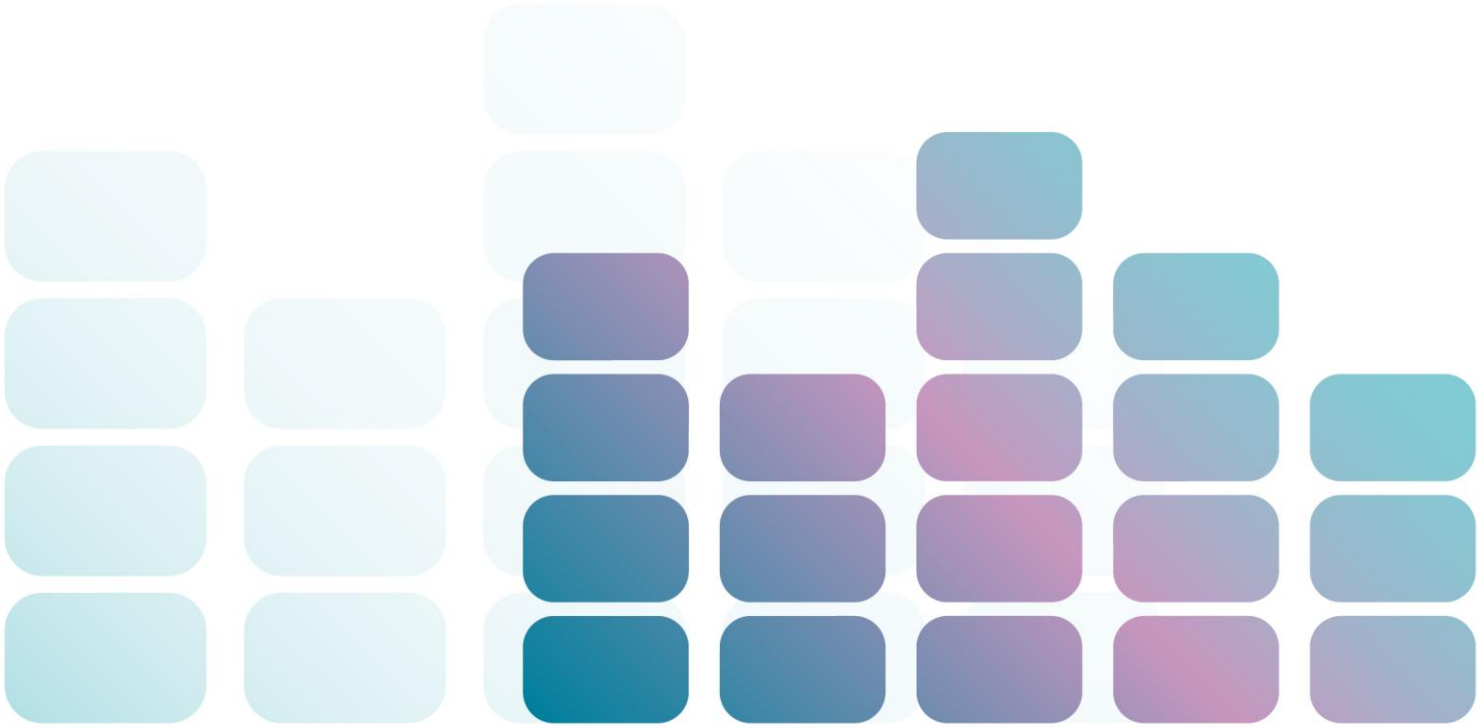
The City of Edinburgh Council

2025/26 Annual Audit Report



AUDIT SCOTLAND

Prepared for the City of Edinburgh Council and the Controller of Audit
September 2026

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Summary of audit opinions and conclusions

Audit of the annual accounts

1 All audit opinions stated that the annual accounts were free from material misstatement. This means we consider the accounts to show a true and fair view and follow relevant accounting standards and legislation.

2 There were a number of significant findings and key audit matters to report. All material audit adjustments required to correct the financial statements were processed by the council.

Wider scope audit

3 The council has broadly effective and appropriate arrangements in place for Financial Management, Financial Sustainability and Use of Resources to Improve Outcomes. However, the council plans to substantially increase borrowing and debt levels over the next five years which presents a significant risk to its longer-term financial sustainability.

4 The council has appropriate arrangements in place for Vision and Leadership but needs to address a number of weaknesses in governance for arrangements to be effective.

Best Value audit

5 The council has effective and appropriate arrangements in place for securing Best Value.

6 The Management Report on themes prescribed by the Accounts Commission reported the council's approach to strategic asset management is fragmented, which makes it harder for the council to make well informed decisions about priorities.

7 The council has effective and appropriate arrangements in place for preparing and publishing statutory performance.

Introduction

Purpose of the Annual Audit Report

1. The purpose of this Annual Audit Report is to report the significant matters identified from the 2025/26 audit of The City of Edinburgh Council's annual accounts and the wider scope areas specified in the Code of Audit Practice (2021).

2. The Annual Audit Report is addressed to The City of Edinburgh Council, hereafter referred to as 'the council' and the Controller of Audit, and will be published on Audit Scotland's website in due course.

Appointed auditor and independence

3. Michael Oliphant, of Audit Scotland, has been appointed as external auditor of the council for the period from 2022/23 until 2026/27. As reported in the Annual Audit Plan, the appointed auditor and audit team are independent of the council in accordance with relevant ethical requirements, including the Financial Reporting Council's Ethical Standard. There have been no developments since the issue of the Annual Audit Plan that impact on the continued independence of the engagement lead or the rest of the audit team from the council, including no provision of non-audit services.

Acknowledgements

4. We would like to thank the council and its staff, particularly those involved in preparation of the annual accounts, for their cooperation and assistance during the audit.

Audit scope, responsibilities, and fee

Scope of the audit

5. The audit is performed in accordance with the Code of Audit Practice, including supplementary guidance, International Standards on Auditing (ISA) (UK), and relevant legislation. These set out the requirements for the scope of the audit which includes:

- An audit of the financial statements and an opinion on whether they give a true and fair view and are free from material misstatement.
- An opinion on statutory other information published with the financial statements in the annual accounts, namely the Management Commentary and Annual Governance Statement.
- An opinion on the audited part of the Remuneration Report.
- Conclusions on the council's arrangements in relation to the wider scope areas: Financial Management; Financial Sustainability; Vision, Leadership and Governance; and Use of Resources to Improve Outcomes.
- Reporting on the council's arrangements for securing Best Value.
- Providing assurance on the Housing Benefit Subsidy Claim, Non-Domestic Rates Return, and Whole of Government Accounts return.
- A review of the council's arrangements for preparing and publishing statutory performance information.

Responsibilities and reporting

6. The Code of Audit Practice sets out the respective responsibilities of the council and the auditor. A summary of the key responsibilities is outlined below.

Auditor's responsibilities

7. The responsibilities of auditors in the public sector are established in the Local Government (Scotland) Act 1973. These include providing an independent opinion on the financial statements and other information

reported within the annual accounts and concluding on the council's arrangements in place for the wider scope areas and Best Value.

8. The matters reported in the Annual Audit Report are only those that have been identified by the audit team during normal audit work and may not be all that exist. Communicating these does not absolve the council from its responsibilities outlined below.

9. The Annual Audit Report includes an agreed action plan at Appendix 1 setting out specific recommendations to address matters identified and includes details of the responsible officer and dates for implementation.

