduling of the existing debt. With the margin on new borrowing rates and a separate rate for the premature repayment of loans, it is unlikely that there will be much scope for any substantial rescheduling of PWLB debt. However the Council is in on-going discussion with institutions over the potential to restructure some of the Council's market debt. 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:

	2019/20	Re-stated 2018/19
	£000	£000
Less than one year	(97,643)	(68,018)
Between one and two years	(62,676)	(66,199)
Between two and five years	(159,292)	(159,632)
Between five and ten years	(258,677)	(258,702)
More than ten years	<u>(1,037,841)</u>	<u>(868,559)</u>
Financial Liabilities	<u>(1,616,129)</u>	<u>(1,421,110)</u>

All trade and other payables are due to be paid in less than one year and trade creditors of £19.008m (2019/20 £26.900m) are not shown in the table above. The above figures show the principal outstanding, therefore, neither accrued interest of £16.176m (2018/19 £15.116m) nor net equivalent interest rate (EIR) adjustments of £8.825m (2018/19 £10.737m) to the carrying amounts of market debt shown in the financial liabilities are included. The reduction in the EIR value relates to the extinguishing of the Council's Inverse LOBO loans.

The only investment which the Council has with a maturity of greater than one year is £2.4m in EDI loan stock.

#### 44.6 Market risk

##### Interest rate risk

The Council is exposed to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council, depending on how variable and fixed interest rates move across differing financial instrument periods. For instance, a rise in variable and fixed interest rates would have the following effects:

- borrowings at variable rates – the interest expense charged to the Comprehensive Income and Expenditure Statement will rise;
- borrowings at fixed rates – the fair value of the borrowing liability will fall;
- investments at variable rates – the interest income credited to the Comprehensive Income and Expenditure Statement will rise; and
- investments at fixed rates – the fair value of the assets will fall.

## NOTES TO THE FINANCIAL STATEMENTS

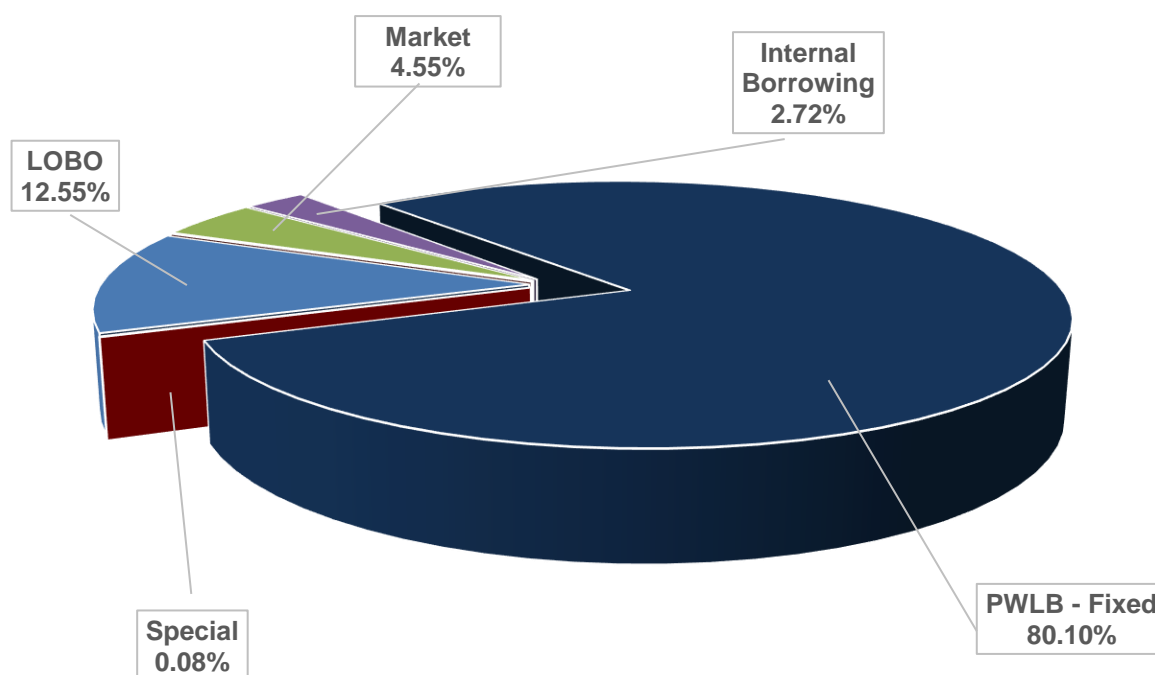
### 44. Nature and Extent of Risks Arising from Financial Instruments - continued

#### 44.6 Market risk - continued

Borrowings are not carried at fair value on the Balance Sheet, so nominal gains and losses on fixed rate borrowings would not impact on the Comprehensive Income and Expenditure Statement or Movement in Reserves Statement. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Comprehensive Income and Expenditure Statement and affect the General Fund Balance, subject to influences from Government grants. Movements in the fair value of fixed rate investments will be reflected in the Movement in Reserves Statement, unless the investments have been designated as fair value through the Comprehensive Income and Expenditure Statement.

The Council has a number of strategies for managing interest rate risk. The annual treasury management strategy includes a forecast for short and longer term interest rates. The treasury team continue to monitor market and forecast interest rates during the year and adjust investment policies accordingly. For instance during periods of falling interest rates, and where economic circumstances make it favourable, fixed rate investments may be taken for longer periods to secure better long term returns. Any such strategy is run within the short and medium term liquidity requirements of the Council.

The following chart shows the source of the Council's borrowing. Most of the Council's borrowings are from the Government by way of the Public Works Loans Board (PWLB). As interest rates are historically low, none of the PWLB borrowing was variable rate.



Source of Borrowing - 31/03/2020

In addition to the borrowing in the chart above, in August 2018, the Council undertook a fixed rate forward starting loan transaction. The Council has committed to drawing down a £60m loan in October 2020 repayable over 25 years on a semi annual annuity basis. The purpose of the transaction was to mitigate the interest rate risk on the Council's future capital financing requirement.

## NOTES TO THE FINANCIAL STATEMENTS

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

#### 44.6 Market risk - continued

If all interest rates had been 1% higher with all other variables held constant, the financial effect would be:

	£000
Increase in interest payable on variable borrowings	0
Increase in interest receivable on variable rate investments	(854)
Impact on Comprehensive Income and Expenditure Statement	(854)
Increase in Government grant receivable for financing costs	0
Share of overall impact debited to the HRA	0
Decrease in fair value of fixed rate investment assets	0
Decrease in fair value of fixed rate borrowings liabilities	257,132

#### Price Risk

The Council does not generally invest in equity shares but does have shareholdings of £23.340m (2018/19 £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.

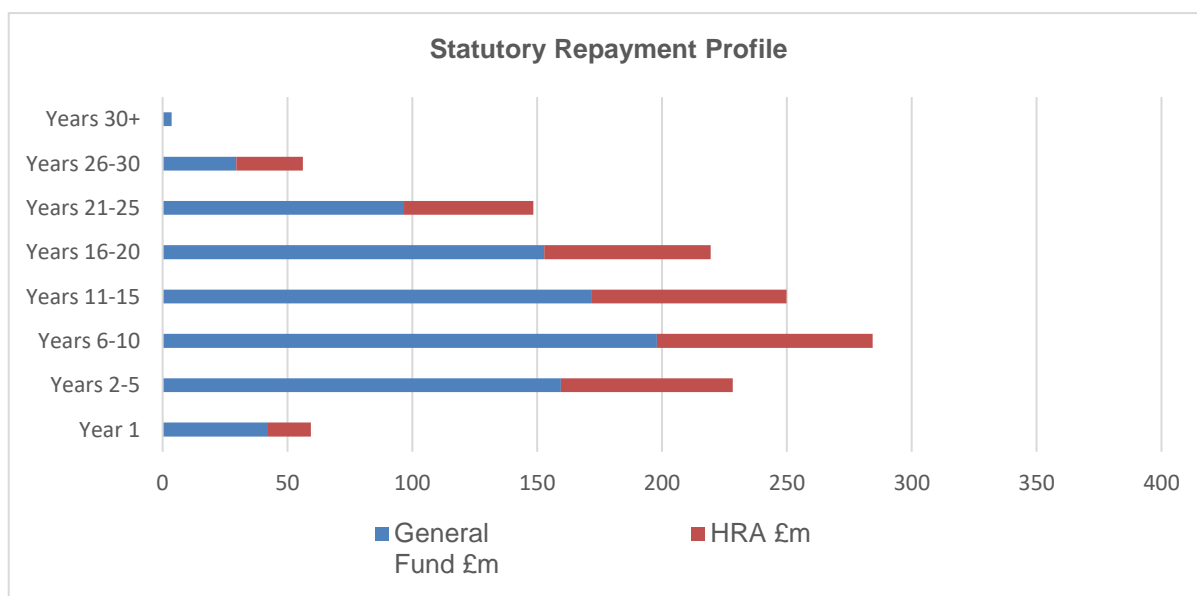
#### Foreign exchange risk

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. Capital advances are repaid by the General Fund and HRA over a period of up to 35 years. Capital Advances to Edinburgh Living MMR LLP are repaid on an annuity basis over a 40 year period.





## 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 further plans in place to wind up the Boyd Anderson Trust in 2020/21.

45.1 The funds are:

Scottish Registered Charities	Scottish Charity Registration Number	Market Value	Market Value
		31.03.20 £000	31.03.19 £000
Lauriston Castle	SC020737	7,043	7,043
Jean F. Watson	SC018971	6,450	6,424
Edinburgh Education Trust	SC042754	1,012	1,021
Nelson Halls	SC018946	235	241
The Royal Scots Trust	SC018945	35	34
Boyd Anderson	SC025067	100	105
Total market value		<u>14,875</u>	<u>14,868</u>

These funds do not represent assets of the Council and are not included in the Consolidated Balance Sheet.

