



City of Edinburgh Council

Annual report on the 2013/14 audit

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

November 2014

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Key messages

Financial statements	<ul style="list-style-type: none"> • Unqualified auditor's report on the 2013/14 financial statements.
Financial position	<ul style="list-style-type: none"> • A net underspend of £0.706 million against the General Fund budget. Service overspends of £7.477 million (0.89%) were offset against underspends and additional income streams from other areas of the council budget. • Usable reserves have increased by £10 million to £173 million. • The General Fund balance has increased by £17 million to £123 million, of which £13 million is unallocated. • The projected funding gap in 2017/18 has increased from £17 million to £67 million since April 2013.
Governance & accountability	<ul style="list-style-type: none"> • The council had sound overall 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, use of resources & performance	<ul style="list-style-type: none"> • The council has a well developed framework in place for monitoring and reporting performance against strategic priorities. • The council has made progress in a number of areas noted in the May 2013 Best Value report, but continues to face a range of significant long-term challenges around service transformation and achieving financial savings.
Outlook	<ul style="list-style-type: none"> • Councils face rising demands for services and continued funding pressures alongside managing major reforms in welfare and health and social care. Effective partnership working will be essential to make the best use of available resources as well as strong governance and leadership.

Financial Statements

1. We have given an unqualified audit opinion that the financial statements of City of Edinburgh Council for 2013/14 give a true and fair view of the state of the affairs of the council and its group as at 31 March 2014 and of the income and expenditure for the year then ended.
2. We have also given an unqualified audit opinion on the 2013/14 financial statements of those charities registered by City of Edinburgh Council and audited under the provisions of The Charities Accounts (Scotland) Regulations 2006 (the 2006 Regulations).
3. The council recorded a net underspend of £0.706 million against the General Fund budget. General fund services were overspent by £7.477 million (0.89% of total general fund spend). Within this amount, all services returned small underspends against approved budgets. The overspend was mainly due to property conservation costs, and revenue spend on making the tram network ready for operations.
4. Financial management during the year remains good with close budget monitoring and regular reporting to members ensuring expenditure was controlled and the savings target of £26 million delivered.

Financial position

5. The closing balance at the year end on usable reserves was

£173 million representing a net increase £10 million from 2012/13.

6. The net movement in the general fund balance for 2013/14 was £17 million, increasing the general fund balance to £123 million as at 31 March 2014. This balance is made up of earmarked commitments of £110 million and an unallocated balance of £13 million, or 1.5% of net cost of services. This level is the same as 2012/13 and as planned per the original budget agreed in February 2013.
7. The council's 2014/15 financial plan requires cost savings of £37 million. The council aims to deliver these reductions through corporate procurement and range of measures at service area level.
8. The long-term financial challenges facing the council have increased significantly over the last 18 months. The projected funding gap in 2017/18 has risen from £17 million in April 2013 to £67 million, as a result of anticipated service demand in areas such as school meals and transport, and domestic care, together with revised government targets and reductions in external funding.
9. The council has developed longer-term financial plans to address this funding gap. Key to these plans are the potential savings from the Better Outcomes through Leaner Delivery (BOLD) programme, which looks to identify new and

Key Messages

fundamentally different ways of providing services. The council needs to ensure that elected members are provided with clear and accessible financial information to help their decision making and support scrutiny.

Governance and accountability

10. In 2013/14, the council had sound governance arrangements which included a number of standing committees overseeing key aspects of governance. Risk management arrangements continue to develop, with a focus on embedding the risk management culture within the organisation. The council had an effective internal audit function and systems of internal control.
11. The council continues to progress its ICT arrangements although it acknowledges that further work is required to implement its ICT and Digital Communications strategy.
12. Satisfactory progress has been made in developing the governance arrangements for integration of health and social care, with the approval in August 2014 of the establishment of an integrated joint board approach.

Best Value, use of resources and performance

13. The council has a strong focus on performance management and has a sound framework for monitoring and reporting performance against the council's priorities. The council is on

track to deliver most of the 53 Capital Coalition pledges within planned timescales.

14. In its findings on the May 2013 Best Value audit report, the Accounts Commission noted that the improvements the council needed to make would take time to achieve fully. A follow-up Best Value audit report was produced in November 2014. This 2014 report noted the council's progress in a number of the areas highlighted in the Commission's findings. Other actions, such as embedding the commitment of all staff to change and transforming services to secure improvement and savings, will take longer. The council continues to face a range of significant long-term challenges, not least achieving substantial savings while meeting increasing demands for services.

Outlook

15. Demands on services and resources continue to increase and these need to be managed alongside major reforms in the welfare system and health and social care. This underlines the need for strong governance, leadership and decision making based on good cost and performance information. Effective working with partners will be required to make the best use of available resources as well as innovation and vision to design and deliver the services needed to serve the future needs of citizens.

Introduction

16. This report is a summary of our findings arising from the 2013/14 audit of City of Edinburgh Council. The purpose of the annual audit report is to summarise the auditor's opinions and conclusions, and to report any significant issues arising from the audit. The report is divided into sections which reflect our public sector audit model.
17. Our responsibility, as the external auditor of City of Edinburgh Council, is to undertake our audit in accordance with International Standards on Auditing (UK and Ireland) and the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011.
18. 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.
19. This report is addressed to the members of City of Edinburgh Council and the Controller of Audit and should form the basis of discussions with the Governance, Risk and Best Value Committee as soon as possible after it has been issued. Reports should be made available to stakeholders and the public, as audit is an essential element of accountability and the process of public reporting.
20. 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. The overview report is published and briefings are provided to the Public Audit Committee and the Local Government and Regeneration Committee of the Scottish Parliament.
21. A number of reports, both local and national, have been issued by Audit Scotland during the course of the year. These reports, shown at Appendices I and II, include recommendations for improvements. We do not repeat all of the findings in this report, but instead we focus on the financial statements and any significant findings from our wider review of the council.
22. The concept of audit risk is of key importance to the audit process. 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. We set out in our annual audit plan the related source of assurances and the audit work we proposed to undertake to secure appropriate

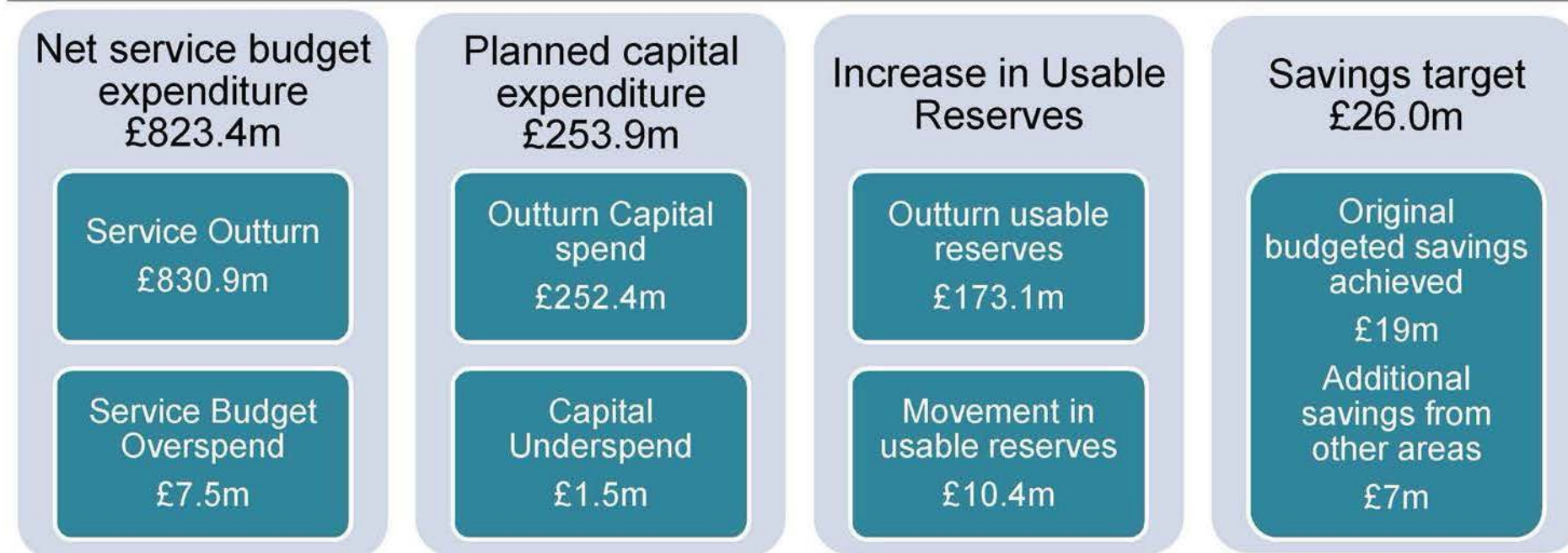
Introduction

levels of assurance. Appendix III sets out the significant audit risks identified at the planning stage and how we addressed each risk in arriving at our opinion on the financial statements.