Responsibilities of The City of Edinburgh Council

10. The council has primary responsibility for ensuring proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety, and regularity that enables it to successfully deliver its objectives. The features of proper financial stewardship include:

- Establishing arrangements to ensure the proper conduct of its affairs.
- Preparation of annual accounts, comprising financial statements for the council and its group that give a true and fair view and other specified information.
- Establishing arrangements for the prevention and detection of fraud, error and irregularities, and bribery and corruption.
- Implementing arrangements to ensure its financial position is soundly based.
- Making arrangements to secure Best Value.
- Establishing an internal audit function.

Audit Fee

11. The audit fee for the 2025/26 audit was reported in the Annual Audit Plan and was set at £768,730. There have been no developments that impact on planned audit work required, therefore the audit fee reported in the Annual Audit Plan remains unchanged.

National performance audit reporting

12. The Auditor General for Scotland and the Accounts Commission regularly publish performance audit reports. These cover a range of matters, many of which may be of interest to the council. Details of national and performance audit reports published over the last year can be seen in Appendix 2.

Audit of the annual accounts

Main judgements

All audit opinions stated that the annual accounts were free from material misstatement. This means we consider the accounts to show a true and fair view and follow relevant accounting standards and legislation.

There were a number of significant findings and key audit matters to report. All material audit adjustments required to correct the financial statements were processed by the council.

Audit opinions on the annual accounts

13. The council and its group's annual accounts were approved by the Finance and Resources Committee on 24 September 2026. The Independent Auditor's Report is included in the council's annual accounts, and this reports that, in the appointed auditor's opinion, these were free from material misstatement.



Audit timetable

14. The unaudited annual accounts and all working papers were received on 26 June 2026 in accordance with the agreed audit timetable.

Materiality

15. The concept of materiality is applied by auditors in planning and performing an audit, and in evaluating the effect of any uncorrected misstatements on the financial statements or other information reported in the annual accounts.

16. Broadly, the concept of materiality is to determine whether misstatements identified during the audit could reasonably be expected to influence the decisions of users of the annual accounts. Auditors set a monetary threshold when determining materiality, although some issues may be considered material by their nature. Therefore, materiality is ultimately a matter of the auditor's professional judgement.

17. Materiality levels for the audit of the council and its group were determined at the risk assessment phase of the audit and were reported in the Annual Audit Plan. These were reassessed on receipt of the unaudited

annual accounts. Materiality levels were updated and these can be seen in Exhibit 1.

Exhibit 1
2025/26 Materiality levels for the council and its group

Materiality	Value
Materiality – set at 2% of gross expenditure	£59 million
Performance materiality – set at 65% of materiality. As outlined in the Annual Audit Plan, this acts as a trigger point. If the aggregate of misstatements identified during the audit exceeds performance materiality, this could indicate further audit procedures are required.	£38 million
Reporting threshold	£1 million

Source: Audit Scotland

Significant findings and key audit matters

18. ISA (UK) 260 requires auditors to communicate significant findings from the audit to those charged with governance, which for the council is the Governance, Risk and Best Value Committee.

19. The Code of Audit Practice also requires public sector auditors to communicate key audit matters. These are the matters that, in the auditor's professional judgement, are of most significance to the audit of the financial statements and require most attention when performing the audit.

20. In determining key audit matters, auditors consider:

- Areas of higher or significant risk of material misstatement.
- Areas where significant judgement is required, including accounting estimates that are subject to a high degree of estimation uncertainty.
- Significant events or transactions that occurred during the year.

21. The significant findings and key audit matters to report are outlined in Exhibit 2.

Exhibit 2
Significant findings and key audit matters

Significant findings and key audit matters	Outcome
1. Valuation of Right of Use assets and lease liabilities The council has a large number of lease arrangements and uses a third-party provider to supply information to meet IFRS 16 Leases disclosure requirements. These are disclosed in the accounts as 'right of use' assets, increasing the value of the council's assets on the balance sheet. An error based on an incorrect formula for leases data was uploaded by the council into the third-party provider's database. Our audit testing identified inconsistencies between the information recorded on the database and the underlying lease agreements, specifically relating to start and end dates, and lease payment values. As a result, lease liabilities and right-of-use asset values were calculated incorrectly within the system and then subsequently the draft accounts.	Once the data was corrected and uploaded to the third-party software system, the overall correction required was to increase the total value of assets and related liabilities by £14 million. Management made the necessary adjustments to correct this in the accounts. A separate error was subsequently identified, which would have increased the asset and liability by £2.5 million. Management has chosen not to amend this element of the calculation in the accounts and therefore we classify this as an unadjusted error. We undertook additional work to gain assurance that lease dates recorded on the system were accurate. Management should improve its review, and validation checks to ensure data provided to, and received from, its lease accounting provider is accurate. **Recommendation 1,** Appendix 1.
2. Non-current assets valuation As part of our audit procedures, we requested that management prepares a reconciliation between the asset register maintained by finance, and the estates register held by the valuations team. The reconciliation identified that the register used to prepare the accounts was incomplete and did not include all revaluations recorded by the estates team. As a result, the draft accounts had understated the gross book value of non-current assets by £18.505 million.	Management processed the necessary adjustments to the final version of the annual accounts. This resulted in associated amendments to depreciation, the revaluation reserve and the capital adjustment account. Management should prepare a reconciliation between these two key sources of information to ensure the data is complete and accurate. **Recommendation 2,** Appendix 1

Significant findings and key audit matters	Outcome
3. Amendment to revaluation reserve During 2025/26, a new Currie Community High School opened on the same campus as the original school. The older building which was adjacent to the new school was subsequently demolished. Management had retained the same asset code for both the original school and the replacement building. As a result, the accounting records did not adequately distinguish between the old and new assets, making it difficult to separately account for the former school and the recognition of the replacement asset. This led to errors in the calculation and reporting of the revaluation reserve.	The revaluation reserve was overstated by £34 million from accounting errors relating to the previous school. Management processed the correction as outlined in Exhibit 5. We also considered the wider asset population and whether there were other assets similarly affected. No issues were identified from this review.
4. Indexation of land and buildings During 2025/26, new accounting guidance required the council to apply index-derived movements to land and building assets that had not been subject to a full formal valuation. This represents a significant change in approach to estimating asset values. To support compliance with the revised requirements, the council engaged an external specialist to provide these indices. Applying these indices to land and property increased long term assets by £37 million. This was a key audit matter given it was a significant change in accounting requirements and the value of the change in estimates.	We evaluated the indices used, and how they had been applied across the council asset portfolio. Our audit found the indexation adjustments had been applied correctly and were reflected accurately in the financial statements.

Significant findings and key audit matters	Outcome
5. Accounting for temporary accommodation changes In recent years, the council acquired properties for use as temporary accommodation to help meet demand for homelessness services. These purchased properties were initially accounted for within the Housing Revenue Account (HRA). During 2025/26, the council reviewed its accounting treatment of temporary accommodation. It concluded that properties acquired solely for this purpose should be funded through the General Fund, rather than the HRA, as they are not part of the long-term housing stock. As a result, the council transferred 362 properties from the HRA to the General Fund, with a value of £88.256 million. The council also identified 1,049 properties within the HRA that were being used as temporary accommodation, but which remain intended for future use as settled housing tenancies. These remain within the HRA however given their current use they were revalued during the year, increasing their value to £98.375 million. These properties will remain on the HRA, but associated costs will be met by the General Fund.	Given the significance of the accounting judgement and the scale of the adjustments, this was a key audit matter. We reviewed management's assessment of the appropriate accounting treatment and verified the supporting calculations, including prior year adjustments. Our audit found the accounting treatment applied, and the necessary adjustments, were reasonable and appropriate.
6. Errors in the classification of payable and receivables balances Our audit of transactions and balances identified the following misstatements: •A balance of £4.484 million had been incorrectly classified as a receivable. This related to the timing of events and ticket sales and should have been a payables balance. •We also identified a 'negative' prepayment of £1.780 million relating to right-of-use assets, having the effect of reducing the value of receivables owed to the council. This sum was based on information provided by a third-party provider, but as further evidence was not available, we concluded this was an error.	Management processed necessary adjustments to correct payables and receivables, with the exception of the balance described below. Management did not adjust the remaining £1.780 million balance, as there was insufficient evidence to support a revised amount. This value is below our materiality threshold and is therefore classed as an unadjusted error.