### 45.2 Financial Position of the Scottish Registered Charity Funds

2018/19 Income and Expenditure Account		2019/20
£000		£000
<b>Income</b>		
79	Investment income	71
26	Other non-investment income	28
<u>105</u>		<u>99</u>
<b>Expenditure</b>		
(22)	Prizes, awards and other expenses	(19)
(16)	Governance Costs	(15)
<u>(38)</u>		<u>(34)</u>
<u>67</u>	Surplus / (Deficit) for the year	<u>65</u>
2018/19 Balance Sheet		2019/20
£000		£000
<b>Long-Term Assets</b>		
2,207	Investments	2,143
5,317	Artworks - Jean F Watson Trust	5,374
7,020	Heritable property	7,021
<u>14,544</u>	<b>Total Long-Term Assets</b>	<u>14,538</u>
<b>Current Assets</b>		
331	Cash and bank	361
20	Debtors	16
<u>351</u>		<u>377</u>
<b>Current Liabilities</b>		
(27)	Creditors	(40)
<u>(27)</u>		<u>(40)</u>
<u>14,868</u>	<b>Total Assets less Liabilities</b>	<u>14,875</u>
<b>Funds</b>		
3,291	Capital at 1 April	3,490
67	Surplus / (Deficit) for the year	65
132	Unrealised gains on investments	0
0	Unrealised losses on investments	(58)
<u>3,490</u>		<u>3,497</u>
11,378	Revaluation reserve	11,378
<u>14,868</u>	<b>Funds at 31 March</b>	<u>14,875</u>

A separate Trustee's Report and Accounts have been prepared which give further information on the Scottish registered charities in the trusteeship of the Council. A copy of this document may be obtained on the [Council's website](#) in due course.

# HOUSING REVENUE ACCOUNT

## INCOME AND EXPENDITURE STATEMENT for the year ended 31 March 2020

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.

<b>2018/19</b>		<b>2019/20</b>	
<b>£000</b>	<b>EXPENDITURE</b>	<b>£000</b>	<b>£000</b>
33,823	Repairs and maintenance	29,616	
19,282	Supervision and management	20,993	
21,446	Depreciation and impairment of non-current assets	29,078	
5,873	Other expenditure	7,133	
43	Impairment of debtors	613	
<u>80,467</u>			87,433
	<b>INCOME</b>		
(97,455)	Dwelling rents	(99,592)	
(41)	Non-Dwelling rents (gross)	(22)	
(7,539)	Other income	(4,366)	
<u>(105,035)</u>			<u>(103,980)</u>
(24,568)	Net income for HRA Services (as included in the Council's Comprehensive Income and Expenditure Statement)		(16,547)
150	HRA share of corporate and democratic core		166
2,288	HRA share of other amounts included in the Council's Net Cost of Services but not allocated to specific services		<u>1,073</u>
(22,130)	Net income for HRA Services		(15,308)
	HRA share of other operating expenditure included in the Council's Comprehensive Income and Expenditure Statement		
(2,381)	(Gain) / loss on sale of HRA fixed assets	(3,554)	
(60)	Investment Property changes in fair value	42	
18,330	Interest payable and similar charges	17,261	
2,306	Interest cost on defined benefit obligation ( <i>pension-related</i> )	2,467	
(114)	Interest and investment income	(1,188)	
(1,934)	Interest income on plan assets ( <i>pension-related</i> )	(2,005)	
<u>(24,788)</u>	Capital grants and contributions	<u>(29,262)</u>	
<u>(8,641)</u>			<u>(16,239)</u>
<u><u>(30,771)</u></u>	Surplus for the year on HRA services		<u><u>(31,547)</u></u>

# HOUSING REVENUE ACCOUNT

## MOVEMENT ON THE HRA STATEMENT

2018/19 £000		2019/20 £000
0	Balance on the HRA at the end of the previous year	0
30,771	Surplus for the year on the HRA Income and Exp Account	31,547
(56,814)	Adjustments between accounting basis and funding basis under statute	(47,002)
<u>(26,043)</u>	<b>Net increase before transfers to reserves</b>	<u>(15,455)</u>
26,043	Contribution (to) / from renewal and repairs fund, via the General Fund	15,455
<u><u>0</u></u>	<b>Balance on the HRA at the end of the current year</b>	<u><u>0</u></u>

## Adjustments Between Accounting Basis and Funding Basis Under Regulations

£000		£000
	<b>Adjustments primarily involving the Capital Adjustment Account</b>	
	<b>Reversal of items debited or credited to the Income and Expenditure Statement</b>	
21,446	Charges for depreciation and impairment of non-current assets	29,078
(24,788)	Capital grants and contributions applied	(29,262)
(60)	Movement in the market value of investment properties	42
	<b>Insertion of items not debited or credited to the Income and Expenditure Statement</b>	
(20,115)	Statutory provision for the financing of capital investment	(20,695)
(32,800)	Capital funded from revenue	(23,000)
	<b>Adjustments primarily involving the Capital Receipts Reserve</b>	
(2,382)	Transfer of cash sale proceeds credited as part of the gain / loss on disposal of assets	(3,554)
	<b>Adjustments primarily involving the Financial Instruments Adjustment Account</b>	
(567)	Amount by which finance costs charged are different from finance costs chargeable in the year in accordance with statutory requirements	(740)
	<b>Adjustments primarily involving the Pensions Reserve</b>	
3,910	Reversal of items relating to retirement benefits debited or credited to the Income and Expenditure Statement	2,803
(1,502)	Employer's pension contributions and direct payments to pensioners payable in the year	(1,530)
	<b>Adjustments primarily involving the Employee Statutory Adjustment Account</b>	
44	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	(144)
<u><u>(56,814)</u></u>		<u><u>(47,002)</u></u>

# HOUSING REVENUE ACCOUNT

## Notes to the Housing Revenue Account

1. The number and types of dwellings in the authority's housing stock at 31 March 2020 are as follows:

Types of Houses	2020		2019	
	Number	Annual Average Rent (£)	Number	Annual Average Rent (£)
<b>Main provision Council dwellings</b>				
1 Apartment	285	4,051.00	285	3,970.00
2 Apartment	5,610	4,532.00	5,499	4,443.00
3 Apartment	10,207	5,262.00	10,103	5,159.00
4 Apartment	3,512	6,069.00	3,460	5,944.00
5 Apartment	521	6,496.00	514	6,366.00
6 Apartment	10	6,557.00	9	6,413.00
7 Apartment	4	6,336.00	4	6,212.00
8 Apartment	1	6,336.00	1	6,212.00
<b>Mid-market rent dwellings</b>				
2 Apartment	23	5,896.00	23	5,780.00
3 Apartment	84	7,240.00	84	7,098.00
4 Apartment	22	9,125.00	22	8,946.00
	<u>20,279</u>		<u>20,004</u>	

The stock figure represents all types of residential properties, including furnished tenancies, sheltered housing and homelessness units.

- The amount of rent arrears included as debtors in the Council's Consolidated Balance Sheet was £7.569m (£6.907m 2018/19) against which a provision amounting to £6.386m (£5.773m 2018/19), has been created in respect of non collectable debts.
- The total value of uncollectable void rents for main provision properties was £0.648m (2018/19 £0.624m). 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.

2018/19 £000		2019/20 £000	£000
(351,763)	Gross council tax levied and contributions in lieu		(366,569)
56,620	Less: - Exemptions and other discounts	58,696	
8,827	- Provision for bad debts	9,207	
24,294	- Council Tax Reduction Scheme	24,070	
4,091	- Other reductions	4,457	
<u>93,832</u>			<u>96,430</u>
(257,931)			(270,139)
<u>(1,504)</u>	Previous years' adjustments		<u>(905)</u>
<u><b>(259,435)</b></u>	<b>Total transferred to General Fund</b>		<u><b>(271,044)</b></u>

### Notes to the Council Tax Income Account

The in-year collection rate for Council Tax was 97.0% (2018/19 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 3% increase applied to Council Tax in both 2018/19 and 2019/20.

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 2019/20

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	24,169	77	3,921	3,401	16,924	6/9	11,283	£851.60
B £27,001 - £35,000	48,061	67	3,811	6,854	37,463	7/9	29,138	£993.53
C £35,001 - £45,000	44,950	(9)	2,841	5,480	36,620	8/9	32,551	£1,135.47
D £45,001 - £58,000	40,615	60	2,651	4,342	33,682	9/9	33,682	£1,277.40
E £58,001 - £80,000	42,662	(5)	3,571	3,799	35,287	473/360	46,363	£1,678.36
F £80,001 - £106,000	25,923	(34)	1,559	1,995	22,335	585/360	36,294	£2,075.78
G £106,001 - £212,000	22,218	(126)	518	1,289	20,285	705/360	39,725	£2,501.58
H Over £212,000	4,133	(30)	125	197	3,781	882/360	9,263	£3,129.63
							Total	238,299
							Add: Contributions in Lieu	518
							Less: Provision for Non-Payment	<u>(7,165)</u>
							<b>Council Tax Base</b>	<u><b>231,652</b></u>

## NON-DOMESTIC RATES INCOME ACCOUNT

The Non-Domestic Rate Account is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Non-Domestic Rate Account. The statement shows the gross income from the rates and deductions made under statute. The net income is paid to the Scottish Government as a contribution to the national Non-Domestic Rate pool.