23. Appendix IV is an action plan setting out the high level risks we have identified from the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "Management action/response".
24. We recognise that not all risks can be eliminated or even minimised. What is important is that the council understands its risks and has arrangements in place to manage these risks. The council and the Proper Officer should ensure that they are satisfied with proposed management action and have a mechanism in place to assess progress and monitor outcomes.
25. 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.

26. The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.

Financial statements



Audit opinion

27. We have given an unqualified opinion that the financial statements of City of Edinburgh Council for 2013/14 give a true and fair view of the state of the affairs of the council and its group as at 31 March and of the income and expenditure for the year then ended.
28. We have, however, drawn attention in our audit report to the

fact that the council's significant trading operation, Edinburgh Catering Services - Other Catering, has failed to break even, on a cumulative basis, over the three year period ending 31 March 2014. Surpluses of £0.014 million and £0.017 million were generated in 2011/12 and 2012/13 respectively. However a deficit of £0.045 million due to one-off costs has resulted in a cumulative deficit over the three year period of £0.014 million. Whilst this is a failure to comply with the Local Government in

Scotland Act 2003, it does not impact on the fairness of, or affect our overall opinion on, the financial statements.

Other information published with the financial statements

29. Auditors review and report on other information published with the financial statements, including the explanatory foreword, annual governance statement and the remuneration report. We have nothing to report in respect of these statements.

Legality

30. Through our planned audit work we consider the legality of the council's financial transactions. This includes obtaining written assurances from the Proper Officer. There are no legality issues arising from our audit which require to be reported.

The audit of charities financial statements

31. The Charities Accounts (Scotland) Regulations 2006 (the 2006 Regulations) set out the accounting and auditing rules for Scottish charities. These required, for the first time in 2013/14, a full audit of all registered charities accounts where a local authority or some members are the sole trustees.
32. The council has eight charitable trust funds which were subject to the full charities financial statements audit for 2013/14.
33. We have given an unqualified opinion on the 2013/14 financial

statements of the relevant charities registered by the council.

Group accounts

34. 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.
35. The council has accounted for the financial results of two subsidiaries, six associates and two trusts in its group accounts for 2013/14. The overall effect of consolidating these balances on the group balance sheet is to increase total reserves and net assets by £131 million.
36. The net assets of the group at 31 March 2014 totalled £1,916 million, compared to a net asset position of £539 million in 2012/13. The positive movement in the closing net worth balance is mainly due to the transfer of Police and Fire functions to the new authorities from 1 April 2013 and the removal of the pension liabilities of Police and Fire from the group accounts.

Accounting issues arising

Presentational and monetary adjustments

37. A number of presentational and monetary adjustments were identified in the financial statements during the course of our audit. These were discussed with management who agreed to amend the unaudited financial statements. The effect of these

Financial statements

adjustments was to increase the council and group total expenditure and decrease net assets by £1.503 million.

Whole of government accounts

38. The whole of government accounts (WGA) are the consolidated financial statements for all branches of government in the UK. The council submitted the consolidation pack for audit on 22 September. This has been audited and the audited return submitted to the Scottish Government.

Prior year restatements

39. During the year officers identified £7.001 million of assets belonging to the Lauriston Castle Trust that had been included in the council's financial statements. Heritage assets in the 2012/13 financial statements have been restated to reflect the transfer of these assets to the Trust. As the corresponding adjustments relate to the revaluation reserve and capital adjustment account, there was no impact on the level of usable general reserves held by the council.
40. In addition, officers identified a total of £6.635 million National Housing Trust monies which had previously been netted against the capital adjustment account. The 2012/13 financial statements have been restated to re-categorise these monies as long term debtors. This adjustment did not impact on the level of useable general reserves held.
41. Accounting Standard 19 (IAS19) – Employee Benefits was

amended in June 2011 and as a result, relevant pension figures disclosed in the 2012/13 statement of accounts have been restated in the 2013/14 statement of accounts. The change is of a technical accounting nature and there has been no change in the level of usable financial reserves of the council.

Pension costs

42. City of Edinburgh Council is a member of Lothian Pension Fund which is a multi-employer defined benefit scheme. In accordance with pensions accounting standard IAS19, the council has recognised its share of the net liabilities for the pension fund in the balance sheet. The valuation at 31 March 2014 provided by the scheme's actuaries increased the council's share of those net liabilities from £450.6 million last year to £535.5 million this year, reflecting general unfavourable movements in investment markets.
43. However, it is important to note that this additional liability does not have any immediate impact on the council's financing requirements. The council will continue to make annual contributions to the Pension Fund, through employer contributions, in accordance with triennial valuations carried out by the actuaries.

Carbon trading

44. In April 2010 a complex system of charging for carbon emissions was introduced by the EU. The council is required to

Financial statements

purchase and account for carbon credits to cover all of its non transport related energy usage. Penalties are built into the system to encourage a reduction in carbon emissions. The council has a policy framework, *Sustainable Edinburgh 2020*, which sets out the council's vision for the sustainable development of the city to 2020. A sustainable energy action plan is currently being developed and the council recently approved the establishment of a new corporate project team to better co-ordinate sustainability activity within the council. The group is chaired by the Director of Economic Development and supported by the Corporate Policy and Strategy Team.

45. In 2013 60,089 allowances were purchased (total cost £0.721 million). For 2013/14, the council purchased 57,538 at a cost of £0.690 million.

Report to those charged with governance

46. We presented to the Governance, Risk and Best Value Committee, on 24 September 2014, our report to those charged with governance (ISA 260). The primary purpose of that report is to communicate the significant findings arising from our audit prior to finalisation of the independent auditor's report. The main points are set out in the following paragraphs.
47. **Council dwellings revaluation:** In October 2010, the Local Authority Scotland Accounts Advisory Committee (LASAAC) issued guidance on the application of the valuation

methodology to council dwellings to help improve the comparability of valuations included in local authority financial statements. The council has a five year rolling programme for revaluing assets held at fair value and 2013/14 was the first time the council dwellings had been revalued since the LASAAC guidance was issued.

48. During 2014, the Royal Institute of Chartered Surveyors (RICS) Scotland considered existing LASAAC guidance and made a number of recommendations to LASAAC around the methodology for calculating the discount factor, to ensure it best reflects market practice and takes account of recent transactional evidence. A guidance paper is being prepared by LASAAC to supplement its existing guidance and it is anticipated this will be reflected in council dwellings revaluations from 2014/15 onwards.
49. Council officers were heavily involved in the RICS Scotland discussions on LASAAC guidance and took the opportunity to reflect the recommended principles in the calculation of the discount factor applied as part of the 2013/14 valuation exercise, which resulted in the gross value of council dwellings being revalued at £1,108 million. We agreed with the council to include additional disclosure in Note 4 to the financial statements (assumptions made about sources of estimation uncertainty) setting out this change in estimation technique and its resulting effect.
50. **Holiday pay contingent liability:** During periods of annual

leave, employees' pay is based on their basic contractual pay. A decision by the European Court of Justice in May 2014 under the Working Time Directive 2003/88/EC and further domestic case law has held that some additional payments should be considered when calculating the level of holiday pay, including non-contractual overtime. The council considered guidance issued by COSLA in July 2014 on this matter. A revised holiday pay calculation was approved by the council in August 2014 and payment made with effect from 1 April 2014. The council disclosed an unquantified contingent liability in the financial statements in respect of the decision, reflecting that case law in this area continues to develop and further guidance/advice will be required before the position is clarified.

51. **Statutory repairs:** The council continues to pursue the recovery of monies relating to statutory repair notices however progress during 2013/14 was slow. External consultants were utilised during the financial year to support the billing process, at a cost of £1.3 million. Following a review of outstanding unbilled work relating to statutory notices, a total of £1.3 million was written off, in year, as being irrecoverable.
52. The financial statements contain a total debtor balance of £30.6 million (2012/13 - £32.5 million) relating to statutory notices. The largest element of this balance, £19.1 million (2012/13 - £22 million), is made up of work carried out but not yet billed.
53. Although some progress has been made in dealing with

complaints, the pace of billing means there is still limited recovery data on which to base the level of provision for impairment. The council has reassessed the provision in light of slower than anticipated progress in this area, and also to take account of unbilled work considered unlikely to be recoverable. A total provision of £12.6 million (2012/13 - £10.4 million) has been made, equating to 41% of the total debtor relating to statutory notices. The council has also earmarked a further £3.9 million in its reserves to cover the costs of any further liability claims against it in respect of statutory repairs.

54. As part of our review of debtor balances, we considered the collectability of outstanding debt in respect of statutory notice work, and the calculation of the level of provision. In the absence of retrospective evidence about collectability of this debt, we considered the council's approach to estimation as reasonable.