Source: Audit Scotland

Qualitative aspects of accounting practices

22. ISA (UK) 260 also requires auditors to communicate their view about qualitative aspects of the council's accounting practices, including accounting policies, accounting estimates, and disclosures in the financial statements.

Accounting policies

23. The appropriateness of accounting policies adopted by the council was assessed as part of the audit. These were considered to be appropriate to the circumstances of the council, and there were no significant departures from the accounting policies set out in the Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

Accounting estimates

24. Accounting estimates are used in number of areas in the council's financial statements, including the valuation of land and buildings assets and the valuation of the pension liability. Audit work considered the process management of the council has in place around making accounting estimates, including the assumptions and data used in making the estimates, and the use of any management experts. Audit work concluded:

- There were no issues with the selection or application of methods, assumptions, and data used to make the accounting estimates, and these were considered to be reasonable.
- There was no evidence of management bias in making the accounting estimates.

25. Details of the audit work performed and the outcome of the work on accounting estimates that gave rise to significant risks of material misstatement are outlined in Exhibit 6, (page 19).

Disclosures in the financial statements

26. The adequacy of disclosures in the financial statements was assessed as part of the audit. The quality of disclosures was adequate, with additional levels of detail provided for disclosures around the prior year adjustment for temporary accommodation, as well as additional disclosures in the governance statement and management commentary based on the audit team's knowledge of the council.

Group audit

27. The council is part of a group and prepares group financial statements. The group is made up of ten components, including the council which is the parent of the group. As outlined in the Annual Audit Plan, audit work was required on a number of the group's components for the purposes of the group audit, and this work was performed by a combination of the audit team and the components' audit teams. As group

auditor we placed reliance on the work of component auditors and where the component was material, we reviewed their risk assessment and work to address significant risks identified. The audit work performed on the group's components is summarised in Exhibit 3 (page 13)

Exhibit 3
Summary of audit work on the group's components

Group component	Auditor and audit work required	Summary of audit work performed
Edinburgh Transport Holdings Limited	**Azets** Work to address the significant risk over fraud in revenue recognition, management override of controls, and risks in expenditure and IFRS 16 liabilities.	The specific audit procedures required were performed by the component auditor and these were evaluated and reviewed by the group audit team. No significant issues were identified. No issues were identified in the audit procedures performed by the component auditor.
Edinburgh Living MMR LLP	**Azets** Work involved in estimating updated valuations for investment property as at 31 March 2026 and management override of control.	Additional work by the component auditor confirmed that the valuation of investment property had not been significantly affected between December 2025 and March 2026.

Source: Audit Scotland

Other matters to report

28. Auditing standards require auditors to report a number of other matters if they are identified or encountered during an audit. The matters identified or encountered on the audit of the council are outlined in Exhibit 4 (page 14).

- The accounts presented to audit were adjusted from those presented to the council to include data from more recently available actuarial reports relating to IAS 19 pensions disclosures.
- We have identified areas where financial controls could be strengthened. These relate to payroll validation procedures, refer Paragraph 58.

Exhibit 4
Other matters to report

Auditing standard requirement	Matter to report	Outcome
Non-compliance with laws and regulations ISA (UK) 250 requires auditors to report any instances of non-compliance with laws and regulations identified during the audit.	As highlighted in the council's annual governance statement, there were instances of non-compliance with laws and regulations in relation to the following areas: • there was legal non-compliance with known use of unlicensed HMOs over a prolonged period; • The council's statutory responsibilities to deliver housing and homelessness services to those who are homeless or threatened with homelessness require compliance with the Housing Scotland Act 1987 (as amended) and the Homeless Persons (Unsuitable Accommodation) (Scotland) Order 2022. In April 2025, the council reported it continued to be in breach of both types of legislation • HMRC concluded a review of the council's compliance with minimum wage requirements and identified an isolated breach relating to volunteer arrangements at Benmore Outdoor Centre.	We considered the balance and extent of disclosures relating to this in the Governance Statement. In all cases the council has undertaken work to address the situation. We have concluded that that the non-compliance does not have a material effect on the financial statements and has been adequately reflected in the financial statements.

Source: Audit Scotland

Significant matters discussed with management

29. All significant matters identified during the audit and discussed with the council's management have been reported in the Annual Audit Report.

Audit adjustments

30. Audit adjustments were required to the financial statements to correct misstatements that were identified from the audit. Details of all audit adjustments greater than the reporting threshold of £1 million are outlined in Exhibit 5.

Exhibit 5
Audit adjustments

Details	Financial statements lines impacted	Comprehensive Income and Expenditure Statement (CIES)		Balance Sheet	
Audit adjustments to financial statements		**Dr**	**Cr**	**Dr**	**Cr**
		£000	**£000**	**£000**	**£000**
1. As outlined in Exhibit 2, an adjustment was required due to significant finding one to correct lease liabilities and right of use assets					
	Right of Use Assets			14,356	
	Lease interest	504			
	Lease Liabilities				(14,763)
	Depreciation on Right of Use assets	1,750			
	Depreciation reversal		(1,750)		
	Lease repayments		(464)		
	Depreciation on finance leases	1,750			
	Capital Adjustment Account				(1,383)

Details	Financial statements lines impacted	Comprehensive Income and Expenditure Statement (CIES)		Balance Sheet	
Audit adjustments to financial statements		**Dr**	**Cr**	**Dr**	**Cr**
		£000	**£000**	**£000**	**£000**
2. As outlined in Exhibit 2, significant finding two, an adjustment was required to correct missing revaluation entries in the accounts.					
	Depreciation	11,723			
	Depreciation reversal		(11,723)		
	Accumulated depreciation			624	
	Revaluation reserve			6,158	
	Capital adjustment account			11,722	
	Non-current assets				(18,505)
3. Amendment to the revaluation reserve in relation to Currie High School					
	Depreciation	28,818			
	Depreciation backout		(28,818)		
	Impairment	8,230			
	Impairment backout		(8,230)		
	Accumulated depreciation			2,486	
	Revaluation reserve			34,008	
	Capital adjustment account				(36,494)

Details	Financial statements lines impacted	Comprehensive Income and Expenditure Statement (CIES)		Balance Sheet	
Audit adjustments to financial statements		**Dr**	**Cr**	**Dr**	**Cr**
		£000	**£000**	**£000**	**£000**
4. Correction to remove a credit balance within receivables					
	Receivables			4,484	
	Payables				(4,484)
Net impact on financial statements		**6,803**			**(6,803)**

Source: Audit Scotland

31. In addition to the corrected misstatements outlined in Exhibit 5, there were other misstatements identified greater than the reporting threshold. The value, nature, and circumstances of the uncorrected misstatements were considered, individually and in aggregate, by the audit team, and it was concluded these were not material to the financial statements. As a result, these did not have any impact on the audit opinions given in the Independent Auditor's Report.