<b>2018/19</b>		<b>2019/20</b>	
<b>£000</b>		<b>£000</b>	<b>£000</b>
(476,081)	Gross rates levied and contributions in lieu		(477,545)
103,459	Less: - Reliefs and other deductions	104,041	
4,904	- Uncollectable debt written off and provision for impairment	5,095	
108,363			109,136
(367,718)			(368,409)
7,867	Previous years' adjustments		25,591
(359,851)	<b>Net Non-Domestic Rates Income</b>		(342,818)
0	Non-domestic rate income retained by authority		775
<b>(359,851)</b>	<b>Non-Domestic Rate Income</b>		<b>(342,043)</b>
	Allocated to:		
(360,532)	Contribution to Non-Domestic Rate Pool		(342,740)
681	City of Edinburgh Council		697
<b>(359,851)</b>			<b>(342,043)</b>

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

<b>Rateable Values as at 1 April 2019</b>	<b>Number</b>	<b>Rateable Value £000</b>
Shops, offices and other commercial subjects	16,078	650,228
Industrial and freight transport	2,775	81,508
Telecommunications	6	23
Public service subjects	357	50,564
Miscellaneous	3,979	172,259
	23,195	954,583

- The amount distributed to the council from the national non-domestic rate income pool in the year was £365.250m (2018/19 £340.474m).
- 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 49.0p per £ in 2019/20 (2018/19 48.0p per £).

Properties with a rateable value greater than £51,000 (2018/19 £51,000) had their rate charges calculated using the poundage of 51.6p per £ (2018/19 50.6p per £).

- From 1 April 2008, the Scottish Government introduced the small business bonus scheme. Business properties with a rateable value of £18,000 or less may 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.

- The Business Rate Incentivisation Scheme (BRIS) permits the authority to retain half of the NDR income which exceeds the income target set by the Scottish Government. The outcomes of the scheme for 2017-18 and 2018-19 were confirmed in July 2020, allowing the Council to retain £0.775m in the 2019-20 financial year.

## 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, £8,600 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 £2.665m as at 31 March 2020 (£2.352m 2018/19). This is split £0.842m in the fund and £1.823m in the planned property maintenance fund.

During 2019/20, the Common Good made a surplus of £0.312m. This surplus includes £0.338m, which is the proceeds from asset disposal and a further £0.005m from the granting of a long lease of 329 High Street.

The lease of 329 High Street was completed in January 2020. A lease premium of £3.036m has been received in the Common Good. The lease premium is to be amortised over the lease term of 125 years. The in-year surplus, as mentioned above, includes a lease premium of £0.005m for 2019/20. 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 2020, along with the Audited Annual Accounts.

### COMMON GOOD FUND - INCOME AND EXPENDITURE ACCOUNT

2018/19	2019/20	
£000	£000	£000
<b>Income</b>		
(16) Investment income	(24)	
(1,684) Rent Income	(1,160)	
(1,189) Capital Funding	(71)	
0 Sale of Fixed Assets	(338)	
0 Lease Premium	(5)	
(1,680) Recharges Income	(2,175)	
<u>(4,569) Total Income</u>	<u>(3,773)</u>	
<b>Expenditure</b>		
51 Common Good Fund	67	
<u>4,553 Common Good Property Costs</u>	<u>3,394</u>	
<u>4,604 Total Expenditure</u>		3,461
<u>35 (Surplus) / Deficit for the Year</u>		<u>(312)</u>

## COMMON GOOD FUND - BALANCE SHEET

31 March 2019 £000		31 March 2020 £000      £000	
<u>2,558</u>	Community Assets	<u>2,558</u>	
<u>2,558</u>	<b>Property, Plant and Equipment</b>		2,558
20,828	Long-Term Debtors	17,798	
<u>147</u>	Heritage Assets	<u>146</u>	
<u>20,975</u>	<b>Long-Term Assets</b>		17,944
449	Short-Term Investments	1,616	
0	Debtors	4	
<u>1,880</u>	Cash and Cash Equivalents	<u>4,052</u>	
<u>2,329</u>	<b>Current Assets</b>		<u>5,672</u>
<u><b>25,862</b></u>	<b>Net Assets</b>		<u><b>26,174</b></u>
23,523	Capital Contribution	23,522	
<u>(13)</u>	Capital Adjustment Account	<u>(13)</u>	
<u>23,510</u>	<b>Unusable Reserves</b>		23,509
496	Common Good Fund	842	
<u>1,856</u>	Earmarked Reserve	<u>1,823</u>	
<u>2,352</u>	<b>Usable Reserves</b>		<u>2,665</u>
<u><b>25,862</b></u>	<b>Total Reserves</b>		<u><b>26,174</b></u>

The unaudited accounts were issued on 30 June 2020. The audited accounts were issued on 5 November 2020.

HUGH DUNN, CPFA  
Head of Finance  
Date



# COMMON GOOD FUND - NOTES TO FINANCIAL STATEMENTS

## 1. Property, Plant and Equipment and Heritage Assets

### 1.1 Movements on Balances

Re-stated	Community Assets £000	Total Property, Plant and Equipment £000	Heritage Assets £000
<b>Cost or Valuation</b>			
At 1 April 2019	2,558	2,558	147
Transfer from / (to) Charitable Trusts	0	0	(1)
	<hr/>	<hr/>	<hr/>
At 31 March 2020	2,558	2,558	146
<b>Net Book Value</b>			
At 31 March 2020	<u>2,558</u>	<u>2,558</u>	<u>146</u>
At 31 March 2019	<u>2,558</u>	<u>2,558</u>	<u>147</u>
<b>Cost or Valuation</b>			
At 1 April 2018	965	965	103
Transfer from / (to) General Fund	1,593	1,593	44
	<hr/>	<hr/>	<hr/>
At 31 March 2019	2,558	2,558	147
<b>Net Book Value</b>			
At 31 March 2019	<u>2,558</u>	<u>2,558</u>	<u>147</u>
At 31 March 2018	<u>965</u>	<u>965</u>	<u>103</u>

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 their 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:

- transfer 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.

	2019/20		2018/19	
	£000	£000	£000	£000
Balance at 1 April		23,523		21,886
Movement of assets	(1)		1,638	
Downward revaluation of assets and impairment losses not charged to the Surplus on the Provision of Services	0		(1)	
Surplus / (Deficit) on revaluation of non-current assets not posted to the Surplus on the Provision of Service		(1)		1,637
Derecognition of asset disposals		0		0
Balance at 31 March		<u>23,522</u>		<u>23,523</u>

#### 2.2 Capital Adjustment Account

The capital adjustment account provides a balancing mechanism for timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (CIES) (with reconciling postings from the revaluation reserve to convert fair value figures to a historical cost basis).

The account also holds revaluation gains accumulated on property, plant and equipment prior to 1 April 2007, the date the revaluation reserve was created to hold such gains.

	2019/20	2018/19
	£000	£000
Balance at 1 April	(13)	(22)
Movement in Year	0	9
Balance at 31 March	<u>(13)</u>	<u>(13)</u>

# ANNUAL GOVERNANCE STATEMENT

## Introduction

This governance statement provides assurance over the governance arrangements that have been in place for the majority of 2019/20 and it also identifies the changes that have been implemented in response to the COVID-19 emergency. The emergency has meant that the Council has had to make significant changes to its governance arrangements and as a result the Council's arrangements are under significant pressure but it is felt that they are still robust and sufficient for the current circumstances.

## Scope of Responsibility

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

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

This statement also covers the organisations included in the Council's Group Accounts, a list of which is included on page 39 of the Accounts.

## Council's Strategy and Vision

The Council's strategy can be divided into four sections:

- The Vision – In 2016, the City of Edinburgh began a conversation about its future to create a vision for 2050. A major public engagement and awareness raising campaign was launched in 2018. The Steering Group for the city vision has been established and is developing the 2050 Edinburgh City Vision with a view to launching it in 2020. The launch of the City Vision has been delayed due to the COVID-19 emergency but is expected to be a key element of the city's collective recovery to the COVID-19 with partners using the principles in 2050 City Vision to guide their recovery planning. The Council endorsed this approach at its Policy and Sustainability Committee on 28 May.
- The Business Plan - In 2017, the Council agreed the Business Plan which is built around 52 commitments that the administration has pledged to deliver over five years. The plan sets out what the Council aims to do and how it intends to do it. The plan informs the decision making on how to use resources. The principles and actions set out drive how the Council reshapes and redesigns the way it delivers services and the way it works with communities and partners.
- The Change Strategy - The Change Strategy seeks to set out how the council will achieve its objectives but also how it will address the significant financial challenges it faces. The Change Strategy was produced and agreed following extensive consultation and engagement with the public and staff.
- Underpinning these documents are a series of strategic plans providing detail on the Council's priorities such as poverty and sustainability. These will be incorporated into the Council's recovery planning going forward.

## 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 non-financial performance, approves and monitors progress against the internal audit risk-based plan, and monitors performance of the internal audit service.

The Council also utilises a range of other committees, some of which are quasi-judicial such as the Development Management Sub-Committee and the Licensing Sub-Committee, to consider individual applications.

