



City of Edinburgh Council

Annual audit report to
Members and the
Controller of Audit

September 2015

The Accounts Commission is a statutory body which appoints external auditors to Scottish local government bodies. (www.audit-scotland.gov.uk/about/ac)

Audit Scotland is a statutory body which provides audit services to the Accounts Commission and the Auditor General. (www.audit-scotland.gov.uk)

The Accounts Commission has appointed Dave McConnell as the external auditor of City of Edinburgh Council for the period 2011/12 to 2015/16.

This report has been prepared for the use of City of Edinburgh Council and no responsibility to any member or officer in their individual capacity or any third party is accepted.

This report will be published on our website after it has been considered by the council. The information in this report may be used for the Accounts Commission's annual overview report on local authority audits published on its website and presented to the Local Government and Regeneration Committee of the Scottish Parliament.

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Key messages

 <p>Audit of financial statements</p>	<ul style="list-style-type: none">• Unqualified auditor's report on the 2014/15 financial statements.• Explanatory paragraph in the auditor's report on the failure of Edinburgh Catering Services (Other) to achieve its prescribed financial objective.• Unqualified auditor's report on the seven charitable trusts administered by the council.
 <p>Financial management and sustainability</p>	<ul style="list-style-type: none">• The council's financial management arrangements are broadly satisfactory, with actions identified to strengthen control arrangements in particular areas of financial pressure.• The council has developed longer term financial plans to ensure it is sustainable currently and in the foreseeable future.• Risks remain around key assumptions and delivery of savings associated with the financial plans (£107 million required by 2019/20), and identification of the savings required to bridge the estimated funding gap.
 <p>Governance and transparency</p>	<ul style="list-style-type: none">• The council has effective governance arrangements in place.• Systems of internal control operated effectively.• The council has an effective internal audit function and sound anti-fraud arrangements.



Best Value

- The council has made good progress in addressing the issues raised in the Best Value report of December 2014.
- Difficult choices will need to be made around matching future resources to priorities, in order to achieve the level of required savings.
- A well established performance framework is in place, and public performance reporting arrangements are clear and structured.



Outlook

- Councils face rising demands for services and continued funding pressures alongside managing major reforms in welfare and health and social care.
- Effective arrangements for Best Value will be essential for efficient use of available resources, and strong governance and leadership will be needed for the successful delivery of the council's transformation programme.

Introduction

1. This report is a summary of our findings arising from the 2014/15 audit of City of Edinburgh Council (the council). The report is divided into sections which reflect our public sector audit model.
2. The management of City of Edinburgh Council is responsible for:
 - preparing financial statements which give a true and fair view
 - implementing appropriate internal control systems
 - putting in place proper arrangements for the conduct of its affairs
 - ensuring that the financial position is soundly based.
3. Our responsibility, as the external auditor of City of Edinburgh Council, is to undertake our audit in accordance with International Standards on Auditing, the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011 and the ethical standards issued by the Auditing Practices Board.
4. An audit of financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor's responsibility to form and express an opinion on the financial statements; this does not relieve management of their responsibility for the preparation of financial statements which give a true and fair view.
5. A number of reports, both local and national, have been issued by Audit Scotland during the course of the year. These reports, summarised at **appendices II and III**, include recommendations for improvements.
6. **Appendix IV** is an action plan setting out our recommendations to address the high level risks we have identified during the course of the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "Management action/response". We recognise that not all risks can be eliminated or even minimised. What is important is that City of Edinburgh Council understands its risks and has arrangements in place to manage these risks. The council and the corporate leadership group should ensure that they are satisfied with proposed action and have a mechanism in place to assess progress and monitor outcomes.
7. We have included in this report only those matters that have come to our attention as a result of our normal audit procedures; consequently, our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.
8. The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.

Audit of the 2014/15 financial statements

<p>Audit opinion</p>	<ul style="list-style-type: none"> • We have completed our audit and issued an unqualified independent auditor’s report. • We have included an explanatory paragraph in the auditor’s report on the failure of Edinburgh Catering Services (Other) to achieve its prescribed financial objective.
<p>Going concern</p>	<ul style="list-style-type: none"> • The financial statements of City of Edinburgh Council, its group and the associated charitable trusts have been prepared on the going concern basis. We are unaware of any events or conditions that may cast significant doubt on the council, its group and associated charitable trusts ability to continue as a going concern.
<p>Other information</p>	<ul style="list-style-type: none"> • We review and report on other information published with the financial statements, including the management commentary, annual governance statement and the remuneration report. We have nothing to report in respect of these statements.
<p>Charitable trusts</p>	<ul style="list-style-type: none"> • We have completed our audit of the 2014/15 financial statements of the charitable trusts administered by the council and issued an unqualified independent auditor’s report.
<p>Group accounts</p>	<ul style="list-style-type: none"> • The council has accounted for the financial results of two subsidiaries, four associates and two trusts in its group accounts for 2014/15. The overall effect of consolidating these balances on the group balance sheet is to increase total reserves and net assets by £109 million.
<p>Whole of government accounts</p>	<ul style="list-style-type: none"> • The council submitted a consolidation pack for audit by the deadline. This has been audited and the certified return submitted to the Scottish Government.

Submission of financial statements for audit

9. We received the unaudited financial statements on 26 June 2015, in accordance with the agreed timetable. The working papers were of a good standard and council staff provided good support to the audit team which assisted the delivery of the audit to deadline.

Overview of the scope of the audit of the financial statements

10. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, was outlined in our Annual Audit Plan presented to the Governance, Risk and Best Value Committee on 23 April 2015.
11. As part of the requirement to provide full and fair disclosure of matters relating to our independence, we can confirm that we have not undertaken non-audit related services. The 2014/15 agreed fee for the audit was set out in the Annual Audit Plan and, as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.
12. The concept of audit risk is of central importance to our audit approach. During the planning stage of our audit we identified a number of key audit risks which involved the highest level of judgement and impact on the financial statements and consequently had the greatest effect on the audit strategy, resources and effort. We set out in our Annual Audit Plan the audit work we proposed to undertake to secure appropriate levels of assurance. **Appendix I** sets out the significant audit risks identified during the course of the

audit and how we addressed each risk in arriving at our opinion on the financial statements.

13. Our audit involved obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.

The audit of charities financial statements

14. The Charities Accounts (Scotland) Regulations 2006 (the 2006 Regulations) set out the accounting and auditing rules for Scottish charities. These require a full audit of all registered charities accounts where a local authority or some members are the sole trustees.
15. The council has seven funds which were subject to the full charities financial statements audit for 2014/15.
16. We have given an unqualified opinion on the 2014/15 financial statements of the relevant charities registered by the council.

Group accounts

17. Local authorities are required to prepare group accounts in addition to their own council's accounts where they have a material interest in other organisations.
18. City of Edinburgh Council has accounted for the financial results of two subsidiaries, four associates and two trusts in its group accounts for 2014/15. The overall effect of consolidating these

balances on the group balance sheet is to increase total reserves and net assets by £109 million.

Materiality

19. Materiality can be defined as the maximum amount by which auditors believe the financial statements could be misstated and still not be expected to affect the decisions of users of financial statements. A misstatement or omission, which would not normally be regarded as material by amount, may be important for other reasons (for example, an item contrary to law).
20. We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting our audit programme. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.
21. We summarised our approach to materiality in our Annual Audit Plan. Based on our knowledge and understanding of City of Edinburgh Council we set our planning materiality for 2014/15 at £17.2 million for the council and £18.7 million for the group (1% of gross expenditure). We report all misstatements greater than £100,000. Performance materiality was calculated at £9.5 million for the council and £10.3 million for the group, to reduce to an acceptable level the probability of uncorrected and undetected audit differences exceeding our planning materiality levels.

22. On receipt of the financial statements and following completion of audit testing we reviewed our materiality levels and concluded that our original calculation remained appropriate.

Evaluation of misstatements

23. All misstatements identified during the audit, which exceeded our misstatement threshold, have been amended in the financial statements.
24. A number of minor presentational and monetary adjustments were identified within the financial statements during the course of our audit. These were discussed with relevant officers who agreed to amend the unaudited financial statements. The effect of these adjustments is to decrease the council and group total expenditure by £0.163 million. Net assets as recorded in the balance sheet have increased by £0.163 million.

Significant findings from the audit

25. International Standard on Auditing 260 requires us to communicate to you significant findings from the audit, including:
 - The auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures
 - Significant difficulties encountered during the audit
 - Significant matters arising from the audit that were discussed, or subject to correspondence with management

- Written representations requested by the auditor
- Other matters which in the auditor's professional judgment, are significant to the oversight of the financial reporting process.

26. During the course of the audit we identified the following significant issues that, in our view, require to be communicated to you.

