

Governance, Risk and Best Value Committee

10am, Thursday 19 December 2013

Audit Scotland – annual report on the 2012/13 audit

Item number 8.1

Report number

Wards

Links

Coalition pledges [P30](#)

Council outcomes [CO25](#)

Single Outcome Agreement n/a

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Executive summary

Audit Scotland – annual report on the 2012/13 audit

Summary

The report summarises the principal findings arising from the Council's 2012/13 external audit. While primarily focused on review of the financial statements, the audit's scope included wider consideration of the Council's financial position, governance structures, use of resources and arrangements for securing best value. An unqualified audit opinion was issued but the report notes the failure of one of the Council's Significant Trading Operations (STOs) to break even over a rolling three-year period.

The report further concludes that the Council's overall governance arrangements during the year were adequate, with no material weaknesses in the accounting and internal control systems identified in the course of the audit. In common with other local authorities, the Council faces significant challenges in reconciling increasing service demands with static resourcing levels but is assessed to have been proactive in seeking to address these.

Recommendations

Members of the Governance, Risk and Best Value Committee are requested to note the contents of the report and in particular the action plan included as Appendix B, on which periodic progress updates will be provided during the year.

Measures of success

Besides the budget management- and financial standing-related indicators set out within the main body of the Audit Scotland report, the primary focus is on addressing the actions within the action plan in accordance with the timescales indicated.

Financial impact

There is no direct additional impact arising from the report's contents, although the effectiveness of the Council's current financial management and planning is noted.

Equalities impact

There is no additional impact arising from the report's contents. The Audit Scotland report nonetheless notes the Council's general proactivity in promoting the equalities agenda.

Sustainability impact

There is no direct sustainability impact arising from the report's contents.

Consultation and engagement

There is no direct relevance to the report's contents.

Background reading / external references

[City of Edinburgh Council – report to those charged with governance on the 2012/13 audit](#), Governance, Risk and Best Value Committee, 25 September 2013

[Audited Financial Statements 2012/13](#), City of Edinburgh Council, 24 October 2013

Audit Scotland – annual report on the 2012/13 audit

1. Background

- 1.1 The Council submitted its financial statements to the Controller of Audit by the required date of 30 June. The draft audited financial statements were initially considered by the Governance, Risk and Best Value Committee at its meeting on 25 September, with the finalised statements then presented to Council on 24 October. Due to their size, the statements have not been re-circulated for this meeting but instead included as a link in the background reading section.
- 1.2 The review of all matters relating to external audit forms part of the remit of the Governance, Risk and Best Value Committee and is an important aspect of the overall governance arrangements of the Council. The Auditor's report is therefore being considered by this Committee rather than Council and/or the Corporate Policy and Strategy Committee, unless members deem this further scrutiny necessary.
- 1.3 The External Auditor will attend this meeting to provide an overview of the report and respond to specific queries members may have on its content.

2. Main report

- 2.1 As in previous years, the External Auditor's report contains four sections:
 - Financial statements;
 - Financial position;
 - Governance and accountability; and
 - Best Value, use of resources and performance
- 2.2 The key messages from the audit are presented on pages 4 to 6 of the report (Appendix 1), with a number of action points for the Council to address in the coming months also included. These, together with the responses provided by the Council, are shown on pages 40 to 43.

Financial statements (pages 8 to 14)

- 2.3 Members will be aware from the Governance, Risk and Best Value Committee's meeting in September, where the Auditor's ISA260 letter was discussed, that Audit Scotland provided an unqualified opinion on the financial statements, albeit it was noted that one Significant Trading Operation, Edinburgh Catering Services – Other Catering, failed to meet the statutory requirement to break-even over a rolling three-year period. The requirement to break even has, however, been met in each of the last two financial years, with the failure to do so in 2010/11 attributable to significant, largely one-off equal pay costs.
- 2.4 The Auditor's report notes that no issues pertaining to the legality of the Council's financial transactions require to be brought to members' attention. The Council's interest in a number of subsidiaries and associates has also been appropriately reflected in the wider group accounts. The report furthermore confirms that the financial statements comply with proper accounting practice and relevant sectoral guidance, with adequate measures in place to attest to the assurances contained within the Annual Governance Statement.
- 2.5 The report notes that a small number of presentational adjustments were incorporated in the audited statements, increasing marginally the Council's overall level of net assets but that these changes had no impact on the year-end outturn. This confirmed that all services have maintained expenditure within budget for the fourth successive year.
- 2.6 The extent of progress in resolving, and subsequently billing, outstanding statutory notice works is also noted, with the level of bad debt provision reflected within the financial statements considered reasonable based on all available information. The report does, however, emphasise the importance of prompt complaint resolution and, wherever appropriate, billing of remaining cases to maximise overall collection rates.

Financial position (pages 15 to 22)

- 2.7 In addition to confirming the outturn position as noted above, the report compares the level of the Council's usable reserves to that for other Scottish local authorities. This indicates that both the absolute level, and year-on-year change, in these is in line with the average for Scotland as a whole. The Council's level of debt, expressed relative to its asset base, is also similar to the Scottish average, with the associated loan charge expenditure incorporated within the Long-Term Financial Plan.
- 2.8 The report furthermore notes the reduction in capital expenditure slippage in 2012/13 following centralisation of the budget development and monitoring functions during the year.
- 2.9 In common with all Scottish authorities, the Council faces significant challenges in meeting ever-increasing demands for services from within a reducing real-terms level of resource. In this context, the report makes reference to the priority-based approach adopted by the Council in aligning resources to key outcomes and

sharing the resulting budget framework with key stakeholders well in advance of formal budget-setting for the following year.

Governance and accountability (pages 23 to 30)

- 2.10 This section of the report notes the range of governance improvements introduced following the appointment of the Director of Corporate Governance in September 2011, including revised political arrangements, full updates of a number of key operational governance documents (such as the Scheme of Delegation, Contract Standing Orders and Financial Regulations) and enhancements to the capacity and capability of the internal audit and risk functions.
- 2.11 No material weaknesses in the accounting and internal control systems, insofar as these could result in material misstatements in the financial statements, were identified through Audit Scotland's work during the year. The Council's arrangements for the prevention and detection of fraud, bribery and corruption are also considered to be adequate.

Best value, use of resources and accountability (pages 31 to 38)

- 2.12 The report recaps the key findings of the Council's second Best Value Audit (BV2), full details of which were previously reported to Council in June. Whilst noting that the Council's 2012/13 Statutory Performance Indicator set shows a mixed picture, improvements in adopting a more outcome-focused approach to performance monitoring and reporting are acknowledged.
- 2.13 Following the publication in 2011 of Audit Scotland's national report *Scotland's public finances: addressing the challenges*, targeted follow-up work has been undertaken across a number of authorities. In this regard, the report includes favourable comment on the effectiveness of current financial planning and monitoring processes in addressing the Council's financial challenges. The range of work undertaken to mainstream equalities considerations is also highlighted.

3. Recommendations

- 3.1 Members of the Governance, Risk and Best Value Committee are requested to note the contents of the report and in particular the action plan included as Appendix B, on which periodic progress updates will be provided during the year.

Alastair D Maclean

Director of Corporate Governance

Links

Coalition pledges	P30 – Continue to maintain a sound financial position including long-term financial planning
Council outcomes	CO25 – The Council has efficient and effective services that deliver on objectives
Single Outcome Agreement	n/a
Appendices	Appendix 1 – Annual report on the 2012/13 audit

City of Edinburgh Council

Annual report on the 2012/13 audit



Prepared for Members of City of Edinburgh Council and the Controller of Audit
November 2013

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

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Key messages

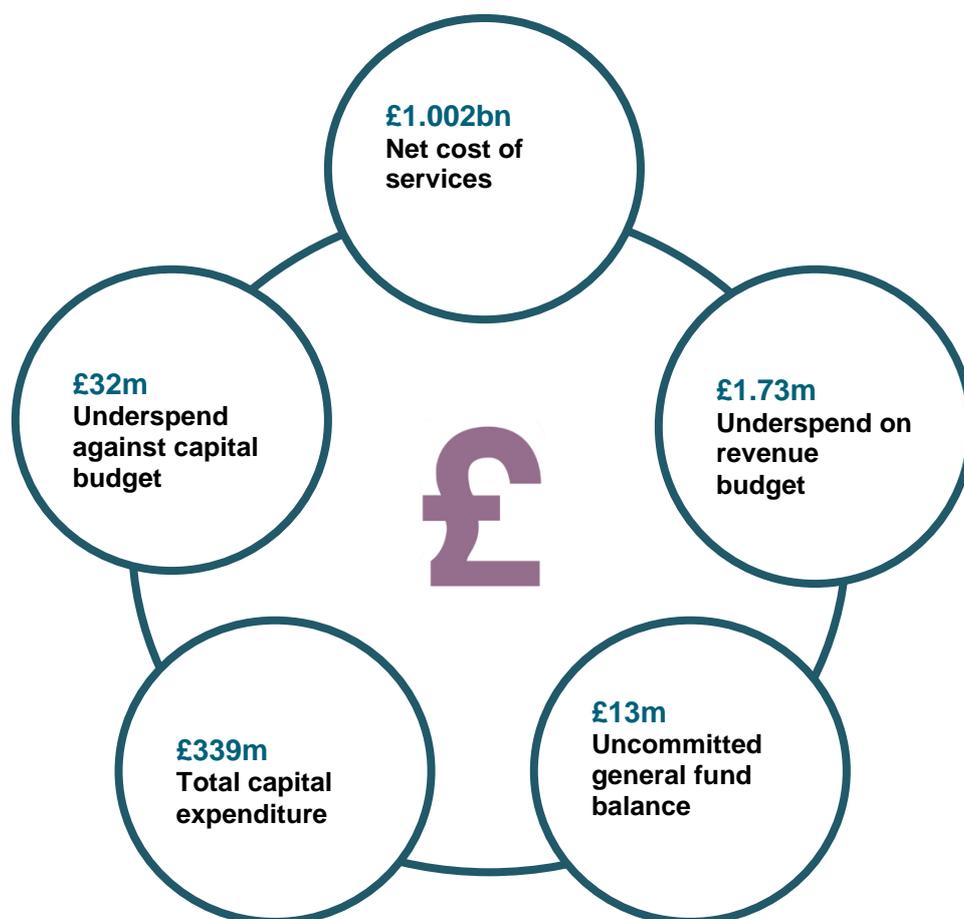
2012/13 Key Facts

This report summarises the findings from our 2012/13 audit of City of Edinburgh Council. As part of the audit we assessed the key financial and strategic risks being faced by the council. We audited the financial statements and reviewed the council's financial position and aspects of governance, best value, the use of resources and performance.