32. It is the auditor's responsibility to request that all misstatements greater than the reporting threshold are corrected, even if they are not material. Management has processed all audit adjustments to correct these misstatements, with the exception of two items totalling £4.280 million, detailed within Exhibit 2 which cannot be agreed to sufficient evidence. These uncorrected errors do not have an impact on the audit opinions given in the Independent Auditor's Report.

Whole of Government Accounts (WGA) return

33. The council is part of the WGA boundary and therefore prepares a return that is used by HM Treasury to prepare the WGA. The National Audit Office (NAO) is the auditor for the WGA and issues instructions outlining audit procedures auditors must follow when auditing a WGA return. The threshold for requiring audit procedures to be performed on the WGA return was set at £2 billion. The council was over this threshold and therefore a WGA return and audit procedures outlined in the group instructions will be required in due course.

Significant risks of material misstatement identified in the Annual Audit Plan

34. Audit work has been performed in response to the significant risks of material misstatement identified in the Annual Audit Plan. The outcome of audit work performed is summarised in Exhibit 6, (page 19).

Exhibit 6
Significant risks of material misstatement to the financial statements

Risk of material misstatement	Planned audit response	Outcome of audit work
Fraud caused by management override of controls Management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.	The audit team will: • Evaluate the design and implementation of controls over journal entry processing. • Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries. • Test journals entries, focusing on those that are assessed as higher risk, such as those affecting revenue and expenditure recognition around the year-end. • Evaluate significant transactions outside the normal course of business. • Assess the adequacy of controls in place for identifying and disclosing related party relationships and transactions in the financial statements. • Assess changes to the methods and underlying assumptions used to prepare accounting estimates and assess these for evidence of management bias.	Audit work performed found: • The design and implementation of controls over journal processing were appropriate. • No inappropriate or unusual activity relating to the processing of journal entries was identified from discussions with individuals involved in financial reporting. • No significant issues were identified from testing of journal entries. • No significant issues were identified from transactions outside the normal course of business. • The controls in place for identifying and disclosing related party relationships and transactions were adequate. • No significant issues were identified with changes to methods and underlying assumptions used to prepare accounting estimates and there was no evidence of management bias. **Conclusion:** no evidence of fraud caused by management override of controls.

Risk of material misstatement	Planned audit response	Outcome of audit work
Risk of fraud in expenditure recognition In line with Practice Note 10: *Audit of financial statements and regularity of public sector bodies in the United Kingdom*, most public bodies are net expenditure bodies and therefore the risk of fraud is more likely to occur in expenditure. We have evaluated the council's significant expenditure streams. Some areas, including staff costs, interest payments and depreciation, amortisation and impairment, are not considered areas of risk. However, due to the extent and complexity of the council's other service expenses, such as premises, supplies and services, and third-party payments; we identified there is a risk that expenditure may be misstated.	The audit team will: • Evaluate the design and implementation of controls over expenditure recognition. • Reviewing expenditure incurred by the council in the other expenditure streams and: – Identify the most significant expenditure streams and those that are at greatest risk of fraud. – Assess if expenditure has been recognised in line with the accounting policies. – Assess if expenditure from all expected expenditure streams has been recognised, and investigating any omissions, where required. • Substantive testing of expenditure transactions processed over the course of the year and around the year-end, focusing on transactions within significant expenditure streams and those that are at greatest risk of fraud, to ensure expenditure has been recognised in line with accounting policies and in the correct period. • Substantive testing of accruals and payables to ensure expenditure has been recognised in line with accounting policies and in the correct period.	Audit work performed found: • The design and implementation of controls over expenditure recognition were appropriate. • For the council's most significant other expenditure streams or those at greatest risk of fraud, expenditure had been recognised in line with the accounting policies for these streams, and all expected expenditure streams had been recognised. • Substantive testing of expenditure transactions found these had been recognised in line with accounting policies and in the correct period. • Substantive testing of accruals and payables did not find evidence of fraudulent activity. **Conclusion**: no evidence of fraud in expenditure recognition.

Risk of material misstatement	Planned audit response	Outcome of audit work
Valuation of land and buildings The City of Edinburgh Council disclosed property, plant and equipment totalling more than £6.015 billion at 31 March 2025, of which £986 million related to council dwellings and £3.624 billion to other land and buildings. There is a significant degree of subjectivity in these valuations which are based on specialist assumptions, and changes in the assumptions can result in material changes to valuations and therefore presenting a risk of misstatement.	The audit team will: • Review the information provided to the valuer and assess this for completeness and accuracy. • Evaluate the competence, capabilities, and objectivity of the valuer. • Obtain an understanding of management's involvement in the valuation process to assess if appropriate oversight has occurred. • Review the appropriateness of the key data and assumptions used in the 2025/26 valuation process, and challenge these where required. • Review the indices applied by management to assets not subject to valuation in 2025/26 and assess if these are reasonable and have been correctly applied.	Audit work performed found: • The information provided to the valuer was accurate and complete. • The valuer had sufficient competence, capability, and objectivity to perform their work. • Management is involved in the valuation process and have an appropriate level of oversight. • The data and assumptions used in the 2025/26 valuation process were appropriate. • The indices applied by management to assets not subject to valuation in 2025/26 were reasonable and had been correctly applied. **Conclusion:** the valuation of land and buildings is not materially misstated.

Risk of material misstatement	Planned audit response	Outcome of audit work
Accounting for temporary accommodation changes In recent years, the council has acquired properties for use as temporary accommodation to alleviate homelessness. These purchases have been accounted for within the Housing Revenue Account (HRA). After seeking advice, the council has concluded that assets acquired for temporary accommodation purposes should instead be funded from the General Fund rather than the HRA. As a result, the council intends to transfer 480 properties with a current carrying value of approximately £91 million from the HRA to the General Fund. There is a risk that the accounting treatment and valuation of these transfers, including the treatment applied in prior years, may contain errors.	We will review the accounting and disclosures for the transfer, including: • Valuation and reversal of impairment • Restatement of prior year figures • Reporting on the impact of borrowing in the general fund and housing revenue account.	The outcome of our audit work is described in Exhibit 2.

Source: Audit Scotland

One objection to the accounts was received

35. The Local Authority Accounts (Scotland) Regulations 2014 require local government bodies to publish a public notice on its website that includes details of the period for inspecting and objecting to the accounts. This must remain on the website throughout the inspection period. The council complied with the regulations and one objection to the accounts was received by the required deadline.

36. The objection received centred on the council's statutory duties in relation to housing and homelessness. Specifically, it raised a number of matters relating to disclosures within the governance statement management commentary and the financial statements. We sought additional evidence and assurances from management. Having

considered the matter, we requested a number of additional disclosures to be made to the annual accounts which were amended as a result, and we have responded to the objector accordingly.

Prior year recommendations

37. The council has made limited progress in completing the agreed prior year audit recommendations. For actions not yet implemented, revised responses and timescales have been agreed with the council and are outlined in Appendix 1. This covers prior year recommendations where the original due date was in 2025/26 or earlier, including any previous Best Value report findings and recommendations. There are a further ten recommendations where actions are due during 2026/27. These will be followed up as part of our 2026/27 audit.

