The City of Edinburgh Council

2022/23 Annual Audit Report

Prepared for the Members of the City of Edinburgh Council and the Controller of Audit

October 2023

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Key messages

2022/23 annual accounts

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2 The management commentary, annual governance statement and remuneration report were consistent with the financial statements and properly prepared in accordance with the applicable guidance.

Best Value

3 The council has a best value framework in place and has developed a clear structure to measure and monitor progress against the council's priorities and has plans to improve the quality of how it reports its performance.

4 Measurable Key Performance Indicators in place show that around 60 per cent were on target or exceeding target, with 40 per cent measuring below.

Financial management

5 The council has appropriate arrangements to secure sound financial management. Regular budget monitoring reports were provided to members and are supported by an experienced and effective finance team.

6 The council operated within its revised fiscal resources in 2022/23, reporting an underspend of £13.675 million against its budget.

7 Controls within the main financial systems were operating adequately while standards for the prevention and detection of fraud are being strengthened.

Financial sustainability

8 On a short-term basis, the council has effective and appropriate arrangements in place to plan the use of its revenue resources to sustain delivery of services.

9 The council is developing strategic and cross-cutting plans and initiatives as part of the development of a Medium-term financial plan (MTFP) which seeks to use technology and assets to better achieve efficiencies and service delivery. The council needs to accelerate this work to outline how it will deliver financial sustainability over the next five years.

Vision, leadership and governance

10 Governance arrangements are appropriate but there is scope to improve decision-making arrangements, particularly around budget-setting.

Use of resources to improve outcomes

11 The council has reported a mixed picture of performance improvement over time. Compared to 2020/21, the council has improved its comparative ranking with other councils in 32 of the national indicators, however, the comparative ranking has declined in 39 of the indicators, showing the rate of service improvement has slowed compared to others.

Charitable Trusts and Charitable Funds

12 The council as sole trustee of the Trusts and the Funds has suitable arrangements to plan the use of its resources to sustain delivery of services into the medium term.

13 The Edinburgh Education Trust funds grants to schools and individuals and paid out low levels during 2022/23. The Trust should find alternative ways of raising awareness amongst potential beneficiaries.

Introduction

1. This report summarises the significant findings from the 2022/23 audit of City of Edinburgh Council. The scope of the audit was set out in an annual audit plan presented to the 2 May 2023 meeting of the Governance, Risk and Best Value Committee (GRBV).

2. This report comprises:

- significant matters arising from an audit of City of Edinburgh Council's annual report and accounts (presented to the GRBV Committee in September 2023)
- conclusions on the following wider scope areas that frame public audit as set out in the Code of Audit Practice 2021:
  - Financial Management
  - Financial Sustainability
  - Vision, Leadership, and Governance
  - Use of Resources to Improve Outcomes.

3. The report is addressed to the City of Edinburgh Council and the Controller of Audit and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

Audit appointment from 2022/23

4. The 2022/23 financial year was the first of our five-year appointment. The appointment coincides with the new Code of Audit Practice which was introduced for financial years commencing on or after 1 April 2022.

5. We would like to thank the outgoing Service Director – Finance and Procurement and his team for their cooperation and assistance in carrying out our audit. Their support to the audit was excellent.

Responsibilities and reporting

6. The council has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual accounts that are in accordance with proper accounting practices. The council is also responsible for compliance with legislation and putting arrangements in place for governance and propriety that enable it to successfully deliver its objectives.

7. The responsibilities of the independent auditor are established by the Local Government (Scotland) Act 1973 and the Code of Audit Practice 2021, and supplementary guidance and International Standards on Auditing in the UK.

8. Weaknesses or risks identified are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management of the council from its responsibility to address the issues we raise and to maintain adequate systems of control.

Auditor Independence

9. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2022/23 audit fee of £682,060 as set out in our 2022/23 Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

1. Audit of 2022/23 annual accounts

Public bodies are required to prepare annual accounts comprising financial statements and other related reports. These are the principal means of accounting for the stewardship of public funds.

Main judgements

Our audit opinions on the annual accounts of the council, its group and the section 106 charities administered by the council are unmodified.

The management commentary, annual governance statement and remuneration report were consistent with the financial statements and properly prepared in accordance with the applicable guidance.

Audit opinions on the annual accounts are unmodified

10. The annual accounts for the City of Edinburgh Council and its group for the year ended 31 March 2023 were scrutinised by the Governance, Risk and Best Value Committee on 19 September 2023 and approved by the Finance and Resources Committee on 21 September 2023. As reported in our independent auditor's report:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- the audited part of the remuneration report was prepared in accordance with the financial reporting framework
- the management commentary and annual governance statement were consistent with the financial statements and properly prepared in accordance with the applicable requirements.

Overall materiality was assessed as £53 million

11. Broadly, the concept of materiality is applied by auditors to determine whether misstatements identified during the audit could reasonably be expected to influence the economic decisions of users of the financial statements, and hence impact their opinion set out in the independent auditor's report. Auditors set a monetary threshold when considering materiality, although some issues may be considered material by their nature. It is ultimately a matter of the auditor's professional judgement.

12. Our initial assessment of materiality was carried out during the risk assessment and planning phase of the audit. This was reviewed and revised on receipt of the unaudited annual accounts and is summarised in Exhibit 1.

Exhibit 1
Materiality values

Materiality level	Amount
Overall materiality	£53 million
Performance materiality	£35 million
Reporting threshold	£250,000

Source: Audit Scotland

13. The overall materiality threshold for the audit of the annual accounts of the council was set with reference to gross expenditure, which we judged as the figure most relevant to the users of the financial statements.

14. Performance materiality is used by auditors when undertaking work on individual areas of the financial statements. It is a lower materiality threshold, set to reduce the probability of aggregated misstatements exceeding overall materiality. Performance materiality was set at 65% of overall materiality, reflecting that the council does not have a history of significant errors, errors have largely been confined to fixed assets in previous years, and all audit findings were adjusted in the finalised set of financial statements.

15. It is our responsibility to request that all misstatements, other than those below our reporting threshold, are corrected, although the final decision on making the correction lies with those charged with governance.

Our audit work responded to the risks of material misstatement we identified in the annual accounts

16. We have obtained audit assurances over the identified significant risks of material misstatement in the annual accounts. The Independent Auditor's Report sets out the key audit matters that were of most significance to the audit. These largely include the significant risks of material misstatement to the financial statements and other areas of audit focus we had identified in our Annual Audit Plan. In addition, it covers material elements of the council's group accounts. The Independent Auditor's Report also summarises the further audit procedures we performed to obtain assurances over these matters and the conclusions from the work completed. The key audit matters were:

- Risk of material misstatement due to fraud caused by management override of controls.
- Significant estimation and judgements are required in the measurement, valuation and disclosures of material account balances. This includes non-current assets, pensions disclosures and service concession arrangements.
- Expenditure may be misstated due to risk of fraud over expenditure recognition.

Misstatements of £703 million were adjusted in the audited accounts

17. There were a number of material adjustments made to the audited version of the financial statements as compared to the version presented for audit in June. The gross value of these adjustments was £703 million. The most significant is the restriction of the pension asset value recognised in the accounts which reduced the amount from £597.5 million to nil (See Exhibit 2 below). Overall, the total adjustments had the net effect of increasing the comprehensive income and expenditure account, net assets and reserves by £977,000. A number of recalculations and reallocations have also been made to the Cash Flow Statement as a result of our work but these changes did not impact on the overall financial position. There is one uncorrected misstatement to report which relates to intra-group balances of £1.239 million not eliminated on consolidation due to timing differences. This has no impact on the overall financial position. Further detail is provided in Appendix 1.

We have significant findings to report as a result of our audit

18. International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the body's accounting practices covering accounting policies, accounting estimates and financial statements disclosures. The significant findings are summarised in Exhibit 2.

Exhibit 2
Significant findings and key audit matters from the audit of the annual accounts

Issue
1. Restricting the value of the pension asset The pension liability is an area of audit focus due to the material value and significant assumptions used within the complex calculation of this liability. In common with other local government pension scheme employers, the City of Edinburgh commissions a firm of actuaries to value its pensions liability. The actuary reported that, as at 31 March 2023, CEC did not have a liability but rather a funding surplus of £1.003 billion.

Issue

The surplus arose as a result of a significant increase to the net discount rate (discount rate net of CPI inflation) compared to the previous year, leading to a large gain on the balance sheet position. At the time the accounts were prepared, technical guidance to support preparation of this disclosure was not available.

Accounting standards (IAS 19 and IFRIC 14) impose a limit on the maximum amount of surplus which can be recognised on an employer’s balance sheet, what is described as an ‘asset ceiling’. As a result, the unaudited accounts restricted the pension asset to £597.5 million.

However, where actuaries report that the present value of the minimum funding requirement contributions exceeds the future service cost, IFRIC 14 advises that no asset should be recognised. This was the case with the council’s actuarial calculations. Given that CEC is to continue to participate in the LGPS, it would be expected that this surplus could lead to lower future contributions rather than a refund of surplus.