Financial Statements

We have given an unqualified opinion on the financial statements of the council and its group for 2012/13. In our opinion they give a true and fair view of the financial transactions for the year to 31 March 2013 and the financial position at that date. However, our opinion draws attention to the failure of a significant trading operation (Edinburgh Catering Services - Other Catering) to breakeven on a rolling three year basis.

Financial position



Governance and accountability

Overall the council's governance arrangements in 2012/13 were adequate. No material weaknesses in the accounting and internal control systems were identified during the audit.

Best Value, use of resources and performance

A Best Value report (BV2) on City of Edinburgh Council was published in May 2013, and was considered at full council in June 2013. The council's overall performance in terms of services and outcomes was assessed as good, with the report recognising good and improving performance across a number of service and outcome areas, including economic development, children's services and revenue and benefits.

The council's prospects for future improvement were assessed as fair. Good performance was recognised in a number of important areas including political and managerial leadership and partnership working, and the council demonstrates a strong awareness of where it needs to improve. However a number of the changes such as the new governance arrangements and the establishment of a Corporate Programme Office to support the improvement programme are fairly recent and it is too soon to assess their effectiveness. Workforce planning and ICT were highlighted as areas where improvements were required.

In their report the Accounts Commission welcomed the improvements the council has made but recognised that the scale of the financial challenge is substantial. The Accounts Commission has asked the Controller of Audit to report on the council's progress in around eighteen months from the time the report was issued.

Outlook

Scotland's public bodies continue to face increasing demand and cost pressure for their services in the foreseeable future. An ageing population, the effects of the recession and the heightened expectations of the public, all increase the demand for public services. These, together with cost pressures and existing financial commitments, place an additional burden on the capacity of public bodies to provide efficient and quality services at a time when budgets are reducing.

For the four year period 2014/15 to 2017/18, the council has identified a potential budget shortfall of approximately £120 million, and difficult decisions are required to be made about focussing resources towards service delivery priorities; to this end the council has carried out a number of thematic member-led workstreams to guide the development of a range of proposals which form part of its revenue and capital budget framework for the next four year period. It is also carrying out a process of consultation and engagement with members of the public, employees and key stakeholders and this will inform the budget for 2014/15.

The council intends to build on the thematic approach underpinning the development of budget proposals for 2014/15. A formal programme is being established to undertake a comprehensive review across all current areas of council spend. The review will assess the

extent to which the existing allocation of resources is aligned to delivery of the council and partners' key targeted outcomes. Particular emphasis is being placed on the need to promote and secure effective working across service boundaries. There are still uncertainties over the impact of the implementation of the Universal Credit on councils' services and resources, and a period of ongoing change lies ahead due to the integration of health and social care.

The co-operation and assistance given to us by officers during the audit is gratefully acknowledged.

Introduction

1. This report is the summary of our findings arising from the 2012/13 audit of City of Edinburgh Council. The purpose of the annual audit report is to summarise the auditor's opinions (i.e. on the financial statements) and conclusions, and to report any significant issues arising. The report is divided into sections which reflect the public sector audit model.
2. A number of reports have been issued in the course of the year in which we make recommendations for improvements (Appendix A). 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.
3. Appendix B 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 "planned management action". We do not expect all risks to be eliminated or even minimised. What we expect is that the council understands its risks and has arrangements in place to manage these risks. Members should ensure that they are satisfied with the proposed management action and have a mechanism in place to assess progress.
4. This report is addressed to members and the Controller of Audit and should form a key part of discussions with the Governance, Risk and Best Value Committee as soon as possible after the formal completion of the audit of the financial statements. Reports should be available to the other stakeholders and the public, where appropriate. Audit is an essential element of accountability and the process of public reporting.
5. This report will be published on our website after consideration 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 presented to the Local Government and Regeneration Committee of the Scottish Parliament.
6. The management of the council is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems. The auditor is responsible for auditing and expressing an opinion on the financial statements. Weaknesses or risks identified by auditors are only those which have come to their attention during their normal audit work, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Financial statements

7. Audited bodies' financial statements are an essential part of accounting for their stewardship of the resources made available to them and their performance in the use of those resources.
8. Auditors are required to audit financial statements in accordance with the timescales set by Audit Scotland, which may be shorter than statutory requirements, and give an opinion on:
 - whether they give a true and fair view of the financial position of audited bodies and their expenditure and income
 - whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements.
9. Auditors review and report on, as appropriate, other information published with the financial statements, including the annual governance statement and the remuneration report. Auditors also review and report on the Whole of Government Accounts return. This section summarises the results of our audit on the financial statements.

Audit opinion

10. We have given an unqualified opinion that the financial statements of the City of Edinburgh Council for 2012/13 give a true and fair view of the state of affairs of the council and its group as at 31 March 2013 and of the income and expenditure for the year then ended.
11. 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 2013, with a cumulative deficit of £0.113 million. A deficit of £0.144 million was incurred in 2010//11, which included equal pay costs of £0.084 million. However in the financial years 2011/12 and 2012/13, surpluses of £0.014 million and £0.017 million respectively were generated. Whilst this is a failure to comply with the Local Government in Scotland Act 2003, it does not impact on the fairness, or affect our overall opinion on, the financial statements.

Legality

12. Through our planned audit work we consider the legality of the council's financial transactions. In addition, the Head of Finance has confirmed that, to the best of his knowledge and belief, and having made appropriate enquiries of the council's corporate management team, the financial transactions of the council were in accordance with relevant legislation and regulations. There are no legality issues arising from our audit which require to be brought to members' attention.

Going concern and group accounts

13. The council has prepared the financial statements on the assumption that both the council and its group can continue to operate as a going concern in future.

14. 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. For the purpose of consolidation and incorporation within the group accounts the council has three subsidiary organisations (CEC Holdings Limited, Lothian Buses plc. and tie Ltd). The council has two further subsidiaries, Capital City Partnership Ltd and Marketing Edinburgh Ltd which are not consolidated into the Group Accounts. The council carried out an assessment on these companies and their activities and the level of council control. The council decided that these companies are not considered to be a material part of the group and have therefore been excluded from the group accounts. We reviewed this assessment as part of our audit work and accepted their exclusion from the group accounts.
15. Also consolidated are seven associates (Edinburgh Leisure, Festival City Theatres Trust, Edinburgh International Conference Centre Income Trust, Edinburgh International Conference Centre Expenditure Trust, Lothian & Borders Fire and Rescue, Police and Valuation Joint Boards) and the Common Good Funds.
16. The overall effect of inclusion of all of the council's subsidiaries, associates and common good fund on the group balance sheet is to reduce both reserves and net assets by £1,306 million. The group balance sheet as at 31 March 2013 discloses an excess of assets over liabilities of £540 million (2011/12 £845 million).
17. Police and Fire functions transferred to the Scottish Police Authority and the Scottish Fire and Rescue Service on 1 April 2013. The group balance sheet position will improve in future years as the council will no longer be required to accrue the pension liabilities of Police and Fire into its group accounts.

Annual Governance Statement

18. As part of our annual audit we review the disclosures made in the Annual Governance Statement for the group included in the financial statements, and the process for obtaining sufficient assurances to inform the content of the statement.
19. We highlighted a number of areas where additional context would enhance the Annual Governance Statement drafted in June 2013 and the council has reflected on these. We are satisfied that the disclosures in the finalised Annual Governance Statement are in line with the guidance contained in the CIPFA publication *Delivering Good Governance in Local Government*. Also, we are satisfied with the adequacy of the process put in place to obtain the necessary assurances for the Annual Governance Statement.
20. Annual Governance Statements are also prepared for Lothian and Borders Fire and Rescue Service, Police and Valuation Joint Board. Assurances were also obtained from the management of the subsidiary organisations.

Remuneration report

21. We are satisfied that the remuneration report has been prepared in accordance with the relevant legislation. The disclosures within the 2012/13 financial statements include all

eligible remuneration for the relevant council officers and elected members under a number of categories including pension benefits.

Accounting issues

22. Local authorities in Scotland are required to follow the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 (the 2012/13 Code). We are satisfied that the council prepared the 2012/13 financial statements in accordance with the 2012/13 Code.

Accounts submission

23. The council's unaudited financial statements were submitted to the Controller of Audit by the deadline of 30 June 2013. A comprehensive working papers package was also available at this date. This enabled us to conclude the audit and certify the financial statements prior to the target date of 30 September 2013. The financial statements are now available for presentation to members and publication.

Presentational and monetary adjustments to the unaudited accounts

24. On conclusion of the audit, there were a number of presentational changes made to the accounts. Each year there are also a number of changes to the group accounts to reflect the audited results submitted by group companies in September.
25. A number of matters were identified during the audit and adjustments were made to the accounts. These were discussed with senior finance officers who agreed to amend the unaudited financial statements.
26. The effect of these adjustments was to decrease the council's total comprehensive income and expenditure by £0.606 million. Net assets as recorded in the council balance sheet increased by £2.877 million to reflect the in year and prior year adjustments.
27. A number of changes relating to the group accounts were also made following receipt of audited financial statements from other bodies within the group boundary. The main group change related to an increase of £53 million in the consolidated pension liabilities of Lothian and Borders Police Board, following updates to assumptions and estimations used in the unaudited Board accounts.

Statutory Repairs

28. Following an investigation into alleged improper practices in the council's statutory repairs service the council received 986 complaints regarding 607 projects. Complaints covered a range of issues including the scope of work, costs, work quality, project management and communications. All 986 complaints have now been considered by a resolution panel, with decisions on 123 of these deferred, pending further consideration. Of the remaining 863 cases which have been resolved by the panel, 33 appeals were received. Twenty appeals (involving 18 cases) have been considered and the panel's decision upheld in 17 cases.