Significant findings from the audit

Issue	Resolution
<p>Housing Revenue Account rent accounting system</p> <p>An unreconciled difference of £0.737 million was identified between the rent debtors balance in financial ledger and the Northgate rent accounting system. Rental income is posted to Northgate on a fortnightly basis and the difference is the cumulative effect of variations between the fortnightly postings to Northgate and the postings to the ledger.</p>	<p>The financial statements currently reflect the rent debtors balance per the financial ledger. As the variation is not material to the financial statements, no adjustment has been made to the accounts. The council is continuing to investigate the reasons for the variance in conjunction with its system supplier and will make any necessary adjustments during the 2015/16 financial year. It is also reviewing its procedures for processing interfaces between the rent accounting system and the ledger.</p>
<p>Accounts Receivable reconciliation</p> <p>During testing of debtors, we identified that the accounts receivable control account was not fully reconciled to the financial ledger at the year end. A difference of £0.5 million exists between the ledger and system balance. The system reports required for the reconciliation were not produced at the same date as the ledger reports, and system limitations on the accounts receivable system prevent the reports from being produced retrospectively.</p>	<p>The financial statements currently reflect the accounts receivable debtors balance per the financial ledger. As the variation is not material to the financial statements, no adjustment has been made to the accounts. The council will review and re-issue financial statements closedown instructions for 2015/16 with an emphasis on the procedures and timing of these system reports. Replacement of the current accounts receivable system has been prioritised as part of the new ICT contract arrangements.</p>

Issue	Resolution
<p>Statutory repairs - debtor</p> <p>The financial statements contain a significant total debtor balance of £21.1 million (2013/14 - £30.6 million) relating to statutory notices. The reduction is mainly due to write-offs and amounts recovered from debtors. In 2013/14 there was balance of £19.1 million relating to work carried out but not yet billed. This element of the statutory repairs debt was reduced to £6.7 million by the 2014/15 financial year-end and the council has continued to make progress in addressing this debt at the beginning of 2015/16.</p> <p>The impairment provision for statutory repairs debt has been revised during the year to reflect new information available to the council. This includes levels of written-off debt, recovery rates and increased assurance of recovery around cases that have been reviewed externally. The provision for 2014/15 stands at £8.9 million (2013/14 - £12.6 million) or 42% of the total which is comparable to the level set in 2013/14 (41%).</p>	<p>We reviewed the calculation of the level of provision and we considered the council's approach to estimation to be reasonable. The council will continue to refine the provision as further collection information is gathered.</p>
<p>Significant Trading Organisation – achievement of statutory requirement</p> <p>The council's trading activity (Edinburgh Catering Services – Other) failed to achieve the statutory obligation to break even over a three year period. The deficit for 2014/15 was £66,000, with a cumulative three year deficit of £94,000.</p>	<p>The failure to achieve a statutory obligation has been reported as a failure to achieve a prescribed financial objective in the Independent Auditor's Opinion. The council has put in place a number of measures to address the profitability of the service going forward, including reduced opening hours and menu rationalisation. In addition, the catering service has been included within the scope of the Property and Asset Management strategy which is currently being considered by the council.</p>

Issue	Resolution
<p>Annual Governance Statement</p> <p>The financial statements include an annual governance statement, which sets out the governance arrangements in place for the council and group, along with a review of effectiveness and issues identified through the process. The format of the governance statement complies with the requirements of CIPFA's <i>Framework for delivering good governance in local authorities</i>. However, there is scope for improving the review of effectiveness narrative by providing detail on the key actions being taken in relation to identified issues.</p>	<p>A meeting will be held with external auditors prior to March 2016 to discuss expectations around the additional proposed narrative content of the statement, and potential for improvement. The outcome of these discussions will be reflected in the preparation of the Annual Governance Statement for 2015/16.</p>

Future accounting and auditing developments

Revisions to the Code of Practice

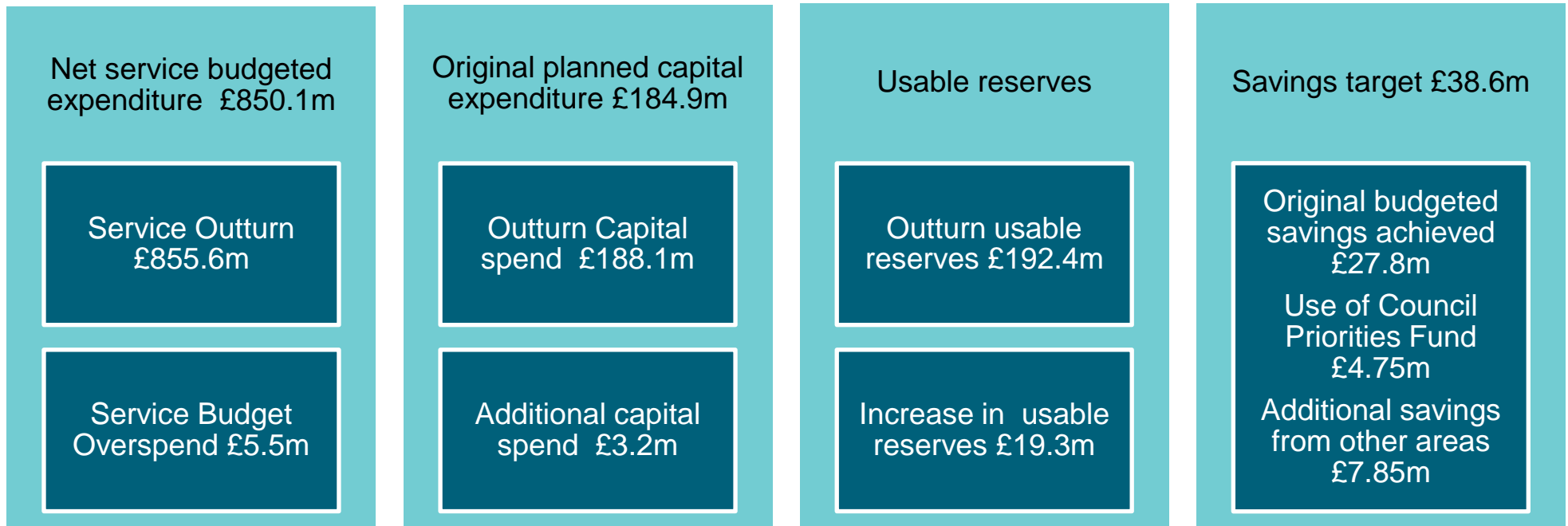
27. The financial statements of the council are prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) which interprets and adapts International Financial Reporting Standards (IFRS) to the local authority context. The following paragraphs set out the most significant changes to accounting requirements introduced by the 2015/16 Code.
28. **(IFRS) 13 Fair value measurement:** Although the measurement requirements for operational property, plant and equipment will not change, enhanced valuation disclosures will be required. However, the 2015/16 Code requires surplus assets to be measured at fair value in accordance with IFRS 13. The council will need to make the necessary preparations to ensure that the new requirements are addressed for the 2015/16 financial statements.

29. **Transport infrastructure assets:** The council's highway assets are currently carried within infrastructure assets in the balance sheet at depreciated historic cost. The 2016/17 Code will require highways to be measured, for the first time, on a depreciated replacement cost basis. This is a major change in the valuation basis for highways and will require the availability of complete and accurate management information on highway assets.

Health and Social Care Integration

30. From 1 April 2016 Integration Joint Boards (IJBs) will be accountable for the provision of health and social care. IJBs will be required to produce financial statements in compliance with the Code and the Accounts Commission will appoint auditors to audit the financial statements. Paragraph 112 of this report provides further detail on the arrangements for Edinburgh Integration Joint Board.

Financial management and sustainability



Financial management

31. In this section we comment on the council's financial outcomes and assess the council's financial management arrangements.
32. The council sets an annual budget to meet its service and other commitments for the forthcoming financial year. The setting of the annual budget impacts directly on residents as it determines council tax and other fees and charges. Regular monitoring of expenditure and income against agreed budgets is central to effective financial management.

Financial outcomes

33. Overall the council reported a net underspend of £0.681 million against budget. The outturn of most general fund services is broadly satisfactory, with four service areas delivered within approved budgets. However the Health and Social Care service was overspent by £5.878 million against budget.
34. The Health and Social Care overspend was a result of demand led pressures within the service. A drawdown of £4.75 million was made against the Council Priorities Fund to address this, with the balance of savings coming from other corporate savings and underspends in the year.
35. The council commissioned an external review to identify the main reasons for this service overspend, and assist in developing enhanced controls and additional savings plans for the current financial year. As of August 2014 unfunded pressures of £16.5

million had been identified for 2015/16, with a range of service and corporate savings plans put in place to address these. The council reported in August 2015 that some of the Health and Social Care service savings plans were not on target to be achieved. Consequently further corporate savings proposals of £4.8 million have been developed which, subject to approval by council, leave a residual overspend of £1.4 million to be dealt with by the service over the remainder of the financial year.

Recommendation 1

36. The council is required by legislation to maintain a separate housing revenue account and to ensure that rents are set to at least cover the costs of its social housing provision. Rent levels are therefore a direct consequence of the budget set for the year. After making an in-year voluntary debt repayment of £6.1 million, the HRA surplus of £2.5 million for the year was transferred to the Repairs and Renewals Fund. This will be used to fund future capital investment in new homes.

Financial management arrangements

37. As auditors, we need to consider whether councils have established adequate financial management arrangements. We do this by considering a number of factors, including whether:
 - the proper officer has sufficient status within the council to be able to deliver good financial management
 - financial regulations are comprehensive, current and promoted within the council

- reports monitoring performance against budgets are accurate and provided regularly to budget holders
 - monitoring reports do not just contain financial data but are linked to information about performance
 - members provide a good level of challenge and question budget holders on significant variances.
38. We assessed the role and status of the proper officer against CIPFA's "Statement on the role of the Chief Financial Officer in Local Government" and concluded that the council complies with the statement's five principles.
39. A review of the council's Financial Services function was completed in July 2014. In addition to contributing to the service's overall budget savings requirement, the resulting staffing and other changes are intended to support wider transformation within the council with increased emphasis on the provision of management information.
40. We reviewed the council's financial regulations, which were updated in April 2015, and concluded that they are comprehensive and current. The council's financial regulations are available on the council's website.
41. Financial monitoring reports, both revenue and capital, are submitted to the Finance and Resources Committee and other executive committees on a quarterly basis. The Governance, Risk and Best Value Committee also consider financial monitoring reports as part of their scrutiny arrangements. Reports to committee

focus on high level monitoring of variances and mitigating actions, and are underpinned by more detailed reporting at Corporate Leadership Group and Senior Management Team level.

42. Previous Best Value reports highlighted scope for improving the summary reporting of the council's financial position and progress against savings plans. As part of its revised governance arrangements around the transformation programme, the council has consolidated the service prioritisation and transformation programme saving plans into one single plan. Progress against this plan is now reported to the Finance and Resources Committee bi-monthly.
43. We attend a number of council and committee meetings each year. Members provide a good level of challenge and question budget holders on significant variances and service performance issues.

Conclusion on financial management

44. We have concluded that the council's financial management arrangements are broadly satisfactory, with actions identified to strengthen control arrangements in particular areas of financial pressures.

Financial sustainability

45. The council delivers a broad range of services, both statutory and discretionary, to its communities. Financial sustainability means that the council has the capacity to meet the current and future needs of its communities.