Resolution

Following our review of the accounting standards, actuarial calculations and relevant guidance, when this minimum funding obligation is considered, it was agreed that the council’s recognised asset should be reduced to zero.

Most local authorities across Scotland are expected to experience the same trend in the pension liability/surplus disclosed in their audited 2022/23 accounts.

2. Valuation of council homes

Council-owned dwellings are valued using the 'beacon' method, in line with relevant standards and guidance. Values of groups of similar homes are calculated by assessing the value of one of them (the beacon), then extrapolating the value across the rest of the group.

That value is then adjusted to reflect differences between valuation of private housing and socially-rented housing stock. The beacon discount factor is determined by comparing levels of private rent with social rent for each beacon property and calculating the average to apply across the whole portfolio to take account of the difference between private housing stock (the source of the comparable sales data) and socially-rented stock. The discount factor applied in the 2022-23 revaluations is 38%.

In the course of the valuation team considering the discount factor in 2022/23, an error in the original calculation from the 2018-19 valuation was discovered and corrected. The calculation (including yields) assumes that the value of a council dwelling is 38% of market value, however in prior years they discounted by 38% rather than using 38% as the residual value of the properties. Prior to the production of the annual accounts, officers notified us of this error and no modification was required to the audited version of the accounts.

Resolution

A prior period adjustment for 2021/22 has been recognised in the annual accounts to reduce the opening value of the council’s housing stock to £1.070 billion, a reduction of £673.3 million. This has been adequately disclosed in the notes to the accounts.

Issue
3. Early adoption of IFRS 16 Leases The council has adopted International Financial Reporting Standard 16 (IFRS) for the first time in 2022/23, being one of the first local authorities in the UK to do so, one year ahead of mandatory implementation next year. The standard requires the council to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. This effectively means that many assets which were previously leased, but not owned, have been brought on to the authority's balance sheet as a 'right of use' asset. The council has undertaken a significant amount of work since 2019 to correctly categorise current leases, to accurately reflect them in financial records and accounts, and to identify any subsequent new leases. Officers in finance have consulted with external IFRS 16 experts to effectively manage the process and calculation for the disclosures in the accounts. Our review of the accounting entries associated with adoption IFRS 16 did not identify any misstatements. **Resolution** The adoption of the standard has resulted in an additional £149.7 million net book value (NBV) to the authority's group balance sheet recognised as 'right of use' assets, with an associated liability of £134.6 million.
4. Contingent liability in relation to use of RAAC concrete In December 2022, the UK government issued a notice regarding Reinforced Autoclaved Aerated Concrete (RAAC), which was widely used in the construction of floors and roofs from the 1950s to the early 1990s. The Scottish and UK governments are working to research the extent of the use of RAAC in public buildings, with significant growing public concern over its safety. In September 2023, the council named seven schools which contained RAAC and is currently assessing other public buildings. We concluded that this potential liability qualified as a contingent liability in the 2022/23 annual accounts. **Resolution** We concluded that this issue qualified as a contingent liability and consequently an appropriate disclosure has been made in the 2022/23 annual accounts.

Source: Audit Scotland

Financial systems of internal control operated effectively overall

19. As part of our audit, we identify and assess the key internal controls in those accounting systems which we regard as significant to produce the financial statements. Our objective is to gain assurance that the body has systems for recording and processing transactions which provide a sound basis for the preparation of the financial statements. Our controls work did not identify any significant risks of material misstatement, with the internal controls providing a sound basis for the preparation of the annual accounts.

20. We share the concerns raised by internal audit's 2023 report on the Swift system used by the authority for social care case management. These concerns have also been raised in a recent Care Inspectorate report. Internal audit highlighted that the design and operating effectiveness of the controls in place to manage system security, data quality, and data loss prevention for the Swift system require significant improvement. A full business case for replacement of the system is timetabled for autumn 2023. We will continue to monitor the implementation of this new system during the course of our audit appointment.

Management commentary

21. The Local Authority Accounts (Scotland) Regulations 2014 requires the annual accounts to include a Management Commentary prepared in accordance with statutory guidance, including a description of the principal risks and uncertainties faced by the council. Risks have been included in the management commentary. However, the description could be more tailored to the council so that a reader can better understand why they are important and the council's response to the risk. We will continue work with the council to enhance and improve disclosures in this area in next year's accounts.

Our audit opinions on the council's charities are unmodified

22. Due to the interaction of section 106 of the Local Government (Scotland) Act 1973 with charities legislation, a separate independent auditor's report is required for the council's registered charities where the City of Edinburgh Council is the sole trustee, irrespective of the size of the charity. The financial statements have been prepared using the connected charities provisions under The Charities Accounts (Scotland) Regulations 2006. These charities are:

- Miss Jean Fletcher Watson Bequest (SC018971)
- The Edinburgh Education Trust (SC042754)
- Nelson Halls Trust (SC018946)
- Lauriston Castle Trust (SC020737)
- The Royal Scots (The Royal Regiment) Monument Trust Fund (SC018945)

23. On 20 June 2023, the Finance and Resources Committee considered a report on the Lauriston Castle Trust and options for reshaping governance arrangements. The committee approved, subject to onward ratification by Council subsequently received on 31 August 2023, to apply to the Court of Session to use the *nobile officium* to approve the winding up of the Lauriston Castle Trust and the transfer of assets to the council.

24. A going concern basis may be appropriate if a body is being wound up in an orderly and planned manner, and that basis provides a faithful representation of the items in the financial statements. As the trust continues to have financial backing to utilise its assets and meet liabilities as they fall due, and particularly as the intention is to transfer ownership to the council, we have concluded that the going concern basis is appropriate.

25. The trustee prepared the financial statements for the City of Edinburgh Council Charitable Funds as a separate set of accounts, adopting a break-up basis of accounting, as it considered that the fund was not a going concern. Our opinion was not modified in respect of this matter. Our independent auditor’s report on this set of annual accounts includes an emphasis of matter paragraph to draw attention to this issue.

2. Best Value

Councils have a statutory duty to make arrangements to secure continuous improvement in the performance of their functions.

Conclusions

The council has a best value framework in place and has developed a clear structure to measure and monitor progress against the council's priorities and has plans to improve the quality of how it reports its performance.

Measurable Key Performance Indicators in place show that around 60 per cent were on target or exceeding target, with 40 per cent measuring below.

Best Value work in 2022/23

26. For 2022/23 the scope of Best Value work included conclusions on:

- Leadership of the development of new local strategic priorities (2022/23 thematic work)
- Council service performance improvement
- Effectiveness of council performance reporting
- Progress made against Best Value improvement actions made in previous years

27. As set out in the Code of Audit Practice 2021, Best Value audit is integrated with other wider-scope annual audit work. Therefore, in addition to the work set out in the remainder of this section, Best Value work has informed the content and conclusions set out in parts three to six of this annual audit report.

Leadership of the development of new local strategic priorities

28. Annual thematic Best Value work is set by the Accounts Commission. For the 2022/23 financial year, auditors were asked to focus on the councils' leadership of the development of new local strategic priorities. The results of this work were reported to elected members at the Governance, Risk and Best Value (GRBV) committee in October 2023. This report will be published on the Audit Scotland website in due course.

29. The key findings in this report are:

- The council has set out clear aims and priorities for the next five years in a refreshed business plan. The plan sets out three core priorities: to create good places to live and work; to end poverty in Edinburgh, and to become a net zero city by 2030. The priorities are underpinned by ten medium-term outcomes, supported by short-term actions.
- The council consults extensively with residents and has taken action to improve how it engages and empowers communities, but there is scope for residents to have a direct say when the council next reviews its core priorities.
- Addressing inequalities and climate change remain council priorities in its renewed business plan. Working with partners, the council is taking action to progress these important areas. The current economic context, combined with tight resources, means significant challenges lie ahead to realise its ambitions.
- Delivery, workforce, asset and digital plans are being updated to align with council priorities. As a result, the council has yet to demonstrate through detailed planning how it will secure the sustainability of its services in the longer term.
- Political control of the council is finely balanced, and recent decisions on the business plan and annual budget demonstrate a need to strengthen processes to support collaboration.

30. The audit recommendations made in this report, with the management responses, are included in Appendix 1 of this report.

Council service performance improvement

31. The Best Value: Revised Statutory Guidance 2020 sets out that councils should be able to demonstrate a trend of improvement over time in delivering their strategic priorities.

32. For the past two years the council reported publicly on its performance against three priorities set by Business Plan (Our Future Council, Our Future City): ending poverty by 2030, becoming a sustainable and Net Zero city by 2030 and improving wellbeing and equalities. Of the 80 reported key performance indicators (KPIs), the council has assigned a direction of travel for 67 KPIs comparing performance in 2022/23 with 2021/22. A direction of travel was not assigned for the remaining KPIs due to the lack of comparable data or where it was a new indicator. The council also clearly depicted the status of KPIs against their priorities which demonstrated that progress was made towards delivering priorities.