# ANNUAL GOVERNANCE STATEMENT

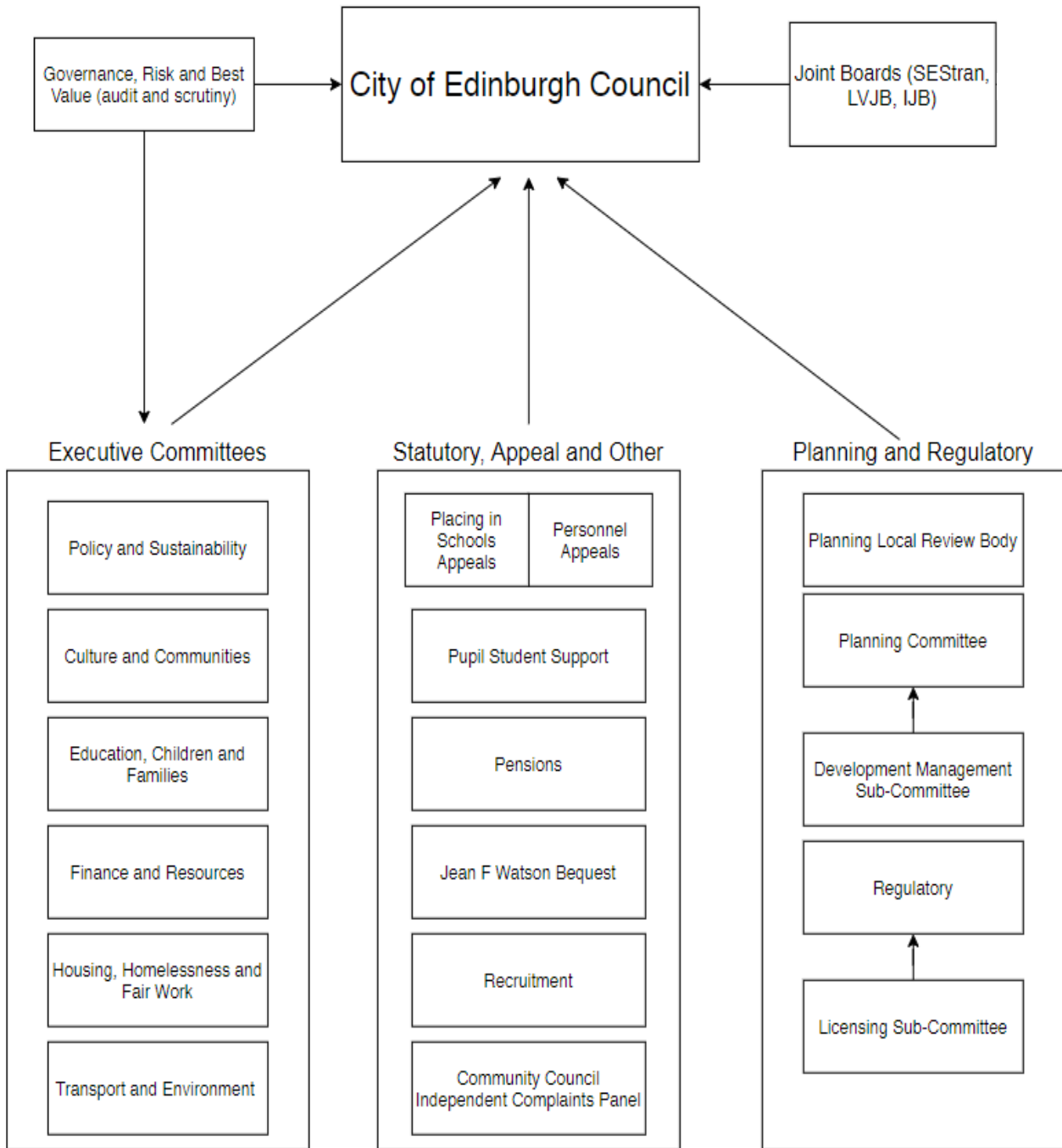


Figure 1.1 Executive Committee Structure

## Officer Decision Making

The Corporate Leadership Team (CLT) meets weekly, led by the Chief Executive and includes all executive directors and key heads of service including the Head of Finance as the Council's Statutory Section 95 Officer (see figure 1.2).

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 committees, a quarterly Council health and safety group and a quarterly consultation forum involving the trade unions. Health and safety working groups are in place for fire safety, water safety and asbestos. All directorates have risk and assurance committee meetings at least quarterly and ensure escalation of risks.

# ANNUAL GOVERNANCE STATEMENT

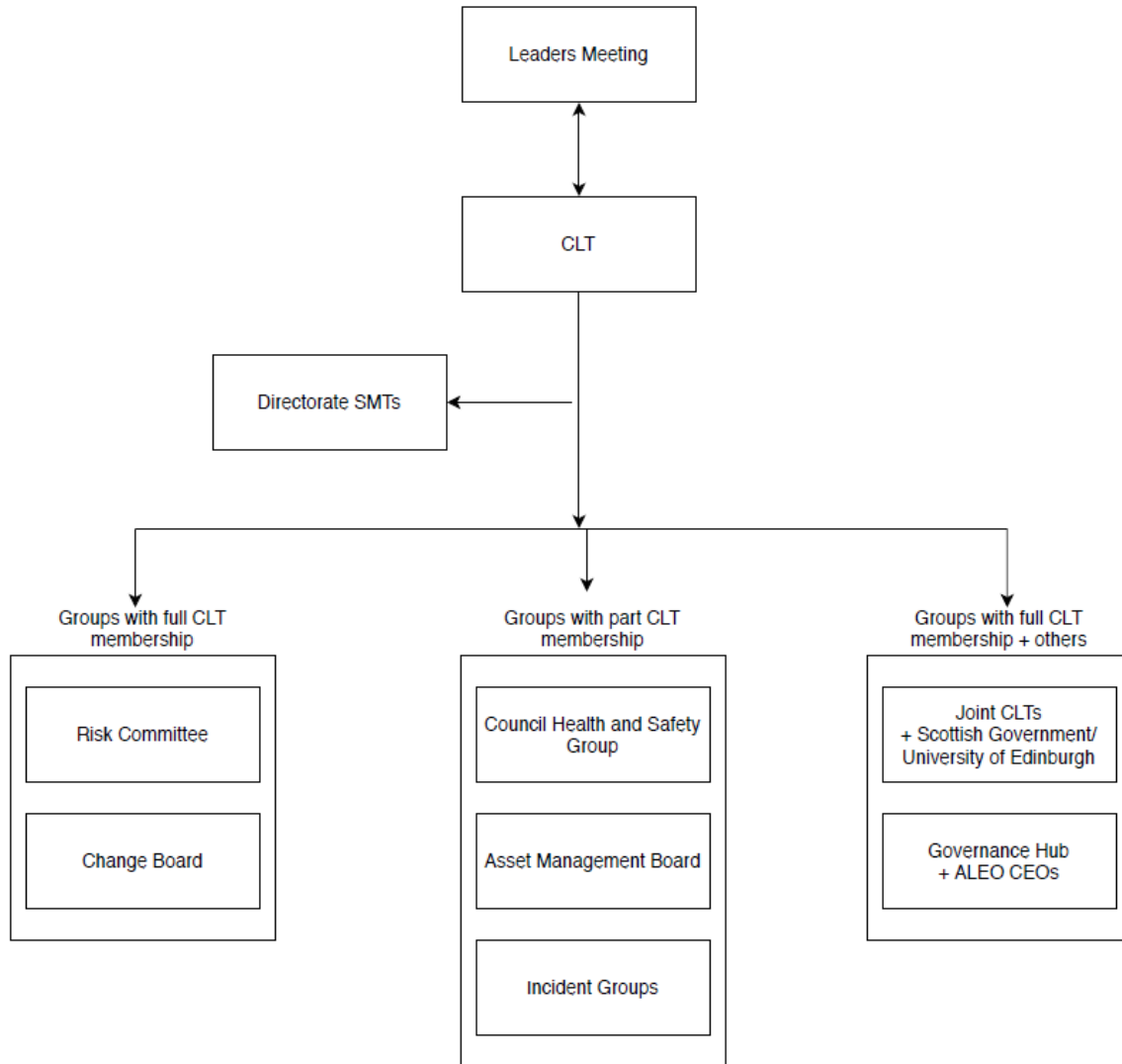


Figure 1.2 - CLT and Senior Management Team (SMTs) Structure

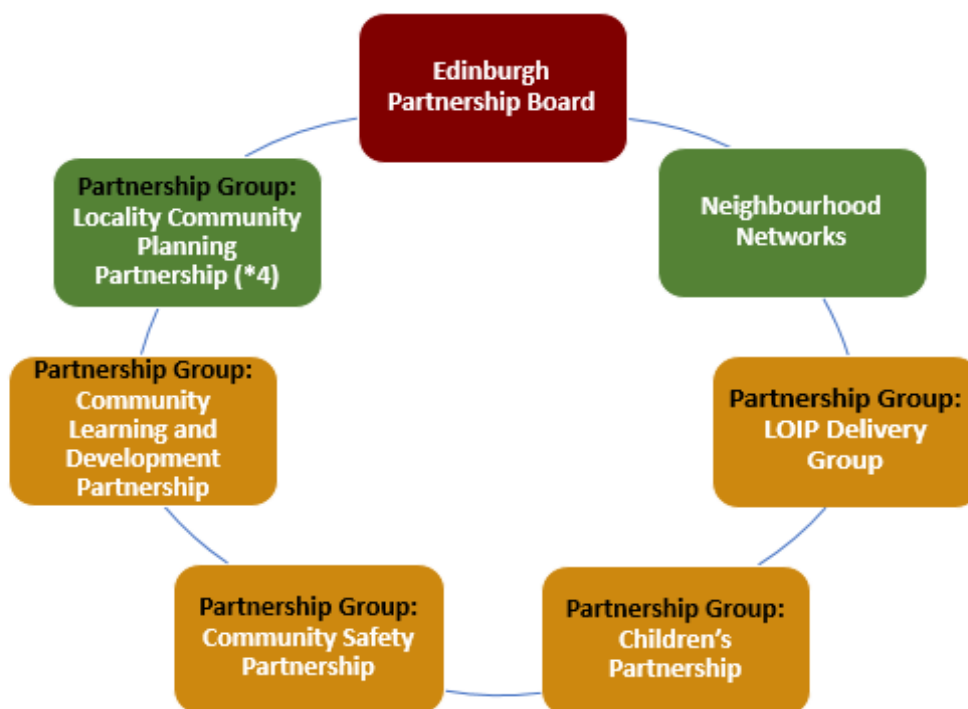
## Partnership Working

The Council has four localities and is using this model to restructure and deliver a range of frontline services. This will ensure integrated local services and improved outcomes for citizens. This locality model operates in co-terminosity with our partners (such as police and fire services) enabling closer working and integration of services around our citizens. Local Improvement Plans cover every area of the city and describe in detail our multi-agency approach to improve the delivery of services in our communities.