Wider scope audit

Conclusion

The council has broadly effective and appropriate arrangements in place for Financial Management, Financial Sustainability and Use of Resources to Improve Outcomes. However, the council plans to substantially increase borrowing and debt levels over the next five years which presents a significant risk to its longer-term financial sustainability.

The council has appropriate arrangements in place for Vision and Leadership but needs to address a number of weaknesses in governance for arrangements to be effective.

Audit approach to wider scope

Wider scope

38. As reported in the Annual Audit Plan, the wider scope audit areas are:

- Financial Management.
- Financial Sustainability.
- Vision, Leadership and Governance.
- Use of Resources to Improve Outcomes.

39. Audit work is performed on these four areas and a conclusion on the effectiveness and appropriateness of arrangements the council has in place for each of these is reported in this chapter.

Significant wider scope risks

40. Audit work has been performed in response to the significant wider scope risks identified in the Annual Audit Plan. The outcome of audit work performed is summarised in Exhibit 7 (page 24).

Internal audit provided reasonable assurance on the council's overall control environment

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

42. Internal Audit's annual report, presented to the September 2026 Governance, Risk and Best Value Committee, provided an opinion with a "reasonable" level of overall assurance. It concluded that there is a generally an overall sound system of governance, risk management and control in place.

Exhibit 7
Significant wider scope risks

Significant risk	Planned audit response	Outcome of audit work
Financial sustainability The council's revenue budget for 2025/26 was approved in February 2025. Achievement of financial balance is dependent upon delivery of £22.8 million savings and managing £20.4 million of unbudgeted spending pressures. In January 2026, the council forecast an underspend of £2.955 million. Financial sustainability will remain a risk for the council, with its latest February 2026 update to its financial plan forecasting a £63.2 million gap by 2029/30. Challenges include pressures from demand-led services such as homelessness and adult care, and delivery of £26.9 million of approved savings within the Edinburgh Integration Joint Board.	The audit team will: • Monitor the financial position throughout the year and provide an update in our 2025/26 Annual Audit Report. • Consider the council's progress in developing a longer-term financial plan	Audit work performed found: • The council has developed medium and longer-term financial plans which are aligned to the council's strategic priorities. • The council has an ambitious capital strategy, particularly for its housing stock which requires a large increase in borrowing. **Conclusion:** The council's plans show it is financially sustainable in the short term. There remain significant risks around long-term borrowing and funding gaps

Source: Audit Scotland

Conclusions on wider scope audit

Financial Management

43. The audit work performed on the arrangements the council has in place for securing sound financial management found that these were effective and appropriate. This judgement is evidenced by the council:

- having a system of internal control in place that is operating effectively and has no significant weaknesses or deficiencies
- having clear and up-to-date policies and procedures, for example, financial regulations and scheme of delegation, in place that ensure effective financial management
- having clear and up-to-date policies in place for preventing and detecting fraud and other irregularities, and participation in fraud prevention and detection activities such as the National Fraud Initiative (NFI)
- having suitably qualified and experienced staff leading the finance function. We understand the council is in the process of reorganising its finance function with a greater focus on strategic, longer-term financial management
- having effective arrangements in place for the scrutiny of arrangements that support sound financial management.

The council reports an underspend of £32.202 million in 2025/26

44. In February 2025, the council approved a revenue budget of £1,496 million for 2025/26 (2024/25: £1,361 million). To balance the budget, the council increased council tax by 8%, raising an additional £29.3 million, and identified savings of £28.4 million to be made across the council.

45. In setting the budget, the council recognised there were widespread financial risks to delivering a balanced outturn, including:

- an underlying pressure of £35 million (including additional National insurance liability) across the EIJB
- demand-led pressures in homelessness of £20 million, with assumed savings delivery of £8.2 million
- an impact resulting from the increase in National Insurance contributions, estimated to be £18.9 million.

46. The council has reported in its annual accounts that it achieved an overall underspend of £32.202 million, made possible by underspends in directorates, achievement of savings and income from a legal settlement.

47. As part of the approved 2026/27 budget, £6 million of this underspend was set aside to create a homelessness services risk-related contingency. The council reported that there has been a large rise in households in temporary accommodation, from 5,500 to 6,521. The council has agreed additional borrowing totalling £581 million until 2030/31 for the acquisition or development of around 2,500 homes to be used as temporary accommodation.

The council delivered 70% of its planned savings measures

48. The council also reports that 70% of approved savings were delivered during 2025/26 (£30.1 million of a final £43.2 million target), which is a positive result given the financial challenges in the local government sector. The biggest single savings scheme (£10.7 million) was in relation to homelessness, a best value review of corporate services (£2 million), and in early years (£2 million).

49. The council has a good track record of achieving planned savings and in generating additional income. In 2024/25, it achieved £23.9 million (84% of its planned total) and £22.437 million (84% of the planned total) in 2023/24. Over recent years, it has benefited from time-limited flexibilities such as service concession arrangements and reductions in the amount employer pension contributions. It has raised, or plans to raise additional income, through the newly introduced visitor levy, council tax on additional and higher-rate homes, and through other schemes such as green freeports. As we detail in paragraph 62, the council has strengthened its approach to longer-term financial sustainability by implementing zero-based budgeting and a prevention-led financial strategy.

50. In July 2026, Edinburgh became the first council in Scotland to introduce a visitor levy, following a consultation process. By implementing a 5% charge on the accommodation cost of paid overnight stays in Edinburgh, the council expects to raise in the region of £45 million a year by 2028/29. The money generated by the scheme will be reinvested into "initiatives that benefit residents and enhance visitor experiences".

The council should continue to improve the clarity of financial information presented to members and to the public

51. Our briefing on local government budgets 2025/26 identified that budget papers and financial monitoring reports provided to elected members should include clear and understandable headline figures that state the impact of specific budget decisions on the overall financial position of the council. It identified that the way in which budget papers at some local authorities were presented means that elected members and communities cannot easily determine the impact of budget decisions nor the overall financial position of the council, highlighting a need to improve accessibility and transparency.

52. In 2024/25, we reported that financial reports provided to members at The City of Edinburgh Council do not support good scrutiny as they are very technical in detail and are not tailored sufficiently to reflect that not all members have a financial background. While members may receive a degree of comfort from detailed reports, it is important that the council makes its financial reports more accessible to better support members in their understanding and scrutiny of the council's finances.

53. During 2025/26, we reviewed a number of financial monitoring reports provided to members. The council has made progress in this area, with improvements including:

- more focused scrutiny through summarised reporting on both revenue and capital budgets to GRBV and F&R Committees
- the introduction of RAG ratings for delivery timescale and budget spend on capital project, aggregated by capital spend area, and
- provision of a detailed “Budget Strategy Assessment” within the Medium-Term Financial Plan report which highlights key messages and provides members with an overview of the overall strategy.

54. However, there remain areas where improved clarity and transparency would aid decision-making. The council's revenue budget monitoring reports do not include details of spending to date, with the focus being on year-end forecasts. This does not allow scrutiny of spending levels during the year, including monitoring of variances between budget and outturn across each area of council activity and the subsequent impact on year-end forecasts.

55. The council's capital budget monitoring report does not include details of individual project performance against project budgets or timescales. While we recognise it is important that members receive summary information, it would support transparency to provide information on a list of the council's highest priority or significant individual projects.

56. The council should also continue to refine the presentation and accessibility of its reports, particularly the Treasury Management Strategy, to support member scrutiny, and improve understanding of the risks.