29. The council is developing a 'Phase 2' of the resolution process which is intended to complete resolution of the outstanding complaints. It is proposed that an external legal practice will be engaged to lead the next phase of work.
30. The financial statements contain a total debtor balance of £32.5 million (2011/12 - £39.7 million) relating to statutory notices. The largest element of this balance, £22 million (2011/12 - £27 million), is made up of work carried out but not yet billed.
31. It was noted at the Finance and Budget Property Sub-committee in May 2013 that the council plan to achieve billing of 80% of the outstanding amounts by autumn of 2013. Given progress in this area has previously been slower than anticipated, an increased rate of advancement on cases will be required in order to meet this timescale.

Refer to action point no. 1

32. The council holds a statutory notices bad debt provision of £10.4 million (2011/12 - £7.3 million), which equates to 32% of the total debtor relating to statutory notices. Although progress has been made in dealing with complaints, there remains a lack of robust recovery data on which to base the level of bad debt provision, and the unbilled debt has aged further, arguably reducing the chance of successful recovery. In light of the slower than anticipated progress in this area, the council has increased the provision from 15% to 25% of debt relating to work from 2009 onwards.
33. As part of the audit process we considered the method used by the council in determining the level of bad debt provision relating to statutory repairs, including the underlying assumptions and the effect of estimation uncertainty. In the absence of retrospective evidence about the recovery of this debt, we consider the council's approach to estimation as reasonable.
34. As at April 2013, a new Shared Repairs Service (SRS) was launched to replace the existing Property Conservation Service. The council retains the statutory power to carry out repairs and recover costs from the owners where there is an immediate risk to public health or safety. However, the new service places an emphasis on owners taking the lead in progressing planned repairs to their property, through agreement with their neighbours.

Tram Project

35. The financial statements presented for audit in June 2013 disclosed the transfer of £46.5 million of expenditure from assets under construction to vehicles plant and equipment and surplus assets. This transfer was made to recognise that as at 31 March 2013, tram vehicles were being operated on a section of a track and used as part of the driver training programme. However, after discussion with officers and review of supporting evidence, it was established that a significant level of site testing has still to be completed before the vehicles can be considered available for use. The revised financial statements were amended to reflect the £46.5 million expenditure on tram vehicles as assets under construction.
36. During our audit testing of the proposed asset transfer described above, we identified that £15.1million of expenditure on tram vehicles in 2008/09 was incorrectly capitalised as infrastructure expenditure. Depreciation of £0.757 million has been charged in error each year

since 2009/10 as a result of this misclassification. The revised financial statements were amended to reflect the £15.1 million capital expenditure as assets under construction, and a prior year adjustment made for the reversal of depreciation charges accumulated from 2009/10 to 2011/12.

37. The council ordered 27 tram vehicles as part of the original project, however following a decision to terminate the tram line at York Place, a number of these vehicles are likely to be surplus to operational requirements for the current route. The council is currently assessing the optimal number of vehicles required depending on planned service patterns, and as part of this process will need to consider disposal strategies for these assets, and the carrying value, of any surplus tram vehicles in the financial statements going forward.

Refer to action point no. 2

Equal pay

38. During the year the council paid out £15.263 million in relation to equal pay claims. As at 31 March 2013, a provision of £13.152 million remains in respect of the remainder of anticipated equal pay settlements.
39. In June 2013 the Supreme Court ruled against Dumfries and Galloway Council, in favour of Unison, the local authority workers union, which argued that the terms and conditions of female staff should be in line with male manual workers. The decision of the Supreme Court may have implications for all local authorities in Scotland, including City of Edinburgh Council. The council acknowledges the potential for liabilities to arise from further eligible claims, however, no additional provision has been made due to the degree of uncertainty surrounding settlement levels. An unquantified contingent liability has been disclosed in the financial statements.

Pension costs

40. City of Edinburgh Council is a member of the Lothian Pension Fund which is a multi-employer defined benefit scheme. In accordance with pensions accounting standard IAS19 'Retirement Benefits' the council has recognised its share of the assets and liabilities for the pension fund in the balance sheet. The valuation at 31 March 2013 provided by the scheme's actuaries increased the council's share of those net liabilities from £381.215 million last year to £450.583 million this year, reflecting general unfavourable movements in investment markets.
41. 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.

Whole of government accounts

42. 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 to support its 2012/13 WGA return to the Scottish Government prior to the deadline of 7 August 2013.

An updated WGA return based on the audited financial statements was provided by the council on 7 October. This has now been audited and the audited return submitted.

Outlook

Charities accounts

43. A full audit is required from 2013/14 of all registered charities where the local authority is the sole trustee irrespective of the size of the charity. This is due to the interaction of section 106 of the Local Government (Scotland) Act 1973 with the Charities Regulations. In 2013/14 we will require to audit and report on 8 charities. The council has carried out an amalgamation exercise to reduce its number of charities to the present number from over a hundred charitable trusts.
44. The Assistant Auditor General (AAG) wrote out to Local Government Directors of Finance in June 2013 advising them of these new arrangements and the Accounts Commission's decision to appoint the auditor of each council as the auditor of its relevant charities. This is likely to result in an increase in audit costs and will form part of the fee discussions as part of the 2013/14 audit planning process.
45. In July 2013, the Office of the Scottish Charity Regulator (OSCR) wrote to all local authorities to set out their expectations in relation to reporting and filing of financial information for 2012/13 in relation to those charities managed by local authorities. It also provided feedback on the 2011/12 submissions by local authorities. City of Edinburgh Council was one of only two councils to receive a 'fully compliant' rating for their 2011/12 submission. The council's return was assessed as 'fully compliant' as it contained compliant accounts using the connected charities provision, a detailed trustee's annual report and an independent audit report. This confirms the council has been proactive in its approach to changes in charitable account reporting.
46. A consultation exercise is currently underway in terms of the Local Authority Accounts (Scotland) Regulations. It is likely that for 2013/14 local authorities, if they do not already do so, will require an Audit Committee or similar to approve the accounts by 30 September 2014.

Trams project

47. In preparation for the commencement of services a new operating company has been created for the management of public transport within Edinburgh, with a revised completion date of May 2014 being set for the Trams project. The council expects the project to be completed within the revised budget of £776 million, with the vast majority of spending (£756 million) having already been committed to the project (as at August 2013). There is a possibility that a public inquiry will be held once the project has been completed.

Accounts Regulations

48. The Scottish Government has been carrying out a consultation on the amendment of the Local Authority Accounts (Scotland) Regulations 1985, to be effective from 2013/14. Possible changes could affect the period of public notice for accounts, signing and consideration of audited accounts, and their publication. We will liaise with the council as and when these developments emerge.

Financial position

49. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.
50. Auditors consider whether audited bodies have established adequate arrangements and examine:
 - financial performance in the period under audit
 - compliance with any statutory financial requirements and financial targets
 - ability to meet known or contingent, statutory and other financial obligations
 - responses to developments which may have an impact on the financial position
 - financial plans for future periods.
51. These are key areas in the current economic circumstances. This section summarises the financial position and outlook for the organisation.

Financial results

52. In 2012/13 as recorded in the comprehensive income and expenditure statements, the council spent a net £1,001.851 million on the provision of public services and had an accounting surplus of £11.641 million. However, this includes certain elements of income and expenditure that are accounted for to comply with the Code of Practice on Local Authority Accounting, which are then adjusted to show their impact on statutory council reserves. Following these adjustments there is an increase in the general fund balance of £4.558 million.

Budgetary control

53. The 2012/13 outturn report shows a net underspend of £1.730 million against budget for the general fund. Key factors contributing to the underspend were:
 - Health and Social Care underspent by £2.38 million, due in part to a one-off accounting adjustment in respect of sums due from residents in previous years under charging orders
 - Corporate provisions for energy costs resulting from increased tariffs were not fully utilised, resulting in a saving of £1.617 million
 - Lower than anticipated council tax discounts and exemptions resulted in net additional income of £1.41 million.
54. The savings noted above were offset against £3.517 million costs relating to the tram project that were identified as revenue by nature, and an increase of £2.73 million which primarily relates to an increase in the provision for statutory repairs bad debt.
55. The Housing Revenue Account was balanced at the end of 2012/13 by making a contribution of £11.688 million to the Renewal and Repairs Fund, via the General Fund. These funds are

earmarked for future capital investment in new homes and as a contingency for the emerging impact of Welfare Reform.

Financial position

56. The general fund reported a net surplus for 2012/13 of £4.558 million, increasing the general fund balance to £105.996 million as at 31 March 2013. This balance is made up of an unallocated general fund balance of £13.025 million and earmarked commitments of £92.971 million. Earmarked commitments include £51.017 million set aside for specific medium term financial risks, including equal pay and dilapidations, and £34.874 million of set-aside balances arising from timing differences between grant and other income received and planned expenditure.
57. Exhibit 1 shows the balances in the council's funds at 31 March 2013 compared to the previous year. The council's funds totalled £162.647 million, an increase of £18.314 million on the previous year. As stated above, £92.971 million (or 88%) of the total general fund balance has been earmarked for future use.