Refer Action Plan Point 1

55. **Trams project:** In May 2014, the trams network became operational. The following month, the Scottish Government announced a public inquiry into the delivery of the trams project. As part of our financial statements audit in 2012/13, we raised the possibility of a need for an impairment review on tram vehicles, to reflect that some vehicles may be surplus to requirements given the reduction in the network. Officers noted that all vehicles are currently being utilised evenly across the network, and consequently they do not consider an impairment

review necessary at present. We would concur with that view under current circumstances. Officers intend to take a report to members setting out future options for the trams network. Following this, they will reconsider any need for an impairment review or reclassification of existing assets.

Refer Action Plan Point 2

56. **Group accounting boundary:** For 2013/14, no formal group boundary assessment was undertaken by the council to confirm which bodies should be included within the group financial statements. Based on our knowledge of the client, the changes during the year in relation to the group companies and our assessment of the boundary as part of our financial statements audit work, we were satisfied that the group financial statements continued to include the appropriate entities.
57. As in previous years, the Charitable Trusts were not included within the group financial statements however we noted that the Charitable Trusts' net assets have increased by £7 million due to a prior year adjustment relating to a transfer of assets from the council. The Trusts' net assets at 31 March 2014 were £14 million.

Refer Action Plan Point 3

58. **Significant trading operations (STOs):** During 2012/13 the council reported 8 significant trading organisations under the terms of the Local Government in Scotland Act 2003.

Following the issuing of guidance in 2013 by LASAAC (Local Authority Scotland Accounts Advisory Committee) the council reviewed the activities and concluded that, for 2013/14 only two areas, refuse collection and other catering, met the revised definition of STOs in relation to trading externally.

59. Consequently, the other six activities were no longer reported as STOs and were reclassified as service activities. We reviewed the council's assessment and application of the LASAAC guidance as part of our planned financial statements audit work and were satisfied that it had been appropriately applied.
60. As noted earlier in the report, one of these remaining significant trading operations, Edinburgh Catering Services - Other Catering, failed to achieve the statutory requirement of a cumulative break-even position over the three year period to 31 March 2014.

Outlook

61. 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). The main new standards adopted in 2014/15 include :
- IFRS 10 Consolidated financial statements
 - IFRS 11 Joint arrangements
 - IFRS 12 Disclosures of interests in other entities

Financial statements

- IAS 28 Investments in associates and joint ventures.
62. These standards affect the group financial statements and include a change to the definition of control. This is likely to require a reassessment of the group boundary and potentially further consolidations and disclosures.
 63. The revised Local Authority Accounts (Scotland) Regulations 2014 apply for financial years 2014/15 onwards. The regulations set out in more detail what is required in respect of financial management and internal control, and in respect of the annual accounts themselves. Some of the changes include the requirement for the unaudited accounts to be considered by the Governance, Risk and Best Value Committee. This can take place following submission to the auditor and up to 31 August if necessary. In addition the audited accounts must be considered and approved for signature by the Governance, Risk and Best Value Committee by 30 September with publication on the council's website by 31 October.
 64. Highways assets are currently carried within infrastructure assets in the balance sheet at depreciated historic cost. The 2016/17 Code requires highways to be measured for the first time on a depreciated replacement cost basis. This represents a change in accounting policy from 1 April 2016 which will

require a revised opening balance sheet as at 1 April 2015 and comparative information in respect of 2015/16. 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. The council should ensure it is planning ahead to allow full compliance with the Code.

Financial position

65. The council reported a deficit of £46.5 million on the provision of services in 2013/14. Adjusting this amount to remove the accounting entries required by the Code to arrive at the statutory, or general fund, position, the council increased its general fund balance by £17.3 million.
66. The 2013/14 outturn shows a net underspend of £0.706 million against budget for the general fund. General fund services were overspent by £7.477 million, mainly as a result of property conservation costs, and revenue spend on making the tram network “ready for operations”. This overspend was offset by a number of underspends, including:
- a reduction of £4.280 million on loan charges, arising from reduced pooled interest rates
 - an over-recovery against budget of £2.227 million for Council Tax
 - a £1.598 million saving against budgeted costs of the Council Tax Reduction Scheme.
67. Usable reserves are part of a council’s strategic financial management and councils will often have target levels of reserves. As shown in Exhibit 1, the overall level of usable reserves held by the council increased by £ 10.427 million compared to the previous year and totalled £ 173.074 million.

Exhibit 1: Usable reserves

Description	31 March 2013	31 March 2014
	£ million	£million
General Fund	105.996	123.309
Capital Fund	18.873	25.835
Capital Grants Unapplied	7.030	1.994
Repair & Renewal Fund	30.748	21.936
Total Usable Reserves	162.647	173.074

Source: City of Edinburgh Council 2013/14 financial statements

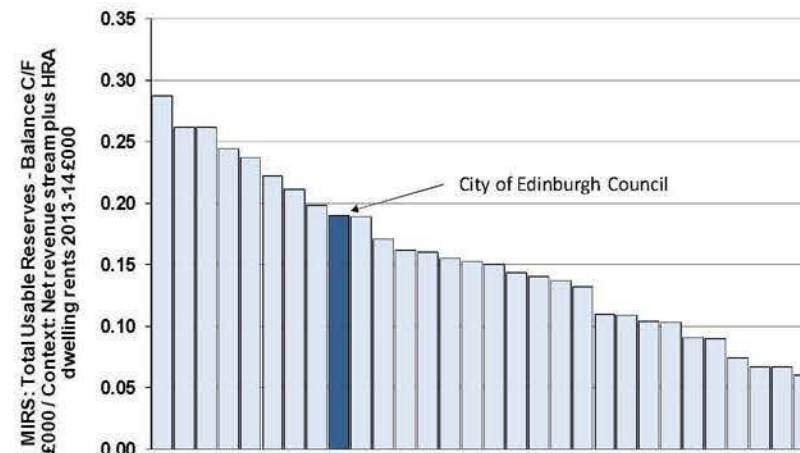
68. From an analysis of Scottish councils’ unaudited 2013/14 accounts, over half of all councils utilised reserves brought forward, with around half of all councils ending 2013/14 with lower levels of reserves than they had at the start of 2012/13. This was in part due to the retention of certain reserves associated with police and fire joint boards and the consequent reduction in general revenue grant from the Scottish Government in 2013/14.
69. The increase in usable reserves is primarily related to monies set aside for specific financial risks which could arise in the

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medium term. These include risks around equal pay and property costs, amongst others. The council has also increased its reserves for 'spend to save' and 'priority funds'. The capital fund has also increased mainly due to additional capital receipts received in year transferred into the fund.

70. Exhibit 2 presents the council's usable reserves position in relation to net revenue stream for the year in comparison to other Scottish councils (net revenue stream being presented as general revenue grant, council tax, non domestic rates and dwelling rents). As indicated, the council position is slightly above the median level of around 15% and reflects the council's approach to achieving an appropriate balance between meeting current obligations and preparing for future commitments and possible reductions in funding.

Exhibit 2: Total Usable Reserves as a proportion of net revenue stream



Source: Scottish councils' unaudited accounts 2013/14

71. The general fund balance increased by £17.3 million during the year. The closing balance at 31 March 2014 is made up of earmarked commitments of £ 110.284 million and an uncommitted balance of £ 13.025 million. This balance is in line with the level of unallocated funds approved by the council in February 2013 as part of the budget setting process.
72. As part of the 2013/14 budget, the council planned to deliver a total of £26 million of savings. Around £3 million of the planned service savings included in the original budget were not

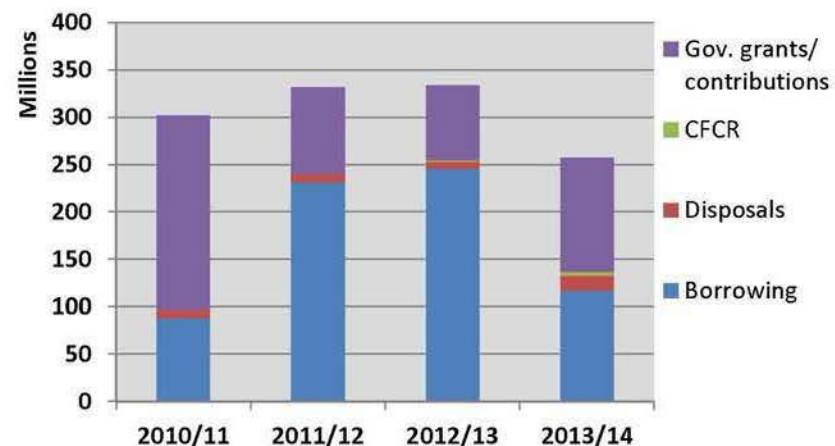
Financial position

achieved, however the shortfall was addressed through other service area savings arising through the year. Similarly, the £4 million of planned corporate savings not achieved during the year were offset by savings arising from loan charges.