57. Treasury management and long-term borrowing are complex areas and likely to be challenging for readers who do not have a detailed knowledge or understanding of local government finances. This could include greater use of plain English, visual aids, and clearer explanations of more technical treasury concepts. This is particularly important when members are expected and required to make difficult decisions that will impact on the services delivered by the council both now and in the future.

There are areas where the council needs to strengthen its financial controls

58. Payroll validation (carried forward from 2024/25):

- Employee validation checks to confirm the existence of employees provides assurance on the completeness and accuracy of payroll records and is an important control within any payroll system. In the prior year, this was achieved indirectly through regular budget monitoring.
- Our audit work in 2025/26 identified that employee existence checks were carried out indirectly through monthly budget monitoring. We also confirmed there is currently no consistent approach to employee monitoring across the council as

arrangements vary according to services, however, as part of its zero-based budgeting programme, the council has undertaken a comprehensive review of staffing establishment, providing more reliable workforce data to support financial planning. Information to support employee existence checks is available to budget holders through the HR system even where it is not included within monthly budget monitoring reports.

- This control could be strengthened to provide more assurance if budget holders were required to regularly confirm that the payroll establishment listing for their business area was accurate and up to date.

Recommendation 14 (re-raised from 2024/25)

The council should ensure all budget holders directly validate their establishment list on a regular basis. This would provide assurance that only genuine, active employees are paid and ensure accurate financial reporting.

59. Reconciliation of payroll data to the general ledger:

- The council implemented a new Oracle Fusion HR and Payroll System during 2024/25. Our 2024/25 annual audit report commented that reconciling the payroll system with the general ledger required significant input from payroll and finance staff to resolve. This point was also noted by Internal Audit. From our observations of the process in 2025/26, this continues to be resource-intensive and time-consuming. Our audit testing confirmed that the ledger materially agrees with the payroll system and therefore staff costs reported in council's accounts are not misstated. However, we are not aware that this issue was captured in any post-implementation 'lessons learned' exercise which may enable the council to identify improvements for any processes such as this in future.

Financial Sustainability

60. The audit work performed on the arrangements the council has in place for securing financial sustainability found that these were broadly effective and appropriate. This judgement is evidenced by the council:

- making appropriate arrangements to develop medium and longer-term financial plans and linking these to its Corporate Plan and priorities

- having effective arrangements in place for identifying risks to financial sustainability over the medium and longer-term, and

understanding medium and longer-term demand pressures that could impact on available resources

- having savings plans in place to manage forecast budget deficits, and a reserves strategy in place to manage the use of reserves if the required level of savings cannot be met.

61. Our overall assessment of the council's approach to financial sustainability is informed by the council having a budget strategy and well-developed Medium-Term Financial Plan (MTFP). The plan presents a balanced and realistic assessment of the financial challenges it faces over the coming years and is underpinned by a range of assumptions relating to funding levels and expenditure pressures, supported by sensitivity analysis and scenario planning. It demonstrates a longer-term, strategic approach to financial planning that extends beyond a single budget cycle and considers service transformation and redesign as well as areas to find savings.

62. In the last year, the council has made good progress with its Sustain and Reform budget strategy which includes the implementation of a zero-based budgeting methodology, a greater focus on prevention and early intervention, and organisational transformation through the council's "Priorities for Change" programme.

63. The council has applied a zero-based budgeting approach from 2026/27. This represents a significant change from traditional budget-setting methods, requiring all planned spending to be reviewed and justified rather than being based on prior year budgets being rolled forward. The council reports the impact of this method will be significant, by improving data-driven decision-making, strengthened control of expenditure, and in promoting wider process and cultural change across the organisation.

The 2026/27 budget was set with a savings target of £32.6 million

64. In February 2026, the council approved a revenue budget of £1,534 million for 2025/26 (2024/25: £1,496 million). To balance the budget, the council increased council tax by 4%, raising approximately an additional £18 million. The budget included a savings programme totalling £32.6 million and further revenue spending totalling £23.9 million.

65. The budget was the first year of implementing a 'zero-based' budget strategy, which required each service to justify its spending against the council's strategic priorities and financial challenges. The council's updated Medium-Term Financial Plan forecasts a budget shortfall of £14.3 million in 2027/28, rising to a cumulative funding gap of £93.0 million by 2030/31.

66. Key financial information considered in forming the judgement on the council's arrangements for securing financial sustainability is outlined in Exhibit 8 (page 31).

Exhibit 8
Key financial information

Budget setting	2023/24 (£m)	2024/25 (£m)	2025/26 (£m)	2026/27 (£m)
Budget gap	62.0	28.5	70.3	51.3
Planned to be met via:				
• Savings and flexibilities	45.6	28.5	35	20.7
• Use of reserves	-	-	6	8.8
• Additional council tax / funding	16.4	-	29.3	21.8
Actual				
Savings delivered	22.437	23.9	30.133	
Reserves				
Use of / (contribution to) reserves	36.28	44.267	(10.385)	
Total usable reserves carried forward	429.373	376.598	440.381	
General Fund:	353.238	301.317	349.479	
• Earmarked	327.485	275.714	321.876	
• Uncommitted	25.753	25.603	27.603	

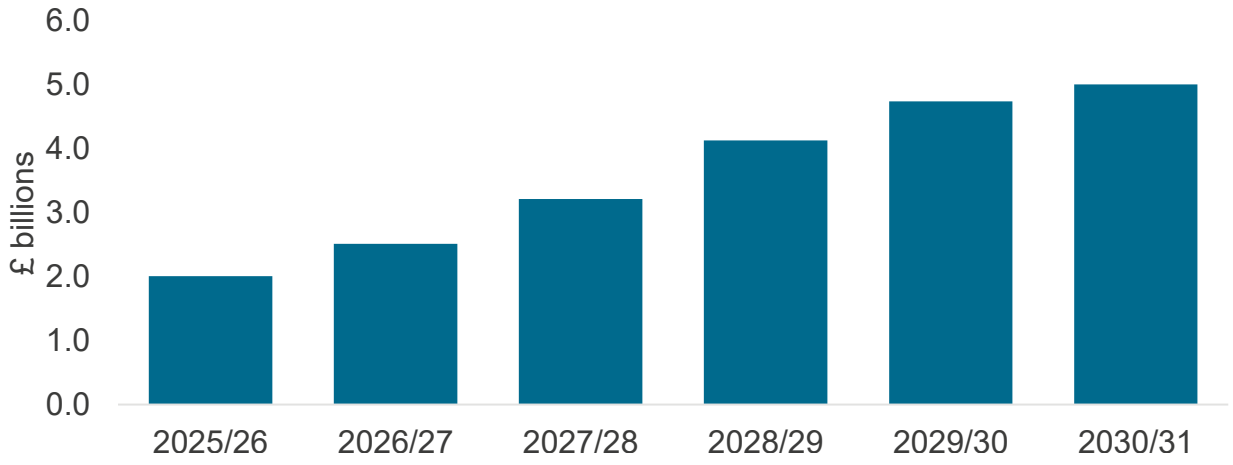
Source: The council's 2025/26 annual accounts and Finance and Resources Committee papers.

The council plans to take on increasingly substantial levels of debt, forecast to reach more than £5 billion by March 2031, bringing significant risks to its financial sustainability

67. The 2025/26 annual accounts show that the council has £2.007 billion of debt as at 31 March 2026 relating to borrowing (excluding PPP), an increase of £234 million from 31 March 2025. Debt levels are expected to increase to over £5 billion by the end of 2030/31 (Exhibit 7). In recent years, the council has benefited from a prolonged period of low interest rates, however, longer-term interest rates are now relatively high. With a substantial borrowing requirement to fund an ambitious capital programme, the council has acknowledged it faces a significant interest rate risk.