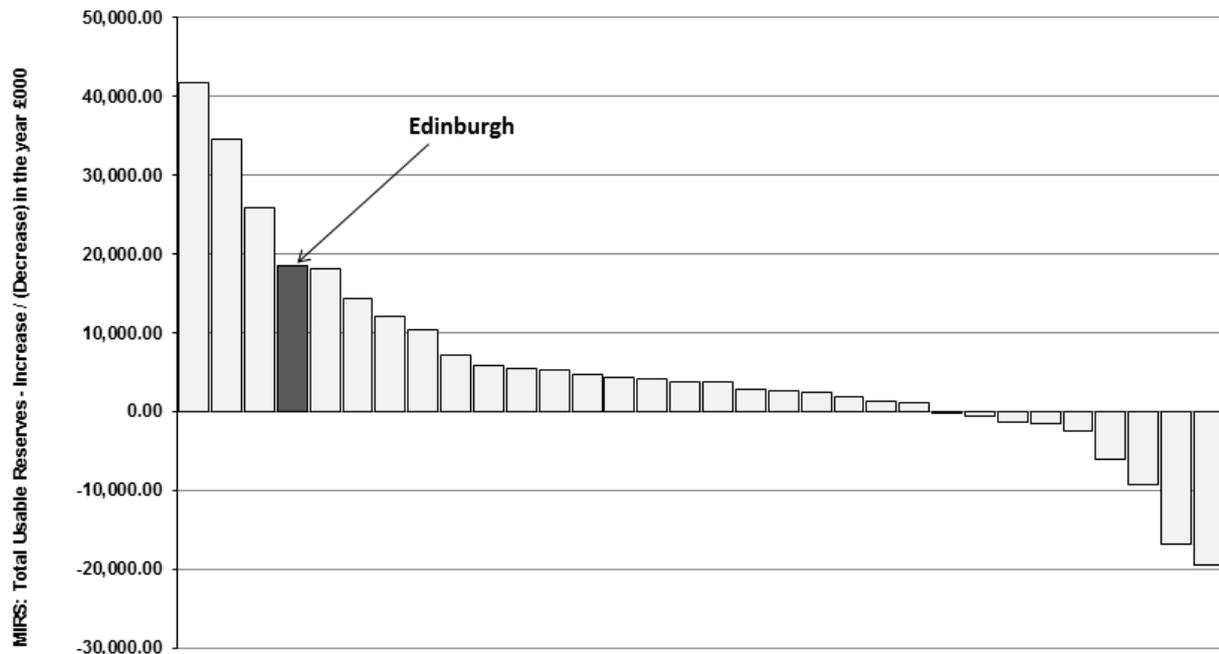
Exhibit 1: Usable reserves

Description	31 March 2012	31 March 2013
	£ million	£ million
General Fund	101.438	105.996
Capital Fund	16.369	18.873
Capital Grants Unapplied	7.533	7.030
Repairs & Renewal Fund	18.993	30.748
Total Usable Reserves	144.333	162.647

Source: City of Edinburgh Council 2012/13 audited financial statements

58. The council's usable reserves have increased by 12.7% on the previous year. The increase in total usable reserves in 2012/13 is consistent with the picture across the majority of Scottish local authorities, as demonstrated in Exhibit 2. The balances held by the council are discussed by members as part of the regular budget monitoring processes. The use of balances for earmarked purposes has been agreed by members.

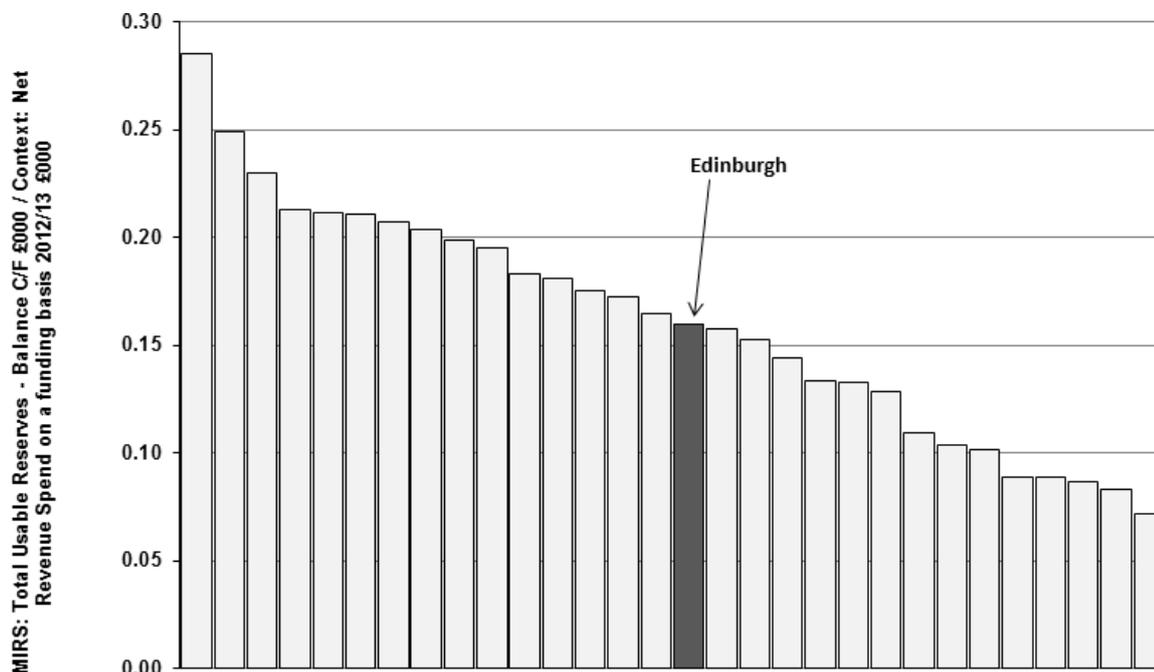
Exhibit 2: Movement in total usable reserves including earmarked, uncommitted and capital funds



Source: Audit Scotland analytical review database (unaudited local authority accounts)

59. Exhibit 3 below presents the council's usable reserves position in relation to net revenue spends for the year in comparison to other Scottish local authorities. The graph demonstrates that the City of Edinburgh Council lies just below the median point in relation to this financial ratio. The level of reserves at 31 March 2013, together with the forward strategy, are considered appropriate in view of the financial liabilities and risks likely to face the council in the short to medium term. However, the council needs to continue to ensure that it strikes the required balance between meeting current obligations and preparing for future commitments and/or reductions in funding.

Exhibit 3: Total usable reserves carried forward as a proportion of net revenue spend



Source: Audit Scotland analytical review database (unaudited local authority accounts)

Capital investment and performance 2012/13

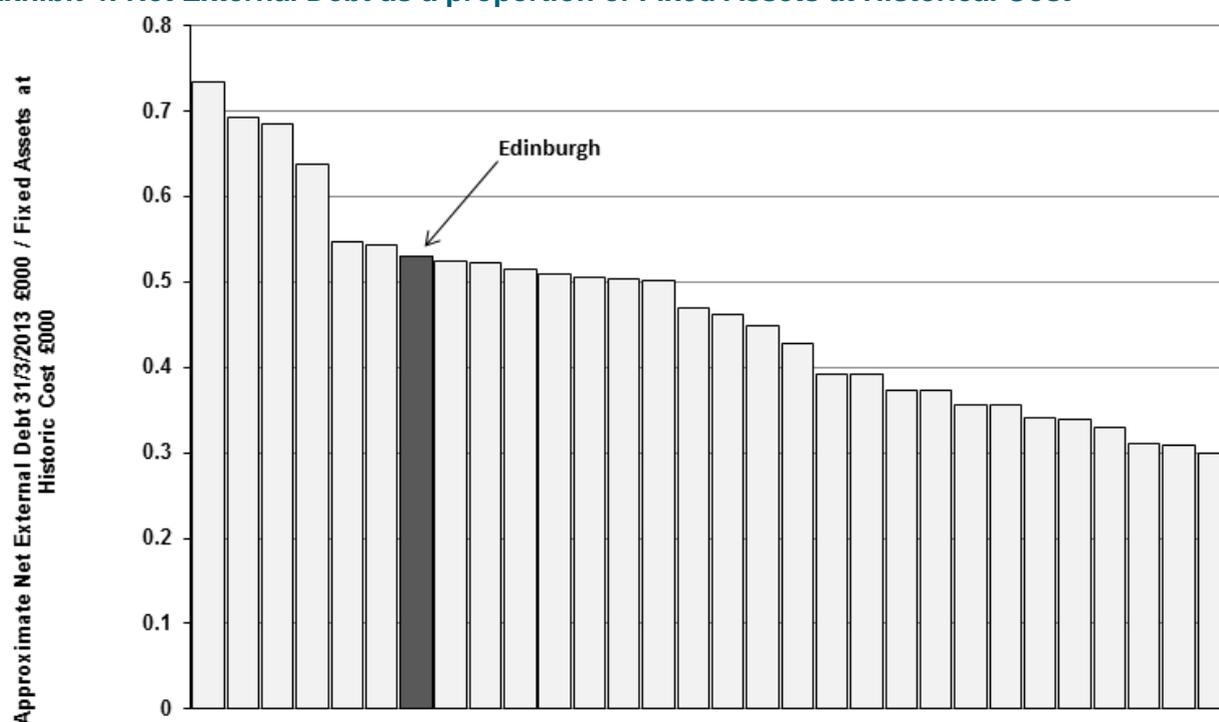
- 60. The 2012/13 financial statements detail capital expenditure of £338.845 million split between the housing revenue account (£41.640 million) and the general services programmes (£297.205 million).
- 61. The planned general services capital expenditure for 2012/13 was originally £323.275 million and for HRA capital expenditure £47.686 million.
- 62. Planned expenditure on general fund services had net slippage of £26.070 million (2011/12: £62.940 million) during the year. Included within that total was £11.588m of accelerated expenditure related to the tram project. Key areas of slippage include Portobello High School and James Gillespie's High School replacements. This represents a significant reduction in capital programme slippage from prior years.

Treasury management

- 63. The amount of council external borrowing in 2012/13 remains at a level similar to 2011/12 - approximately £1.5 billion. While this level of borrowing has increased by 30% since 2007/08, it has been significantly influenced by the increased borrowing requirements of purchasing Waverley Court and the trams project.

64. However, the council also has a relatively high asset base and as demonstrated in Exhibit 4, its net external debt as a proportion of fixed assets at historical cost is closer to the norm in comparison to other councils.

Exhibit 4: Net External Debt as a proportion of Fixed Assets at Historical Cost



Source: Audit Scotland analytical review database (unaudited local authority accounts)

65. The 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.
66. During the financial year, the council operated within the treasury limits set out in its Treasury Policy Statement. In 2011/12, the council had borrowed £38 million in advance of need, as part of a strategy in prior years to take advantage of low interest rates. During 2012/13 the council sought to take advantage of the marginal rates of interest by using longer term cash investments to temporarily fund 2012/13 capital expenditure. Consequently, the council under borrowed by £59.8 million for the year. Interest expense of £76 million (Includes General Fund and HRA, excludes premiums and discounts) was incurred in relation to outstanding debt balances (2011/12: £71 million).