Capital investment and performance 2013/14

73. Total capital expenditure for 2013/14 was £ 252.4 million split between the housing programme and the general services programmes:
74. Total capital expenditure for 2013/14 was £252.4 million. Investment during the year included:
- £39.2 million on council dwellings
 - £29.3 million on the purchase of private development mid market homes through the National Housing Trust scheme
 - £28.6 million on social housing projects through the housing development fund
 - £92.4 million on roads and infrastructure work, including tram works
 - £24.0 million on schools and other educational properties
75. The capital programme was funded primarily from borrowing and government grants & contributions as summarised in Exhibit 3.

Exhibit 3: Sources of finance for capital expenditure 2010/11 – 2013/14



Source: City of Edinburgh Council Annual Accounts 2010/11 to 2013/14

76. The council has reported an underspend of £1.452 million against the planned level of capital expenditure, which equates to less than 1% of the total programme for 2013/14. This continues the trend of reducing capital programme slippage incurred in previous years. Some slippage occurred on individual projects, including £8.83 million across the HRA capital programme. However, this was offset by the acceleration of other projects including asset management

Financial position

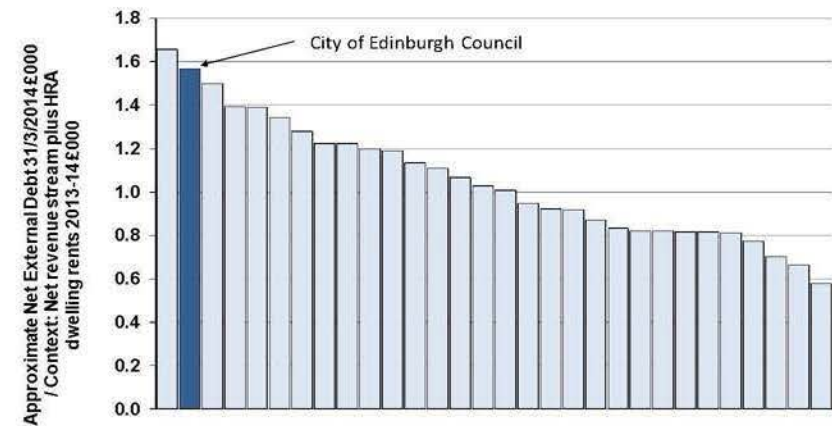
works on the council estate.

Treasury Management

77. High levels of debt may reduce a council's budget flexibility going forward as revenue resource has to be set aside to service that debt. The impact that debt levels have on net revenue expenditure will be affected by interest rates and repayment periods.
78. In the current financial climate, many councils have relatively high levels of internal borrowing, utilising available cash balances and deferring external borrowing. The council's underlying need to borrow or capital financing requirement (CFR) at 31 March 2014 was £ 1,728 million while net external borrowing was £110 million lower at £1,618 million.
79. In accordance with the strategy set in March 2013 the council completed no borrowing during the financial year and funded capital expenditure temporarily from investments. This approach resulted in lower loan charges for the council against the figure included in the original budget for 2013/14.
80. Interest costs of £77 million (including General Fund and HRA, excluding premiums and discounts) were incurred in relation to outstanding debt balances (2012/13: £76 million, 2011/12: £71 million). The increase from 2011/12 to the following years mainly reflects the finance charges incurred from the additional borrowing for the trams project.

81. Per **Exhibit 4**, the council's net external debt as a proportion of net revenue stream is at the top end of the range relative to other Scottish councils.

Exhibit 4: Net external debt as a proportion of net revenue stream



Source: Scottish councils' unaudited accounts 2013/14

82. There are three significant factors that contribute to the council appearing at the top end of the range relative to other Scottish councils. The figures include the borrowings incurred by the council to purchase Waverley Court in 2008/09 along with borrowings relating to the acquisition of assets of EDI and Waterfront Edinburgh in 2009. Also, additional borrowing was incurred in 2011/12 and 2012/13 to complete the tram project. See Exhibit 3 for increased borrowing levels in 2011/12 and

Financial position

2012/13.

83. The assets of the tram project i.e. vehicles, infrastructure and depot are held in the council's name, as is the additional cost of £231 million of borrowing required to complete the project. The council will not receive the associated revenue stream from the running of the trams as this income comes through Transport for Edinburgh Limited who are responsible for running the tram operations. Therefore, this increases the council's net debt to net revenue ratio.
84. In 2008/09, the opportunity arose for the council to purchase its headquarters at Waverley Court. Following valuation based on future rental streams, a price of £91 million was agreed. Loan charges arising on the purchase price were less than the rental charges the council would have incurred over the remaining period of the lease. Similar to the trams project, the council does not receive any significant income in relation to Waverley Court, again, resulting in a higher ratio of net debt to net revenue.
85. In conclusion, the total borrowings of £322 million for the Trams project and Waverley Court do not result in significant revenue streams for the council which contributes to a higher ratio, as disclosed in **Exhibit 4**.
86. The council's significant level of debt is monitored as part of the council's overall financial strategy. Repayment plans are kept under review to ensure that the council is in a position to

continue to demonstrate that its level of borrowing is both affordable and sustainable. This will continue to represent a consideration for the council's budget setting process and this has been reflected in the long-term financial plan.

87. **National Review of Borrowing and Treasury Management:** Audit Scotland has, on behalf of the Accounts Commission, recently completed a national review of borrowing and treasury management in councils. This involved discussions with members and officers as well as audit visits to a number of selected fieldwork councils, including City of Edinburgh Council. The review focused on the affordability and sustainability of borrowing and governance arrangements and considered how councils demonstrate best value in their treasury management functions. The national report is planned for publication in January 2015.

Outlook

88. The council has set a balanced budget for 2014/15. When setting the 2014/15 budget, a revenue funding gap of £37 million was identified, after taking account of additional demographic and other pressures. This represents around 4% of the council's net annual revenue spend. The council identified that these pressures would be met through corporate procurement savings of £6.8 million and a combination of other measures at service area level.
89. As part of the process of preparing the 2014/15 budget, the

Financial position

council prepared projected savings requirements for the years 2014/15 and 2017/18 to aid forward planning by identifying medium-term spending pressures and funding constraints. Updated projections have been presented to the finance and resources committee through 2014/15 in order for the council to allow advance consultation as part of the 2015/16 budget setting process. Exhibit 5 below shows the current and previous projected funding gaps and that the funding gap in 2017/18 has almost quadrupled from £17.2 million to £67.3 million. Around half of this increase is due to revised funding assumptions, with the remainder due to the revised approach to recording and monitoring procurement savings.

Exhibit 5: Movement in projected funding gap

	2015-16	2016-17	2017-18
	£m	£m	£m
Projected funding gap – April 2013	6.665	18.854	17.205
Projected funding gap – February 2014	9.208	29.018	31.802
Projected funding gap - September 2014	21.664	52.594	67.304

90. The latest reported financial position for 2014/15 anticipates a balanced outturn for the year. All service areas have

highlighted risks to the attainment of this projection. The council is seeking to identify measures to manage these pressures.

91. The council will continue to operate in a funding environment which is subject to sustained pressure to deliver more with less. Increases in demand for services such as school meals, school transport and domestic care, coupled with revised Government targets and reductions in the level of existing external funding will all increase the pressure on funding service delivery. The level of flexibility within expenditure budgets is considerably reduced by the release of cost savings in previous years.
92. The council is seeking to address these pressures through a number of options, including the development and implementation of its Better Outcomes through Leaner Delivery (BOLD) programme. This programme looks across council directorates and is intended to identify new and fundamentally different ways of providing services. Through this programme the council has identified proposals totalling £28.5 million. The council is currently engaging with the public on these proposals with a view to bridging the £22 million funding gap in 2015/16.

Refer Action Plan Point 4

Governance and accountability

93. Members of the council and the Proper Officer are responsible for establishing arrangements for ensuring the proper conduct of the affairs of City of Edinburgh Council and for monitoring the adequacy and effectiveness of these arrangements.

Corporate governance

94. The corporate governance framework within City of Edinburgh Council is centred on the council which is supported by the following standing committees.



95. The political management arrangements above were introduced in October 2012 to help modernise and streamline

decision making processes. A review to refine these arrangements was completed in 2013 with a further review of the Policy Development and Review sub committees carried out in mid 2014. In October 2014, the council agreed to return the policy development and review functions to the executive committees.

96. Based on our observations and audit work our overall conclusion is that the governance arrangements within City of Edinburgh council are operating effectively.