Exhibit 9

The rising debt at City of Edinburgh Council - total year-end borrowings (actual and forecast)



Source: CEC Treasury Management Strategy 2026/27

68. The council's 2026/27 treasury management strategy shows that its underlying need to borrow to support capital spending plans is projected to increase from £2.841 billion in 2026/27 to £5.332 billion in 2030/31. The forecasts increased significantly during the last year between the publication of its 2025/26 and 2026/27 treasury management strategies. Much of this increase is due to significant investment in housing, with the HRA capital financed by borrowing, increasing from £99 million in 2025/26 more than five-fold to £570 million in 2028/29 and £499 million in 2029/30.

The vast majority of council borrowing is from the UK Public Works Loans Board

69. The council borrows from external sources to fund its capital programme, with 87% of funds sourced from the UK Public Works Loans Board (£1.746 billion as at 31 March 2026) with the remainder from financial markets.

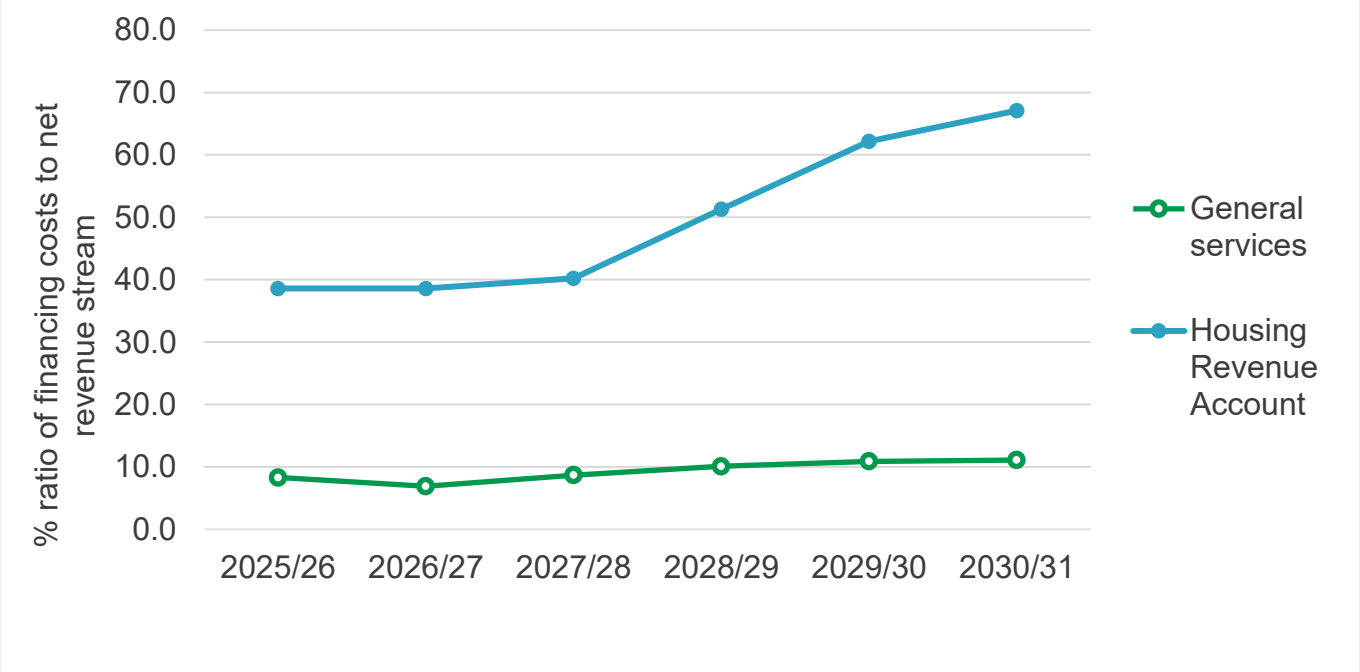
70. An analysis of data from the Public Works Loan Board, the principal source for public borrowing in the UK, shows that of the 1,459 local authorities and public organisations it lends to, The City of Edinburgh Council has the fifth highest levels of borrowing, making it one of the most indebted in the UK. Only Leeds City Council (£1.9 billion), Woking Borough Council (£2.16 billion), Birmingham City Council (£3.05 billion) and Transport for London (£5.5 billion) have higher principal outstanding as at 31 March 2026.

71. The council has a range of prudential indicators designed to help members and management judge if its borrowing and management of money is affordable and sustainable. The indicator 'financing costs to net revenue stream' is used to show how much council income is used to pay borrowing and debt charges. For councils with housing stock, like

Edinburgh, this indicator shows how much housing rents income will be required to finance housing-related borrowing and debt charges. Exhibit 10 shows that by 2030/31, it forecasts that nearly 70% of housing income, e.g. rents, will be used to finance housing-related debt and borrowing charges. For general services, this is lower at 11.1%.

Exhibit 10

How much of the council's future income will be used to pay off the costs of debt?



Source: CEC Annual Management Strategy 2026/27

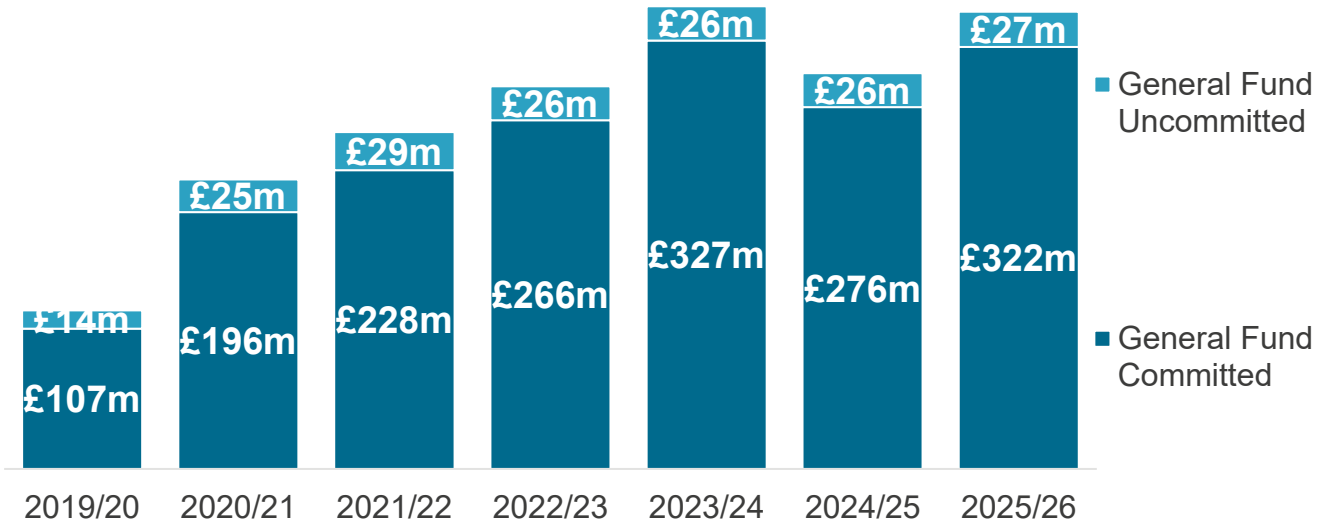
72. The council will need to be extremely cautious about entering into long-term debt and be very clear on how it will anticipate and manage the associated risks. These risks are assessed and monitored through the existing treasury and capital strategies. An increasing proportion of future budgets will be committed to repaying these costs, meaning less money available for services. The cost of repaying debt is subject to volatility and interest rate risk, and it is likely the council will have very limited capacity, if any, to borrow further for new priorities. The council is now only marginally inside its internally-set authorised limit for external debt, meaning its borrowing position is close to becoming unsustainable.