33. A new Business Plan was approved by the council in March 2023 which sets out the council's priorities from 2023 to 2027 and the actions that will be taken to achieve them. The priorities are: create good places to live and work in Edinburgh, take all the local actions needed to end poverty in Edinburgh and work to deliver a net zero city by 2030. The council will need to show a trend of improvement over time in delivering these priorities.

Effectiveness of performance reporting

34. The Best Value: Revised Statutory Guidance 2020 also sets out that performance management arrangements should be in place to promote the effective use of the local authority's resource, which includes effective performance reporting, including Statutory Performance Indicators as further detailed at paragraph 122 in part 6 Use of Resources

35. As we reported in our Best Value thematic report, the council has updated its planning and performance framework 2022/23 to 2026/27, revising targets and how they are measured. Consequently, the annual performance report does not give longer-term performance trends (more than two years) as data is not available. The council has plans to improve the quality of its performance reporting with the quality of data collected and how it is presented to members and citizens.

36. Within the performance framework, all service directorates created "plans on a page" that are used to drive alignment from the business plans to operational activity in service areas, showing how strategic priorities are being reflected at an operational level. The quality and level of detail provided in these varies by department and the council is working to build consistency in the performance reporting against these operational plans to better inform conversations about performance and the change required within budget and resource constraints.

37. The council reported its performance for the year in its annual performance report 2022/23 to the Policy and Sustainability Committee in August 2023. The report shows a summary of the targets that were met or missed together with contextual detail explaining the reasons for performance as well as plans to address gaps in performance.

38. The report includes analysis against 89 measures comprised of 80 KPIs and 9 milestone measures. Of the 80 KPIs, 63 have both a target and enough data to be measurable for 2022/23. In measuring performance against target, of these 63 KPIs:

- 38 were on target or ahead of target (rated as green)
- 18 were marginally behind their target (rated as amber)
- 7 were behind target (rated as red)

39. We will continue to monitor how effective the updated performance framework is at enhancing performance management and reporting in future years through our annual audit work.

The council has made good progress against Best Value improvement actions

40. We considered the council's reporting to the Policy and Sustainability Committee during 2022/23 on progress against our Best Value recommendations made in 2020. Our Best Value thematic work in 2022/23 reported on progress against ongoing actions to address our recommendations, and a summary has been provided in Exhibit 3 below.

Exhibit 3
Progress against Best Value improvement actions from 2020

1. Council vision and strategic direction		
Action	**Status**	**Audit observation**
As part of its Adaptation and Renewal Programme, the council should quickly amalgamate its Business Plan and Change Strategy, to provide clearer priorities and direction for the council.	**Complete**	In March 2023 the council agreed a refreshed Business Plan 2023-27. The council has one strategic document which addresses the Best Value recommendation made in previous years.
To help them carry out their best value responsibilities, elected members should take advantage of the learning and development opportunities provided by the council.	**Ongoing**	Elected member training and induction programme took place during May 2022 and June 2022. All elected members also have access to the "mylearning" hub where all materials are stored and members can use this to continually enhance their personal learning and development. There is scope to offer training on specific financial and governance topics as and when the need arises.
In order to make community engagement an integral part of service improvement and delivery, the council should support community groups to complete asset transfers.	**Ongoing**	As reported in our thematic report, six community transfers are complete following the introduction of Part 5 of the Community Empowerment (Scotland) Act in January 2015 with a further 15 proposals being looked at. Progress is considered good as the community drive the demand. A key factor in setting up transfers of assets to communities is whether the community can sustainably meet the costs of managing the asset.

2. Performance and outcomes, including public performance reporting		
Action	**Status**	**Audit observation**
The council should further improve its performance reporting by making better use of performance measures and targets, particularly to demonstrate the impact of improvement work.	**Ongoing**	As reported in our thematic report for 2022/23, and at paragraphs 35 and 36 above, the council has updated its Planning and Performance Framework, revising targets and how they are measured. Performance data against these revised measures will be available next year. How the targets are used to inform the quality of performance reporting in future will determine whether this recommendation has been met.
The council should further improve its performance reporting by publishing easily accessible, up-to-date performance information on its website.	**Ongoing**	Performance information is available on the council's website. As we explain at paragraph 125, the council could go further to fully meet accessibility requirements and there is scope to seek feedback from citizens.

3. Effective use of resources		
Action	**Status**	**Audit observation**
As part of its Adaptation and Renewal Programme, the Council should prepare sustainable medium and long-term financial plans, and detailed workforce plans, to support its strategic priorities.	**Ongoing**	As we report in section four, the council has a medium-term financial framework in place and is developing a medium-term financial plan. Given the challenging financial context, medium term financial planning becomes of greater importance.

4. Partnership working and community engagement		
Action	**Status**	**Audit observation**
In order to make community engagement an integral part of service improvement and delivery, the council should embed the lessons from effective community engagement activity and clearly communicate the results of, and the council's response to, community consultation.	**Ongoing**	As we have reported in our Best Value thematic report, there is evidence that the council has improved the way it engages with communities and partners. There is still more work to do to embed community empowerment into the council's activities and culture.

The council should work with the Edinburgh Partnership Board to implement its new governance arrangements, effectively involve community representatives and deliver improved outcomes for communities.	**Complete**	Progress against some aspects of planned improvements to partnership engagement has been slow and interrupted by the pandemic. A dedicated community empowerment team was in place by April 2023, following a pause in the organisational review during the pandemic. The board has agreed operational changes to increase community involvement in partnership board meetings from 2023. This includes increasing flexibility in the time and location of meetings to make them more accessible to community groups.
The council should work with the Edinburgh Partnership Board to produce progress reports with clear targets, accountable leads and links between the actions taken and the impact on performance.	**Ongoing**	An improvement plan was created to address this recommendation in 2021. Progress in implementing these actions has been delayed. The target date for drafting the community empowerment strategy was June 2021 and has been missed. For 2021/22, the annual performance report against the community plan was not produced, as the refreshed plan was agreed in March 2022. The council and partners are currently updating these plans and the performance framework is under review as part of this process. The council is planning further engagement with communities and other stakeholders before developing a final version of the strategy.

5. Continuous improvement		
Action	**Status**	**Audit observation**
The council should implement a strategic approach to self-evaluation and continuous improvement. This should include better demonstrating how it responds to feedback and scrutiny findings.	**Complete**	As detailed at paragraph 109, the council's executive committees carried out a self-evaluation during 2022/23 which supports a strategic approach to continuous improvement.

3. Financial management

Financial management means having sound budgetary processes, and the ability to understand the financial environment and whether internal controls are operating effectively.

Conclusion

The council has appropriate arrangements to secure sound financial management. Regular budget monitoring reports are provided to members and are supported by an experienced and effective finance team.

The council operated within its revised fiscal resources in 2022/23, reporting an underspend of £13.675 million against its budget.

Controls within the main financial systems were operating adequately while standards for the prevention and detection of fraud are being strengthened.

The council operated within budget in 2022/23

41. The council approved its 2022/23 budget in February 2022. The budget was set at £1.206 billion with a funding gap and assumed savings of £19.3 million. The outturn report presented to the Finance and Resources Committee meeting in September 2023 reported an underspend of £13.675 million against the 2022/23 budget. The underspend was largely attributed to higher than anticipated interest on cash balances, greater council tax income and income from the Millerhill facility's energy generation. The total underspend was offset in part by additional spending on 'Place' including the provision of services for homelessness and the cost of temporary accommodation.

The council has appropriate budget monitoring arrangements in place and action was taken to alleviate funding gaps

42. The 2022/23 budget was set with the coalition administration's motion receiving the most votes. Amendments were put forward by three opposition parties under the previous administration. Officers supported all political parties in developing their budgets and the resulting proposed amendments. Following revisions in year, the final budgeted total expenditure was set at £1,237 million, with a £36.591 million planned transfer from reserves.

43. Budget monitoring reports were considered by the Finance and Resources Committee throughout 2022/23 and the outturn position moved from a projected deficit of £5.627 million to a surplus of £13.675 million by the end of the financial year.

44. There are continued financial pressures and increasing demands on council's health and social care budget and the council's contribution to Edinburgh Integration Joint Board (EIJB). In March 2022, the EIJB agreed a financial plan for 2022/23 which identified a funding gap of £16.9 million. The board reduced the funding gap to £10.8 million as a result of savings decisions taken at its August 2022 meeting. The board agreed the surplus from 2021/22 placed in the general reserve of £3.2 million could be used to reduce the funding gap; and an improvement in NHS Lothian's financial plan meant further funding of £2.9 million provided to the EIJB. NHS Lothian provided an additional £3.5 million, which alongside other measures, enabled the EIJB to reach an 'in year' financial balance. The financial position and forecast deficits of the EIJB continues to place additional pressure on the council's budget as one of the two funding partners, along with NHS Lothian.

45. We observed that senior management and members receive regular financial information on the council's performance against budgets. Budget monitoring reports provide an overall summary as well as further details and explanations about specific financial pressures and potential mitigation actions and savings to close financial gaps. The budget is also reproduced as an appendix to provide further clarity of the in-year position against budget, revised budget, outturn and target for the time of year. The council has appropriate budget setting and monitoring arrangements, supported by an experienced and effective finance team.