Risk management

97. PwC has been leading a project to re-design the council's risk management arrangements to ensure they are fit for purpose and fully integrated into business activities, and that risk is integral to decision making going forwards. A risk management framework was finalised in December 2013, and the council's appetite for risk quantified in a Risk Appetite Statement.
98. The Corporate Management Team now holds a formal risk committee each quarter, supported by service area risk committees. The risk registers developed and updated through these committees are regularly reported through the council committee process. The council has acknowledged further work is required to embed a risk culture throughout the organisation, and has established a Risk Management Steering Group to coordinate and support the work of the

service area risk officers and the corporate risk team.

Internal control

99. As part of our audit we reviewed the high-level controls in a number of the council's systems that impact on the financial statements. This audit work covered general ledger, payroll, accounts receivable, accounts payable, banking, council tax, non domestic rates and housing rents. Our overall conclusion was that the council had appropriate systems of internal control in place during 2013/14.

Statutory notices

100. In 2011, following allegations of poor service, overcharging and mismanagement, independent investigations were made of the council's property conservation service which led to the closure of the service in April 2011. In the period since 2011, efforts have been made to resolve the significant number of outstanding complaints and to recover legitimate outstanding debt associated with historical projects. On 5 June 2014 the Finance and Resources Committee concluded that a step change was needed to accelerate progress in resolving the outstanding complaints and in recovering the sums due to the council for statutory repair works. As a result all Property Conservation work including both the legacy service and the development of a new service was grouped under a new corporate programme called Programme Momentum. A

dedicated programme board sponsored by the Chief Executive, with the Director of Corporate Governance as the Senior Responsible Officer, and the appointment of a programme director, has been created to oversee the programme.

101. At the time the property conservation service ceased activity it is estimated that around 3,000 outstanding non emergency notices were in place. There has been no comprehensive review of these notices and no known works have been undertaken in relation to these notices as the council's legacy team have focused on resolving the issues associated with the projects which were undertaken or were in the process of being undertaken at the time when the service was closed. The management of enquiries around these outstanding notices and the level of resource required to manage the lifting of the notice will be one of the first tasks of the new service when it begins operations in the second quarter of 2015. The council plans to review all identified outstanding statutory notice cases by the end of January 2015, and thereafter ensure any outstanding works are completed and invoices issued as appropriate. In addition to the extra administrative burden, there is a risk that properties have suffered further deterioration in the intervening period. We will consider progress made in this area as part of our 2014/15 audit.

Internal audit

102. Internal audit provides members of the council and the Proper

Officer with independent assurance on the overall 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 appropriate.

103. PwC are continuing to work with internal staff to develop the skills and knowledge base within the team. Our review of internal audit concluded that the internal audit service operates in accordance with the Public Sector Internal Audit Standards and has sound documentation standards and reporting procedures in place. We placed formal reliance on the work of internal audit for payroll and accounts payable.
104. The Chief Internal Auditor's Annual Report and Opinion for 2013/14 was submitted to the Governance, Risk and Best Value Committee in September, at the same time as they were considering issues arising from the audit of the financial statements. Financial year 2013/14 was a period of transition with the Internal Audit year being aligned to the council's financial year. We would anticipate that the 2014/15 Annual Internal Audit Report and Opinion would be presented earlier in the committee cycle, to allow members to consider the conclusions reached and request any further assurance work

necessary, prior to the sign-off of the financial statements.

ICT audit

105. The council has made progress in developing and improving its ICT arrangements during the year, although it acknowledges that further work is required to fully implement the approved ICT and Digital Strategy.

Action Plan Point 5

106. **ICT digital transformation programme:** In February 2013 the council approved the ICT and Digital Transformation Programme. The aim of the programme is to transform ICT provision into a comprehensive, responsive, cost effective and high-quality service which is business and customer driven. Included in the programme is the transition from the current outsourced contract to future ICT and digital services by March 2016. The approved investment for the programme is £6.75 million with a commitment to achieve net savings of £14.65 million over five years.
107. The council continues to make progress. There have been a number of developments in 2013/14 including the introduction of the council's ICT and Digital Strategy in December 2013, the delivery of ICT systems and enabling infrastructure and the launch of the council's new website.
108. The latest update on the programme in May 2014 confirmed

that the programme status is green as the programme is on schedule and on budget, with the savings target of £1.43 million for 2013/14 being achieved.

109. **ICT services procurement:** The council's Finance and Resources committee gave approval in October 2013 to procure a new contract for ICT services in line with the council's ICT and Digital Strategy. The procurement of the new contract has been designed to allow other public bodies to use the contract for their own purposes. The current contract for ICT services expires in March 2016, and the council aims to deliver annual savings of £6 million through the new contract. The project has moved through the pre-qualification stage and is now within the competitive dialogue process of the project.
110. We will monitor the progress on delivery of the ICT digital transformation services and the ICT services procurement programmes as they progress.
111. **Public Services Network:** For the first time in 2012/13, councils had to apply to connect to the Public Services Network (PSN) to allow the sharing of electronic data with other public bodies, such as the Department for Work and Pensions. This entailed complying with the strict security measures of the PSN Code of Connection which, if fully met, resulted in the issue of a compliance certificate. The application and approval process is subject to annual review and could result in a disruption to operations and service delivery if there were any non compliance issues. The council

received notice of its accreditation in December 2013.

Arrangements for the prevention and detection of fraud

112. The council's arrangements in relation to the prevention and detection of fraud and irregularities were satisfactory.
113. The council participates in the National Fraud Initiative (NFI). The NFI uses electronic data analysis techniques to compare information held on individuals by different public sector bodies and different financial systems, to identify data matches that might indicate the existence of fraud or error. In December 2013, we noted that progress on investigating matches was slow and that there was minimal reporting on progress to committee, however following review and realignment of resource by the council, all relevant matches were investigated and reported. Overall, we concluded that the council has satisfactory arrangements in place for investigating and reporting data matches identified by the NFI.
114. Audit Scotland published a report on national outcomes of the NFI in June 2014. The recommendations contained in the Audit Scotland Outcomes report, published in June 2014, have been considered by council officers and a range of process changes were identified and are being implemented for 2014/15. We will monitor the progress on the new NFI exercise and provide

comment on progress, as and where appropriate.

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

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

Integration of adult health and social care

116. 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. The Act offers some flexibility on the partnership arrangements for the governance and oversight of integrated health and social care services. The integration will be complex and challenging and the council will need to engage at the highest level with the relevant health body in its area to ensure that integration is delivered within the required timescales and that the arrangements are functional and fit for purpose.

117. The council's Corporate Policy and Strategy committee and NHS Lothian Board both approved an Integrated Joint Board model in August 2014. This followed a reconsideration of the models available in June and July 2014. NHS Lothian has

taken the lead in preparing the draft content of the Integration Scheme which should ensure consistency across its four Integration Joint Board areas. The draft integration scheme requires to be submitted to Scottish Ministers by 1 April 2015.

118. Progress continues to be made and includes setting up of Joint leadership arrangements, consultation with senior managers on proposed integrated management structure and discussion of a localities approach. In terms of finances, it is estimated that the new Integrated Board will encompass a combined budget of approximately £500 million; around £200 million of council funds and around £300 million of Community Health Partnership funds. It is likely this will increase although the exact figure will only be known once the financial elements of the integration scheme are complete.

119. A detailed risk log is maintained for the integration programme and reported through the status reporting process to the Shadow Health and Social Care Partnership and through the Corporate Programmes Office Major Projects reporting procedures. Risks are also included on the councils Corporate Management Team, Health and Social Care and NHS Lothian Board risk registers. The complexity of health and social care integration is such that there is always the risk of slippage. It is important, therefore, to continue to monitor the situation closely to ensure progress is maintained.

Welfare Reform

120. The council recognises the impact that the changes to the UK welfare system could have on resources and service provision. 2013/14 was a period of significant change with council tax benefits being replaced by the new Council Tax Reduction Scheme and the introduction of the Scottish Welfare Fund. Councils continue to face uncertainties over the roll out of the Universal Credit and there is the potential for even further reforms after the recent Scottish independence referendum.
121. The council has established a Welfare Reform Working Group (WRWG), chaired by the Health and Social Care Convenor, which monitors the implementation and impact of various benefits changes and contributes to consideration of further measures to support tenants
122. The Depute Head of Customer Services presents quarterly welfare reform update reports to the Council's Corporate Policy and Strategy Committee and regular welfare reform financial update reports to the Finance and Resources Committee. These reports provide an overview of the impact of welfare reforms within the City of Edinburgh and the action being taken by the Council in response to the reforms.
123. Rent arrears have been increasing in Edinburgh. In 2012/13 arrears totalled £2.776 million and these had increased to £3.967 million at 31 March 2014 (an increase of 43%). We are aware that the value of housing rent arrears further increased to £4.6 million at the end of July 2014. During 2013/14 the

Council increased its housing rent arrears bad debt provision which to £3.002 million at 31 March 2014 (£1.911 million at 31 March 2013).