The Council plays an important role in the Edinburgh Partnership, 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.

# ANNUAL GOVERNANCE STATEMENT

## Partnership Working - continued



## 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 Corporate Governance Framework (CGF) as its local code. The CGF is based on the Chartered Institute of Public Finance & Accountancy and Society of Local Authority Chief Executives model framework Delivering Good Governance in Local Government. The CGF outlines how the Council embeds good governance throughout the organisation and is available on the Council's website.

## COVID-19 Arrangements

The Council implemented changes both to its operational and political management arrangements to support the response to the COVID-19 emergency

The groups below were all established to respond to the COVID-19 incident:

- Council Incident Management Team (CIMT) chaired by the Chief Executive with daily meetings from 13 March 2020
- 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's Head of Operations
  - Personal Protective Equipment operational group, 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 / Council's Monitoring Officer.
- Weekly meetings with the Trade Unions chaired by the Head of Human Resources.

The CIMT and directorate IMTs have provided a clear, easy to understand and effective governance structure for organising services during the emergency. Action notes have been kept for all meetings and executive directors have reported to the CIMT any issues for escalation. During March and April, the CIMT and directorate IMTs mostly met daily due to the pace of change and direction coming from Government. These meetings have reduced in frequency in recent weeks as the response to the emergency has stabilised but are all still in operation and operational business is still directed through these meetings.

# ANNUAL GOVERNANCE STATEMENT

## COVID- 19 Arrangements - continued

COVID-19 has had, and continues to provide, a very challenging environment for the Council and has resulted in decisions being made at pace but never without efficient and effective governance at the core.

The three principles that were set out at the beginning of the response have been the framework for every decision taken:

- protect the most vulnerable in our city;
- minimise the risks to our colleagues; and
- 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 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.

To date the Council has implemented two phases of political governance arrangements in response to 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 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, should be submitted to this committee. The Development Management Sub-Committee and the Local Review Bodies would also meet from May when required and the Governance, Risk and Best Value Committee would meet again from 9 June 2020. This has re-established independent committee scrutiny and allowed audit activity to re-commence.

It was agreed that the Policy and Sustainability Committee would review political governance arrangements again in August 2020.

Risk management processes were put in place to ensure that the risks associated with COVID-19 were identified, recorded, and mitigated where possible. Nine strategic risks were identified and recorded in the COVID-19 Risk Management Plan (RMP) and continue to be actively managed:

- health and safety of citizens and service users;
- health and safety of employees delivering critical services;
- Council premises and physical security;
- supply chain risk;
- technology and information;
- financial and economic risk;
- Council response and governance;
- fraud and serious organised crime, including overseeing the proportionate system of internal controls put in place for a number of newly-introduced funding streams, including business grants and self-employment payments; and
- legal and commercial risk.

# ANNUAL GOVERNANCE STATEMENT

## 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.

Each Executive Director has reviewed the arrangements in their service area and reported on their assessment of the effectiveness of control arrangements, together with any potential areas requiring improvement, to the Chief Executive. Where improvement actions are identified, an action plan will be developed and 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. These reviews have not identified any fundamental weaknesses in the framework of governance, risk management and control at the Council.

The Internal Audit section operates in accordance with CIPFA's Code of Practice for Internal Audit and the Public Sector Internal Audit Standards. The section undertakes an annual work programme based on an agreed audit strategy and formal assessments of risk that are reviewed regularly. During the year, the Chief Internal Auditor reported to the Head of Legal and Risk (who is also the Monitoring Officer) but had free access to the Chief Executive, all executive directors and elected members along with direct reporting to the Governance, Risk and Best Value Committee.

In compliance with standard accounting practice, the Head of Finance as the Council's Statutory Section 95 Officer has provided the Chief Executive with a statement of the effectiveness of the Group's internal financial control system for the year ended 31 March 2020. It is the opinion of the Head of Finance that although a degree of assurance can be placed upon the adequacy and effectiveness of the Group's systems of internal financial control, further improvements, including embedding of actions taken in response to previous recommendations, are still clearly required. In this context, the Head of Finance particularly highlights the continuing required improvements to address a number of systemic weaknesses in respect of payroll-related controls, particularly those to address historic, and prevent recurring, overpayments.

The Chief Internal Auditor will present her annual audit opinion on the adequacy and effectiveness of the system of internal control (including financial controls) to the Governance, Risk and Best Value Committee in August 2020. Due to COVID-related disruption and in-year delivery challenges, however, the opinion will necessarily be limited and based upon completion of 70% of the 2019/20 audit plan, subject to the receipt of requested support from Directorates.

The Council comprehensively reviewed its political management arrangements in May 2019, focussing on the levels of business at its main executive committees. Statistics showed a considerable strain on the Council's political management arrangements. The length of meetings showed a level of healthy democratic debate and as a result a level of scrutiny taking place at executive committees, however the volume of business was high and left little room and flexibility to scrutinise all committee business on an agenda. There was a risk of scrutiny being rushed for less high-profile areas of work because of these pressures. This pressure was not evident across all committees, but the structure was not sustainable, and the Council agreed to re-align its business so there was a more even spread across committees, with areas of business still grouped logically. The committee re-alignment also ensured that sustainability, one of the Council's key priorities, was considered by the newly re-titled Policy and Sustainability Committee chaired by the Council Leader. There was also a title change for the Housing and Economy Committee which was renamed Housing, Homelessness and Fair Work, again reflecting the Council's priorities.



# ANNUAL GOVERNANCE STATEMENT

## Review of Effectiveness - continued

- External Audit had highlighted the importance of adhering to approved member-officer protocols in respect of sensitive information and 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. A review of the Member/Officer protocol was commenced but the completion of the revised document was delayed by COVID-19. The review included member and officer groups and a facilitated joint meeting to build on the existing protocol before it will finally be considered by committee.
- An Internal Audit review confirmed that management; oversight; and scrutiny of the Council's major projects portfolio is generally adequate with some enhancements required. The review recognised significant progress made in the last year with the implementation of a portfolio governance framework that reflects best practice in a number of areas, and facilitates standardised reporting across the major projects' portfolio, enabling ongoing oversight and scrutiny by both the Change Board and the Governance, Risk and Best Value Committee. Since the review the system has further bedded in and the number of projects monitored by the Change Board increased significantly. Concern has been raised over the project governance for those projects that are too small for the Change Board and the need for directorates to improve their monitoring and challenge in this area.
- A major issue highlighted by both External and Internal Audit was the number of overdue findings from internal audit reports. The Corporate Leadership Team highlighted that resolving overdue findings was proving challenging due to their complexity. It was agreed that Directorates would review and refresh their agreed management actions for any findings that were more than three months overdue (including historic reopened findings) to assess whether alternative actions could be implemented to address the identified risks. This sustained effort significantly reduced the number of overdue findings and ensuring that management actions are completed on time is an agreed major priority for all directorates.
- Meeting the demands of new data protection legislation has led to significant increases in the volume of data protection work. This has resulted in several resource and operational challenges which have had a detrimental effect on statutory obligations and associated timescales. This increase has also impinged on other areas of information rights, including compliance with Scotland's freedom of information laws. Remedial plans are in place to reduce risks in this area and to ensure that statutory obligations are met.
- The Council's whistleblowing arrangements continue to include the oversight of an independent external service provider with the autonomy to decide who investigates the concerns raised, the Council or the service provider. The continuing involvement of an independent organisation helps ensure a robust, transparent and trustworthy process. The Council's approach is widely seen as best practice and as such the Council was invited to give evidence to the Scottish Parliament when an NHS whistleblowing service was being considered. The Governance, Risk and Best Value Committee receives a quarterly update on whistleblowing and the whistleblowing policy is reviewed annually by committee.
- The division of scrutiny of the Council's Arm's Length External Organisations (ALEOs) between executive committees and Governance, Risk and Best Value Committee is essential to ensure that potential conflicts of interest are mitigated. However, the separation of scrutiny between GRBV and executive committees has not always been clear, and duplication of scrutiny has been common. A committee report in 2020 sought to clarify matters for the Council's committees and for individual ALEOs. These arrangements were agreed and implemented but the COVID-19 emergency has meant that it has not been possible to demonstrate that this was maintained. The Council's compliance with the principles set out in the Following the Public Pound Code is much wider than just committee consideration, it applies to the Council's interactions with its ALEOs at all levels. The Chief Executive intends to review how the Council works with its ALEOs, examining the shareholder agreements and Service Level Agreements in place to ensure a greater degree of consistency and clarity of relationship. Individual issues that have arisen with ALEOs such as the non-submission of annual accounts by Marketing Edinburgh are being supported by the relevant directorates.
- Each directorate's assurance schedule was scrutinised by the Governance, Risk and Best Value Committee.