The housing revenue account operated within budget, but capital investment in council homes has been adversely affected by reducing levels of income

46. The council is required by legislation to maintain a separate housing revenue account and to ensure that rents are set at a level which will at least cover the costs of its social housing provision.

47. The Housing Revenue Account is self-financing and receives no funding from the general fund. The Housing Revenue Account is 95% funded from tenant rents and the remaining from services charges and fees.

48. The outturn shows income of £108 million in 2022/23 and the contribution to the Strategic Housing Investment Fund was £2.972 million, which was £3.128 million less than the planned contribution of £6.1 million as set in February 2020. This variance is in part a result of the planned contribution being set before the decision to freeze rents was made in February 2022 for the 2022/23 budget and because of unbudgeted Covid-19 related costs such as additional cleaning, increased environmental maintenance costs and increased costs of bringing void properties into use to meet demand.

49. There is a 30-year business plan for the HRA, which provides the financial framework for the service, and is updated annually. The rent freeze in 2021/22 increased the overall deficit from £25.3 million to £70.5 million. Officers recommended below inflation rent increases of 1.8% for 2022/23 to bring the overall deficit down in future years. Due to the cost-of-living crisis, the council agreed a rent freeze for a second year in a row for 2022/23.

50. The 30-year business plan is supported by a 10-year capital investment programme which is funded from the income generated from tenant rents, and this has been adversely affected by the rent freezes. The capital investment programme is driven by requirements to comply with standards, demand for new social housing and repairs and maintenance requirements. On 23 February 2023 the council approved the motion to increase rents by 3% for 2023/24 while also establishing a tenant hardship fund to support tenants for whom a rent rise would result in severe financial difficulty.

The ongoing effects resulting from Covid-19 continue to have an impact on the council's income and demand for housing

51. The accounts detail a net cost of £19 million to the council as a result of Covid-19 for 2022/23 due to loss of income (for example a £6 million dividend from Lothian Buses) and expenditure pressures, such as the additional costs of £3 million to help alleviate homelessness.

52. The pandemic also contributed to a 34 per cent increase (from pre-pandemic levels) in demand for temporary accommodation. The budget for 2022/23 was set £17.6 million higher than the 2020/21 budget to meet demand. The Place directorate took several requests to the Finance and Resources Committee during 2022/23 to waiver contract standing orders to extend contracts with temporary providers for an 'on the spot purchase arrangement' to meet demand in the short term. This demonstrates the challenges of service provision and financial forecasting in this area as demand changes rapidly.

The level of usable reserves decreased by 5 per cent overall, but the general fund increased by £9 million from last year

53. One of the key measures of the financial health of a council is the level of reserves held. The level of usable reserves held by the council decreased from £397 million in 2021/22 to £377 million in 2022/23.

54. Usable reserves are comprised of the following as shown in Exhibit 7.

Exhibit 7
City of Edinburgh Council – usable reserves 2020/21 to 2022/23

Usable reserve	31 March 2021 £ million	31 March 2022 £ million	31 March 2023 £ million
General fund	221.033	257.205	266.306
Housing Revenue Account	0	0	0
Repairs and Renewals Fund	41.162	50.407	37.430
Capital grants unapplied reserve	47.949	46.994	31.189
Capital Fund	49.731	42.550	42.194
Total usable reserves	359.875	397.156	377.119

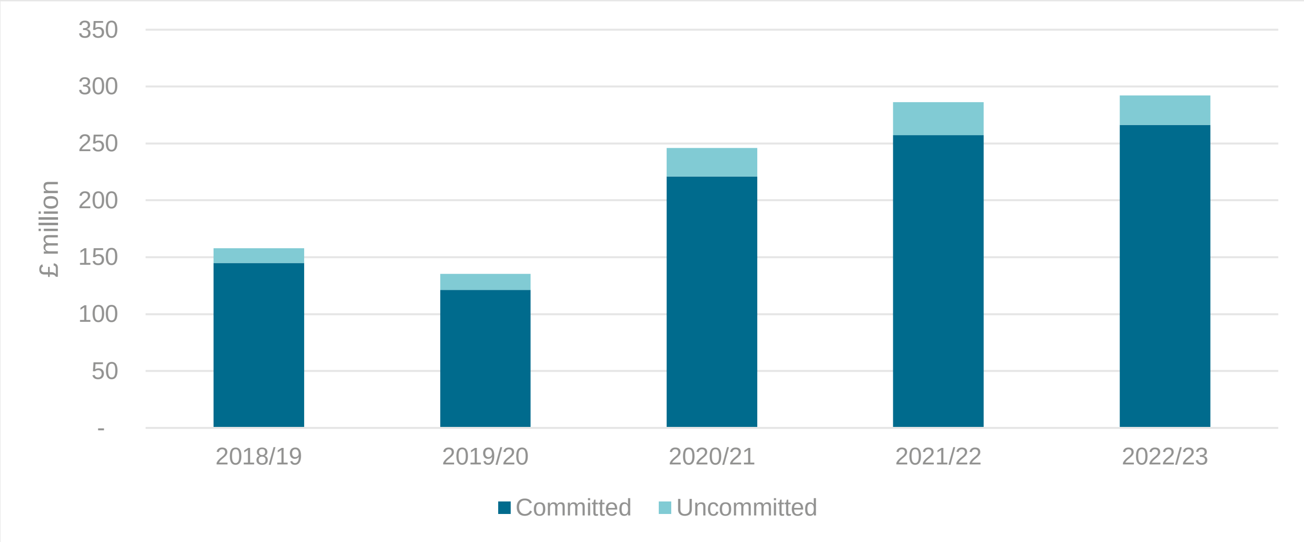
Source: City of Edinburgh Council accounts 2020/21 – 2022/23

55. The general fund balance increased by £9 million or 3.5% from the prior year for the council. This growth is significantly less than the increase last year, where the general fund increased by £36 million, although the balance in 2021/22 was due to unspent Covid-19 funds provided at the year-end for use in subsequent years.

56. Exhibit 8 provides an analysis of the general fund over the last five years split between committed and uncommitted reserves. It shows that the level of uncommitted funds is a low proportion of overall funds, and this position has remained stable over the last three years.

57. The level of uncommitted reserves is reviewed annually by the council as part of the budget setting process. The large increase in reserves seen in 2020/21 onwards is partly due to funding provided late in the year by the Scottish Government for Covid-19 mitigation measures for use in future years.

Exhibit 8
Analysis of general fund balance



Source: City of Edinburgh Council annual audited accounts

58. The council generally has limited “uncommitted” reserves to support additional expenditure. The unallocated general fund balance of £25.831 million for 2022/23 represents less than 2% of planned 2023/24 expenditure. Given the financial context the council is operating in, the level of reserves is considered reasonable, and the council has demonstrated a prudent approach to the management of reserves.

The majority of planned £19.2 million efficiency savings were achieved to close the budgeted funding gap for 2022/23

59. The 2022/23 budget included planned savings of £19.2 million and contributions from reserves to address the budgeted funding gap. The majority of potential savings were identified in corporate spending and referred to borrowing costs savings (£12 million) and corporate budgets being reprioritised (£5 million).

60. The council achieved £18.816 million (98% of planned savings) and received additional income of £9.8 million from higher council tax income than forecast, in part due to a growth in the tax base.

Capital expenditure increased in 2022/23

61. Total capital expenditure in 2022/23 was £409 million. Capital expenditure relating to general services was £287.722 million against a revised budget of £284.097 million; and capital expenditure of £121.335 million against a revised budget of £118.755 million for the Housing Revenue Account.

62. The capital budget for general services funded expenditure in the council’s learning estate of £46.465 million, £65.393 million on transport and infrastructure including repairs to North Bridge and purchase of bin lorries; and £53.419 million for completion of the Tram to Newhaven network.

63. In general services, delays across projects were noted, and asset management works had the largest underspend of £8 million or 43% against a revised budget of £18.602 million due to the introduction of decarbonisation into design decisions. This added complexity and delayed project timescales, which affected the amount spent in year. The overall position for general services showed slight acceleration.

64. The council's house building programme is funded and managed through the HRA and each year the Finance and Resources Committee is asked to approve a transfer of mid-market homes constructed through this programme to Edinburgh Living LLP. Edinburgh Living LLP is a partnership between the council and Scottish Futures Trust, which acquires and manages homes for mid-market rent. The housing programme delivered over 300 homes in 2022/23.