124. The council is providing financial advice and assistance to households affected by welfare reform, including consideration of their future housing options, and notes that this is having a positive impact. The number of tenants affected by Under Occupancy changes who are in arrears has reduced from a high of 2,602 in August 2013 to 1,708 in August 2014. Nonetheless the increasing level of rent arrears is a challenge for the Council.

Housing and council tax benefits performance audit

125. A risk assessment of the council's benefits service was carried out by one of Audit Scotland's specialist benefits auditors in July 2012 and the findings reported to management in September 2012. The report identified that three risks to continuous improvement from the previous assessment in March 2010 had not been addressed.
126. The 2012 risk assessment also identified a further five risks which were mostly related to performance reporting. The assessment highlighted that despite various measures introduced to help deliver improvements in the speed of processing new claims and changes of circumstances,

performance had only recently started to improve. This has been a recurring issue over the last five years. These risks and those still outstanding from the last review were incorporated into an updated action plan for implementation.

For 2013/14, we requested progress updates regarding the speed of processing new claims and changes of circumstances from the council. The most recent speed of processing performance information was provided in April 2014. We noted that the speed of processing new claims had improved. We will review the speed of processing performance as part of a full risk assessment which is planned for 2014/15.

Outlook

127. Councils continue to face rising demands for services alongside managing major reforms in welfare and health and social care. There is now a greater need than ever for strong governance and leadership. The integration of health and social care is a complex and challenging process and the council will need to continue to engage at the highest level with partners to ensure that the unified service is in place by the statutory date of 1 April 2016.

128. There are to be major changes in councils' responsibilities for the investigation of fraud. The new Single Fraud Investigation Service (SFIS) is a national fraud investigation service within the Department for Work and Pensions which will take over the responsibility for the investigation of housing benefit frauds. The investigation of the Local Council Tax Reduction Scheme and corporate frauds will remain within councils. The SFIS will be implemented across councils on a phased basis during the period July 2014 and March 2016 and will see the transfer of staff from councils to the DWP. There is a risk that councils' arrangements for the prevention and detection of fraud may be weakened due to the loss of experienced investigators to the SFIS.

129. The political context in 2014 has been particularly challenging with the referendum on Scottish independence. Whatever the conclusions of the Scotland Devolution Commission, a cross-party working group tasked with overseeing the devolution of more powers to Scotland, there is the potential for even further change and discussions are likely on local services, governance and accountability.

Best value, use of resources and performance

130. Local authorities have a statutory duty to provide best value in those services they provide directly as well as those provided through agreements with Arms Length External Organisations. This requires continuous improvement while maintaining a balance between quality and cost and having regard to value for money, equal opportunities and sustainability. There is also the duty to report performance publicly so that local people and other stakeholders know what quality of service is being delivered and what they can expect in the future.

Arrangements for securing Best Value

131. A Best Value report (BV2) was published in May 2013. The report focused on two judgements

- how well the council is performing in relation to services and outcomes
- the council's prospects for future improvement, based on leadership and management, partnership working and resource use.

132. The report noted the financial challenges facing the council in the coming years and the reliance on delivering established

savings plans, along with the need to address the remaining funding gap. The council's overall performance in terms of services and outcomes was assessed as good, and prospects for future improvement were assessed as fair.

133. In their report the Accounts Commission welcomed the improvements the council had made but recognised that the scale of the financial challenge was substantial. The Accounts Commission asked the Controller of Audit for a further report on the council's progress in around 18 months' time.

134. The audit work for the resulting further report was carried out from June to August 2014. The follow-up report reflects the position at that time although it also took account of relevant developments up to October 2014. The audit reviewed the council's progress over the 15 months between the publication of the previous report in May 2013, and August 2014. The follow up report was presented to the Accounts Commission on 13 November 2014 and is to be published on 4 December 2014.

135. The key conclusions are:

- In May 2013, the Accounts Commission concluded that the City of Edinburgh Council's financial position was particularly challenging. At that time the council reported that, assuming it achieved all planned savings, it still needed to find additional savings of £17 million to

balance its budget in 2017/18. Since then, the financial challenges facing the council have increased significantly, with recent council reports now showing that the additional savings it needs to find in each of the next three years have increased, rising to £67 million in 2017/18.

- The council's financial position requires significant changes in the council's operations over a relatively short period if it is to achieve a balanced budget in 2017/18. The council plans to generate a significant proportion of these additional savings from its new transformation programme (known as BOLD) and from improved arrangements for buying goods and services. It is too early to assess the effectiveness of these initiatives.
- Dealing with long-running problems in the statutory repairs service and more recent issues, such as concerns about practices at Mortonhall crematorium, have absorbed significant amounts of senior managers' time. The council needs to ensure it has sufficient capacity to deal with problems as they emerge while increasing the pace of improvement and change.
- The council has made good progress in developing its approach to scrutiny and risk management. The Governance, Risk and Best Value Committee provides effective scrutiny of the council's operations and

performance. The council has also improved risk management, internal audit and the oversight of major projects. It needs to maintain this progress and ensure these changes are firmly in place across the organisation, to help identify risks earlier and to support improvement.

- The council has still to develop a comprehensive workforce strategy, despite this being a key building block in ensuring it has the capacity and skills to address the challenges it faces. The council has improved its ICT arrangements and acknowledges the need to make further progress in this crucial area, to help improve services and achieve savings.
- The council has improved those services highlighted in the Accounts Commission's findings on the 2013 Best Value report i.e. adult social work, waste management performance and the supply of affordable housing. However, it continues to face significant challenges to meet increasing demand for services while delivering the long-term savings it needs to make.

Refer Action Plan Points 5 & 6

136. In its findings on the May 2013 Best Value audit report, the Commission noted that the improvements the council needed to make would take time to achieve fully. Since then, it has

made progress in a number of the areas highlighted in the Commission's findings. Other actions, such as embedding the commitment of all staff to change and transforming services to secure improvement and savings, will take longer. The council continues to face a range of significant long-term challenges, not least achieving substantial savings while meeting increasing demands for services.

Performance management

137. The council revised its performance framework in October 2012 to take account of political, partnership and operational outcomes identified by the Capital Coalition Pledges, the Edinburgh Partnership Single Outcome Agreement and the council's overall responsibility for delivering a wide range of services to the citizens of Edinburgh.
138. An annual update of the performance framework was presented to the Corporate Policy and Strategy Committee in December 2013, highlighting:
- the implementation of revised governance arrangements for reporting performance to committee.
 - an annual update to the performance indicators
 - the council's Annual Performance Report for 2012-13
 - the Strategic Service Plan 2012-17 which was updated to reflect progress and priorities after the first year of implementation

- five Directorate plans which provided further planning detail across service areas.

Overview of performance targets in 2013/14

139. The council has set out 53 Capital Coalition pledges to support delivery of its high level commitments. Performance against these pledges is reported to the full council on a six monthly basis, and is supported by wider performance report to the Governance, Risk and Best Value Committee and other Executive Committees on a regular basis.
140. The most recent performance summary reported in May 2014 highlighted the council was on track to deliver most of its pledges against planned timescales. Four pledges had been completed as at April 2013 and one further pledge has been completed during 2013/14 - the establishment of a policy of no compulsory redundancies.
141. A further 39 pledges (36 pledges at April 2013) have agreed actions and are on track to deliver, with new actions under development for an additional one pledge (seven in April 2013). The remaining eight pledges (six pledges at April 2013) were assessed as on track, however some actions had not been met by the planned date.
142. A further summary performance report will be presented to the council in November 2014.

Statutory performance indicators

143. The Accounts Commission has a statutory power to define performance information that councils must publish locally and it does this through its annual Statutory Performance Information Direction. Since its 2008 Direction, the Accounts Commission has moved away from specifying individual indicators and has focused on public performance reporting and councils' requirement to take responsibility for the performance information they report.

144. The audit of Statutory Performance Indicators in 2013/14 is a two stage process. The first stage requires auditors to ascertain and appraise councils' arrangements for public performance reporting and the completion of the Local Government Benchmarking Framework indicators. This focuses on three statutory performance indicators (SPIs) namely :

- SPI 1: covers a range of information relating to areas of corporate management such as employees, assets and equalities and diversity
- SPI 2: covers 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.

145. The second stage involves an assessment of the quality of the

information being reported by the council to the public. An evaluation of all Scottish Local Authorities' approaches to public performance reporting (PPR) has been carried out by Audit Scotland's Performance Audit and Best Value section, the results of which were reported to the Accounts Commission in June 2014. Individual assessments were also reported to councils' Chief Executives, Leaders and Chairs of Audit Committees. These highlighted the extent to which their PPR material either fully, partially or did not meet the criteria used in the evaluation. The results for City of Edinburgh Council were mixed, with 29% fully, 57% partially and 14% not meeting the criteria. The results in part reflect the accessibility and transparency of performance information during a period of redesign of the council's website. A further evaluation of councils' approaches to PPR is due to be carried out by Audit Scotland in spring 2015.