# ANNUAL GOVERNANCE STATEMENT

## Review of Effectiveness - continued

- Internal Audit identified a number of significant control weaknesses in the design and application of the Council's policy management framework, across all Council directorates and divisions, that require to be addressed. Consequently, only limited assurance can be provided that policies are being effectively developed, managed, and communicated across the Council and are aligned with applicable legislation, regulations, and statutory requirements.
- In light of expected Scottish government proposal to further embed Human Rights into the Scottish Legal Framework, consideration needs to be given now as to whether the current approach to Integrated Impact Assessments is adequate and sufficiently embedded in Council working to be fit for
- Directorate assurance schedules identified the need for a holistic, corporate tracking of actions and improvement actions associated with the assurance schedules, external audit and other regulatory bodies. Improvements are required to the administration of improvement actions and aligning this with the governance statement to provide adequate assurance that actions are being implemented and thus risks effectively managed.
- 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 the Council Leadership Team, 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 corporate levels, that can be stood up as required, reporting to the Council Leadership Team and the appropriate committee(s). The Council feeds in to 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 maintains registration to the International Standard for Business Continuity, ISO22301 and, as part of that compliance, the Council's Resilience Management System is audited biannually by an external auditor.
- There is a robust risk framework in place which identifies key risks and is effective at a corporate Council-wide level. However, there is a need to ensure that adequate resource is provided so that the framework is effectively implemented at all levels of the Council and that all directorates are considering risk as part of their decision-making processes. It should be noted that health and social care risks remain separate from the Council process.
- 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 in these two examples have allowed the Council to be informed by external experts from across a range of sectors with the aim of achieving better outcomes. However, the final decision making remains with the Council and partner organisations.
- A Community Council review was carried out that improved the governance documentation supporting Community Councils. In addition, a new Code of Conduct was created for Community Councillors, with a Council committee created to consider the most serious cases.

The status of the previous year's actions is outlined below:

	<b>Governance Issue</b>	<b>Mitigation Action / Proposed Action</b>	<b>Responsible Party</b>	<b>Reporting Date</b>
1	Health and Social Care – Further work is required to implement an effective risk escalation framework.	The Health and Social Care Partnership aim to complete the risk escalation framework	Chief Officer	Completed
2	To ensure workforce resources are managed properly, including compliance with payroll policies, overtime controls, absence management and performance e.g. home/remote working.	Implementation of new HR/ system	Executive Director of Resources	Completed

## ANNUAL GOVERNANCE STATEMENT

	<b>Governance Issue</b>	<b>Mitigation Action / Proposed Action</b>	<b>Responsible Party</b>	<b>Reporting Date</b>
3	Partial compliance (Place Directorate) - Council staff are aware of their responsibilities in relation to the Council's governance framework and that the authority, responsibility and accountability levels within the (Place) directorate are clearly defined, with proper officer designation delegated, recorded, monitored, revoked and reviewed regularly to ensure ongoing compliance with the Scheme of Delegation.	A review of delegated authority within the Place directorate is being carried out to ensure that appropriate governance and controls are in place.	Executive Director of Place	Completed
4	Ensure the Council's arrangements are fully compliant with relevant Scottish, UK and EU legislation and regulations.	Review of Political Management Arrangements	Chief Executive	Completed
5	Ensure the Council's arrangements are fully compliant with relevant Scottish, UK and EU legislation and regulations.	Review Annual Assurance process	Chief Executive	Completed
6	Decisions are made on the basis of objective information, the consideration of best value, risk, stakeholder views, rigorous analysis, and consideration of future impacts. This is formalised through appropriate structures. (i.e. SMT reporting).	A new balanced score card approach is to be implemented which looks to amalgamate all aspects of performance in a single format	Chief Executive	Completed
7	Projects are not always started with clear business cases or a formal project management approach adopted. Projects are started in relation to an issue or service change, but recognition not always given to other projects creating duplication. A Business Planning process is also being established.	A transformation and change team will provide project support capacity across the Partnership allowing for greater oversight and ensure projects have clear business justification and business cases	Chief Officer	Completed
8	An issue was identified by Internal Audit as part of a review of payments to contractors in Housing Property. Actions have been agreed with Internal Audit and are currently being implemented.	Review of developer contributions held in Finance database	Executive Director of Resources	Completed
9	An issue was identified by Internal Audit as part of a review of payments to contractors in Housing Property. Actions have been agreed with Internal Audit and are currently being implemented.	Review of historic developer contributions	Executive Director of Resources	Completed
10	An issue was identified by Internal Audit as part of a review of payments to contractors in Housing Property. Actions have been agreed with Internal Audit and are currently being implemented.	Review of Developer contribution process documentation and guidance	Executive Director of Resources	Completed

## ANNUAL GOVERNANCE STATEMENT

Following the review of effectiveness and the assurance statements from directorates and ALEOs, the following actions have been identified to improve the Council's governance arrangements:

	Assurance Statement	Mitigation Action / Proposed Action	Responsible Party	Reporting Date
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	October 2020
2.1	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 of the Edinburgh Health and Social Care Partnership	March 2021
2.2		A decision whether to review and align the Directorate Risk Register with the specific risk registers which exist for Brexit, Cyber and Information Security and Change Programmes will be undertaken during the next financial year.	Executive Director of Resources	September 2020
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 where the Service learns from within to manage the risks jointly, efficiently and effectively.	Executive Director for Communities and Families	October 2020
4.1	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 (EHSCP) 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.	All	December 2020
4.2		A review of the policy register will be carried out to ensure it is up to date and that the correct processes are easy to understand and implement.	Chief Executive/All	October 2020
4.3		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	October 2020
4.4		To ensure that the Health & 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	March 2021
5	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	December 2020

## ANNUAL GOVERNANCE STATEMENT

	Assurance Statement	Mitigation Action / Proposed Action	Responsible Party	Reporting Date
6	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	September 2020
7	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	October 2020
8	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	December 2020
9	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	December 2020

### Conclusion

In conclusion, the Council's controls framework continues to evolve and improve. It is robust and a reasonable level of assurance can be taken. Improvements are needed in certain areas to ensure that the Council's and controls are implemented fully. Moreover, COVID-19 has put significant pressure on the Council's processes and controls and the Council will need to be vigilant to ensure that if the Council undergoes considerable transformation due to the emergency that it ensures that its governance controls remain effective.

We are satisfied that the actions highlighted in this Statement reflect the Council's commitment to continuous improvement and will further enhance our corporate governance and internal control arrangements.

### Certification

It is our opinion that in light of the foregoing, reasonable assurance can be placed upon the adequacy and effectiveness of City of Edinburgh Council and its Group's systems of governance. The annual review demonstrates sufficient evidence that the Code is operated effectively and the Council and its Group comply with the Local Code of Corporate Governance in all significant respects.

ANDREW KERR  
Chief Executive

Date

ADAM MCVEY  
Council Leader

Date

STEPHEN S. MOIR  
Executive Director of Resources

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 2019/20, the remuneration for the Leader of the City of Edinburgh Council was £52,414. 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 2019/20 this was £39,310. 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 £681,366. The Council is able to exercise local flexibility in the determination of the precise number of Senior Councillors and their remuneration within these maximum limits. The Council's current policy is summarised below.

	<b>No. of Posts</b>	<b>% of amount payable to Leader of the Council</b>
Depute Leader of the Council	1	75%
Depute Convener	1	50%
Conveners of Culture and Communities, Housing, Homelessness and Fair Work, Education, Children and Families, Finance and Resources, Planning, Regulatory, Transport and Environment and Integration Joint Board Committees	8	62.5%
Convener of Licensing Board	1	55%
Convener of Governance, Risk and Best Value	1	50%
Vice-Conveners of Culture and Communities, Housing, 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.

<b>Council's Leader, Civic Head and Senior Councillors</b>	<b>Salary, Fees and Allowances</b>	<b>Taxable Expenses</b>	<b>Non-Cash Expenses / Benefits-in-kind</b>	<b>Total Remun. 2019/20</b>	<b>Total Remun. 2018/19</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
A. McVey, Leader of the Council	52,414	41	779	53,234	51,172
F. Ross, Lord Provost	39,310	194	4,560	44,063	44,346
C. Day, Deputy Leader of the Council	39,310	0	116	39,426	38,443
J. Griffiths, Depute Convener	26,208	0	216	26,424	25,693
<u>Conveners</u>					
D. Wilson, Convener Culture and Communities	32,759	26	508	33,293	32,743
A. Rankin, Convener Finance and Resources	32,759	0	170	32,929	32,036
R. Henderson, Convener Edinburgh Integration Joint Board (to 27.06.19)	32,759	0	756	33,515	32,939
I. Perry, Convener Education, Children and Families	32,759	0	440	33,199	32,457
J. Mowat, Convener Governance, Risk and Best Value	26,208	0	779	26,987	26,263
K. Campbell, Convener Housing, Homelessness and Fair Work	32,759	0	854	33,613	35,215
L. Macinnes, Convener Transport and Environment	32,759	0	134	32,893	32,247
N. Gardiner, Convener Planning	32,759	0	761	33,520	32,631
C. Fullerton, Convener Regulatory	32,759	31	90	32,880	32,072
N. Work, Convener Licensing Board	32,114	0	180	32,294	28,815
<u>Vice-Conveners</u>					
M. Child, Vice Convener Planning and North East Locality Chair (to 03.05.19)	26,208	0	108	26,316	25,280
M. Donaldson, Vice Convener Finance and Resources (to 29.01.19)	n/a	n/a	n/a	n/a	21,221
A. McNeese-Mechan, Vice Convener Culture and Communities	26,208	30	908	27,145	27,225
A. Dickie, Vice Convener Education, Children and Families	26,208	0	200	26,408	26,546
L M. Cameron, Vice Convener Housing, Homelessness and Fair Work (to 02.05.19) and Vice Convener Finance and Resources (from 02.05.19 to 21.10.19)	26,208	0	1,308	27,516	27,021
K. Doran, Vice Convener Transport and Environment	26,208	0	766	26,974	26,269
M. Main, Vice Convener Governance, Risk and Best Value (to 31.05.19) & Green Group Leader (to 29.06.18 & from 29.12.19)	19,725	0	94	19,819	18,855
<u>Locality Committee Conveners</u>					
M. Watt, Vice Convener Housing, Homelessness and Fair Work (from 02.05.19) and South East Locality Chair (to 03.05.19)	26,095	0	779	26,874	25,007
D. Dixon, Vice Convener Regulatory (from 31.05.19) and South West Locality Chair (to 03.05.19)	25,993	0	92	26,085	24,312