46. In assessing financial sustainability we are concerned with whether:
- there is an adequate level of reserves
 - spending is being balanced with income in the short term
 - long term financial pressures are understood and planned for
 - investment in services and assets is effective.

Effective long-term financial planning, asset management and workforce planning are crucial to sustainability.

Reserves

47. The overall level of usable reserves held by the council at 31 March 2015 was £192.5 million, an increase of £19.5 million compared to the previous year (see exhibit 1).

Exhibit 1: Usable reserves

Description	31 Mar 2014 (£m)	31 Mar 2015 (£m)
General fund	123.3	117.5
Renewal & repairs fund	21.9	34.8
Capital grants unapplied	2.0	4.3
Capital fund	25.8	35.9
Total usable reserves	173.0	192.5

Source: City of Edinburgh Council 2014/15 financial statements

48. The general fund reserve has no restrictions on its use. The principal purpose of holding a general fund reserve is to provide a contingency fund to meet unexpected events and as a working balance to help cushion the impact of uneven cash flows.
49. The general fund balance includes £13 million of unallocated reserves, which equates to 1.36% of the council's annual budgeted net expenditure. The balance of £104 million has been earmarked for specific purposes, including:
- Specific investment - £13.9 million
 - Contingency and workforce management - £17.9 million
 - Dilapidations - £8.8 million
 - Insurance fund - £12.6 million
 - Council tax discount fund - £18.6 million
 - IT transformation - £3.5 million
 - Spend to save initiatives - £4.0 million.

Financial planning

50. The council approved its 2015/16 budget in February 2015. The 2015/16 budget was set at £949 million and assumes net savings of £22 million to reach a balanced position. The council's long term financial strategy and plan presented to committee in June 2015 set out the high level spending plans and savings requirements over a five year period. Cumulative net savings of £107 million are required by financial year 2019/20 to address the estimated funding gap (see exhibit 2).

Exhibit 2: 2015/16 – 2019/20 estimated savings requirement

	2015/16	2016/17	2017/18	2018/19	2019/20
	£ m	£ m	£ m	£ m	£ m
Planned expenditure	949	976	997	1,020	1,046
Total income	(927)	(923)	(930)	(933)	(939)
Cumulative net saving required	22	53	67	87	107
Savings identified	(22)	(33)	(48)	(53)	(56)
Cumulative funding gap	0	20	19	34	51

Source: City of Edinburgh Council - Revenue Budget Framework 2016-2020, Financial Strategy 2016-2020

51. The financial projections included in the long term plan are based on a number of key assumptions, including:
- a 3% annual increase in council tax levels from 2017/18
 - Scottish Government revenue grant funding reduction of 0.5% per annum over the period from 2016/17 to 2018/19
 - annual inflationary assumptions of 2% for long-term contracts and 1.5% for wage awards from 2017/18

- demography continues to be provided based upon existing baseline data.

52. The council has identified a number of potential savings as part of their transformation programme, but a funding gap still exists, with a £20 million gap in 2016/17. Service prioritisation options are currently being developed for an additional £34 million of savings that could be implemented from April 2016. This will provide some flexibility and choice as part of the 2016/17 budget consultation process.
53. The progress made by the council in addressing the financial gap is encouraging, however a number of challenges remain. In addition to risk around the financial assumptions built into the long term budget, and the deliverability of the savings plans, the council is facing further financial pressures in 2015/16 around Health and Social Care spending and estates maintenance and rationalisation which are likely to increase the existing funding gap.

Recommendation 2

Council transformation programme

54. The council is implementing a transformation programme aimed at building a lean and agile organisation with a focus on individuals and communities. Four core projects around citizens and neighbourhoods, business and support services, channel shift and asset management have been developed and are supported by a number of cross-cutting workstreams. Outline business cases were developed in January 2015 to support the identified savings figures

set out in exhibit 2. Estimated annual savings to be delivered through the programme over the next 5 years include:

- £6 million through the new procured ICT contract
 - £5.3 million as a result of channel shift
 - £9.1 million from the implementation of an integrated business and support services model
 - £20 million from implementation of a locality based service delivery model.
55. A key workstream across the programme is organisational restructuring, with the council implementing a revised locality based structure, focused on front line service delivery. The outline business case presented in January 2015 anticipated a move to this structure would reduce full time equivalent (FTE) staff numbers by over 1,200, with a significant number of these arising from management de-layering. Following review of the programme progress to date, the council intends to accelerate the pace of the core programme around this workstream in order to minimise uncertainty and realise benefits earlier than planned.

Capital programme 2014/15

56. The council approved its capital programme for 2014/15 in February 2014. Actual spend on the general services capital programme (excluding trams) amounted to £150.8 million, against a planned spend of £141.7 million. Spend on the housing capital programme amounted to £37.3 million against a budget of £45.7 million.

57. The general services expenditure was concentrated on school build, refurbishment and repair, roads and infrastructure work including trams, and developing social housing through the housing development fund. The housing programme focused mainly on investing in new council homes and enhancing existing assets.
58. There was some slippage within certain projects in the general services programme, most notably £2.6 million on the Boroughmuir High School replacement, however this was offset by accelerated spend on asset management works across the council estate. The housing programme has slipped for two main reasons. The workload of individual contractors was controlled during the year to maintain contract performance in relation to customer complaints. In addition, the council introduced a Housing Asset Management framework contract in the summer of 2015, and some major works scheduled in the programme were held back to 2015/16 so they could be packaged into the framework contract.

Asset Management

59. The council's transformation programme will have significant implications for the council's estate as it moves to a locality based delivery model. An asset management strategy workstream is underway, looking to provide a fit for purpose estate and sustainable delivery organisation.
60. The council approved a revised corporate asset strategy in May 2015. The strategy sets out the council's vision for its property estate and provides a framework for identifying the investment needs in relation to the condition of the estate and service priorities.

61. Current financial projections indicate that property expenditure is likely to exceed the council's affordability baseline by £124 million over the next 10 years unless substantial steps are taken to reconfigure the estate and its management. A business case on this workstream is due to be presented to committee in September 2015.

Recommendation 3

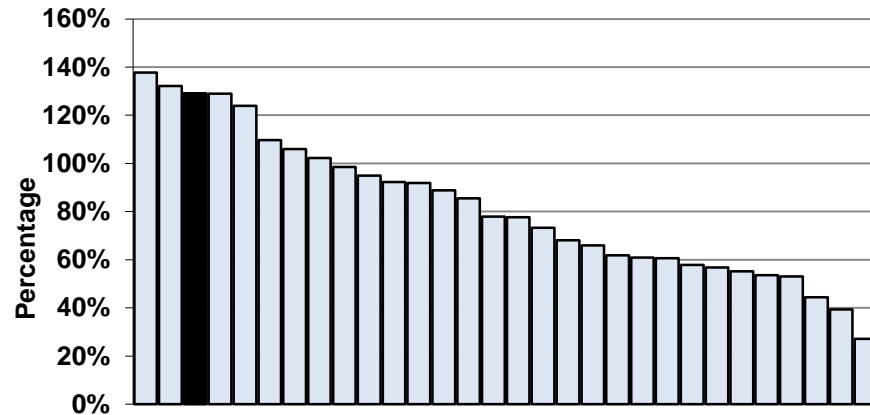
Workforce Management

62. Effective workforce management is essential to ensure that the council maximises the effectiveness of its employees, particularly through a period of change. A workforce strategy is key to setting out how the council will ensure it has appropriately skilled people in place to deliver its services. Previous Best Value reports have commented on the lack of workforce strategy in the council.
63. Following the establishment of the council's transformation programme, a workforce strategy was developed to support the future organisational structure and service delivery arrangements. The strategy focuses on three core areas:
- a skilled and flexible workforce
 - talent and succession planning
 - inclusive leadership.
64. The council has developed a high level workforce implementation plan which, along with a range of employee engagement approaches, it will follow and monitor with the aim of embedding the workforce strategy and achieving workforce related savings.

Treasury Management

65. At 31 March 2015 long term borrowing stood at £1,361 million, a decrease of £43 million on the 2014 borrowing level of £1,404 million. During the same period, short term borrowing increased from £58 million to £79 million.
66. This external borrowing position is in line with the council's Treasury Management Strategy for 2014/15, which was to make use of internally generated funds before using long term borrowing facilities. The only external long-term borrowing in the year was an interest free loan of £2 million specifically for energy efficiency street lighting projects.
67. Analysing long term borrowing as a proportion of net revenue stream gives an indication of the relative indebtedness of the council. Exhibit 3 shows long term borrowing as at 31 March 2015 as a percentage of net revenue stream (including HRA income) for the year for all mainland councils in Scotland.

Exhibit 3: Scottish councils' long term borrowing as a percentage of net revenue streams



Source: Scottish councils' unaudited accounts 2014/15 (excluding Orkney and Shetland Island councils)

68. The council has appeared at the top end of the range relative to other Scottish councils for a number of years as a result of borrowings made in relation to a number of significant capital projects in recent years: the completion of the trams project, the purchase of Waverley Court, the acquisition of the assets of EDI and Waterfront Edinburgh. The council does not receive direct income streams in relation to these assets and this therefore increases the council's net debt to net revenue ratio.

Pension liability

69. The net assets on the council's balance sheet have decreased from £1,786 million in 2013/14 to £1,646 million in 2014/15, a reduction of £140 million. The principal reason for this decrease is the £192 million increase in the pension liability from £535 million to £727 million. This is also reflected in the balance sheet for the group.
70. The pension liability represents the difference between expected future pension payments and the underlying value of pension fund assets available to meet this cost. At the last triennial valuation at March 2015 the Lothian Pension Fund was 91.3% funded and had assets of £4.4 billion.
71. Lothian Pension Fund operates a contribution stability mechanism, to provide some certainty of future contribution rates by employers while ensuring appropriate assurance of funding levels to the Fund. The mechanism is in place for 6 years, and is subject to on-going review. Existing contribution rates for the council have been frozen at the rates determined for the 2011 actuarial valuation. Over the longer term it is expected that these contribution rates will increase convergence between the pension liability and the underlying assets.