Financial planning to support priority setting and cost reductions

Savings

67. In the Best Value report on City of Edinburgh Council, published in May 2013, we reported that the council would need to find savings of £33 million in its budget for 2014/15 and recurring annual savings of £107 million by 2017/18. The council published its most recent Revenue and Capital budget framework in September 2013 which shows that the savings required have now risen to £36 million in 2014/15 and £120 million by 2017/18 as a result of updates to assumptions impacting on the funding requirement.
68. Many of the more readily achievable savings have already been made and it will be a significant challenge for the council to identify this level of recurring savings going forward. The council faces difficult decisions about prioritising services and allocating resources. To this end the council has in place a number of thematic member-led workstreams to guide the development of a range of proposals which form part of its revenue and capital budget framework for the next four year period. It is also carrying out a process of consultation and engagement with members of the public, employees and key stakeholders and this will inform the budget for 2014/15 onwards.
69. The revenue and capital budget framework includes a detailed set of savings proposals which if accepted would amount to £24 million in 2014/15, increasing to £41 million by 2017/18. The proposals cover a range of services, with the most significant elements coming from Children and Families and Health and Social Care. The council is consulting with residents, interest groups and council staff in advance of the 2014/15 budget being set in February 2014.
70. The budget framework also identifies net savings of £7 million in 2014/15, increasing to £25m in 2017/18 from a previous set of detailed proposals approved as part of the 2013/14 budget. Significant levels of savings (£6.8 million in 2014/15, increasing to £24 million in 2017/18) are also being sought from procurement, in addition to savings included within service proposals.
71. The latest budget information shows that, if all proposals are accepted, the council will be able to set a balanced budget for 2014/15 but will still face a projected funding gap of £9 million in 2015/16, increasing to £32 million in 2017/18.
72. The council intends to build on the thematic approach underpinning the development of budget proposals for 2014/15. A formal programme is being established to undertake a comprehensive review across all current areas of council spend. The review will assess the extent to which the existing allocation of resources is aligned to delivery of the council and partners' key targeted outcomes. Particular emphasis is being placed on the need to promote and secure effective working across service boundaries. To implement this approach, the council has created a dedicated project team comprising senior management representation from all main service areas, supported by a number of service specialists drawn from across the organisation. This project team will report to a Programme Board chaired by the Chief Executive. Political oversight will be provided by means of a member/officer working group,

with recommendations on areas for further development anticipated to be available to feed into 2015/16 budget process.

Refer to action point no.3

Workforce management

73. As part of its workforce management arrangements, the council approved a voluntary early release arrangement (VERA) policy covering all staff, along with redundancy and redeployment arrangements. In 2012/13 a total of 223 departures were agreed in line with the VERA scheme, at a cost of £9.039 million. The average payback period for these voluntary departures was under 16 months, with annual savings of £7 million generated.
74. In August 2013, the council's Governance, Risk and Best Value Committee considered Audit Scotland's national report '*Managing early departures from the Scottish Public Sector*', and assessed its current practices against the principles set out in the report. Whilst most of the current policies align with good practice set out in the report, the council recognised a need to integrate the use of early release schemes within its wider workforce plans.

Procurement

75. In 2012/13, the council commenced a procurement transformation project, aimed at realising an additional £9 million savings in the procurement process during 2013/14. In March 2013, Ernst and Young were appointed on a "gainshare" arrangement to assist the council in the delivery of identified savings. The council is aiming to deliver £149 million in procurement savings over the next five years. The costs associated with the gainshare arrangement will be around £12.5 million, should the full savings of £149 million be realised. These planned savings form an integral part of the council's future financial planning.

Outlook

2013/14 budget and beyond

76. The council has set a balanced budget for 2013/14. In setting its 2013/14 budget the council agreed to freeze its council tax. When setting the 2013/14 budget, a revenue funding gap of £10.81 million was identified, after taking account of additional demographic and other pressures. The council identified that these pressures would be met through procurement savings of £9 million and a combination of other measures.
77. As part of the budget setting process the council gave residents and stakeholders the opportunity to comment on its draft budget several months ahead of it being agreed. A first draft budget was published in November 2012 and was consulted upon with a wide range of individuals and groups including the business community, parents, community organisations, trade unions and the voluntary sector.
78. As part of the process of preparing the 2013/14 budget, the 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 were prepared

in September 2013 in order for the council to allow advance consultation as part of the 2014/15 budget setting process. Exhibit 5 below shows the current and previous projected savings requirements and that there has been an increase from £109.540 million to £120.373 million in the savings requirement by 2017/18.

Exhibit 5

	2013-14	2014-15	2015-16	2016-17	2017-18
	£000	£000	£000	£000	£000
Projected savings requirement - when 2013/14 budget set	10,810	41,336	66,384	96,787	109,540
Projected savings requirement - current projections	n/a	36,138	66,485	104,130	120,373

Source: City of Edinburgh Council Revenue Budget 2013/14 - Update Report 7 February 2013)

Source: City of Edinburgh Council Revenue and Capital Budget Framework paper (19 September 2013)

79. Looking ahead it is clear that the outlook for public spending remains challenging for the foreseeable future. At the same time as the demand for public services is rising, the economy feels the effects of uncertainties in the world's financial markets, there are questions about the sustainability of the Eurozone, Scotland's changing population demographic and possible independence from the rest of the UK. Continuing to deliver vital public services with a reducing budget will remain a significant challenge for the council.

Refer to action point no. 4

Governance and accountability

80. The three fundamental principles of corporate governance – openness, integrity and accountability – apply to all audited bodies, whether their members are elected or appointed, or whether they comprise groups of people or an individual accountable officer.
81. Through its chief executive or accountable officer, each body is responsible for establishing arrangements for ensuring the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies usually involve those charged with governance, including audit committees, in monitoring these arrangements.
82. Consistent with the wider scope of public audit, auditors have a responsibility to review and report on audited bodies' corporate governance arrangements as they relate to:
- corporate governance and systems of internal control
 - the prevention and detection of fraud and irregularity
 - standards of conduct and arrangements for the prevention and detection of corruption.
83. In this part of the report we comment on key areas of governance.

Corporate governance

Processes and committees

84. On 20 September 2012, the council approved a new decision-making structure, replacing the previous committee arrangements with a refined committee model which is designed to deliver streamlined and high-quality decisions with effective accountability and oversight. The key elements of the new model comprise:
- Corporate Policy and Strategy Committee
 - Seven executive decision making committees each with a sub committee focused on policy development
 - Governance, Risk and Best Value Committee (replacing the Audit Committee)
 - Pensions Committee and Audit Sub Committee (replacing the Pensions and Trusts committee)
85. The first meetings of the new committees were held in October 2012.
86. The Governance, Risk and Best Value Committee replaced the previous Audit Committee with a strengthened and wider remit in relation to both financial and operational scrutiny and is a key part of the council's governance framework. Its remit includes risk management and

consideration of audit plans and reports. The committee convenor is a council member whose political party does not form part of the governing coalition.

87. During 2012/13, the council's governance review has also focused on key areas of the council's operational governance framework including the following:
- Financial Regulations
 - Scheme of Delegation to Officers
 - Arms Length External Organisations
 - Contracts Standing Orders.
88. The council recognises that there will inevitably be a period of re-acclimatisation while the new decision-making structure beds in and has agreed to review the new arrangements in October 2013 after one full year of operation.

Risk management

89. The council updated its Risk Management Policy and Strategy during 2012/13. Going forward, an updated risk management policy will be reviewed by the Governance, Risk and Best Value committee on a 12 monthly basis. As part of the Internal Audit co-sourcing agreement approved by the council in November 2012, PwC were appointed as co-source partners in the delivery of risk management services for an initial nine month contract.

Group governance arrangements

90. City of Edinburgh Council has a significant interest in or provides significant funding to a large number of companies. The council is responsible for ensuring that these companies can demonstrate the achievement of best value in the use of public money therefore it is important that sound governance arrangements are in place for these organisations.
91. The council has been reviewing its group arrangements during 2012-13 in order to strengthen its governance in this area. A paper was presented to the council in December 2012 which recommended the rationalisation of the current companies' structure which may lead to savings in operational / administration costs. In addition, the Director of Corporate Governance made the following recommendations in relation to governance surrounding the council's companies:
- Elected members should not be directly involved in operational decision-making of council companies
 - Council officials should not sit on company boards but instead they have observer right on boards of Council companies.
 - Council companies should recruit and appoint executive and non-executive directors with the appropriate skills and experience.
 - For each council company, the relationship with CEC should be set out in a funding agreement or shareholders' agreement as the case may be and also, where appropriate, a service level agreement.

92. Some changes have been approved including the rationalisation of the existing arms length property company structure into a single operational company that could be utilised for both development and regeneration by the council, as necessary.
93. Other work is ongoing including, for example, strengthening the operating agreement for the Edinburgh International Conference Centre Limited (“EICC”) to include amongst other changes an obligation upon EICC to prepare detailed operating budgets for each financial year, submit detailed business plans and monitor performance against these plans.
94. We acknowledge the work being undertaken by the council to strengthen its arrangements in this important area.