146. The council appear to be making progress in terms of their plans for public performance reporting. The review in spring 2015 should reflect improvement, based on our review of their plans for collection, verification and reporting of data.

Assurance and improvement plan 2014-17

147. The Assurance and Improvement Plan (AIP) covering the period 2014 to 2017 is the fifth AIP for the council prepared by the Local Area Network of scrutiny partners for the council since the introduction of the shared risk assessment process.

Best value, use of resources and performance

This was published on Audit Scotland's website in June 2014.

148. Following the scrutiny activity in 2012/13, including a Best Value audit by Audit Scotland, an inspection of children's services by the Care Inspectorate and an inspection of homelessness services by the Scottish Housing Regulator, the previous AIP concluded that no specific additional scrutiny would be required in 2013/14 as a result of the shared risk assessment process.
149. The 2014 Best Value follow-up audit considered a number of specific service area challenges within the council that were identified in the original Best Value audit. In addition to the key conclusions noted previously, the report concluded that the council had increased the supply of affordable housing but still faces a challenge to tackle homelessness.
150. All scrutiny areas will be revisited as part of the Shared Risk Assessment process for 2014/15.

Local performance audit reports

151. In 2013/14 we carried out two targeted follow-up audits to assess progress in areas that had been reported nationally by Audit Scotland:
152. **Arm's-length External Organisation (ALEOs):** Our follow-up audit assessed the effectiveness of the council's governance arrangements for overseeing ALEOs. Our report, issued in July 2014, concluded that the revised arrangements introduced

by the council sit well with good practice, but are still being implemented, therefore we could not fully comment on how they are operating in practice.

153. **Major capital investment in councils:** Our follow up audit is a 2 stage process to assess whether the council has considered Audit Scotland's report *Major capital investment in councils* and made improvements as a result.
154. The May 2013 Audit Scotland report was considered by the Governance Risk and Best Value committee in May 2013 and the council prepared an action plan in response to the recommendations in the Audit Scotland report.
155. Stage 1 of the follow-up audit was undertaken in June 2014. Our assessment was that the council's response to the 2013 Audit Scotland report had been satisfactory. However we noted that ongoing progress on the action plan developed in May 2013 had not been reported back to the committee.
156. Stage 2 of the follow up audit, which considers the council's capital investment strategy, risks and benefits management, and the governance arrangements around projects, is currently being undertaken and will be reported at the end of November 2014.

National performance audit reports

157. Audit Scotland national reports are included on the

Best value, use of resources and performance

Governance, Risk and Best Value Committee agenda for consideration, and referral to other council committees where appropriate.

158. A summary of national performance audit reports, along with local audit reports, is included in Appendices I and II.

Outlook

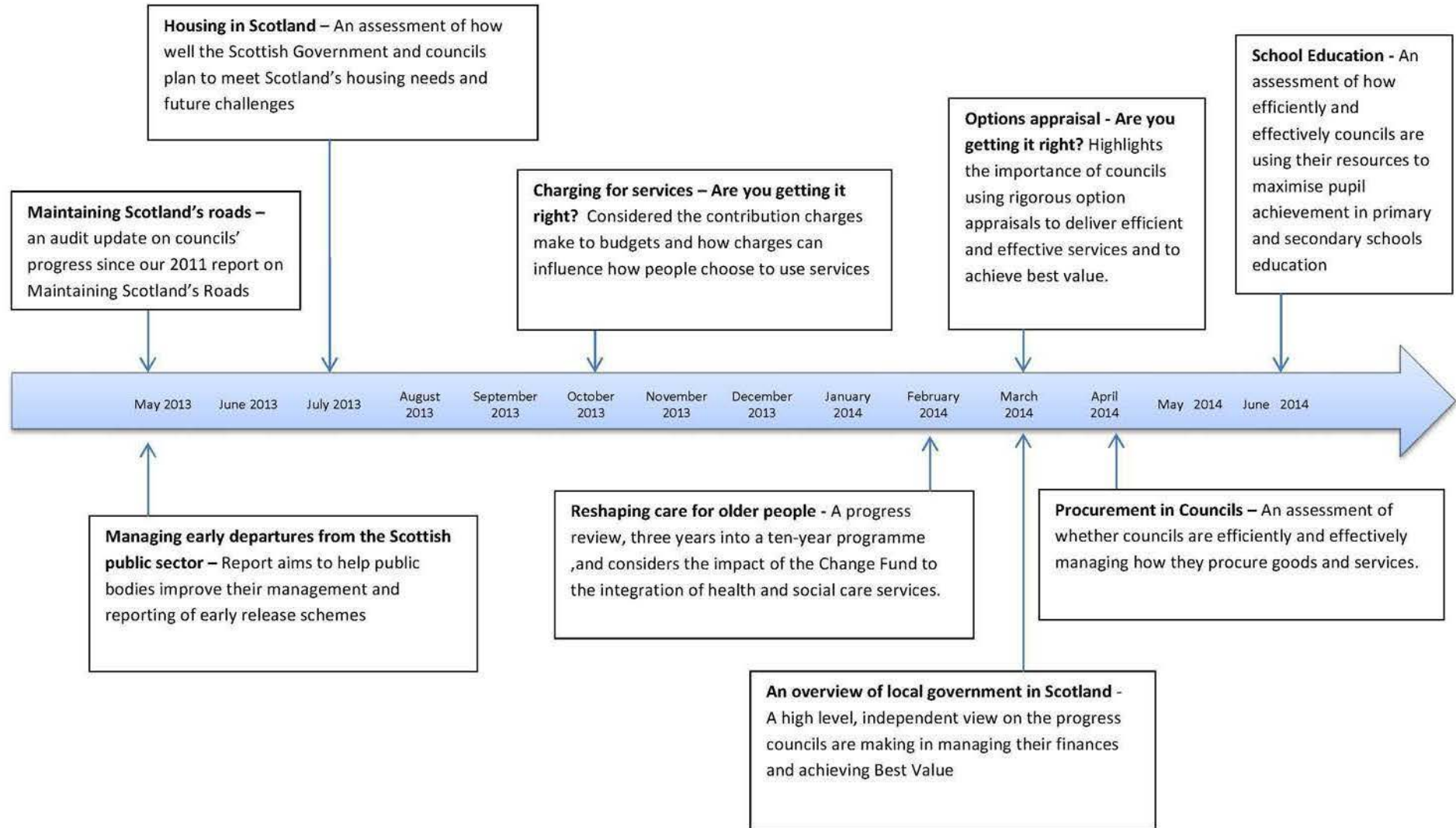
159. In common with other councils, City of Edinburgh Council faces the key challenges of reducing budgets, an aging population with higher levels of need and the public expectation of high quality services. Savings have been made in recent years largely by reductions in the workforce. However as choices on how to address funding gaps become increasingly difficult, the council will have to focus on making the very best use of all available resources and to challenge existing ways of doing things.
160. The council views the BOLD programme and improved procurement arrangements as key initiatives to identifying future service and savings options. It will be crucial that it puts in place the necessary funding and management skills needed to implement the projects successfully, and deliver the anticipated benefits.
161. The increased financial pressures also have potential to impact on service performance across the council. Maintaining a

strong and effective performance management framework will be critical to the success of the council achieving its key priorities, and demonstrating the effectiveness of the BOLD transformation programme.

Appendix I – Summary of City of Edinburgh council local audit reports 2013/14



Appendix II – Summary of Audit Scotland national reports 2013/14



Appendix III – Significant audit risks

The table below sets out the key audit risks identified at the planning stage and how we addressed each risk in arriving at our opinion on the financial statements.