## REMUNERATION REPORT

### Remuneration Paid - continued

	Salary, Fees and Allowances £	Taxable Expenses £	Non-Cash Expenses / Benefits- -in-kind £	Total Remun. 2019/20 £	Total Remun. 2018/19 £
<b>Council's Leader, Civic Head and Senior Councillors</b>					
<u>Opposition Group Leaders</u>					
I. Whyte, Conservative Group Leader	25,993	0	128	26,121	24,971
M. Campbell, Green Group Leader ( <i>from 29.06.18 to 29.12.18</i> )	n/a	n/a	n/a	n/a	20,748
C. Booth, Green Group Leader ( <i>from 29.12.2018</i> )	19,367	0	116	19,482	18,972
R. Aldridge, Liberal Democrat Group Leader	25,993	0	0	25,993	24,218
<u>Councillors</u>					
D. Key, Convener to the Lothian Valuation Joint Board	21,840	0	96	21,936	21,340

#### Notes:

- The amount recharged to Lothian Valuation Joint Board in 2019/20 was £4,391.88 (2018/19 £4,251). Expenses relate to Councillor role.
- 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):

	2019/20 £	2018/19 £
<b>Salaries</b>	1,422,542	1,380,111
<b>Expenses</b>		
<i>Claimed by councillors</i>	387	742
<i>Paid directly by the Council</i>	39,635	46,733
<b>Total</b>	<u>1,462,564</u>	<u>1,427,586</u>

#### Remuneration paid to Senior Officers

	Salary, Fees and Allowances £	Compensation for Loss of Office £	Total Remun. 2019/20 £	Total Remun. 2018/19 £
<b>Council's Senior Officers</b>				
A. Kerr, Chief Executive (Note 1)	175,740	0	175,740	167,468
A. Gaw, Executive Director of Communities and Families	158,150	0	158,150	150,390
J. Proctor, Integration Joint Board Chief Officer (Note 2)	79,009	0	79,009	68,929
M. Miller, Interim Integration Joint Board Chief Officer ( <i>to 30.06.18</i> ) (Note 3)	400	0	400	37,977
P. Lawrence, Executive Director of Place	158,150	0	158,150	150,390
J. Irvine, Chief Social Work Officer ( <i>from 30.7.18</i> )	109,100	0	109,100	69,407
S. Moir, Executive Director of Resources	158,150	0	158,150	150,390
H. Dunn, Head of Finance	115,230	0	115,230	108,720
<b>Total</b>	<u>953,929</u>	<u>0</u>	<u>953,929</u>	<u>903,671</u>

#### Notes:

- 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 2019/20 amounted to £34,014.
- 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.
- M. Miller held the position of Interim Integration Joint Board Chief Officer until 30 June 2018. One payment of £400 Basic Pay was made in May 2019 as part of the 2018-19 backdated pay award.



## REMUNERATION REPORT

### Remuneration Paid - continued

#### Remuneration paid to Senior Officers - continued

#### Council Subsidiary Companies

EDI Group and EICC are subsidiary companies of CEC Holdings Limited. Figures shown for these companies, Edinburgh Trams Ltd. and Lothian Buses Ltd. are for the year ended 31 December 2019 and 2018 respectively.

	Salary, Fees and Allowances £	Bonus £	Compensation Other Benefits £	for Loss of Office £	Total Remun. 2019/20 £	Total Remun. 2018/19 £
<b>Council's Subsidiary Companies</b>						
E. Adair, Operations and Finance Director, EDI Group (to 30.06.18)	n/a	n/a	n/a	n/a	n/a	139,596
M. Dallas, Chief Executive, EICC	154,941	28,838	0	0	183,779	171,140
J. Donnelly, Chief Executive, Marketing Edinburgh Ltd (Note 1)	5,440	0	0	0	5,440	139,200
R. Hunter, Chief Executive, Capital City Partnership	58,767	0	0	0	58,767	53,729
<u>Transport for Edinburgh</u>						
G. Lowder, Chief Executive	146,441	0	0	0	146,441	144,281
<u>Lothian Buses Ltd.</u>						
R. Hall, Managing Director (Note 2)	174,618	0	523	147,950	323,091	217,669
<u>Edinburgh Trams Ltd.</u>						
L. Harrison, General Manager	132,025	48,895	0	0	180,920	127,962
	<u>672,232</u>	<u>77,733</u>	<u>523</u>	<u>147,950</u>	<u>898,438</u>	<u>993,577</u>

#### Notes:

1. Marketing Edinburgh Limited entered into a contract with John P Donnelly Associates Limited for the services of J. Donnelly in the role of Chief Executive to 11 April 2019. The cost of this contract is £5,440 in 2019/20, including VAT (2018/19 £139,200, including VAT).
2. Compensation for loss of office includes contractually-due payment in lieu of six-month notice period agreed at the end of March 2020.
3. 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.

	2019/20	2018/19		2019/20	2018/19
£50,000 - £54,999	410	197	£115,000 - £119,999	2	0
£55,000 - £59,999	218	132	£120,000 - £124,999	1	0
£60,000 - £64,999	134	44	£125,000 - £129,999	1	0
£65,000 - £69,999	70	35	£130,000 - £134,999	1	0
£70,000 - £74,999	16	32	£135,000 - £139,999	0	0
£75,000 - £79,999	34	20	£140,000 - £144,999	0	0
£80,000 - £84,999	20	3	£145,000 - £149,999	0	0
£85,000 - £89,999	17	4	£150,000 - £154,999	0	3
£90,000 - £94,999	2	0	£155,000 - £159,999	4	0
£95,000 - £99,999	2	2	£160,000 - £164,999	1	0
£100,000 - £104,999	2	8	£165,000 - £169,999	0	1
£105,000 - £109,999	11	1	£170,000 - £174,999	0	0
£110,000 - £114,999	1	1	£175,000 - £179,999	1	0
			<b>Total No. of Employees</b>	<b>948</b>	<b>483</b>

#### Notes:

- 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	
	2019/20	2018/19	2019/20	2018/19	2019/20	2018/19	2019/20 £000	2018/19 £000
£0 - £20,000								
- Council	0	0	30	23	30	23	245	179
- Group companies	0	0	1	4	1	4	6	38
£20,001 - £40,000								
- Council	0	0	28	11	28	11	788	311
- Group companies	0	0	2	1	2	1	88	31
£40,001 - £60,000								
- Council	0	0	13	4	13	4	675	202
- Group companies	0	0	1	0	1	0	50	0
£60,001 - £80,000								
- Council	0	0	5	9	5	9	344	621
- Group companies	0	0	0	0	0	0	0	0
£80,001 - £100,000								
- Council	0	0	3	2	3	2	276	193
- Group companies	0	0	0	0	0	0	0	0
£100,001 - £150,000								
- Council	0	0	3	4	3	4	358	498
- Group companies	0	0	1	0	1	0	0	0
£150,001 - £200,000								
- Council	0	0	1	2	1	2	151	364
- Group companies	0	0	0	0	0	0	0	0
£200,001 - £250,000								
- Council	0	0	2	0	2	0	458	0
- Group companies	0	0	0	0	0	0	0	0
	<b>0</b>	<b>0</b>	<b>90</b>	<b>60</b>	<b>90</b>	<b>60</b>	<b>3,439</b>	<b>2,437</b>

# REMUNERATION REPORT

## Pension Rights

Pension benefits for councillors and local government employees are provided through the Local Government Pension Scheme (LGPS).

Councillors' pension benefits are based on career average pay. 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 2019/20 were as follows:

<b>Whole Time Pay</b>	<b>Contribution rate</b>
On earnings up to and including £21,800 (2018/2019 £21,300)	5.50%
On earnings above £21,801 and up to £26,700 (2018/2019 £21,300 to £26,100)	7.25%
On earnings above £26,701 and up to £36,600 (2018/2019 £26,100 to £35,700)	8.50%
On earnings above £36,601 and up to £48,800 (2018/2019 £35,700 to £47,600)	9.50%
On earnings above £48,801 (2018/2019 £47,600)	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 2019/20, the equivalent of 8.3 FTE (across 18 individuals) of paid facility time was made available, with an associated cost of £0.26m. This sum equates to 0.04% of the Council's overall paybill.

Of the total time made available, six individuals spent 100% of time during the year on trade union-related activities, nil between 51% and 99%, and the remaining twelve between 1% and 50%.