Conclusion on financial sustainability

72. The council is containing overall expenditure within annual budgets and has longer term financial plans in place which go some way to addressing the financial challenges it faces in the coming years. However, the council needs to ensure it manages existing financial

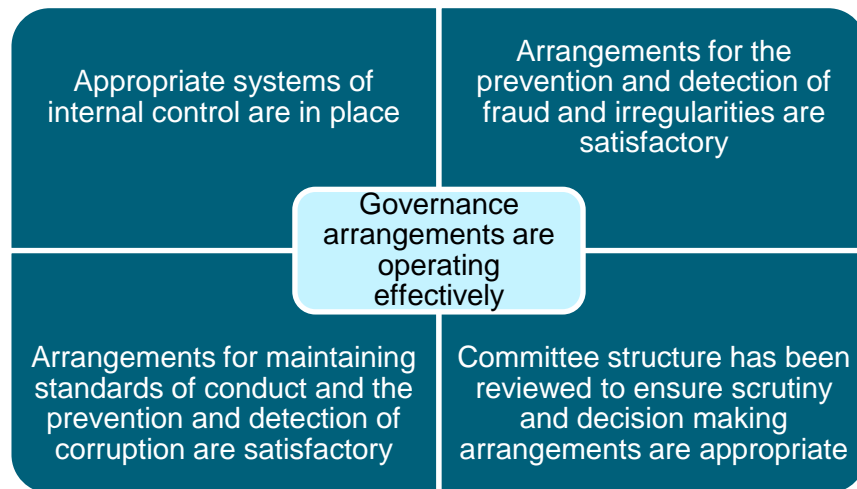
pressures within the system, particularly around Health and Social Care and asset management.

73. Overall we conclude that the financial position is sustainable currently and in the foreseeable future, although risks remain around key assumptions and delivery of savings, including the identification of further savings to bridge the funding gap.

Outlook

74. Councils face increasingly difficult financial challenges. In the context of overall reductions in public sector budgets, between 2010/11 and 2013/14, Scottish Government funding for councils decreased by 8.5 per cent in real terms to £10.3 billion. At the same time, demand for council services has increased, largely due to population changes. Increased pension contributions and national insurance changes will create further cost pressures on the council.
75. In common with many other councils, City of Edinburgh Council is reporting gaps between income and the cost of providing services over the next few years. With further funding reductions expected, councils face tough decisions to balance their budgets. These decisions must be based on a clear understanding of the current financial position and the longer-term implications of decisions on services and finances.

Governance and transparency



76. Members and management of the council are responsible for establishing arrangements to ensure that its business is conducted in accordance with the law and proper standards, that public money is safeguarded and for monitoring the adequacy and effectiveness of these arrangements. We concluded that the council has effective overarching and supporting governance arrangements which provide an appropriate framework for organisational decision making.

77. Citizens should be able to hold the council to account about the services it provides. Transparency means that citizens have access to understandable, relevant and timely information about how the council is taking decisions and how it is using its resources. Overall we concluded that the council has appropriate arrangements in place to demonstrate transparency.

Corporate governance

78. The corporate governance framework in City of Edinburgh Council is centred on the council and supported by nine executive committees, including the Corporate Policy and Strategy Committee and the Governance, Risk and Best Value Committee.
79. Since the introduction of the revised political management arrangements in October 2012, the council has undertaken two reviews to ensure they remain fit for purpose. One significant change took place during the financial year, with the responsibility for policy review and development transferring back to executive committees.
80. Based on our observations and audit work our overall conclusion is that the council has effective overarching and supporting governance arrangements which provide an appropriate framework for organisational decision making.

Local code of corporate governance

81. The council has developed and adopted a corporate governance framework which reflects the key components as set out in the CIPFA/SOLACE Framework Corporate Governance in Local Government: A Keystone for Community Governance. The council's self-assessment against the framework is considered annually by the Governance, Risk and Best Value Committee.
82. The council assessed itself as compliant with most areas of the framework for 2014/15. Improvement plans are in place to develop areas such as community engagement and consultation, where the council consider they are only partly compliant with the framework.

Internal control

83. As part of our audit we reviewed the high level controls in a number of systems fundamental to the preparation of the financial statements. Our objective was to obtain evidence to support our opinion on the council's financial statements.
84. We reported our findings to the Governance, Risk and Best Value Committee in August 2015. No material weaknesses in the accounting and internal control systems were identified which could adversely affect the ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements. However we did amend our planned financial statements procedures to take account of some system limitations identified during our controls review. Our

findings also included a number of recommendations to enhance the control systems in operation.

Internal audit

85. Internal audit provides members and management of the council with independent assurance on risk management, internal control and corporate governance processes. We are required by international auditing standards to make an assessment of internal audit to determine the extent to which we can place reliance on its work. To avoid duplication, we place reliance on internal audit work where possible.
86. Our review of internal audit concluded that the internal audit service operates satisfactorily in accordance with the Public Sector Internal Audit Standards. We placed reliance on their work around ICT application security for key financial systems, as well as work on the accounts payable system and procurement card expenditure.

ICT audit

87. A key part of the council's ICT and Digital Strategy is the procurement of a new ICT contract that provides more flexible, scalable delivery of services at a lower cost base. Following the design and tender phase, a contract was awarded to CGI in August 2015. The transition and transformation phase, involving the transfer of services from BT to CGI has commenced and will continue until 1 April 2016. As part of our ICT work, we considered the high level arrangements the council is putting in place for the transition phase.

88. The council has opted for a gradual transfer of services from late 2015 through to the 1 April 2016 start date, although provision has been made for access to the BT data centre until 1 July 2016 to transition any outstanding services.
89. New services that will be provided include the provision of business intelligence. Council staff will work with CGI to define their respective business intelligence requirements. This approach will allow staff from CGI to work with council representatives, share information, build relations and develop a mutual understanding of the legislative requirements and organisational demands that will need to be met by the contract.
90. During the coming months the council will be preparing for an Enterprise Resource Planning (ERP) system that is scheduled for autumn 2016. The ERP system will be a key organisational initiative that will be delivered as part of the contract. The introduction of ERP systems often requires significant organisational change, and impact on the procedures and processes used across service areas. The council will need to ensure there is sufficient staff capacity and capability during this period to meet the challenge presented when introducing ERP.
91. The overall effectiveness of the CGI contract can only be measured and monitored as systems are transitioned and new solutions are introduced to meet the demands of the council's services. The council needs to ensure robust monitoring and control arrangements are in place for the duration of the contract around areas such as
- governance

- deliverables and contingency
- budget monitoring
- contract and partner management procedures.

Recommendation 4

Statutory repairs service

92. In June 2014, the council established a single corporate project to address legacy issues around the former statutory repairs service, and lead on the development of a new shared repairs service. A dedicated programme board was established with the Director of Corporate Governance appointed as the Senior Responsible Officer.
93. Monthly progress reports are submitted to Finance and Resources Committee, outlining the council's progress on billing of outstanding invoices, debt recovery, and resolution of complaints and settlements.
94. By August 2015, case reviews had been completed on the 414 unbilled projects and 102 complex complaints cases within the scope of project. Invoices have now been issued for these projects, with the exception of a small number of cases where defect work has still to be completed. It is anticipated that these cases will be invoiced in autumn 2015.
95. Alongside this, the council has been progressing the resolution of complaints. A settlement provision of £3.9 million was established at 31 March 2014, to provide for costs that may arise from resolving

complaints. A total of 1,644 settlement letters were issued by July 2015, resulting in 1,142 individual cases being determined by the council as closed. Follow up letters have been issued on the 501 remaining open cases. The total value of settlement offers made by the council to individuals at July 2015 was reported as £2.91 million. Acceptance levels by complainants have been reported as 69%, with other affected owners at 70%.

96. In December 2014, the council considered a blueprint for a new shared repairs service. The key objectives of the proposed service are:
- to maintain the fabric of the city, the conservation of the built heritage and protection of health and safety
 - to support, encourage and enable owners to proactively take responsibility for planning and organising repairs and maintenance
 - to intervene when owners have exhausted all other reasonable means of agreeing and undertaking a repair
 - to effectively manage the council's financial and reputational risk as it carries out its statutory duties and powers.
97. The proposed service will cover four key areas: emergency service, guidance and advice, intervention and enforcement. The council approved the running of a pilot of the new service from September 2015 to March 2016. This pilot will test the practices and procedures set out within the blueprint, in advance of a potential roll-out of the full service from 1 April 2016.

Edinburgh trams

98. In June 2014, the Scottish Government announced a public inquiry into the delivery of the trams project. A ten stage process has been set out by the inquiry, from announcement of the inquiry through to production of a final report and recommendations. The council is committed to fully participating in the inquiry. However it has decided not to re-establish tie Ltd, the arms length organisation which was responsible for project managing the delivery of the trams project, in order that tie can participate as a separate entity in the inquiry. The council state that they consider this to be an unjustifiable expense to the public purse. The council has advised the inquiry that it will assist the inquiry and provide information to it in relation to the role of tie. Stage 5 of the process, the preliminary hearing, is due to be held shortly.
99. The trams network became operational on May 2014. Almost five million passenger journeys were made in the first full year of operation, around 370,000 ahead of target. Revenue from fares was 3% ahead of the business model target.
100. In June 2015, the council considered an interim report detailing the preliminary findings of an outline business case for extending the trams network to Leith. The report set out four different options, and concluded there was a positive economic case for three of these. However, more detailed analysis of the cashflows was required to verify the financial models, along with consideration of alternative funding options and opportunities. A further report on the business case will be reported back to council in the autumn of 2015.

101. We have previously commented that an impairment review on tram vehicles may be required, to reflect that some vehicles may be surplus to requirements given the current network is smaller than planned. In lieu of any decision on extending the network, the council has continued to utilise all tram vehicles evenly across the existing network. We are satisfied that the existing valuation and classification of vehicles is reasonable, and we will reconsider this position following the council's further consideration of the outline business case later this year.