The council borrowed more in 2021/22 in anticipation of higher interest rates placing them in a stronger position during 2022/23

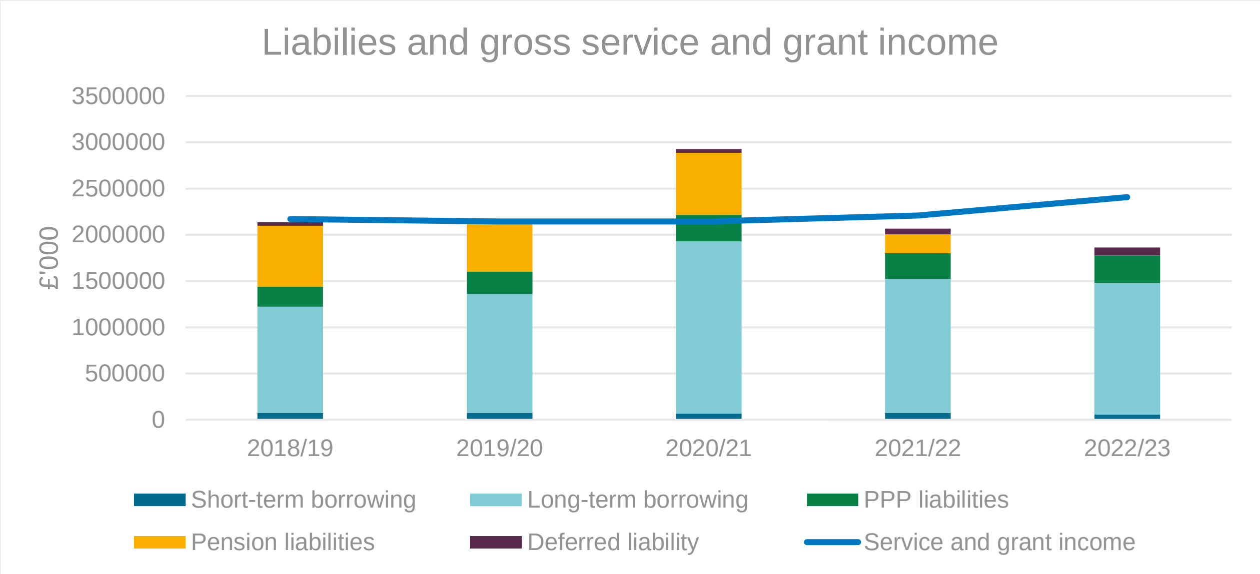
65. At 31 March 2023, the council's total long term borrowing stood at £1.419 billion, a decrease of £34 million on the 31 March 2022 level of £1.453 million. During the same period, short term borrowing decreased from £70.453 million to £59.744 million. In anticipation of the interest rate increases, the council borrowed more in 2021/22 when it was cheaper to limit their requirements in 2022/23, to fund all loans to Edinburgh Living for the purchase of homes. A further £11 million was borrowed in 2022/23, £8 million of which related to an in-year decision regarding the purchase of the Fruitmarket homes.

66. In its annual treasury management report for 2022/23, total external debt, which includes the council's long-term liabilities, was reported to be within the authorised limit and operational boundary set by the council's treasury management strategy. The council's policy is to ensure that borrowings are below its capital financing requirements to ensure that borrowing is applied to capital spend only.

67. The council's overall indebtedness as a percentage of its annual income over the past three years is shown in Exhibit 9. Long term borrowing is currently below gross service and grant income levels, though mainly because there were no pension liabilities for this year due to the impact of the high interest rates. It also shows borrowing levels have reduced since 2020/21 as the cost of strategic borrowing has become more expensive. This indicates that the council are taking a prudent approach though we would expect borrowing levels to continue to be low whilst interest rates are high.

68. Exhibit 9 also shows that PPP liabilities have increased in 2022/23 because of the application of IFRS 16 and right of use assets (and associated future liabilities) being recognised on the Balance Sheet, as we explain in Exhibit 2.

Exhibit 9
Overall indebtedness as a percentage of annual service and grant income over past 5 years



Source: City of Edinburgh Audited Annual Accounts 2018/19 to 2022/23

The council has appropriate financial control arrangements in place, with scope for improvement in some areas

69. From our high-level review of the design and implementation of systems of internal control (including those relating to IT) and the testing of the operating effectiveness of specific controls, we did not identify any internal control weaknesses which could affect the council's ability to record, process, summarise and report financial and other relevant data to result in a material misstatement in the financial statements. We have identified two areas where a key control could be strengthened:

Payroll Validation: Employee validation checks to confirm the existence of employees provides assurance on the completeness and accuracy of payroll records and is an important control within any payroll system. Our payroll work identified that this is done indirectly through regular budget monitoring. This control could be stronger if budget holders were required to confirm directly, on an annual basis, that the payroll establishment listing for their business area was accurate and remained up to date. The control currently in place (regular budget monitoring of payroll and non-payroll costs) is considered adequate for our purposes and as a result there was no impact on our audit approach.

SWIFT: SWIFT is the council's legacy IT system for social care data, including costs of care. Internal audit has reported data quality and compliance issues, concluding the system is not fit for purpose and the council has plans to replace the system. As part of our high-level review of the system, we noted the quality checks were not in place for annual uprating of provider costs; and for financial assessments which determine the share of cost between the council and the client. We were able to place reliance on access to the system being controlled and proper authorisation of SWIFT payment runs. To gain assurance of the spend in this area, we ensured our substantive testing included a sample of social care spend in our journals and expenditure samples. The business case for the replacement of SWIFT is in development and the council should proceed with this as a matter of urgency.

Internal audit provided a reasonable level of assurance over the council's framework of governance, risk management and control arrangements during 2022/23

70. The council's internal audit service provides members and management with independent assurance on risk management, internal control and corporate governance processes as well as providing a deterrent effect to potential fraud.

Internal Audit 's annual report, presented to the September 2023 Governance, Risk and Best Value Committee, provided an opinion that reasonable assurance can be placed upon the adequacy and effectiveness of the council's governance, risk management and internal control systems in the year. A total of 140 audit recommendations (32 high, 59 medium and 49 low) were raised across the 28 audits completed in 2022/23. Of these 28 audits, five overall received the lowest scoring of 'limited assurance', however this did not have a direct impact on our audit approach.

Standards of conduct and arrangements for the prevention and detection of fraud and error were adequate

71. In the public sector there are specific fraud risks, including those relating to tax receipts, welfare benefits, grants and other claims made by individuals and organisations. Public sector bodies are responsible for implementing effective systems of internal control, including internal audit, which safeguard public assets and prevent and detect fraud, error and irregularities, bribery and corruption.

72. The National Fraud Initiative (NFI) is a counter-fraud exercise across the UK public sector which aims to prevent and detect fraud. The council submitted datasets on time for the first data matching exercise in January 2023. Our work in next year's audit will review the council's activity in terms of investigations of very high risk matches and resulting outcomes from this work.

73. The council recognises, in its annual governance statement, the control weaknesses internal audit highlighted in its report on serious and organised crime. The council created a group to monitor the implementation of recommended actions, and we will consider the follow-up in this area as part of our 2023/24 audit. Overall, the council has adequate arrangements in place, including established procedures and policies, to prevent and detect fraud or other irregularities.

4. Financial sustainability

Financial sustainability means being able to meet the needs of the present without compromising the ability of future generations to meet their own needs.

Conclusion

The council has effective and appropriate arrangements in place to plan the use of its revenue resources to sustain delivery of services. The council are building on plans to develop these into the medium to long-term.

The council is developing strategic and cross-cutting plans and initiatives as part of the development of a medium-term financial plan (MTFP) which seeks to use technology and assets to better achieve efficiencies and service delivery. The council needs to accelerate this work to outline how it will deliver financial sustainability over the next five years.

The council plans capital spending on a longer-term basis, which is updated annually, which supports financial sustainability of capital spend.

The council approved a budget of £1,282 million for 2023/24 with cost-savings required to close a gap of £26.6 million

74. The council has approved a-revenue budget for 2023/24 with total planned expenditure of £1,282 million. The budget has identified a need for additional income and savings of £26.6 million, with further savings required in future years.

75. The most recent progress update, provided in September 2023, highlighted a forecast deficit for 2023/24 of £13.2 million. Significant pressures to the council's overall position for 2023/24 include the financial challenges in the EIJB which has a net funding gap of £16.7 million for 2023/24, and the council may need to direct additional resource to mitigate this.

76. Other financial pressures to the council's 2023/24 position are the potential staff pay award, costs of the decant of Brunstane Primary school and remedial works; inflationary pressures, and further demand-led pressures in the homelessness service and Home to School transport. Further financial pressures include the impact of a reduction in early years funding, and costs in the Children's service for the provision of residential and secure accommodation. The 2022/23 surplus of £13.6 million puts the council in a stronger position for 2023/24 and council is discussing how this could be applied.

Forecasts show funding gaps rising to £172 million by the end of this decade. The council is developing a medium-term financial plan to address these significant financial challenges

77. The council's update to the Finance and Resources Committee in June 2023 forecast budget funding gaps of £37 million in 2024/25 rising to £172 million by 2028/29 driven by inflation, potential staff pay awards and changing demographics.

78. The Revenue Budget Framework 2024-2029 outlines the assumptions and risks for the next 5 years, with some sensitivity analysis for this. It also a shows, taking into account projected deficits within the EIJB, an increase in the funding gap of £58.6 million in 2024/25 with incremental requirements thereafter; driven by inflation, impacts of staff pay awards; and the potential impact of addressing weaknesses caused by Reinforced Aerated Autoclave Concrete across the council's estate.