Internal control

95. While auditors concentrate on significant systems and key controls in support of the opinion on the financial statements, their wider responsibilities require them to consider the financial systems and controls of audited bodies as a whole. The extent of this work is informed by their assessment of risk and the activities of internal audit.
96. As part of our audit we reviewed the high level controls in a number of the council's financial systems. Our work covered several systems including general ledger, capital accounting, council tax, non domestic rates, housing rents and housing repairs as well as aspects of the cash and cash equivalents and treasury management systems. The findings from this work were reported to management in June 2013 and action plan of improvements agreed.
97. No material weaknesses in the accounting and internal control systems were identified during the audit 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.
98. The Annual Assurance Report for the year to 31 March 2013 presented by the Chief Internal Auditor to the Governance, Risk and Best Value Committee concluded that there is some risk that management's objectives may not be fully achieved. Improvements are required in areas relating to ICT, procurement and policy implementation to enhance the adequacy and / or effectiveness of governance, risk management and internal control. Appropriate follow-up arrangements have been put into place by internal audit to review and report quarterly to the Corporate Management Team and Governance, Risk and Best Value Committee on the progress of the action plans.
99. As with the previous year, the Chief Internal Auditor's Annual Assurance Report 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. The timing of this reflects the Internal Audit planning year, which has been to the end of September. However, for 2013/14 this year-end is being aligned with the financial year end, which should facilitate earlier consideration of the Assurance Report by the committee.

Internal audit

100. A key element of our work on internal controls is the extent of reliance that we place on the work of internal audit in terms of International Standards on Auditing 610 (Considering the work of internal audit). The findings from our review of internal audit were reported in January 2013 and we concluded that the internal audit service operates in accordance with the CIPFA Code of Practice for Internal Audit in Local Government and has sound documentation standards and reporting procedures in place.
101. Also, we placed formal reliance on aspects of the work of internal audit in several areas, for the purposes of or financial statement audit responsibilities, including payroll, trade receivables, trade payables and aspects of the cash and cash equivalents and treasury management systems. This not only avoided duplication of effort but also enabled us to focus on other areas of risk.

ICT Service Delivery

102. 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.
103. The ambitious programme, which contains ten related projects, is expected to be substantially complete by the end of the financial year 2013/14, however some elements will continue into 2016, notably the re-procurement of the outsourced IT contract. The areas of work include, amongst others, ICT governance across the council, an ICT strategy for the City, deploying fit for purpose solutions and creating a culture of innovation. Each of the projects contains a number of more detailed objectives to be delivered in order to meet the overall objective of the transformation programme.
104. The programme has strong links with the Corporate and Transactional Services Improvement Programme. The vision of this programme is to provide a high quality, responsive and proactive service to the customers, businesses and employees of Edinburgh. Services covered by the programme are Council Tax billing and collection, non-domestic rates billing and collection, purchase-to-pay processes including e-invoicing and benefits payments. The objectives include increasing collection rates (where applicable), improving transactional processes and making them more responsive to the customer, and reducing the costs for transactions. This programme stretches over the next few years into 2016.
105. Governance arrangements for both programmes have been put in place and risks and issues at programme level have been identified. We will monitor the progress on delivery of the programmes over the coming years.

Public Services Network

- 106.** The council exchanges data with many other public bodies such as benefit information with the Department for Works and Pensions, while Social Work and Children and Families services exchange information with the police, Criminal Justice Partnership and Children's Hearings. The Government Secure Intranet (GSI) is the mechanism that allows the council to share data and services. The council must re-apply annually to the Cabinet Office to be allowed to connect to the government secure network. This year the government is replacing GSI with the Public Services Network (PSN).
- 107.** From November 2012 all applicants had to apply to connect to PSN which means complying with the stricter PSN Code of Connection. The new code of connection is challenging and uncompromising about security measures and aims to provide a substantial level of trust between organisations. The council's initial application in November 2012 was made in line with GSI Code of Connection, however in March 2013 they were asked to re-apply using the PSN Code of Connection. The changes in compliance standards have necessitated some significant ICT changes which the council need to address prior to the end of the November 2013, to ensure accreditation for usage of the Public Services Network is achieved.

Refer to action point no. 5

Housing and council tax benefits performance audit

- 108.** 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.
- 109.** 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 four years. These risks and those still outstanding from the last review were incorporated into an updated action plan for implementation.
- 110.** 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 January and July 2013. We were disappointed to note that the speed of processing performance information for quarter 4 of 2012/13 and quarter 1 of 2013/14 had deteriorated significantly since our last visit in July 2012. The council was in 26th place out of the 32 Scottish councils for processing new claims in 2012/13. However, five of the councils below Edinburgh experienced significant down time issues with an IT system upgrade during the year.
- 111.** The Head of Corporate and Transactional Services informed us that the council has the following plans for improving performance but still ensuring accuracy is maintained :

- Additional 7FTE temporary processors are in place and will be with the service from August to December 2013
 - A new risk based verification (RBV) policy has been approved and it is hoped this will reduce processing time for new claims
 - A lean process review is being undertaken in respect to new claims
 - The lean review will link into the new online benefits system which is due to be implemented in January 2014. When claimants apply on line, their claim details will be automatically populated in the benefits system thus reducing processing time
112. Due to the council having plans for improvement in place, we have decided not to undertake a focused audit for the time being. However, in a letter of 12 August the Assistant Auditor General has asked the council for further updates in December 2013 and April 2014. Following receipt of this information, we will then consider whether any further audit action is required.

Refer to action point no. 6

Prevention and detection of fraud and irregularities

113. Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. We noted that the City of Edinburgh Council has a range of measures in place to prevent and detect fraud, including Standing Orders and Financial Instructions and a Code of Conduct for members and staff. A number of other policies are also available to staff via the intranet including 'whistleblowing'. The council's Finance and Budget Committee approved a revised Whistleblowing Policy, including piloting a Whistleblowing Hotline which will allow council employees to raise their concerns with an external third party, in September 2013.
114. The council's internal audit function has a formal programme of work, which, although not designed to detect fraud, does provide assurance on the operation of the control systems which are designed to prevent fraud.
115. Overall, we have concluded that the council's arrangements were adequate in relation to the prevention and detection of fraud and irregularities, although it should be noted that no system can eliminate the risk of fraud entirely.

NFI in Scotland

116. The council participates in the National Fraud Initiative (NFI). The NFI uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify circumstances (matches) that might suggest the existence of fraud or error.
117. NFI allows public bodies to investigate these matches and, if fraud or error has taken place, to stop payments and attempt to recover the amounts involved. It also allows auditors to assess the arrangements that the bodies have put in place to prevent and detect fraud, including how they approach the NFI exercise itself.

118. NFI is co-ordinated by internal audit although services are responsible for the initial investigation of data matches. The most recent data matching exercise collected data from participants in October 2012 with matches identified for follow-up in February 2013.
119. The current NFI data exercise identified 17,515 data matches of which 14,863 are considered high quality and recommended for investigation. Some progress has been made in the investigation of these data matches with 2,549 high quality matches investigated to date and a further 637 matches under investigation. To date there have been no identified cases of fraud.
120. The council has not yet completed the self-appraisal checklist which accompanied the 2012 national report on NFI. No reports on NFI activity have been provided to the Governance, Risk and Best Value Committee since it was established in October 2012 although we note that a report is scheduled to go to the November 2013 committee.

Refer to action point no. 7

Arrangements for the prevention and detection of corruption

121. Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and have proper arrangements in place for implementing and monitoring compliance with standards and codes of conduct, standing orders and financial instructions. Auditors consider whether bodies have adequate arrangements in place. We have concluded that the arrangements for the prevention and detection of corruption in City of Edinburgh Council are satisfactory.
122. The council has a number of procedures in place to prevent bribery and corruption, and to regulate conduct, including Codes of Conduct for members and employees. These Codes cover a number of areas including gifts and hospitality, expenses and allowances, use of council resources and declaration of interests. In August 2013 a new Anti-Bribery Policy and Anti-Bribery procedures were introduced, to strengthen existing arrangements and meet the requirements of the Bribery Act 2010. These procedures place additional emphasis on employee compliance by requiring employees to confirm, on an annual basis, their understanding of the policy.

Standards of conduct

123. As indicated above the council has a number of procedures in place to regulate conduct, including an Employee Code of Conduct. The council has been reviewing its Code to ensure it reflects best practice. A number of changes have now been made to build on existing arrangements, including the annual review by line managers of previously declared and approved interests. The revised code was approved and adopted in August 2013. We will consider the operation of the new arrangements during our 2013/14 audit.
124. One specific governance event during the year on which we are required to report is that the Chief Executive was approached about the possibility of taking on a non-executive role at Scottish and Southern Energy (SSE) in addition to her role at the council, and this was disclosed to the leader of the council. The Chief Executive has advised that this is carried out

during her own time and a proportion of any income received is being donated for charitable purposes. Given Stock Exchange rules and council recess, the move was approved using the council's urgency procedures. The Chief Executive took up the role on 1 September 2013.

Welfare reform

125. The Welfare Reform Act 2012, as reported last year, represents the biggest reform of the UK welfare system for 60 years. The council's Corporate Policy and Strategy Committee receives regular reports on the potential impact of welfare reform on communities and services. Some changes have already taken place since April 2013 particularly for those of working age.
126. The council is participating in a pilot exercise, involving Dunedin Canmore Housing Association, to test the payment of Housing Benefit directly to the tenant rather than the landlord. The pilot was due to end in June 2013, however it has been agreed with DWP that it will be extended for a further 6 months to assess the impact of the changes that came into effect in April 2013.
127. Welfare reform will continue for several years to come and from October 2013 the Universal Credit will start to be rolled-out nationally. This will replace a range of existing means-tested benefits and tax credits for people of working age. It is important that the council continues to monitor the impact of these reforms closely and develop efficient and effective strategies that address the welfare reform agenda.
128. Rent arrears have been increasing in Edinburgh. In 2011/12 arrears totalled £2.091m and these had increased to £2.776m at 31 March 2013 (an increase of 32.8%). Officers recognise that the introduction of Welfare Reform may impact negatively on rent arrears levels.
129. The council has established a Welfare Reform Working Group (WRWG), chaired by the Health and Social Care Convenor, which includes elected members and representatives from Corporate and Transactional Services, Services for Communities, RSL's and tenants. The role of the working group is to monitor the implementation and impact of various benefits changes and to contribute to consideration of further measures to support tenants.
130. In addition to the WRWG, there is also a Welfare Reform Strategic Planning Group, chaired by the Welfare Reform Manager, which provides the council and the Corporate Welfare Reform project with advice and guidance in response to the changes required by the Welfare Reform Act 2012.