Arrangements for the prevention and detection of fraud

102. Overall, we concluded that the council's arrangements in relation to the prevention and detection of fraud and irregularities were satisfactory.

National Fraud Initiative in Scotland

103. The National Fraud Initiative (NFI) in Scotland brings together data from councils, police boards, fire and rescue boards, health bodies and other agencies, to help identify and prevent a wide range of frauds against the public sector. Matching data obtained from the systems of participating bodies allows the identification of potentially fraudulent claims on the public purse including housing benefit fraud, occupational pension fraud and payroll fraud. If fraud or overpayments are not identified in a body, and the NFI exercise has been undertaken properly, assurances may be taken about internal arrangements for preventing and detecting fraud.

104. During 2014/15 we reviewed the progress being made by the council in following up NFI data matches. Our work identified that:

- the council's overall arrangements and progress have improved compared to our previous assessments, although there was some scope for improvement in the monitoring and reporting of progress
- the introduction of the corporate fraud team has resulted in an improved focus on progressing the NFI exercise this year, although constraints remain within service areas around resourcing the exercise
- there has been a conscious decision to focus on the recommended matches, as outcomes previously have been limited
- the council have commissioned their own data matching to focus on areas where they feel they now get more of a return than the existing NFI process.

Arrangements for maintaining standards of conduct and the prevention and detection of corruption

105. The arrangements for the prevention and detection of corruption in City of Edinburgh Council are satisfactory and we are not aware of any specific issues that we need to record in this report.

Correspondence referred to the auditor by Audit Scotland

106. One of the roles of the local auditor is to follow up, where appropriate, items of correspondence received from members of the public who express concerns over council activities. We received a number of items of correspondence during the year, particularly around statutory repairs. We have considered these in relation to our statutory responsibilities as auditors and responded to correspondence as matters are addressed.

Transparency

107. Citizens should be able to hold the council to account about the services it provides. Transparency means that citizens have access to understandable, relevant and timely information about how the council is taking decisions and how it is using its resources.

108. Through our audit approach we gave consideration to:

- the clarity and presentation of the council's committee papers, budget monitoring reports and financial statements
- the frequency with which the council excludes the press or public from agenda items under the Local Government (Scotland) Act, 1973
- the council's approach to public performance reporting
- the accessibility of information via the council website.

109. Overall we concluded that the council has appropriate arrangements in this area.

Freedom of Information/Environmental Impact Regulations requests

110. The total number of freedom of information/environmental impact regulations (FOI/EIR) requests received by the council during the year was 2,753 (2,767 in 2013/14). The council responded to 90% of these within the 20 working day target for responses, an improvement on the previous year (87% in 2013/14).

111. The council has taken a number of steps during the year to enhance its FOI arrangements, including applying the Scottish Information Commissioner's self-assessment toolkit, approving and implementing an FOI policy and toolkit, and introducing mandatory training for all areas of information governance. Following the issue of a revised Code of Practice by Scottish Ministers in December 2014, the council has also assessed its arrangements against the updated Code.

Integration of health and social care

112. The Public Bodies (Joint Working) (Scotland) Act received royal assent on 1 April 2014. The Act provides the framework for the integration of health and social care services in Scotland.

113. The integration scheme for the Edinburgh Integration Joint Board (EIJB) was approved by Scottish Government in May, and the EIJB was established by Scottish Parliament on 27 June 2015. It is estimated the combined budget for the 2015/16 transition year of the EIJB will be around £560 million, with around £200 million coming from council funds.

114. The council is progressing a number of workstreams in advance of the planned formal delegation of functions and resources to the EIJB on 1 April 2016. At its first meeting on 17 July, the EIJB appointed additional members to supplement the council and NHS Lothian membership, and approved a draft strategic plan for consultation. The EIJB intends to approve a final version of its strategic plan by December 2015. A process is also underway to appoint the Chief Officer of the EIJB, with the successful candidate likely to be in post in early 2016.

Recommendation 5

Welfare Reform

115. The council continues to demonstrate commitment to monitoring and minimising the impact that changes to the UK welfare system could have on the City of Edinburgh and its residents, and is managing the challenges within allocated resources.
116. The council intends to review its strategic plan, *Delivering Social Security in Edinburgh – a strategic response to Welfare Reform*, to ensure it provides effective management of welfare reform in the city. Alongside this, new governance arrangements are being introduced to strengthen the management of welfare reform through existing council and partner arrangements, with group projects now reporting through the Welfare Reform Working Group.
117. The phased implementation of Universal Credit (UC) for new single claimants in Edinburgh commenced on 9 March 2015, with 1,190 claims for UC made in the period to 28 May 2015. The council has established a Delivery Partnership Agreement (DPA) with the Department for Work and Pensions (DWP), to support citizens in the transition to the new UC system. The DPA operational group, which includes council, DWP and registered social landlord representatives, meets regularly to agree processes and address emerging issues from the implementation of UC.
118. The DWP has confirmed that funding arrangements for the Council Tax Reduction Scheme (CTRS) will continue into 2015/16. The settlement and distribution group continue to consider the distribution of CTRS funding and will advise local authorities accordingly of any adjustment to funding levels. The council's spend on CTRS is monitored monthly, with an annual spend of £25.6 million in 2014/15, representing 96% of the agreed funding level.
119. Scottish Welfare Fund (SWF) and Discretionary Housing Payment (DHP) awards in 2014/15 were contained within funding levels of £2.2 million and £4.8 million respectively for the year. The SWF underspend of £0.1 million has been carried over to supplement 2015/16 grants. For 2015/16, the council is currently projecting DHP spend at 98% of the £3.9 million allocated budget.
120. The council reported housing rent arrears of £4.3 million in 2014/15, an increase of £0.3 million from 2013/14. In line with the Housing Revenue Account (HRA) business plan, full provision has been made for these arrears in the 2014/15 accounts (76% in 2013/14), to help manage the potential impact of welfare reform on HRA.

Housing and council tax benefits performance audit

121. Our 2012 risk assessment of the council's benefits services identified a number of risks in relation to performance monitoring and the speed of processing new benefits claims and changes of circumstances.
122. In 2013/14, the council reported improved processing performance, and our 2014/15 benefits risk assessment confirmed that the council has put in place appropriate processes to improve the other outstanding issue around its risk based approach to data checking.

Following the Public Pound

123. In March 2015, the chair of the Accounts Commission for Scotland sent letters to council leaders and chief executives encouraging them to apply the Code of Guidance on Funding External Bodies and Following the Public Pound (published in 1996) more consistently across Arms-Length External Organisations (ALEOs).
124. In 2012, the council instigated an operational governance review, which included consideration of existing ALEOs. In our July 2014 review of the council's ALEOs we concluded that the revised governance arrangements being put into place were in line with good practice outlined in Audit Scotland's 2011 national study on ALEOs.
125. At the time of the review we were unable to test whether member scrutiny of performance had been fully implemented, as some

ALEOs had still to complete their annual reporting cycle. We have since confirmed that the annual reports for both Marketing Edinburgh and Festival City Theatres Trust have been scrutinised at the appropriate committee of the council.

126. By autumn 2015 Audit Scotland, on behalf of the Accounts Commission for Scotland, will undertake a review of the Following the Public Pound Code in conjunction with an update of the definition of ALEOs to assist councils to apply the principles of good governance to the funding arrangements for ALEOs and similar bodies. Any changes arising out of this review are not expected to take effect for councils until 2016/17 at the earliest.

Local scrutiny plan

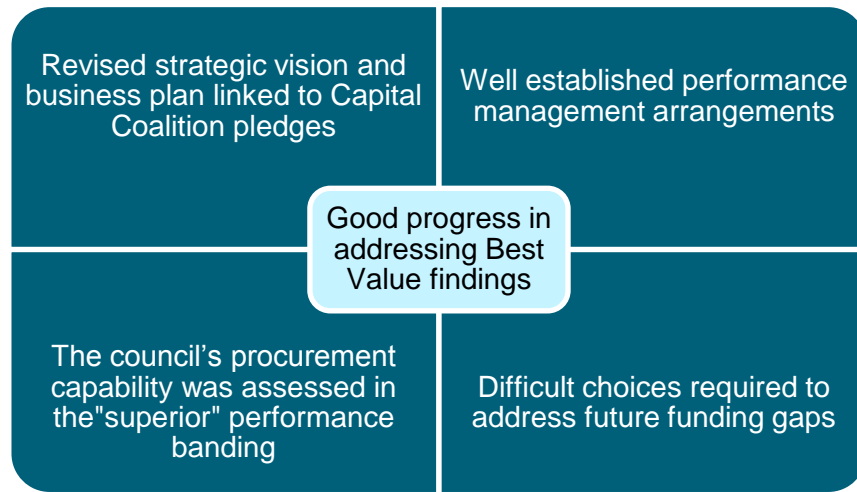
127. The 2015/16 Local Scrutiny Plan (LSP) prepared by the Local Area Network of scrutiny partners for the council was submitted to City of Edinburgh Council in April 2015.
128. In the LSP we highlighted a number of on-going scrutiny risks that we reported in our December 2014 follow-up to the 2013 Best Value report on City of Edinburgh Council. These areas included:
 - the delivery of required financial savings
 - management capacity within the council
 - the development of a comprehensive workforce strategy.
129. Our assessment of the council's progress in addressing these identified risks is included in the Best Value section of this report. A more detailed progress report will be issued by the Controller of

Audit and considered by the Accounts Commission by the end of this year.

Outlook

- 130.** Councils will continue to operate in a changing environment within continuing financial constraints. Under these circumstances councils will be obliged to consider the delivery of services by different means. Good governance will be particularly important where council resources and service delivery are devolved to third party organisations.
- 131.** Partnership, joint working and arms length organisations have become increasingly popular vehicles for planning and delivering council services and there is a sustained national focus on their use. Where council services are being delivered by third party organisations it will be crucial that the council implements robust assurance and governance arrangements to deliver best value while at the same time ensuring an appropriate level of accountability for public money. Community planning and health and social care integration will require an on-going focus on governance and assurance to ensure that the council's priorities are being achieved.