79. The council's strategy to address these financial challenges is being developed in a Medium-Term Financial Plan (MTFP) which will focus on cross-cutting proposals, placing more importance on the council's services being technologically enabled to put the council in a more resilient financial position.

80. The council has a 10-year capital budget strategy demonstrating financial planning into the long term. This is reviewed and updated on an annual basis.

The authority recognises that transformational planning and efficiency plans should be accelerated as a priority

81. The council is developing a Change Programme, structured into four themes:

- Organisational reform and efficiency
- Asset rationalisation and service delivery
- Third party spending
- Partnerships and prevention

82. In June 2023, the council reported that their Change Programme shows a potential contribution to the funding gaps of up to £15.5 million in 2024/25 based on projects being commenced this year, rising to £48million by 2026/27. Summary details of the projects have been provided to the Finance and Resources Committee with further information to follow as work to develop the specific workstreams and associated savings, dependencies and risks, is in progress. The council recognise they need to do this as a priority and in advance of the 2024/25 budget setting process.

83. The upgrades of the council's financial recording system, Oracle, and the business case to replace the legacy SWIFT system (social care operating model) are two examples of projects under organisational reform and delivery. The 2023/24 costs of these projects along with the other ones identified as

Year 1 in the council's June 2023 paper will be met from the £2 million 'Spend to Save' funding identified/approved as part of the 2023/24 budget.

84. The council have also set up a Strategic Programme Board for oversight of the Change Programme.

85. The council needs to accelerate their medium-term financial planning, extending their analysis of key assumptions for the next five years, for example, on sensitivities of key financial variables and outline options for ensuring financial sustainability.

Recommendation 1

The council needs to accelerate its work on medium-term financial planning to outline how it will deliver financial sustainability over the next five years.

The council will utilise a government flexibility option to account for its PPP arrangements over a longer time period

86. The Scottish Government has provided financial flexibility to change the accounting arrangements for service concessions (PPP arrangements). The flexibility introduced allows the debt repayment to be accounted for over a longer period (the life of the asset rather than the contract period) and allows councils to use the difference this generates in prior years to apply to future expenditure (in accounting terms not actual terms).

87. The council approved the use of this financial flexibility from 1 April 2023. It generates a retrospective benefit of £95 million into the general fund from the capital adjustment account to be used against future (non-cash) costs over the next five years from 2023/24.

Audit work has addressed the wider scope risks identified in our Annual Audit Plan

88. Exhibit 10 sets out the wider scope risks relating to Financial Sustainability we identified in our 2022/23 audit. It summarises the audit procedures we performed during the year to obtain assurances over these risks and the conclusions from the work completed.

Exhibit 10
Risks identified from the auditor's wider responsibility under the Code of Audit Practice

Audit risk	Assurance procedure	Results and conclusions
The council's revenue budget framework details savings proposals over the	The council's medium term financial framework outlines the planning assumptions in	The council demonstrated they were able to close the funding gap for 2022/23.

Audit risk	Assurance procedure	Results and conclusions
next four years for council approval. The framework shows a savings gap of £3.7 million in 2023/24 rising to £91.9 million in 2026/27. Financial sustainability remains a risk with ongoing financial pressures in the short to medium term. This includes inflationary pressures on contracts, the impact of agreed pay awards, continued support for the homeless, support to refugees from Ukraine, and energy costs.	managing the savings gaps in the short to medium term (two to five years)	The council is developing a Medium-Term Financial Plan (MTFP) which looks at strategic cross-cutting proposals that generate savings/efficiencies for the council over more than one year. Updates on progression of the plan are provided to Finance and Resources Committee at least annually. Part of the MTFP includes ‘spend to save’ projects as well as a change programme. We will continue to monitor progress in this area and the impact it has on the financial challenges the council is facing.

5. Vision, leadership and governance

Public sector bodies must have a clear vision and strategy and set priorities for improvement within this vision and strategy. They work together with partners and communities to improve outcomes and foster a culture of innovation.

Conclusion

Governance arrangements are appropriate but there is scope to improve decision-making arrangements, particularly around budget-setting.

Governance arrangements are appropriate but concerns around the budget-setting have prompted calls for greater collaboration and processes to support decision-making

89. The council's governance arrangements have been set out in the annual governance statement in the annual accounts. We have reviewed these arrangements and concluded that they are appropriate.

90. Papers and minutes for Boards and Audit Committee meetings, including financial and performance information, details the decisions made and are all publicly available on the council's website.

91. As we reported in our thematic best value work for this year, there is scope to strengthen scrutiny arrangements by strengthening processes to support collaboration, particularly in the annual budget-setting process.

92. For 2023/24, all parties submitted motions the day before the meeting, and after three rounds of voting an opposition budget was passed. Members of the Governance, Risk and Best Value Committee (GRBV) subsequently called for a review of the process, raising concerns around a lack of transparency and availability of information, concluding it did not represent "a good model for budget setting, transparency or the reputation of the council."

93. In June 2023, the corporate leadership team provided proposals to change the budget process in future. These include:

- to provide budget training for all councillors
- to start the budget process, particularly identifying change proposals earlier in the year, before summer recess

- to build in support and regular meetings with each political group through the autumn and winter
- that where possible, proposals should be taken through relevant Executive Committees
- that a report is taken to council in September to amend the standing orders to alter the deadline for budget motions to a week and a day before Council.
- the provision of training for members, starting the budget process earlier and requiring budget motions to be submitted an additional week in advance of the meeting.

94. An internal audit report on lessons learned from the budget-setting process was presented to the GRBV in August 2023. This added further recommendations including a review of best practice from other local authorities. A further "lessons learned" process is planned for the new 2024/25 financial year.

Members have sought clarity over their role in scrutiny of the council's arms-length bodies

95. Local authorities have a statutory responsibility to comply with the Accounts Commission/ COSLA Code of Guidance on funding external bodies and following the public pound.

96. The council uses several arm's length external organisations (ALEOs) to provide services on its behalf, including Transport for Edinburgh Limited and Edinburgh Leisure. The council's scrutiny of ALEOs is through both executive committees and GRBV, the council's scrutiny committee.

97. While the ALEOs are responsible for the delivery of the services, the council remains responsible for the public money it provides to the ALEOs and the quality of services the ALEOs provide. In response to calls from members, there are plans to clarify and strengthen these arrangements, setting out the governance framework for ALEOs to members in the coming year.

The council has improved its whistleblowing arrangements and work is ongoing to support cultural change

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

99. The report was made to full council in December 2021 with 50 recommendations. Since then, the council has been working across 5 workstreams to address these recommendations as well those from a separate independent inquiry into complaints about a former employee who died in August 2020. Part of this work has involved revising the council's whistleblowing policy to support cultural change within the organisation.

100. In the latest update to council in September 2023, 61 recommendations/observations have been completed with the remaining 45 underway, and the council is aiming to have these actions completed by March 2024. We will review progress as part of our 2023/24 audit.

The target of reaching net zero by 2030 is a key priority, but work is needed to identify costs and prioritise projects

101. The Scottish Parliament has set a legally binding target of becoming net zero by 2045 and has interim targets including a 75% reduction in greenhouse gas emissions by 2030. The public sector in Scotland has a key role to play in ensuring these targets are met and in adapting to the impacts of climate change.

102. The council is committed to working towards a target of net zero emissions by 2030 for both corporate and city-wide emissions. The City of Edinburgh Council Emissions Reduction Plan (CERP), which sets out actions to reduce the council's corporate emissions, was approved in November 2021. The Policy and Sustainability Committee provides political oversight and scrutiny of progress towards the target. A Sustainability Programme Board co-ordinates actions across the council and a dedicated CERP Programme Board reports to the Sustainability Board.

103. The council published a city-wide 2030 Climate Strategy in December 2021. The strategy sets out the priorities for tackling climate change to achieve the aim of Edinburgh becoming a net zero city by 2030. The Edinburgh Partnership Board oversees implementation of the Climate Strategy and the Infrastructure Investment Programme Board leads the development and investment plans for strategic city infrastructure in line with the city-wide net zero target.

104. The Emissions Reduction Plan and Climate Strategy are supported by several other plans and strategies covering a wide range of areas including adaptation, business travel, energy efficiency, transport, ICT, renewable energy, waste management, and land use. Our best value thematic report for 2022/23 recommends the council should continue to build on its existing net zero plans to include further detail on specific project costs and budgets.

105. The council's annual performance report includes key performance indicators (KPIs) relating to the council's priority for becoming a sustainable and net zero city. Progress towards the net zero target is reported in the Public Bodies Climate Change Duties (PBCCD) report submitted to the Scottish Government in November each year. There is an annual progress report to members on the delivery of the CERP and 2030 Climate Strategy and there is a dedicated climate page on the council's website at Climate – The City of Edinburgh Council.

106. The council has considered the impact of climate change on its financial statements. Environmental, social and governance (ESG) definitions and sustainability have been considered in the calculation of asset valuations and remaining useful lives, following publication of updated valuation standards effective from January 2022. Climate change considerations are implicit in other areas such as provisions and contingent liabilities.