Audit Risk	Assurance procedure
<p>Tram project expenditure</p> <p>The Tram project is scheduled for completion in summer 2014 and within the revised budget of £776 million. <i>There remain risks that the project may not be completed on schedule and/ or budget. Also, as the council is now incurring significant revenue costs in relation to preparation for operations, there is a risk of misclassification of expenditure between capital and revenue.</i></p>	<p>The Edinburgh Trams began operating on 31 May 2014</p> <p>We reviewed reports to elected members on project progress and expenditure, during 2013/14 and after the balance sheet date.</p> <p>We tested a sample of revenue costs relating to preparation from tram operations and confirmed that these were revenue in nature.</p>
<p>Tram classification and valuation</p> <p>To date, Tram vehicles have been accounted for as assets under construction however if they are available for use at the balance sheet date it may be necessary to treat them as operational assets. Also, it may be necessary to recognise an impairment if the recoverable amount is lower than the carrying amount of any surplus trams.</p> <p><i>There is a risk that tram vehicles could be classified incorrectly or not reflected at an appropriate value in the financial statements.</i></p>	<p>As noted above, the Edinburgh Trams began operating on 31 May 2014. We discussed the status of the tram vehicles as at 31 March 2014 with the Senior Responsible Officer for the tram project and reviewed the Letter of No Objection from the Independent Competent Person in order to confirm the date of the trams becoming available for use. We also discussed the current usage of tram vehicles and planned future options for the network with officers and agreed with their conclusion that an impairment review is not necessary at present.</p>

Audit Risk	Assurance procedure
<p>Statutory repairs</p> <p>The council acknowledges that the billing and debt recovery process is going to take a significant amount of time especially as the billing process continues and those projects that have been difficult to finalise due to age, complexity or lack of staff, contractor continuity or supporting information are processed.</p> <p><i>There is a risk that the amounts that have been or have yet to be billed to owners will not be fully recoverable.</i></p>	<p>We reviewed reports to members and related papers on progress of billing and collection (including bad debts) and complaints resolution and considered the adequacy of the bad debt provision in light of the available information.</p>
<p>Group Structure</p> <p>During 2013/14 the council has been reviewing its group company structure which is expected to result in the creation of new transport companies and the merger or cessation of other group companies.</p> <p><i>There is a risk that the revised group structure may not be reflected within the group financial statements.</i></p>	<p>We reviewed reports to members and related papers on progress of review of group structure. We also reviewed the council's group boundary assessment.</p>
<p>Significant Trading Operations (STOs)</p> <p>The council is currently reviewing the use of STOs as a service delivery model.</p> <p><i>There is a risk that revised arrangements may not properly reflect LASAAC's guidance on the definition and operation of STOs.</i></p>	<p>We reviewed the council's assessment and application of the LASAAC guidance as part of our planned financial statements audit work and were satisfied that it had been appropriately applied.</p>

Audit Risk	Assurance procedure
<p>Finance restructuring</p> <p>An organisational review of finance services is currently ongoing.</p> <p><i>There is a risk that staff changes in key posts and the effect on the day to day operation of services could impact on the 2013/14 accounts preparation process.</i></p>	<p>Ongoing engagement took place with officers during the audit. Key contacts were discussed with officers as part of the planning process. Resource plan developed to take account of council and audit key target dates. Named audit contacts were provided by the council for specific audit areas as part of the working papers package. The unaudited accounts were provided for audit in accordance with the agreed timetable.</p>
<p>Managing financial pressures</p> <p>The latest (month 9) budget monitoring reports forecast a balanced outturn, with all services projecting a balanced position. Cost pressures have been identified across all services and a range of cost management measures have been implemented to mitigate these.</p> <p><i>There is a risk that some of the projected underspends and overspends will vary resulting in the council not achieving its projected break even position at 31 March 2014</i></p>	<p>We reviewed the revenue monitoring outturn report for 2013/14 and the outturn information disclosed in the Foreword to the accounts. As noted in paragraph 67, the 2013/14 outturn shows a net underspend of £0.706 million against budget for the general fund.</p>
<p>Benefits performance</p> <p>In the 2012/13 Annual Audit Report, we noted that the council had not fully addressed all the issues raised in a previous benefits performance audit. The council has subsequently provided information on measures being taken to improve its performance.</p> <p><i>There is a risk that the council has not fully addressed the issues raised in the previous benefits performance audit.</i></p>	<p>We requested and reviewed further benefits performance information relating to processing new claims and changes of circumstances from the council for the 2013/14 financial year. A further risk assessment of the council’s benefits performance is planned for towards the end of the 2014/15 financial year.</p>

Appendix III – Significant audit risks

Audit Risk	Assurance procedure
<p>Welfare Reform: The full range of changes emanating from the 2012 Welfare Reform Act is considerable and will have significant implications for council services, service users and staff.</p> <p><i>There is a risk that the council has not fully anticipated all of the issues which may arise, and may fail to provide support and assistance to those service users who are most affected.</i></p>	<p>We reviewed welfare reform update reports to members and discussed the measures being taken by the council with officers.</p>

Appendix IV – Action plan

Action plan point / para	Issue, risk and recommendation	Management action/response	Responsible officer	Target date
1 / 54	<p>Statutory Repairs</p> <p>The financial statements contain a total debtor balance of £30.6 million (2012/13 - £32.5 million) relating to statutory notices. The largest element of this balance, £19.1 million (2012/13 - £22 million), is made up of work carried out but not yet billed.</p> <p>Risk</p> <p>Anticipated levels of recovery are not achieved, leaving the council with significant levels of shortfall in income.</p> <p>Recommendation</p> <p>The level of bad debt provision should continue to be the subject of regular review, taking particular account of progress in invoicing and collecting as-yet unbilled sums.</p>	<p>Progress in both debt recovery and billing of outstanding sums will continue to be monitored on a weekly basis, with on-going monthly updates provided to the Finance and Resources Committee. These assessments will inform assessments of the adequacy of current bad debt provision.</p>	Director of Corporate Governance	On-going

Appendix IV – Action plan

Action plan point / para	Issue, risk and recommendation	Management action/response	Responsible officer	Target date
2 / 55	<p>Tram vehicles</p> <p>We previously raised the possibility of a need for an impairment review on tram vehicles, to reflect that some vehicles may be surplus to requirements given the reduction in the network. Officers noted that all vehicles are currently being utilised evenly across the network, and consequently they do not consider an impairment review necessary at present. Officers intend to take a report to members setting out future options for the trams network.</p> <p>Risk</p> <p>The carrying value of surplus assets in the financial statements does not reflect what is realistically achievable on disposal.</p> <p>Recommendation</p> <p>Once the report has been taken to members setting out the future options for the trams network officers will require to consider the need for an impairment review of the tram vehicles.</p>	<p>The appropriateness of the current basis of tram vehicle valuation will be reviewed upon clarification of future plans for the tram network.</p>	<p>Acting Director of Services for Communities, in consultation with the Head of Finance</p>	<p>March 2015</p>

Appendix IV – Action plan

Action plan point / para	Issue, risk and recommendation	Management action/response	Responsible officer	Target date
3 / 57	<p>Group accounting boundary</p> <p>For 2013/14, no formal group boundary assessment was undertaken by the council to confirm which bodies should be included within the group financial statements.</p> <p>Risk</p> <p>The council group financial statements may not reflect the actual group structure and disclosure requirements.</p> <p>Recommendation</p> <p>A formal group boundary review should be undertaken as part of the council's final accounts process to ensure all relevant bodies are consolidated into the group financial statements.</p>	<p>While relevant issues were considered in closing 2013/14's accounts, resulting in a number of consolidation changes from 2012/13's equivalent statements, these will be formally documented for the 2014/15 process.</p>	<p>Corporate Finance Manager</p>	<p>March 2015</p>

Appendix IV – Action plan

Action plan point / para	Issue, risk and recommendation	Management action/response	Responsible officer	Target date
5/105, 135	<p>ICT</p> <p>The council has made some progress in delivering its ICT and Digital Strategy, however a number of key projects will require to be delivered over the coming period.</p> <p>Risk</p> <p>Failure to deliver the ICT and Digital Strategy impacts service performance, the delivery of the improvement programme and financial savings to the council</p> <p>Recommendation</p> <p>The council needs to make further progress to its ICT arrangements to ensure they are fit for purpose and help to improve services and make savings. The council also needs to ensure it has the required skills and expertise when planning and managing its new ICT contract.</p>	<p>The council will continue to deliver its ICT and Digital Transformation programme at pace, delivering considerable savings going forward.</p> <p>The council has involved key members of the ICT team, including the Chief Information Officer, the Service Manager and the Commercial Manager, in the re-procurement of the new ICT contract, to ensure issues with the current contract are addressed and appropriate skills are in place to manage the new contract.</p>	Chief Information Officer	March 2016

Appendix IV – Action plan

Action plan point / para	Issue, risk and recommendation	Management action/response	Responsible officer	Target date
6/135	<p>Workforce management</p> <p>The council lacks a comprehensive workforce strategy covering the whole organisation and has made limited progress on developing this over recent years.</p> <p>Risk</p> <p>The council does not have sufficient capacity for change and improvement in meeting increased demand for services in the context of financial constraints.</p> <p>Recommendation</p> <p>The council needs to develop a comprehensive workforce strategy to make sure it has sufficient people with appropriate skills and experience, both at leadership level and across the wider organisation and including the Corporate Programmes Office, to meet the challenges it faces while increasing the pace of change and improvement.</p>	<p>The council is developing its organisational structure around a neighbourhood delivery model supported by city-wide services and an aligned corporate support function. The design and build of this is currently underway and the high-level strategic workforce plan will be presented to the February Council meeting as part of the Best Value action plan process.</p>	Head of People and Organisation	February 2015