Best Value



132. Best value is a key factor to consider when planning policies, programmes and projects and when taking any spending decisions. The council should have systems and processes to ensure that it can demonstrate that it is delivering best value by assessing and reporting on the economy, efficiency, effectiveness and equality in service provision.

Best Value audit

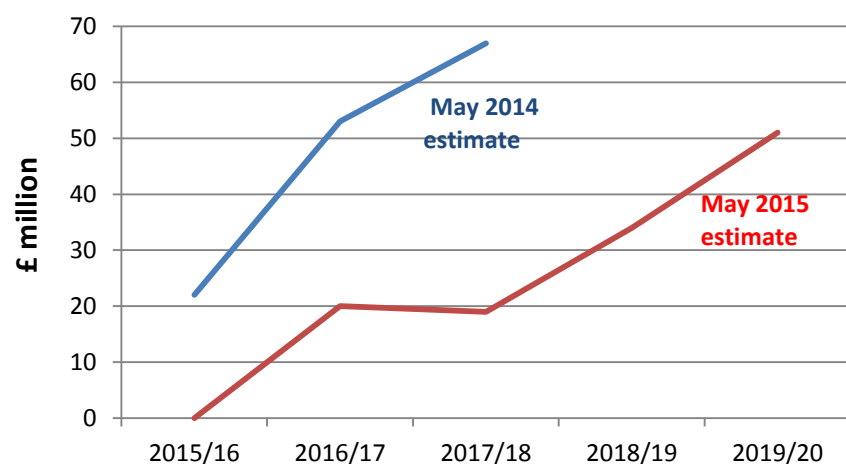
133. In December 2014, the Accounts Commission made findings on the extent to which the City of Edinburgh Council was meeting its statutory duties on Best Value. This considered the progress made in addressing the issues raised in the initial report in May 2013. The Accounts Commission acknowledged the good progress made by

the council in scrutiny and risk management. Improvements in service performance and in communications with staff were also noted.

- 134. Major concerns, however, remained about the council's financial position and the growing scale of the savings needed to resolve this. The savings that had still to be identified in order to provide a balanced budget by 2017/18 had increased from £17 million to £67 million. The council was addressing this issue, particularly through the development of an ambitious transformation programme. But it was too early to assess the effectiveness of this initiative. Significant concerns were also expressed about the lack of a workforce strategy and the need to improve ICT arrangements.
- 135. Audit work was carried out during July and August 2015 to assess the progress made by the council since the publication of last year's follow-up report.
- 136. There is clear evidence to show that the council has had some success in addressing its financial position. It continues to face increasing demands on its services and continuing uncertainty about future funding levels. Despite these pressures, however, the council was able to:
 - achieve its overall planned savings of £39 million for 2014/15,
 - underspend its revenue budget by £0.7 million, and
 - maintain its level of unallocated reserves.
- 137. Perhaps even more importantly, there is also evidence to show that the council has improved its longer-term position. The previous audit

report had expressed particular concern at the increasing level of savings that the council needed to identify for the coming years. As shown in exhibit 4, the level of these unidentified savings has now reduced. At the time of our last report, the council still needed to identify £67 million of additional savings by 2017/18. This has now fallen to £19 million. Despite this encouraging progress, however, the council continues to face significant pressures in future years, with a further £51 million of savings needing to be identified by 2019/20.

Exhibit 4: Additional savings requirements



Source: 'Council transformation programme and improvement plan F&R Committee', May 2015

138. This progress is largely due to the growing impact of the council's various improvement projects, such as Better Outcomes through

Leaner Delivery (BOLD), Organise to Deliver and Channel Shift. These have now been consolidated into a single Transformation Programme, to help avoid the double-counting of planned savings and to present clearer choices for elected members.

139. Most of the progress made over the past year, both in terms of identifying new savings plans and in delivering actual savings, has come from four main initiatives:

- **Workforce strategy** - A workforce strategy was approved in March 2015. This sets out planned reductions in staffing levels, particularly in middle managers. There are early signs of progress in this area, with a two per cent reduction in staffing levels in the second half of 2014/15, saving around £7 million per year. The council plans to make the remaining reductions in Tier 2 and Tier 3 management levels before the end of 2015.
- **ICT contract** - A new ICT contract was signed with CGI in August 2015. The council projects that this will deliver savings of at least £45 million over the next six years. In our view these projections are achievable, given the terms and flexibility of the new contract.
- **Channel Shift** - The council is currently redesigning many of its customer care services, simplifying them and, where possible, moving to online transactions. This is planned to deliver annual savings of £5.9 million, through reducing the number of support staff. There are early signs that this initiative is making an impact, with 40 transactions already available online and savings of £355K over the past year.

- **Organise to Deliver** - The council has created four Localities to help delegate operational decision-making and integrate the delivery of local services. This initiative forms part of the drive to reduce staffing levels and costs. There is clearly merit in these proposals but, in our view, they need to be developed more to provide compelling evidence that they will deliver predicted savings of £20 million.
140. The council has made encouraging progress, but it still faces some significant challenges. With an increasing population, particularly amongst children and the elderly, it continues to face increasing demands on its services. The social care budget for 2014/15, for example, was overspent by £6 million and the underlying pressures have still to be fully resolved. Moreover, the council still has to decide where it can make further savings across all of its areas of activity. It has made good progress, with the level of unidentified savings needed to achieve a balanced budget for 2017/18 reduced from £67 million to £19 million. But, with continuing pressures on services, the council estimates that it will need to identify recurring savings of £51 million in order to balance its budget by 2019/20.
141. The council is trying to take a more strategic approach to these issues, with elected members taking increasing ownership of the transformation programme. For the first time, for example, it is aiming to agree a balanced budget for the next four years. But, in order to achieve the level of savings that are needed, the council knows that it needs to go beyond efficiencies in support services and make some difficult choices to match resources to priorities. Proposals are currently being developed on rationalising the

council's estate and working more closely with partners for some of the related support functions. The council is also starting to consider services which might be reduced or even stopped. Elected members are expected to decide on these proposals by the end of 2015.

142. A more detailed progress report will be issued by the Controller of Audit and considered by the Accounts Commission around the end of this year. This will be based on the audit work already completed, but it will also provide an opportunity to highlight the extent of any additional progress by the council over the next few months.

Procurement

143. In 2009 the Scottish Government introduced an annual evidence-based assessment, the procurement capability assessment (PCA), to monitor public bodies' adoption of good purchasing practice and as a basis for sharing best practice. The council reported a 2014 PCA assessment score of 76% (59% in 2013) against the average score across Scottish councils of 62%.
144. The annual PCA is being replaced by the Procurement & Commercial Improvement Programme (PCIP) which focuses on the policies and procedures driving procurement performance and the results they deliver. PCIP will introduce a revised assessment methodology and new scoring and performance bands with councils being assessed every two years. The revised assessment results will not be comparable with the previous PCA scores. The timings of the first assessments for local government have not been finalised

but it is anticipated they will be conducted between January and June 2016.

Collaborative working

- 145. The council is a member of the Scottish Cities Alliance, a collaborative group of local authorities and Scottish Government which aims to create conditions for economic growth and attract inward investment.
- 146. Following a review by the Alliance in 2014 of possible funding models to support growth, the council has been developing proposals with other Lothian and South East Scotland authorities to secure £1 billion of infrastructure funding across the region. It is hoped that this funding will generate up to £3.2 billion of private investment. A bid was submitted to the Scottish and UK governments in September 2015.

Performance management

- 147. The council has a well established performance framework that links its business plan to the political outcomes set out in the Capital Coalition Pledges, as well as to the partnership and operational outcomes set out in the Edinburgh Partnership Single Outcome Agreement and the council's operational plans.
- 148. To ensure it remains fit for purpose, the 2015 business plan has been updated to reflect the strategic vision set out in the council transformation programme. Existing corporate dashboard indicators

have been re-aligned to the themes and priorities described in the revised business plan.

- 149. An annual planning and performance report on the council's strategic planning framework is reported to the Corporate Policy and Strategy Committee, along with six-monthly performance against dashboard indicators. Six-monthly performance reports on the relevant dashboard indicators are also presented to the appropriate executive committees.
- 150. The council also participates in the Local Government Benchmarking Framework (LGBF) which brings together performance indicators for a range of services as well as service costs and customer satisfaction.

Overview of performance targets in 2014/15

- 151. The council assesses achievement of its high level commitments through a set of 53 Capital Coalition pledges. Achievement of these pledges is linked to a range of detailed dashboard and operational performance indicators.
- 152. The most recent progress report highlighted that as at April 2015, 43 pledges were either achieved or on track for delivery (39 at April 2014). Within this, two pledges around partnership working in drug and alcohol treatment, and festival and event development were reassessed as "on track" rather than achieved. This change of status was made to recognise that further work is required to meet these commitments over the longer term.

153. The council has assessed that eight of the remaining pledges, whilst not achieving certain key milestones within target, are still on target for delivery overall. Only one pledge, around the possible introduction of low emission zones, has been categorised as still under development. A further updated report will be presented to committee in November 2015.

Statutory performance indicators (SPIs)

154. The Accounts Commission places great emphasis on councils' responsibility for public performance reporting. The Commission does not prescribe how councils should report but expects councils to provide citizens with fair, balanced and engaging performance information reporting.

155. For 2014/15 three (SPIs) were prescribed:

- SPI 1: covering a range of information relating to areas of corporate management such as employees, assets and equalities and diversity
- SPI 2: covering a range of information relating to service performance
- SPI 3: relates to the reporting of performance information as required by the Local Government Benchmarking Framework.

156. Overall we concluded that the council's arrangements were satisfactory.

157. An evaluation of all Scottish councils' approaches to public performance reporting was carried out by Audit Scotland's

Performance Audit and Best Value group during 2014/15 and reported to the Accounts Commission in June 2015. An individual assessment for City of Edinburgh Council was issued to the Leader and Chief Executive in July 2015.