107. The management commentary in the 2022/23 annual accounts includes a section on climate change and sustainability and refers to the sustainability/ net zero areas in the 2022/23 annual performance report.

Good practice

108. The Sustainable Capital Budget Strategy 2023-2033 sets out priorities for £1.47 billion of capital investment, in alignment with the council Business Plan and wider net-zero goals and responsibilities over the medium to long-term. A climate assessment has been carried out for capital spending proposals with 25% assessed as very favourable, 34% favourable under conditions, 33% neutral, 4% unfavourable and 4% undefined. Investments made for the construction of new buildings are evaluated using three criteria:

- energy-carbon performance of the construction in relation to the standard in force
- land use change or soil artificialisation (the construction should not waterproof the soil or change the use of agricultural, forest or natural land); and
- access to essential services

6. Use of resources to improve outcomes

Public sector bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities.

Conclusions

The council has reported a mixed picture of performance improvement over time. Compared to 2020/21, the council has improved its comparative ranking with other councils in 32 of the national indicators, however, the comparative ranking has declined in 39 of the indicators, showing the rate of service improvement has slowed compared to others. The council has plans to improve the quality of how it reports its performance.

The council's corporate self-evaluation supports continuous improvement.

A self-evaluation of corporate governance has been used to improve the way committees work and support members

109. As part of the council's preparations for the May 2022 Local Government election, the corporate governance team led a review of committee effectiveness looking at the council's political management arrangements (PMAs), how effective current arrangements were, and lessons learned from the previous term. This focused on the executive committees, and the Corporate Governance Team facilitated self-evaluation sessions in February/March 2022.

110. The results of these reviews were used to inform the design of proposed post-election PMAs and the support provided to councillors for the 2022-2027 term. This work also informed improvement action plans which were considered together with the council's assurance work that informs the governance statement, for an overall corporate self-evaluation of governance and effectiveness.

111. For 2022/23 the council evaluated its governance against the Chartered Institute of Public Finance & Accountancy and Society of Local Authority Chief Executives model framework Delivering Good Governance in Local Government ("the CIPFA/SOLACE framework"). This self-assessment took place in August 2023 and was reviewed by the Corporate Leadership Team. The results of this self-evaluation were reported to the GRBV in September

2023 and supports the council on its journey to strengthen improvement in the organisation.

The council's overall performance, taken from national benchmarking data, shows a mixed picture of improvement over time

112. The council participates in the Local Government Benchmarking Framework (LGBF). The framework brings together a wide range of information about how all Scottish councils perform in delivering services, including the cost of services and how satisfied citizens are with them.

113. The most recent National Benchmarking Overview Report 2021-22 by the Improvement Service was published in March 2023. The results were considered by the council's policy and sustainability committee in May 2023. The data provides an additional perspective on how the council is performing and informs the council's own Corporate Performance Framework. As part of the revised framework, the council plans to improve the quality of how it reports its performance as we outline at paragraph 35.

114. The 2021/22 data shows the resumption of services as Covid-19 restrictions were gradually eased. The pandemic has introduced new complexity in relation to the LGBF dataset and judgements on comparative rankings should be viewed with caution as each council continued to make service decisions on local factors, priorities, and resources.

115. The figures show that overall Edinburgh's ranking is in the top two quartiles (above the national average) for 57% of the indicators (47 out of 83) and 16% sit in the bottom quartile (13 indicators). Compared to 2020/21 the council has improved its ranking in 32 of the indicators and maintained its ranking in 12 of the indicators.

116. The council's comparative ranking position, which compares it against other councils, has declined in 39 of the indicators. Compared to 2019/20, which was pre-Covid, the council has improved its ranking in 43 of the indicators and maintained its ranking in eight of the indicators. The council's comparative ranking position compared to other councils, has declined in 32 of the indicators.

117. Relative performance improvements, from 2019/20, were most notable in the following areas:

- Children's Services
- Corporate
- Financial Sustainability

118. The following services included more indicators where relative performance had declined, rather than improved:

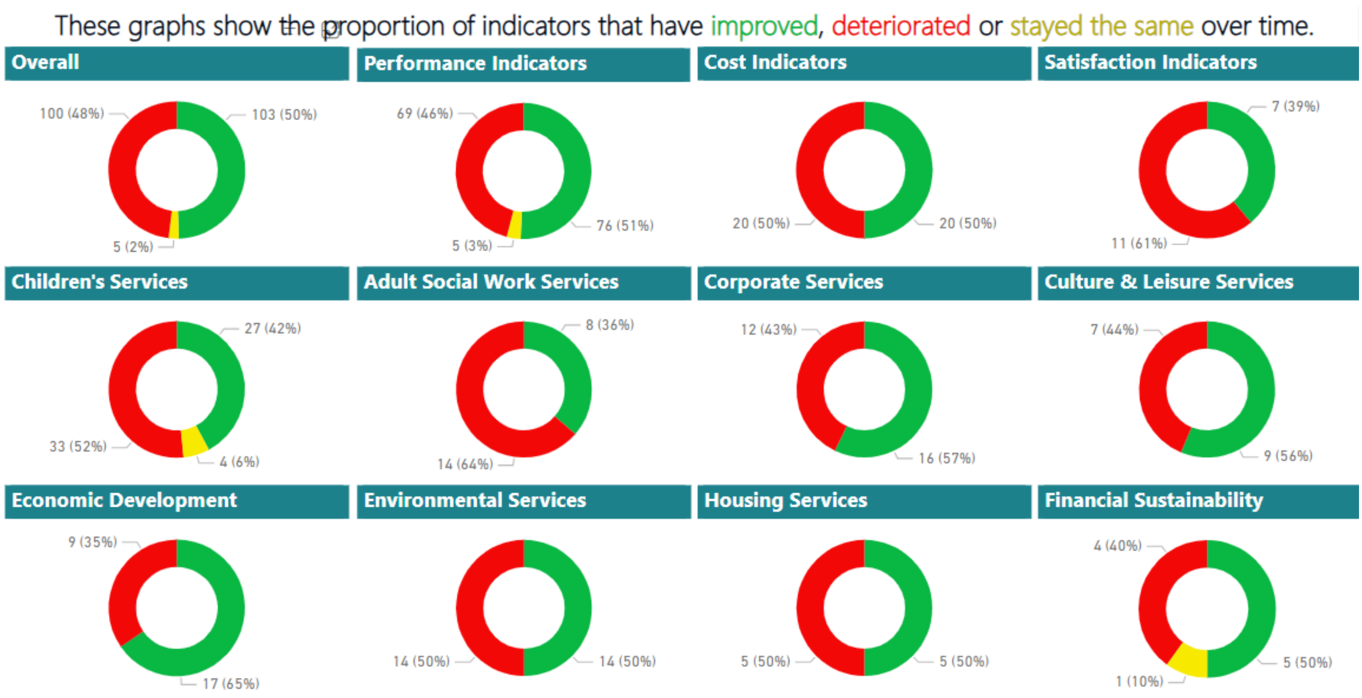
- Adult Social Care

- Housing
- Culture and Leisure

119. Taking adult social care as an example, the detailed analysis highlights the mixed picture of performance improvement versus decline which is replicated across several areas. There are indicators that continue to show a gradual improvement from pre-Covid through to 2021/22 (e.g. Self Directed Support, Balance of Care); and some indicators that show a clear skew due to Covid where performance in 2021/22 returns to pre-Covid levels (e.g. re-admission rates, days people are delayed in hospital).

120. Exhibit 11 shows the council's 2021/22 performance across services when compared with the relevant data's base year. Based on the indicators within each service area, the council shows a mixed picture of improvement over time.

Exhibit 11
City of Edinburgh's Council's LGBF results – trend since base year



Source: Improvement Service – LGBF 2021/22

121. Given the service demand and cost pressures facing all local authorities across Scotland, it is unlikely the council will be able to maintain performance across all services they currently provide. This means councils will need to make increasingly difficult choices about what their service and performance priorities are.

The council has satisfactory arrangements for the preparation and publication of Statutory performance information (SPIs)

122. The Accounts Commission issued a new Statutory Performance Information (SPIs) Direction in December 2021 which applies for the three years from 2022/23. It requires a council to report its:

- performance in improving local public services (including those provided with its partners and communities), and progress against agreed desired outcomes (SPI 1). The Commission expects this reporting to allow comparison both over time and with other similar bodies (drawing on Local Government Benchmarking Framework and/or other benchmarking activities).

- own assessment and audit, scrutiny, and inspection body assessments of how it is performing against its duty of Best Value, and how it has responded to these assessments (SPI 2).

123. We have evaluated council's arrangements for fulfilling the above requirements and concluded that overall they are satisfactory. The council has developed a clear framework to measure and monitor progress against the council's priorities.

124. We identified three improvement opportunities affecting SPI reporting. The council's 2022/23 Annual Performance Report provides an overview of council performance against its three priorities, 15 outcomes, 80 KPIs and nine milestones. However similarly to last year, an overall assessment and conclusion as to how the council is performing against its duty of best value, based on its performance against the business plan outcomes, was not included in the report.