Best Value, use of resources and performance

131. Audited bodies have a specific responsibility to ensure that arrangements have been made to secure Best Value. The Local Government (Scotland) Act 1973 places a duty on the auditors of local government bodies to be satisfied that proper arrangements have been made for securing Best Value and complying with responsibilities relating to community planning. Auditors are also required to review and report on audited body's progress against its Best Value improvement plan.
132. Additionally, auditors of local government bodies have a responsibility to review and report on the arrangements that specified audited bodies have made to prepare and publish performance information in accordance with directions issued by the Accounts Commission.
133. Furthermore, as part of their statutory responsibilities, the Auditor General and the Accounts Commission may procure, through Audit Scotland, examinations of the use of resources by audited bodies and publish reports or guidance. Auditors may be requested from time to time to participate in:
- a performance audit which may result in the publication of a national report
 - an examination of the implications of a particular topic or performance audit for an audited body at local level
 - a review of a body's response to national recommendations.
134. This section includes a commentary on the Best Value/ performance management arrangements within the council. We also note any headline performance outcomes and measures used by the council and comment on any relevant national reports and the council's response to these.

Management arrangements

Best Value

135. The first Best Value report on the City of Edinburgh Council, published in 2007, noted that the council demonstrated a clear commitment to Best Value and community planning. Since then the council has had to deal with significant and high profile problems which have damaged public confidence in the council and its reputation. These include contractual disputes arising from the tram project and serious difficulties in its statutory repairs service.
136. A second Best Value report (BV2) was published in May 2013, and was considered at full council in June 2013. The report focussed on the two judgements at the centre of the current Best Value audit approach:
- 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.
137. The council's financial position is very challenging. The position became more pressing when the council decided not to carry through a plan to externalise a number of its services. The council has identified alternative savings and has long-term plans in place to balance the budget. The report noted that prospects for future improvement depend heavily on the council achieving these planned savings and addressing the funding gaps that remain. It is also needs to establish more effective workforce management, improvements in information and communications technology and ensure that it has the right level of staff skills and capacity to support improvement.
138. The council's overall performance in terms of services and outcomes was assessed as good, with the report recognising good and improving performance across a number of service and outcome areas, including economic development, children's services and revenue and benefits.
139. The council's prospects for future improvement were assessed as fair. Good performance was recognised in a number of important areas including political and managerial leadership and partnership working, and the council demonstrates a strong awareness of where it need to improve. However a number of the changes such as the new governance arrangements and the establishment of a Corporate Programme Office to support the improvement programme are fairly recent and it is too soon to assess their effectiveness. Workforce planning and ICT were highlighted as areas where improvements were required.
140. In their report the Accounts Commission welcomed the improvements the council has made but recognised that the scale of the financial challenge is substantial. The Accounts Commission has asked the Controller of Audit to report on the council's progress in around eighteen months from the time the report was issued. We will continue to monitor and report on progress in this area in the interim through our shared risk assessment activity.

Performance management

141. 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. The framework was developed in line with the council's governance review to ensure a clear statement of vision, values and strategic objectives aligned with the Capital Coalition Pledges are embedded within the operation of the council.
142. Reviewing the performance framework has also given the council the opportunity to shift from activity based measures to more robust outcome based measures which join up priorities across service areas and partnerships. The council intends to review the measures annually and some detail is still being defined. Some areas are new priorities and require significant development.

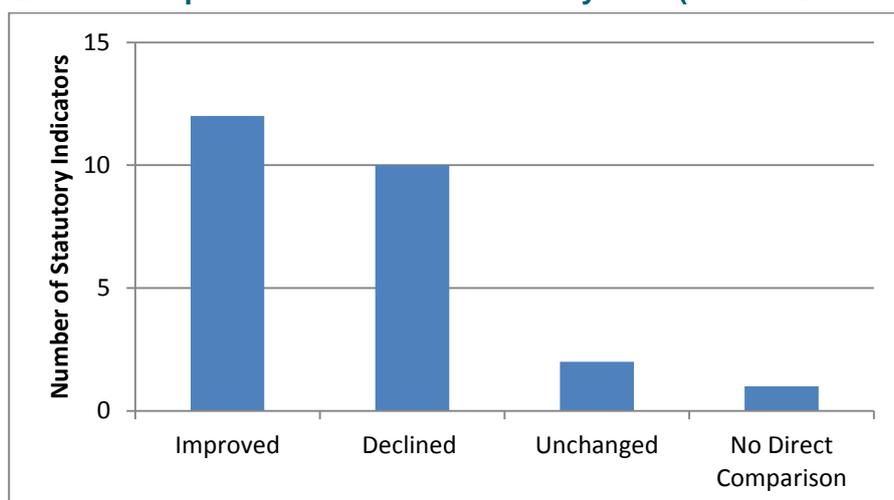
Overview of performance in 2012/13

Performance Measurement

143. 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.
144. The most recent performance summary report in April 2013 highlighted the council was on track to deliver most of its pledges against planned timescales. Four pledges had been completed as at April 2013: the setting up of a city-wide Transport Forum; consultation on the viability and legality of a transient visitor levy; establishing a Care Champion to represent carers; and the introduction of a 'living wage' for Council employees.
145. A further 36 pledges have agreed actions and are on track to deliver, with new actions under development for an additional seven pledges. The remaining six pledges were assessed as on track, however some actions had not been met by the planned date.
146. When considering the report, the council identified a number of areas for improvement against specific pledges including:
- Tackling overcrowding and under use in schools
 - Making sure the city's people are well housed
 - Working in partnership with the Scottish Government to release more funds for council homes for rent.
147. A further summary performance report will be presented to the council in November 2013.

Statutory performance indicators

148. In 2012/13, a total of 25 SPI's were required and these indicate a mixed picture of performance as illustrated by Exhibit 6 below.

Exhibit 6: Improvements demonstrated by SPIs (total of 25 indicators)

Source: City of Edinburgh Council SPI data returns

149. In comparison to 2011/12 improved performance was recorded for those indicators relating to:

- the percentage of municipal waste recycled. The improvement is a result of the implementation of managed weekly collections, the enhancement of existing recycling schemes and the introduction of a food waste collection scheme
- the percentage of homes meeting the Scottish Housing Quality Standard has improved by over 7% with the council on target to meet 100% by 2015
- the percentage of homeless people provided with permanent accommodation in council stock maintaining their tenancy for at least 12 months has increased. This is a result of more effective advice and support services for tenants to help them maintain their tenancies
- the improvement in health and wellbeing indicators (4 indicators in total) reflects the investments made in both daytime and overnight domiciliary care services. New overnight teams have been established and daytime services expanded.

150. Areas where performance was significantly lower than last year included:

- Current tenant arrears as a percentage of rent due has increased as a result of ongoing significant economic pressures for tenants such as rising fuel costs and household bills
- The percentage of cases where there is a duty to provide secure permanent accommodation increased as a result of a large number of households re-presenting as homeless who were previously classified as non-priority prior to the abolition of the priority need distinction. A Homeless Prevention Programme has been developed with the aim of preventing homelessness, reviewing the use of temporary accommodation and increasing housing options
- Performance declined for the cost of collecting Council Tax per dwelling and for the gross admin cost per benefits case. The Council Tax collection cost increase is due to a rise in administration costs, legal expenses, management allocation and central support costs.

Local performance reporting: Scotland's Public Finances

151. In August 2011, Audit Scotland published a national report entitled '*Scotland's Public Finances: addressing the challenges*'. This report looked at the way that councils are responding to the challenges of public sector budget constraints and their efforts to achieve financial sustainability.
152. In 2012/13 we carried out a targeted follow-up review to assess what progress had been made subsequent to the publication of the 2011 report. The follow-up work focused on two key questions:
- Does the council have sustainable financial plans which reflect a strategic approach to cost reduction?
 - Do senior officials, elected members and non-executive directors demonstrate ownership of financial plans and are they subject to scrutiny before approval?

Areas of good practice

153. The council has a well established budget planning and monitoring process. Elected members meet regularly with council officers, including the CMT, during the budget setting process to discuss options. Revenue and capital budgets are approved annually by full council, and elected members consider the impact of budget reductions on service delivery based on budget proposals developed by officers in conjunction with members. Alongside the detailed annual plan, the council operates a rolling ten-year long term financial plan, which sets out and quantifies the financial impact of the principal factors influencing the council's additional need to spend, and compares these to the likely level of resources available through Government Grant, Non-Domestic Rates and Council Tax.
154. The council has taken a proactive approach to the funding issues that it faces in the coming years and has sought to develop a planning framework that will help to identify pressures and options to achieve savings to help achieve financial sustainability in the long term. As part of a wider governance review in 2012/13, the council, in conjunction with Ernst and Young, reviewed its budgeting process approach and developed a priority based planning framework. Using the long-term financial plan as a starting point, the framework has been applied to identify pressures and the options to achieve savings. It also takes account of structural and legislative changes, such as the integration of health and social care services and welfare reform. The 2013/14 budget was developed using the principles agreed as part of the framework.
155. Following a review of existing revenue monitoring arrangements in February 2013, the council has adapted its reporting cycle to reflect risk-based principles. The council's overall financial position continues to be monitored at committee on a quarterly basis, but with the intervening committees now focusing on key elements of the council's transformation programme and other areas of significant potential financial risk.

Areas with scope for improvement

156. The council has recognised some areas where improvement can be made, although it is noted that these represent improvements to existing practices rather than material weaknesses in current processes. Plans are in place to develop these areas as noted below.
157. The council has been considering a range of means to create a more participative approach underpinning future budget processes. Last year, the council published a first draft of its 2013/14 budget in November 2012 to give residents and other stakeholders the opportunity to comment on the draft. The publication of the 2014/15 draft budget proposals has been brought forward to September this year, to allow a fuller period of engagement to take place. A stakeholder communication and engagement strategy has been developed to encourage feedback on the proposals, focusing on digital communications and stakeholder meetings through to the end of the calendar year.
158. While recognising that progress has been made in aligning resources more closely to its priority outcomes, the council acknowledges that the scale of the financial challenges it faces means more needs to be done in this area to develop the basis of a sustainable budget position going forward. A thematic approach will therefore again be adopted for the development of 2015/16 budget proposals. A comprehensive review across all areas of council spend will be undertaken, assessing the extent to which the existing allocation of resources is aligned to delivery of council and partners' key targeted outcomes. Particular emphasis will be placed on the need to promote and secure effective working across service boundaries. A dedicated project team is being set up, comprising senior management representation from all main service areas, supported by a number of service specialists drawn from across the council. This project team will report to a Programme Board chaired by the Chief Executive. Political oversight will be provided by means of a member/officer working group, with recommendations on areas for further development anticipated to be available to feed into 2015/16 budget process.