158. The assessment of the council's approach to public performance reporting concluded that it fully met requirements in 18 of the 26 PPR categories, which is a significant improvement from the previous year's assessment. The council demonstrated a clear, structured approach to PPR, with a good level of compliance in relation to corporate and service performance information being reported. The assessment identified some scope for improving existing arrangements including:

- increased consistency of reporting across the organisation
- reporting improvement actions taken
- clearer demonstration of public consultation and its outcomes
- increased accessibility through targeted reporting of performance to the public.

National performance audit reports

159. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2014/15, a number of reports were issued which are of direct interest to the council. These are outlined in **appendix III**. City of Edinburgh Council has processes in place to ensure that

all national reports and their impact on the council are considered by members.

Equalities

- 160.** The Equality Act 2010 introduced a new public sector ‘general duty’ which encourages equality to be mainstreamed into public bodies’ core work. The Act requires that by no later than 30 April 2015 and every two years thereafter, public bodies must publish a report on the progress made to achieve the quality of outcomes it has set.
- 161.** The council’s progress report on its frameworks for advancing equality and rights, and tackling poverty and inequality, was published on its website in April 2015, and considered by the Communities and Neighbourhoods Committee in May 2015. The report noted that 15 of the 23 defined equality and rights outcomes were assessed as being met in full, with 6 partially met. The remaining 2 outcomes will be reviewed in the coming months to establish whether there is sufficient data to measure the outcomes and they remain fit for purpose.

Outlook

- 162.** In common with other councils, City of Edinburgh Council faces the key challenges of reducing budgets, an aging population with higher levels of need and the public expectation of high quality services. Longer term savings plans have been developed, but there is continuing uncertainty around future funding levels. The transformation programme to deliver a community focused

operating model will result in service delivery with a redesigned and reduced workforce. A strong and effective performance management framework will be critical to the success of the council achieving its key priorities and achieving best value.

Appendix I – Significant audit risks

The table below sets out the financial statement audit risks we identified during the course of the audit and how we addressed each risk in arriving at our opinion on the financial statements.

Audit Risk	Assurance procedure	Results and conclusions
Risk of material misstatement		
<p>Income</p> <p>The council receives a significant amount of income in addition to SG funding.</p> <p>The extent and complexity of income means there is an inherent risk of fraud in accordance with ISA240.</p>	<ul style="list-style-type: none"> • Assessment of systems of internal control • Analytical procedures on income streams • Detailed testing of revenue transactions focusing on the areas of greatest risk 	<p>We reviewed control arrangements and undertook detailed testing of income streams. No frauds were identified.</p>
<p>Management override of controls</p> <p>ISA240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.</p>	<ul style="list-style-type: none"> • Detailed testing of journal entries • Review of accounting estimates for bias • Evaluating significant transactions that are outside the normal course of business 	<p>We undertook detailed testing of journal entries, accruals and prepayments. We also reviewed accounting estimates and transactions for appropriateness. We did not identify any incidents of management override of controls.</p>

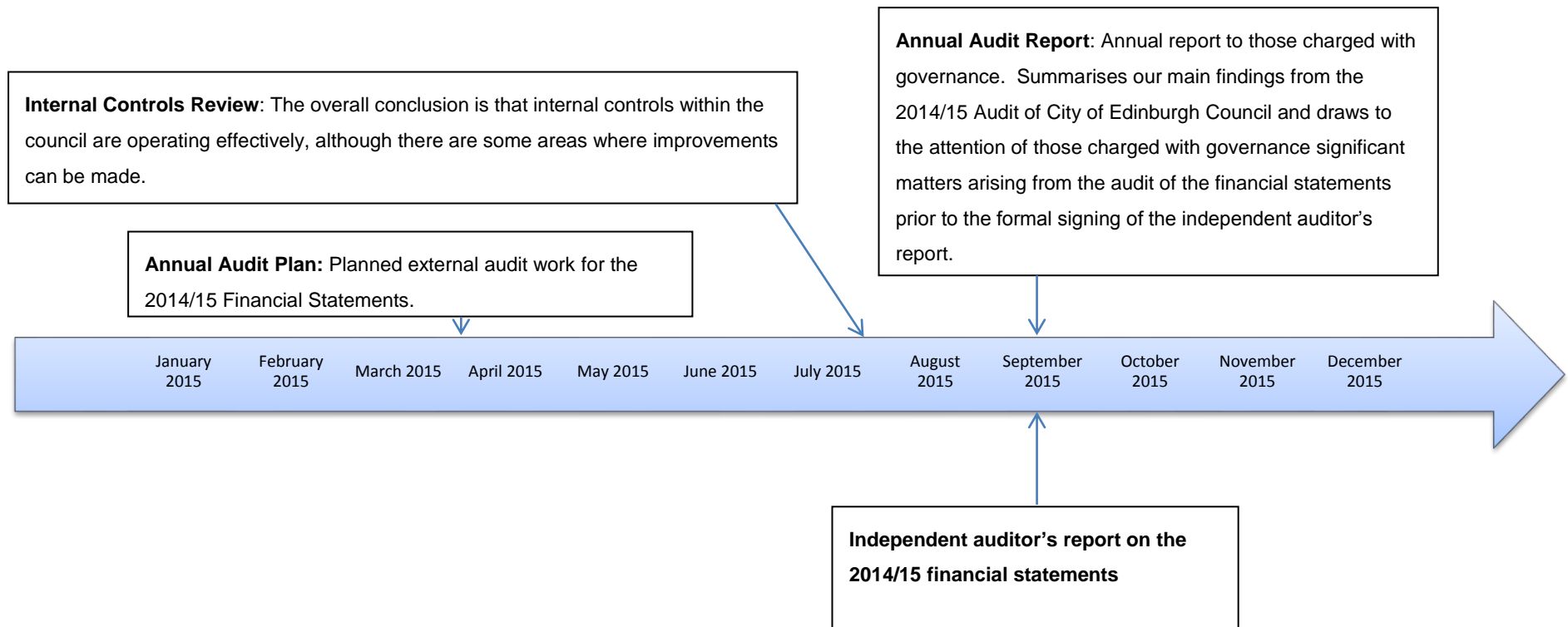
Audit Risk	Assurance procedure	Results and conclusions
<p>Tram project expenditure</p> <p>The council incurred revenue costs during 2014/15 in relation to preparing for tram operations, giving rise to a risk of misclassification of expenditure between capital and revenue.</p>	<ul style="list-style-type: none"> • Review of reports and papers on project expenditure • Discussion with council officers • Substantive testing of a sample of revenue costs 	<p>We reviewed council reports on tram expenditure and undertook substantive testing on tram expenditure. No mis-classification was identified.</p>
<p>Trams valuation</p> <p>Tram vehicles will transfer from assets under construction to operational assets in the 2014/15 financial statements.</p> <p>There is a risk that they may not be reflected at an appropriate fair value within the financial statements.</p>	<ul style="list-style-type: none"> • Discussion with council officers • Review of committee papers and reports on potential extension of the tram network • Review of papers and other appropriate evidence on valuation 	<p>We reviewed council reports on decisions on future development of the network. We considered the valuation of the trams in the financial statements and concluded that it was appropriate.</p>
<p>Statutory repairs</p> <p>Although progress has been made in dealing with unbilled work, the delays to date mean that the debt has aged further, increasing the risk of non-recovery.</p>	<ul style="list-style-type: none"> • Review of reports and papers on progress of billing and collections (including bad debts) and complaints resolution • Discussion with council officers • Review of statutory repairs balances and provision within the financial statements along with supporting evidence 	<p>We reviewed reports to members and related papers on statutory repairs billing progress, and discussed the position with officers. We reviewed the bad debt provision included in the financial statements and concluded that it was appropriate based on the information available.</p>

Audit Risk	Assurance procedure	Results and conclusions
<p>Group structure</p> <p>The council did not formally document its group boundary assessment after changes to the group structure in 2013/14 and there may be further changes to the group structure in 2014/15 as a result of new group accounting standards within the Code. There is a risk that the council’s group accounts do not comply with new accounting standards.</p>	<ul style="list-style-type: none"> • Review of reports and papers on progress of review of group structure • Discussion with officers • Liaison with external auditors of group companies 	<p>We reviewed the council’s assessment of the group boundary for 2014/15. We met with component auditors to discuss matters arising from the audit of group companies.</p> <p>We concluded that the group boundary was appropriate.</p>
<p>Significant Trading Organisations (STOs)</p> <p>In our 2013/14 independent auditor’s report we drew attention to the fact that the council’s significant trading operation, Edinburgh Catering Services – Other Catering, failed to break even, on a cumulative basis, over the three year period ending 31 March 2014. There is a risk that the action plan implemented by the council may not result in the STO consistently achieving the requirements of section 10 of the Local Government in Scotland Act 2003.</p>	<ul style="list-style-type: none"> • Monitor the on-going financial position reported to committee • Review the outturn position and cumulative break even as part of financial statements audit • Substantive testing of income and expenditure streams as part of financial statements audit 	<p>We reviewed reports to committee on the financial position of the STO and the planned action to address the deficit. We tested income and expenditure streams as part of our wider testing strategy. No material misstatements were identified.</p>
<p>Valuations</p> <p>The financial statements of City of Edinburgh Council include valuations which rely on significant assumptions and estimates. The extent of subjectivity in the measurement and valuation of these balances represents a risk of material misstatement.</p>	<ul style="list-style-type: none"> • Completion of ‘review of the work of an expert’ for the professional valuer • Focused substantive testing of key areas 	<p>We reviewed the professional valuer in accordance with ISA 500 and undertook detailed testing of key valuations within the accounts.</p> <p>No material misstatements were identified.</p>