125. The report is available on the council's website. While this provides easy access to performance information, accessibility requirements do not appear to be fully addressed. For example, there is no information provided on whether performance reports are available in alternative formats or different languages. The council should also invite feedback from service users/communities and use it to improve public performance reporting.

Audit work has addressed the wider scope risks identified in our Annual Audit Plan

126. Exhibit 13 sets out the wider scope risks relating to the Use of Resources to Improve Outcomes we identified in our 2022/23 audit. It summarises the audit procedures we performed during the year to obtain assurances over these risks and the conclusions from the work completed.

Exhibit 13
Risks identified from the auditor’s wider responsibility under the Code of Audit Practice

Audit risk	Audit Response	Conclusion
Reliance on legacy IT systems and older software for key financial systems The council has an over-reliance on legacy systems such as AS400 for capital funded projects, and SWIFT for social care payments. The council uses Oracle R11 as its general ledger and there are plans for a significant upgrade this year. Relying on legacy systems increases the risk of IT application failure and can present data quality and cyber security risks. It is also critical that underlying data is accurate and complete. There is a risk we are unable to access documentation to support our audit of the annual accounts.	We considered the council’s arrangements for managing and mitigating the risks that use of legacy IT systems presents. We considered how the council obtains assurances from its service providers over cyber security and business continuity arrangements.	The council uses CGI to provide digital and network services and to mitigate cyber security and business continuity risks. We were able to obtain the information we required for our audit of the annual accounts. The council is planning to replace both AS400 and Oracle R11 in the short term. A business case for the replacement of SWIFT is in development. We will keep in view the council’s arrangements in this area.

Source: Audit Scotland

7. Charitable Trusts and Funds

Conclusions

The Edinburgh Education Trust funds grants to schools and individuals and paid out low levels during 2022/23. The Trust should find alternative ways of raising awareness amongst potential beneficiaries.

127. The findings from our financial statements audit work on The City of Edinburgh Charitable Trusts (“the Trusts”) and The City of Edinburgh Charitable Funds (“the Funds”) are detailed in section one of this report.

128. Our duties as auditors of the charities administered by The City of Edinburgh Council are to:

- express an opinion on whether the charity’s financial statements properly present the charity’s financial position and are prepared in accordance with charities legislation.
- read the Trustees’ Annual Report and express an opinion as to whether it is consistent with the financial statements.
- report on other matters, by exception, to the Trustees and to the Office of the Scottish Charity Regulator (OSCR).

More could be done to raise awareness and applicants for the Edinburgh Education Trust

129. The Edinburgh Education Trust awards grants to schools and individuals through income received from its investments. In 2022/23, the trust funded £1,948 of activities for looked after children (£2,028 2021/22) and £1,350 of school prizes (£1,300 2021/22). The charity rolls forward any unused funds from the current year into the following year.

130. The total value of awards in year is low when compared to the funds it has it its disposal. The Edinburgh Education Trust has cash and investments totalling £1.257 million, and annual income is around £32,000. The awards of £1,948 in 2022/23 represents only 0.15% of available funds.

131. As the appointed auditors of the Section 106 charities administered by the council, we are required to consider whether the funds held within the trusts are being used for the purposes intended. This includes reporting any inappropriate use of funds or prolonged lack of activity - the 'public benefit' test. Further steps should be taken to make their existence more widely known, and applications more accessible (Recommendation CH1)

Recommendation CH1 (The Trusts and The Funds)

The trustees of the Edinburgh Education Trust should take steps to make the charity's existence more widely known, and applications more accessible.

The Charitable Fund is expected to be wound up by the end of 2024 and there are plans to transfer Lauriston Castle

132. As we report in paragraph 25. , a separate set of accounts has been prepared for The Funds as the trustee considered that the fund was not a going concern. The disbursement of the remaining funds and completion of the winding up process is expected to be completed in September 2024. Separately, we note in paragraph 23. that the council has agreed to apply to wind up of the Lauriston Castle Trust and the transfer of assets to the council.

Appendix 1. Action plan 2022/23

2022/23 recommendations

Issue/risk	Recommendation	Agreed management action/timing
1.Developing a medium-term financial plan The council is developing strategic and cross-cutting plans and initiatives as part of the development of a Medium-term financial plan (MTFP) which seeks to use technology and assets to better achieve efficiencies and service delivery. **Risk** – operating in a challenging financial context without medium-term financial planning can compromise financial resilience and sustainability.	The council needs to accelerate this work to outline how it will deliver financial sustainability over the next five years. Paragraph 85.	The council has in place governance to oversee both the development and delivery of the medium-term financial plan. This work will continue but following recent appointments, officers will be reviewing both governance arrangements and the pipeline of MTFP projects and programmes to ensure they will be able to deliver the scale of savings required over the next five financial years. **Responsible officer**: Executive Director of Corporate Services **Agreed date**: the medium-term financial plan is about building a pipeline of continuous improvement and transformation, as such there is no end date.
2. Costing of net zero projects The council has identified tackling climate change as a priority, working towards an ambitious 'net zero by 2030' target. Plans for reducing emissions compete with other priority policy areas for funding, and significant	The council should continue to build on its existing net zero plans to include further detail on specific project costs and budgets. This should include outturn information and details of any additional funding required. This would provide better information for	The funding of sustainability actions will be considered as part of the annual budget setting process for 2024/25 and beyond. Delivery will continue to be monitored through our suite of annual climate reports to

Issue/risk	Recommendation	Agreed management action/timing
additional investment will be required to achieve this target. Risk – without a full understanding of the costs involved, the council cannot make informed decisions about where finite resources are targeted.	decision-making about prioritising projects which make the most impact and therefore maximising the contribution to achieving its 2030 Climate Strategy goals. Best Value Thematic Report 2022/23	Policy and Sustainability Committee: - Carbon Disclosure Project (CDP) - Public Bodies Climate Change Duties Report - Annual progress report on city wide target - CERP progress report - Climate Strategy Progress Report - International Travel Emissions Report - Adaptation Progress Report - Food Growing Progress Report
3. Workforce plans A workforce plan is in place, but it has not been aligned to the council's priorities, and lacks detail at a service level. **Risk** – current workforce service plans across the council are not sufficiently detailed to support effective service delivery of council priorities.	The council should develop the people strategy and strategic workforce plan to align with the 2023-27 business plan. The council should develop comprehensive workforce planning on a consistent basis across services, identifying skills gaps and aligning resources to council priorities as set out in the business plan. This would support effective service delivery. Best Value Thematic Report 2022/23	Development of People Strategy for 2024-2027 underway for publication from 1 April 2024. Will be aligned to council's business plan. Workforce Plan for 2024-2027 developed following consideration of above. **Responsible officer**: Service Director: Human Resources **Agreed date**: December 2024
3. Property action plan A refreshed Corporate Property Strategy was approved by the Policy and Sustainability Committee in August 2023. It's predecessor, the Corporate Asset Strategy was created in 2015. There has been a	The council plans to develop a Property Action Plan to take forward the framework provided by the Corporate Property Strategy to implement changes to working practices due to Covid-19, market conditions	Update on development of Property Action Plan to be reported to the Policy and Sustainability Committee during first quarter of 2024. Annual reviews of progress with the Corporate Property

Issue/risk	Recommendation	Agreed management action/timing
significant impact on how the council uses its owned properties as a result of changes to working practices, market conditions and environmental and legislative requirements. The council has committed to creating a property action plan, building on the framework created in the property strategy. **Risk** – the council is not maximising its assets in pursuit of its strategic priorities.	and new environmental and legislative requirements. The action plan should focus on maximising the effective and efficient use of its assets. Best Value Thematic Report 2022/23	Strategy to be provided from September 2024. **Responsible officer**: Head of Strategic Asset Planning **Agreed date**: September 2024 and subject to annual review thereafter
CH 1. The Edinburgh Education Trust In recent years the Edinburgh Education Trust has paid out a relatively low level of grants in comparison to funds held. **Risk – the charity is not achieving its aims.**	The trustees of the Edinburgh Education Trust should take steps to make the charity's existence more widely known, and applications more accessible. 129.	The recommendation is agreed and opportunities to publicise available funding and facilitate applications, consistent with the Trust's charitable purposes, will be progressed in the coming year. **Responsible officer**: Principal Accountant (Corporate Accounts), Finance **Agreed date**: March 2024

Appendix 2. Summary of uncorrected misstatements

We report all uncorrected misstatements in the annual report and accounts that are individually greater than our reporting threshold of £250,000.

The table below summarises uncorrected misstatements that were noted during our audit testing and were not corrected in the financial statements. Cumulatively these errors are below our performance materiality level as explained in Exhibit 1. We are satisfied that these errors do not have a material impact on the financial statements.

Narrative	Account areas	Comprehensive Income and Expenditure Statement		Balance Sheet	
Accounting Misstatements		**Dr £000**	**Cr £000**	**Dr £000**	**Cr £000**
1. Intra-group balances not eliminated on consolidation	Payables			1,239	
	Receivables				1,239
Total				1,239	1,239

The City of Edinburgh Council

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