## REMUNERATION REPORT

### Pension Benefits - continued

### Pension Rights - continued

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

The pension entitlements of senior councillors for the year to 31 March 2020 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 31.03.2020	For year to 31.03.2019		As at 31.03.2020	Difference from 31.03.2019
	£	£		£000	£000
<u>Council's Leader and Civic Head</u>					
A. McVey, Leader of the Council	11,688	11,115	Pension	6	2
			Lump Sum	0	0
F. Ross, Lord Provost	8,766	8,336	Pension	6	1
			Lump Sum	0	0
C. Day, Deputy Leader of the Council	8,766	8,336	Pension	2	1
			Lump Sum	0	0
J. Griffiths, Depute Convener	5,844	5,557	Pension	3	0
			Lump Sum	0	0
<u>Conveners</u>					
D. Wilson, Convener Culture and Communities	7,305	6,947	Pension	8	1
			Lump Sum	2	0
A. Rankin, Convener Finance and Resources	7,305	6,947	Pension	5	1
			Lump Sum	0	0
R. Henderson, Convener Edinburgh Integration Joint Board (to 27.06.19)	7,305	7,010	Pension	7	1
			Lump Sum	2	0
I. Perry, Convener Education, Children and Families	7,305	6,947	Pension	7	1
			Lump Sum	2	0
J. Mowat, Convener Governance, Risk and Best Value	5,844	5,557	Pension	4	1
			Lump Sum	0	0
K. Campbell, Convener Housing, Homelessness and Fair Work	7,305	7,094	Pension	2	2
			Lump Sum	0	0
L. Macinnes, Convener Transport and Environment	7,305	6,947	Pension	2	2
			Lump Sum	0	0
N. Gardiner, Convener Planning	7,305	6,947	Pension	2	2
			Lump Sum	0	0
N. Work, Convener Licensing Board	7,162	6,113	Pension	6	1
			Lump Sum	2	0
<u>Vice-Conveners</u>					
M. Child, Vice Convener Planning and North East Locality Chair (to 03.05.19)	5,844	5,488	Pension	11	1
			Lump Sum	17	1
M. Donaldson, Vice Convener Finance and Resources (to 29.01.2019)	n/a	4,601	Pension	n/a	n/a
			Lump Sum	n/a	n/a
A. McNeese-Mechan, Vice Convener Culture and Communities	5,844	5,642	Pension	1	0
			Lump Sum	0	0
A. Dickie, Vice Convener Education, Children and Families	5,844	5,557	Pension	2	2
			Lump Sum	0	0
L M. Cameron, Vice Convener Housing and Economy (to 02.05.19) and Vice Convener Finance and Resources (from 02.05.19 to 21.10.19)	5,844	5,557	Pension	2	2
			Lump Sum	0	0
K. Doran, Vice Convener Transport and Environment	5,844	5,557	Pension	3	1
			Lump Sum	0	0
M. Main, Vice Convener Governance, Risk and Best Value (to 31.05.19) & Green Group Leader (to 29.06.18 and from 29.12.19)	4,399	4,090	Pension	3	1
			Lump Sum	0	0

## REMUNERATION REPORT

### Pension Benefits - continued

#### Pension Rights - continued

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

	In-year pension contribs.			Accrued Pension Benefits	
	For year to 31.03.2020 £	For year to 31.03.2019 £		As at 31.03.2020 £000	Difference from 31.03.2019 £000
<u>Locality Committee Conveners</u>					
M. Watt, Vice Convener Housing, Homelessness and Fair Work (from 02.05.19) and South East Locality Chair (to 03.05.19)	5,819	5,280	Pension Lump Sum	2 0	2 0
D. Dixon, Vice Convener Regulatory (from 31.05.19) and South West Locality Chair (to 03.05.19)	5,796	5,280	Pension Lump Sum	3 0	0 0
<u>Opposition Group Leaders</u>					
I. Whyte, Conservative Group Leader	5,796	5,280	Pension Lump Sum	6 2	0 0
M. Campbell, Green Group Leader (from 29.06.18 to 29.12.18)	n/a	4,488	Pension Lump Sum	n/a n/a	n/a n/a
R. Aldridge, Liberal Democrat Group Leader	5,796	5,280	Pension Lump Sum	5 2	0 0
<u>Councillors</u>					
D. Key (including role as Convener of Lothian Valuation Joint Board)	4,870	4,631	Pension Lump Sum	3 0	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 2020 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 31.03.2020 £	For year to 31.03.2019 £		As at 31.03.2020 £000	Difference from 31.03.2019 £000
A. Kerr, Chief Executive	n/a	n/a	Pension Lump Sum	9 0	0 0
A. Gaw, Executive Director of Communities and Families	35,267	32,785	Pension Lump Sum	78 148	4 6
J. Proctor, Integration Joint Board Chief Officer	35,238	30,053	Pension Lump Sum	n/a n/a	n/a n/a
M. Miller, Interim Integration Joint Board Chief Officer (to 30.06.18)	n/a	8,196	Pension Lump Sum	n/a n/a	n/a n/a
P. Lawrence, Executive Director of Place	35,267	32,785	Pension Lump Sum	29 n/a	4 n/a
J. Irvine, Chief Social Work Officer	24,329	15,131	Pension Lump Sum	33 37	32 37
S. Moir, Executive Director of Resources	35,267	32,785	Pension Lump Sum	9 0	9 0
H. Dunn, Head of Finance	25,696	23,701	Pension Lump Sum	79 151	23 46
<b>Total</b>	<b>191,064</b>	<b>175,436</b>			

## REMUNERATION REPORT

### Pension Benefits - continued Pension Rights - continued Senior Employees - continued

#### Notes:

The pension figures shown relate to the benefits that the person has accrued as consequence of their total local government / public service and not just their current appointment. Accrued pension benefits relate to the position as at 31 March 2020, or the date of leaving, if that is earlier. Employees contribute towards their pensions in accordance with the rates set out on page 129.

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 2020 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 31.03.2020 £	For year to 31.03.2019 £		As at 31.03.2020 £000	Difference from 31.03.2019 £000
E. Adair, Operations and Finance Director, EDI Group <i>(to 30.06.18)</i>	n/a	30,061	Pension	n/a	33
			Lump Sum	n/a	45
M. Dallas, Chief Executive, EICC	9,617	18,812	Pension	n/a	n/a
			Lump Sum	n/a	n/a
<u>Lothian Buses Ltd.</u>					
R. Hall, Managing Director	17,462	16,933	Pension	n/a	n/a
			Lump Sum	n/a	n/a
<u>Edinburgh Trams Ltd.</u>					
L. Harrison, General Manager	13,203	10,996	Pension	n/a	n/a
			Lump Sum	n/a	n/a
<u>Capital City Partnership</u>					
R. Hunter, Chief Executive	12,929	11,112	Pension	14	2
			Lump Sum	11	1
Total	<u>53,211</u>	<u>87,914</u>			

EDI Group and EICC are subsidiary companies of CEC Holdings Limited. Figures shown for these companies, Edinburgh Trams Ltd. and Lothian Buses Ltd. are for the year ended 31 December 2019 and 31 December 2018 respectively.

R. Hunter is the only current member 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.

E. Adair left the Local Government Pension Scheme 1 November 2018.

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

Date

Date

# INDEPENDENT AUDITOR'S REPORT

## Independent auditor's report to the members of City of Edinburgh Council and the Accounts Commission

### Report on the audit of the financial statements

#### Opinion on financial statements

We certify that we have audited the financial statements in the annual accounts of City of Edinburgh Council and its group for the year ended 31 March 2020 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the group and council-only Movement in Reserves Statements, Comprehensive Income and Expenditure Statements, Balance Sheets, and Cash-Flow Statements, the council-only Housing Revenue Account, Council Tax Income Account, Non-domestic Rates Income Account, Common Good Fund Income and Expenditure Account and Balance Sheet and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (the 2019/20 Code).

In our opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2019/20 Code of the state of affairs of the council and its group as at 31 March 2020 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 2019/20 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 4 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.

#### Emphasis of matter – Property valuations

We draw attention to Note 6 "Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty" and Note 15.7 "Property, Plant and Equipment" of the financial statements, which describes the effects of a material uncertainty, caused by Covid-19, on the property valuations. Our opinion is not modified in respect of this matter.

#### Conclusions relating to going concern basis of accounting

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Head of Finance has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the council's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

# INDEPENDENT AUDITOR'S REPORT

## **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 conclusions thereon.

## **Responsibilities of the Head of Finance and council for the financial statements**

As explained more fully in the Statement of Responsibilities, the Head of Finance is responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the Head of Finance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Head of Finance is responsible for assessing the council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

The council is responsible for overseeing the financial reporting process.

## **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, intentional omissions, misrepresentations, or the override of internal control. The capability of the audit to detect fraud and other irregularities depends on factors such as the skillfulness of the perpetrator, the frequency and extent of manipulation, the degree of collusion involved, the relative size of individual amounts manipulated, and the seniority of those individuals involved. We therefore design and perform audit procedures which respond to the assessed risks of material misstatement due to fraud.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

## **Other information in the annual accounts**

The Head of Finance is responsible for the other information in the annual accounts. The other information comprises the information other than the financial statements, the audited part of the Remuneration Report, and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon except on matters prescribed by the Accounts Commission to the extent explicitly stated later in this report.

In connection with our audit of the financial statements, our responsibility is to read all the other information in the annual accounts and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



# INDEPENDENT AUDITOR'S REPORT

## Report on other requirements

### Opinions on matters prescribed by the Accounts Commission

In our opinion, the audited part of the Remuneration Report has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003; and
- the information given in the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016).

### Matters on which we are required to report by exception

We are required by the Accounts Commission to report to you if, in our opinion:

- adequate accounting records have not been kept; or
- the financial statements and the audited part of the Remuneration Report are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit; or
- there has been a failure to achieve a prescribed financial objective.

We have the following to report in respect of these matters:

Local authorities have a duty under section 10 of the Local Government in Scotland Act 2003 to conduct their significant trading operations so that income is not less than expenditure over each three year period. The Council failed to comply with this statutory requirement for the three year period ending 31 March 2020 in respect of their significant trading operation, Edinburgh Catering Services – Other Catering.

We have nothing to report in respect of other matters.

### Conclusions on wider scope responsibilities

In addition to our responsibilities for the annual accounts, our conclusions on the wider scope responsibilities specified in the Code of Audit Practice, including those in respect of Best Value, are set out in our Annual Audit Report.

### Use of our report

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 120 of the Code of Audit Practice, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Nick Bennett (for and on behalf of Azets Audit Services)  
Exchange Place 3  
Semple Street  
Edinburgh  
EH3 8BL

Date