Audit Risk	Assurance procedure	Results and conclusions
<p>Finance restructuring</p> <p>An organisational review of finance services was completed during the financial year, resulting in a number of staff changes in key posts. There is a risk that these changes could impact on the delivery of the 2014/15 accounts timetable.</p>	<ul style="list-style-type: none"> • Monitoring developments • Scheduling of audit work to take account of timetable and availability of staff • Progress meetings with Principal Accountant and Senior Accountant 	<p>We agreed a financial statements timetable with officers, and scheduled progress meetings on a regular basis to ensure the planned delivery timescales were met.</p>
<p>Risks identified from the auditor's wider responsibility under the Code of Audit Practice</p>		
<p>Managing financial pressures</p> <p>The council continues to face a challenge in balancing the gap between its planned expenditure and the estimated level of income it will receive through government grants, non-domestic rates and council tax.</p> <p>There is a risk that savings targets are not met and the on-going need to deliver savings may have an impact on services and the delivery of strategic priorities.</p>	<ul style="list-style-type: none"> • Local audit work supplemented by Best Value follow up audit work, including review of monitoring reports and delivery of savings programme 	<p>We followed up on the local Best Value work of 2014 and considered the longer term financial planning arrangements of the council, and progress towards delivering savings plans. We concluded that the council is making good progress in bridging the identified funding gap.</p>

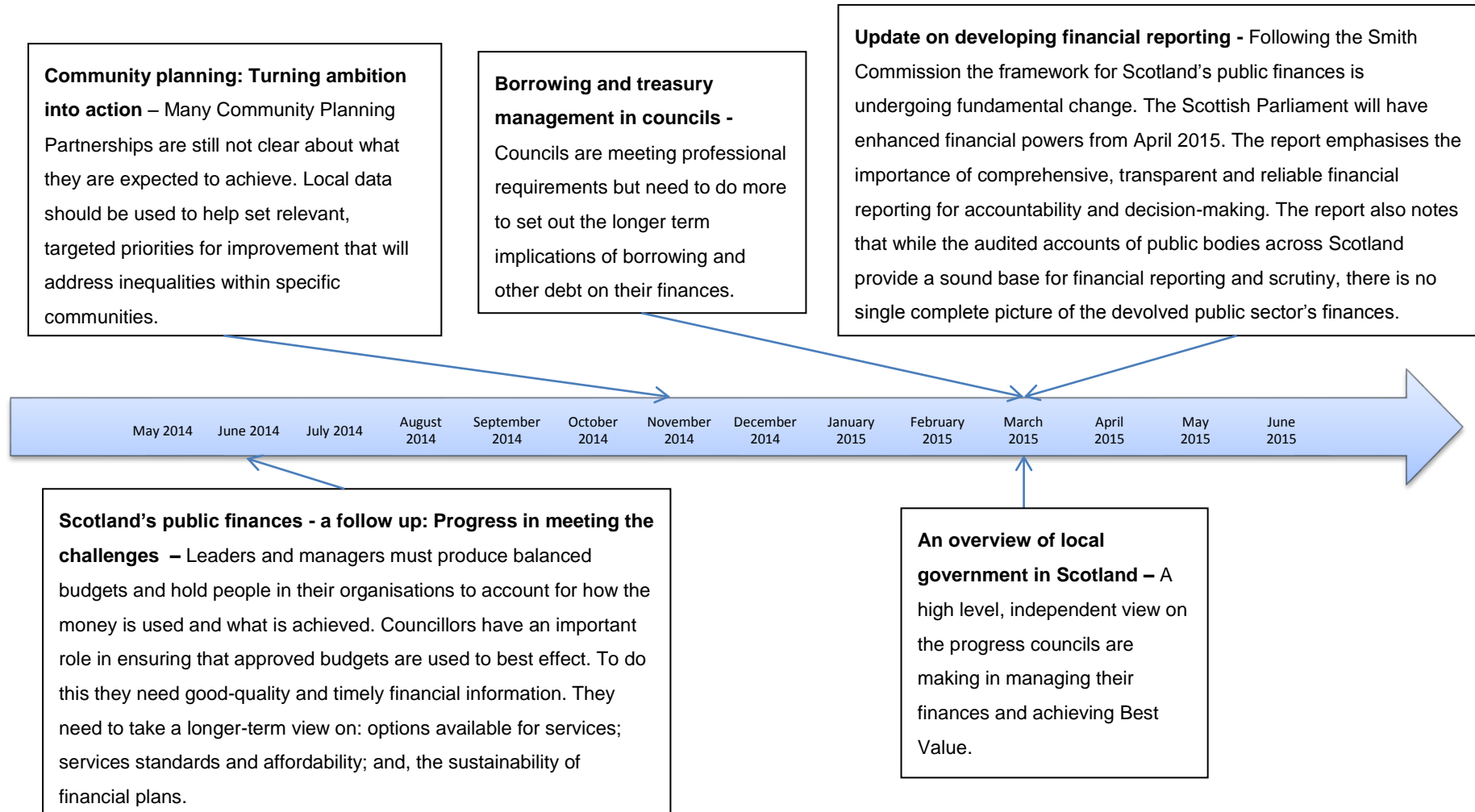
Appendix II – Summary of local reports 2014/15

Summary of City of Edinburgh Council local audit reports 2014/15



Appendix III – Summary of National Reports 2014/15

Summary of Audit Scotland national reports 2014/15



Appendix IV – Action Plan

Action plan

No. Page/para	Issue/risk/recommendation	Management action/response	Responsible officer	Target date
1 15/35	<p>Health and Social Care overspend</p> <p>The council has identified £16.45 million of funding pressures within the Health and Social Care budget for 2015/16. A mix of corporate and service measures were identified to address the shortfall, however the service savings plan has slipped, requiring further saving proposals to be identified.</p> <p>Risk</p> <p>The council does not achieve its budget for 2015/16 due to continued non-delivery of savings plans.</p> <p>Recommendation</p> <p>Delivery of savings plans is closely monitored to allow early mitigating actions to be taken where necessary.</p>	<p>Service Directors have a responsibility, as set out in the Council's Financial Regulations, to review their budgets on an on-going basis, including tracking the delivery of approved savings and, where appropriate, identifying additional mitigating actions to maintain expenditure within approved levels.</p> <p>Progress in delivering approved savings is regularly considered at Council Leadership Group and on an at-least quarterly basis by the Finance and Resources and relevant Executive Committees.</p>	All Directors	On-going

No. Page/para	Issue/risk/recommendation	Management action/response	Responsible officer	Target date
2 18/53	<p>Future funding gaps</p> <p>The council has made progress in addressing the longer term financial challenge through its long term financial strategy and associated savings plans. However a funding gap still exists over the coming years, and this is likely to increase due to current financial pressures around Health and Social Care and asset management.</p> <p>Risk</p> <p>The council may not be able to generate sufficient efficiencies and savings to bridge the funding gap.</p> <p>Recommendation</p> <p>The council should continue to keep its long term financial strategy under review, and build flexibility into future budget exercises.</p>	<p>The Council reviews the expenditure, income and savings assumptions underpinning its long-term financial plan on an on-going basis and reports on an at-least quarterly basis to the Finance and Resources Committee.</p> <p>The draft budget framework to be issued for public engagement in September 2015 will provide for a degree of flexibility in the specific savings options and proposals that are considered by elected members.</p>	Head of Finance	On-going

No. Page/para	Issue/risk/recommendation	Management action/response	Responsible officer	Target date
3 20/61	<p>Asset management</p> <p>The council's current estate requires significant investment to maintain it at a serviceable quality. The property requirement under the council's planned locality based service delivery model is unlikely to match this existing estate.</p> <p>Risk</p> <p>The council's property estate is not fit for purpose in relation to condition and configuration. Expenditure is not targeted and prioritised on appropriate assets.</p> <p>Recommendation</p> <p>The council should expedite plans to ensure the council's estate is appropriate and aligned with its service delivery plans.</p>	<p>The Finance and Resources Committee on 24 Sept 2015 will consider a report on a Property and Asset Management Strategy, that will introduce a number measures to release more revenue and capital investment into the Council's estate coupled with a significant rationalisation programme.</p>	<p>Head of Corporate Property</p>	<p>On-going</p>

No. Page/para	Issue/risk/recommendation	Management action/response	Responsible officer	Target date
4 25/91	<p>ICT</p> <p>The council has procured a new ICT contract which provides for flexible and scalable service delivery from April 2016. The contract includes new and existing service provision, and the council aims generate savings of £6 million per annum over present costs.</p> <p>Risk</p> <p>Monitoring and control arrangements do not support the overall effectiveness of the contract.</p> <p>Recommendation</p> <p>The council should ensure robust control and performance arrangements that support effective monitoring are developed to cover continuing and new service arrangements.</p>	<p>Governance arrangements will be signed off by the Deputy Chief Executive (Programme Sponsor) and in place by 1st of November</p> <p>Programme reporting controls will be in place for early monitoring of the transition programme</p> <p>Further monitoring of the service will be signed off by the CIO and be in place for service go</p>	Chief Information Officer	<p>November 2015</p> <p>Completed September 2015</p> <p>April 2016</p>

No. Page/para	Issue/risk/recommendation	Management action/response	Responsible officer	Target date
<p>5 29/114</p>	<p>Edinburgh Integration Joint Board</p> <p>The Edinburgh Integration Joint Board is currently consulting on its strategic plan for the integration of Health and Social Care in Edinburgh. The draft plan focuses on high level arrangements. More detailed financial and operational plans to direct service delivery will be required prior to the formal delegation of services from the council to EIJB on 1 April 2016.</p> <p>Risk</p> <p>There are delays in the commencement of the Integration Joint Board and achieving the desired outcome of improved services to those in need of care.</p> <p>Recommendation</p> <p>The council continues to work jointly with Lothian Health Board in finalising the arrangements for the integration of health and social care.</p>	<p>The current Integration Governance arrangements will continue until the EIJB takes on responsibility for the delegated functions. The Edinburgh Integration Joint Board was established in law at the end of June 2015. It is now operating in its transition year to prepare for delegation of functions.</p> <p>An interim Chief Financial Officer has been appointed to undertake due diligence for the EIJB. The EIJB will be having a development session on financial matters in December (provisional) in support of the strategic plan delivery.</p> <p>Discussions with the Scottish Government are on-going on bridging funding arrangements.</p>	<p>Chief Social Work Officer along with relevant officials from NHS Lothian</p> <p>Head of Finance along with relevant officials from NHS Lothian</p>	<p>March 2016</p>