National performance reporting

159. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. Exhibit 7 outlines reports of direct interest.

Exhibit 7: A selection of national performance reports 2012/13

- | | |
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| <ul style="list-style-type: none">• Responding to challenge and change - An overview of local government in Scotland 2013• Improving community planning in Scotland• Major capital investment in councils. | <ul style="list-style-type: none">• Protecting consumers• Using cost information to improve performance - are you getting it right?• Health inequalities in Scotland• Reducing reoffending in Scotland. |
|--|--|

Source: www.audit-scotland.gov.uk

160. Audit Scotland encourages local authorities to review national reports, consider key findings and assess local performance against them and, identify local improvement actions where appropriate. The national reports are accompanied by checklist which officers can use to carry out a self-assessment of performance. The expectation is that Audit Scotland's performance reports are presented to an audit or scrutiny committee for members to consider and hold management to account for local performance.
161. As part of the changes in governance arrangements introduced during the year, Audit Scotland national reports are now included on the Governance, Risk and Best Value Committee agenda for consideration, and referral to other council committees where appropriate.

Assurance and improvement plan update 2013-16

162. The Local Area Network (LAN) of scrutiny partners for the council conducted a Shared Risk Assessment (SRA) and produced an Assurance and Improvement Plan (AIP) covering the period 2013 to 2016. This was published on Audit Scotland's website and was submitted to the full council on 27 June 2013, along with the Best Value and Community Planning report, for information and consideration by members.
163. A number of areas identified in the AIP as requiring scrutiny or further information reflect the findings of the Best Value report, including governance and accountability, procurement, ICT and workforce management. These areas will be monitored through the SRA process and reported formally in the follow-up Best Value report in 2015.
164. Some other areas were identified, such as new risk management and statutory repairs service arrangements, where it is too early to assess their effectiveness, and these will be considered as part of the 2013/14 SRA. The AIP did not identify any additional specific local scrutiny work for 2013/14 as a result of the SRA process, particularly given the scrutiny work undertaken as part of the Best Value review.

Equality Act 2010

165. In April 2011, the Equality Act 2010 introduced a new public sector 'General Duty' which encourages equality to be mainstreamed into public bodies' core work so that it is not a marginal activity but part and parcel of how public bodies operate. One of the key requirements of the legislation is for public bodies to publish a set of equality outcomes (and reporting requirements) no later than 30 April 2013.
166. In June 2012, the council approved a '*Framework to advance Equality and Rights 2012/2017*' which sets out action being taken to meet the requirements of the Equality Act 2010, human rights legislation and conventions, including children's rights, and activity to tackle elements of poverty and inequality.
167. A progress report was presented the Communities and Neighbourhood Committee in May 2013, setting out progress against key commitments in the framework.

168. The council has embarked on number of initiatives and actions as part of the development of its framework including:
- Improving evidence gathering and analysis on equality and rights across council system
 - A set of equality and rights outcomes and mainstreaming actions has been developed and aligned to the council's strategic outcomes
 - All committee reports include a paragraph on equalities and rights impact of the report
 - A new approach to equalities impact assessment has been piloted within the council
 - A new working group has been established by the Corporate Policy and Strategy Team to ensure equality and rights is an integral component of procurement activity across the council.
169. The council is also looking to actively encourage public engagement in the framework and mainstreaming action plan. A report was presented to the Community and Neighbourhood Committee in June 2013, identifying a number of actions, including engaging with Edinburgh Equality Network and existing council client groups to promote the framework and plan and seek feedback.
170. The council is proactive in promoting the equality agenda and is well placed to mainstream equality within everyday work.

Outlook

171. As noted previously, the Accounts Commission has requested that the Controller of Audit reports on the council's progress in addressing the findings of the Best Value report in 2015. Alongside this we will continue to monitor progress through the SRA process and local audit work in 2013/14.
172. In response to a request from the Cabinet Secretary for Finance, Employment and Sustainable Growth the Accounts Commission has led development work, with scrutiny partners, on how audit and inspection can support the delivery of better outcomes by Community Planning Partnerships. Five councils have been selected to receive a CPP audit in 2013/14: Falkirk, Moray, West Lothian, Orkney and Glasgow City.

Appendix A: audit reports

External audit reports and audit opinions issued for 2012/13

Title of report or opinion	Date of issue	Date presented to Governance, Risk and Best Value Committee
Review of the Adequacy of Internal Audit	22 January 2013	25 April 2013
Annual Audit Plan	22 March 2013	25 April 2013
Assurance and Improvement Plan	30 May 2013	27 June 2013 (full council)
Internal controls management letter	6 June 2013	20 June 2013
Report on financial statements to those charged with governance	24 September 2013	25 September 2013
Audit opinion on the 2012/13 financial statements	27 September 2013	25 September 2013 (draft version)
Audit opinion on the 2012/13 Whole of Government accounts consolidation pack	31 October 2013	N/A
Report to Members on the 2012/13 audit	7 November 2013	December 2013

Appendix B: action plan

Key Risk Areas and Planned Management Action

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1	31	<p>Statutory Repairs</p> <p>The financial statements contain a total debtor balance of £32.5 million (2011/12 - £39.7 million) relating to statutory notices.</p> <p>Risk: Anticipated levels of recovery are not achieved, leaving the council with significant levels of shortfall in income.</p>	<p>The adequacy of the existing level of bad debt provision will continue to be the subject of regular review, taking particular account of progress in invoicing and collecting as-yet unbilled sums.</p> <p>The recently-approved Corporate Debt Policy sets out the main aspects of the recovery process, including the use of inhibitions where appropriate. The provisions set out within the policy will be complemented by the arrangements approved by the Finance and Budget Committee on 31 October in maximising the level of collection in respect of all relevant work undertaken.</p>	Head of Housing and Regeneration	On-going
2	37	<p>Tram vehicles</p> <p>The council is currently considering the optimal number of tram vehicles required on the tram system, and disposal strategies for the surplus vehicles.</p> <p>Risk: The carrying value of surplus assets in the financial statements does</p>	<p>The Council continues to examine disposal strategies for the excess number of trams.</p> <p>In the interim the whole tram fleet will be utilised on the network with the optimum level of mileage being run on each of the excess trams to</p>	Director of Services for Communities	On-going

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		not reflect what is realistically achievable on disposal.	maintain the asset value.		
3	72	<p>Funding gap</p> <p>The council is facing a significant challenge in bridging a funding gap of £120 million over the next four years.</p> <p>Risk: the council may not be able to generate sufficient efficiencies and cost savings to bridge the funding gap.</p>	<p>In common with all local authorities, the Council faces unprecedented financial challenges in reconciling increases in service demand with reductions in available resources. Significant progress has nonetheless been made thus far in developing proposals to address future years' savings requirements as part of the four-year budget framework.</p> <p>Building on the priority-based approach adopted in 2012/13 and 2013/14, further work is planned to examine the totality of the Council's current spend. Through adopting a cross-council focus, this will maximise the options available to deliver the required level of savings whilst aligning resources more effectively to priority outcomes.</p>	Head of Finance	On-going
4	79	<p>Public spending</p> <p>The council is facing unprecedented demand for its services at a time when budgets are under severe pressure.</p> <p>Risk: council may not be</p>	<p>As per action Point 3 above</p> <p>In addition, implementation plans are being developed for all proposals contained within the budget framework to</p>	Head of Finance	On-going

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		able to deliver its services and maintain financial sustainability.	identify key steps to delivering the full level of planned saving for each.		
5	107	<p>Public Services Network (PSN)</p> <p>The council has yet to have its application to connect to PSN approved.</p> <p>Risk: The council may not be able to share or access data held by other public sector bodies.</p>	A programme of work is underway to meet the recently revised compliance requirements for PSN. This work is well advanced and is on target for completion within a timescale that will allow for continued access to PSN services.	Head of Corporate and Transactional Services	Nov 13
6	112	<p>Housing and council tax benefit</p> <p>The council has not fully addressed the risks identified by our previous housing and council tax benefits performance audit.</p> <p>Risk: There are continuing delays in processing benefits.</p>	<p>The Council has the following plans for improving processing times for benefits:</p> <ul style="list-style-type: none"> • additional temporary processors are in place and will be with the service until at least March 2015 • a risk-based verification (RBV) policy has been approved and RBV software will be implemented. It is anticipated that this will reduce processing times for new claims • a lean process review has been undertaken and action plans have been produced for new claims and change of 	Head of Corporate and Transactional Services	<p>Aug 2013 to Mar 2015</p> <p>Nov 2013</p> <p>Aug 2013-Mar 2014</p>

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
			<p>circumstances</p> <ul style="list-style-type: none"> the lean review will link to the new online benefits system. When claimants apply on line their claim details will be automatically populated in the benefits system thus reducing processing time. 		April 2014
7	120	<p>National Fraud Initiative</p> <p>Progress on reviewing NFI data matches is slow. The council has yet to complete Audit Scotland's self-appraisal checklist and reports on NFI activity have not been provided to the GRBV committee on a regular basis.</p> <p>Risk: Potential frauds and errors go undetected. Arrangements for investigating potential fraud may not be as effective as they could be.</p>	<p>The Audit Scotland checklist has now been completed. An update on relevant fraud prevention-related activity undertaken in 2012/13, alongside any resulting actions emerging from this self-assessment, will be provided to the Governance, Risk and Best Value Committee on 14 November.</p> <p>The effectiveness of current organisational arrangements and processes is being reviewed with a view to accelerating the speed at which data matches are investigated.</p>	Head of Corporate and Transactional Services	March 2014