The council's uncommitted usable reserves continue to be relatively low, limiting its ability to respond to unforeseen issues

73. One of the key measures of the financial health of any local authority is the level of reserves held. The total level of usable reserves held by the council (Exhibit 11) increased this year from £301 million in 2024/25 to £349 million in 2025/26. Most of this has been earmarked for specific

purposes and a residual £27.603 million is unallocated and available as revenue expenditure.

Exhibit 11
Analysis of committed and unallocated general fund balances



Source: City of Edinburgh Council audited accounts

Vision, Leadership and Governance

Key governance weaknesses need to be addressed

74. The audit work performed on the arrangements the council has in place around its vision, leadership and governance found that, despite appropriate structures in place, there are a number of significant weaknesses that need to be addressed.

75. The Annual Governance Statement in the annual accounts is appropriately balanced. It concludes that it is broadly operating effectively with foundations in place but more needs to be done to address identified weaknesses. These include:

- An inconsistent approach to some controls and operational procedures across the council.
- A resource-intensive system of committees and reports which place demands on member and officer capacity, reducing the time available for effective scrutiny.

- Questions around the effectiveness of decision-making, leading to two internal investigations during 2025/26.
- Compliant management of data in certain areas of council work, including adult social care.
- A lack of performance indicators at team level to allow managers to adequately develop their workforce. The council's skills assessment also found managers lacking skills in being able to address concerns around conduct or behaviour.
- Communication with the public, with a lack of adequate resource to manage complaints and to respond to inquiries from members of the public.
- Critical reports in service areas, including from the Care Inspectorate which highlighted concerns regarding senior leadership.

76. Last year, we reported that the council had established complex officer-led governance arrangements to oversee progress with transformation. There was a lack of clarity over some roles and responsibilities, and information reported to elected members did not clearly outline the savings and non-financial benefits of transformation projects.

77. The council has also faced significant criticism in recent years from external, independent reviews which have all highlighted concerns over organisational culture. These include the Tanner Inquiry, the Dunion Report and a more recent report by the Care Inspectorate which all raised significant concerns about trust and confidence in management and leadership. Strong leadership, both at the executive and political levels, is critical in building an organisation which is willing to learn from its past mistakes and address underperformance.

Recommendation 3

The council should ensure that planned actions from critical governance reviews are effectively implemented and reviewed to ensure improvements are sustained, with lessons shared across all council areas. It should also actively identify areas of service underperformance and commit to being open and transparent about where it needs to address failures.

78. The audit work performed on the arrangements the council has in place around its Vision and Leadership found that these are broadly appropriate. This judgement is evidenced by the council:

- having a council business plan in place, supported by operational plans, that set out its vision, strategy, and priorities and reflect the pace and depth of improvement required to realise these in a sustainable manner

- having a system of financial and performance reporting in place, both internally and externally, that is linked to its operational plans, and effective scrutiny and challenge of performance provided by the Governance, Risk and Best Value Committee.

Use of Resources to Improve Outcomes

79. The audit work performed on the arrangements the council has in place around its Use of Resources to Improve Outcomes found that these were effective and appropriate. This judgement is evidenced by the council:

- being able to demonstrate a clear link between the use of resources and delivery of its priorities

- having arrangements in place to benchmark its performance to identify areas of improvement

- being able to demonstrate improvements in performance against benchmarks and relative to other comparable organisations.

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

81. The most recent National Benchmarking Overview Report 2024/25 by the Improvement Service was published in March 2026 with the results considered by the council's GRBV committee and tailored summaries presented to relevant council committees. The data, which is retrospective, provides an additional perspective on how the council is performing and informs the council's own Planning and Performance Framework.

82. We expect councils to use the LGBF as part of their approach to self-evaluation and performance reporting using the underlying principles of:

- transparency and clarity in the public information that shows delivery of local priorities and the performance of services

- comparison and benchmarking with councils with similar populations and areas (family groups) to drive improvement

- trends in performance over time so the direction of travel is clear

- decision-making using performance data to identify improvement priorities

- effective scrutiny by councillors of service performance, delivery of strategic priorities and improvement plans.

83. The council reported that compared to 2023/24, it had improved its relative position in 47 of the 94 indicators, declined in 44 and maintained its relative position in 3 of the indicators.

84. The council's analysis shows a mixed picture. It is in the top two quartiles in Scotland for 58 of the indicators, and in the bottom two for 36 of these. Eight indicators are in the lowest quartile, with five of these within environmental services.

- Children's Services: For primary schools measures, there was an increase in all children's rates of literacy and numeracy, and a reduced attainment gap. For secondary schools, there were increases seen in all attainment measures.

- Environmental Services: The street cleanliness score decreased very slightly to 89.2%, placing Edinburgh slightly behind the Scottish average of 91.7%.

- Culture and Leisure: The proportion of adults satisfied with libraries (69.7%: 2023/24 - 71%), parks and open spaces (88%: 2023/24 - 88.3%), museums and galleries (83%: 2023/24 - 83.3%) and leisure facilities (68.7%: 2023/24 - 71.3%) indicators have decreased compared to last year. However, these percentages remain above both Scottish average and family group averages.

- Economic Development: The proportion of people earning less than the living wage shows a small decline, however Edinburgh's relative position remains at number 1 compared to all other local authorities.

- Adult Social Care: The percentage of people aged 65+ with long-term care needs who are receiving personal care at home has increased since 2021/22. The percentage (62.3%) is largely in line with the family group (62.4%) and Scotland-wide average (62.3%).

- Housing Services: the percentage of council homes meeting the Scottish Housing Quality Standard rose from 52.7% to 63.3% this year. However, this still falls short of the family group average of 80.6% and the national average of 82.9%.

The council's own measures largely show improvement in key areas

85. The council's own Public Performance Scorecard covers core service-level KPIs and shows how performance is progressing. Updates are provided on a quarterly basis and each year in the form of an annual performance report. The council's Public Performance Scorecard annual report 2025/26 was considered at the September 2026 meeting of the GRBV Committee.

86. Of the council's own 99 indicators, eight were flagged as red (behind target), while 43 were marked as green (on or ahead of target). As with the LGBF indicators, a mixed picture of progress across the council was presented, with indicators showing improvement in Children's Services, Communities, and Environmental Services.

- Adult social care - the number of people waiting for a package of care is declining, with a value of 370 against a target of 141. The council reports that the number of people waiting for discharge from hospital continues to decrease and reached 131 in March 2026 from a peak of 224 in March 2022. However, this is a value of 131 against a target of 87.

- Street Cleaning - The Local Environmental Audit and Management System score (LEAMS) assesses street cleanliness and local environmental quality. The council reports that its score increased slightly to 92.8% in 2025/26. This puts the city above the Scotland average is 92.2%, and compares favourably above the three city average (Aberdeen, Dundee and Glasgow) which was 86.7% in 2025/26.

87. Members also consider progress against the council's business plan through an annual update report. The report, presented to the Policy and Sustainability Committee in August 2026, provided an update on the council's three core strategic priorities, and progress with actions under the ten designated outcomes.

Best Value audit

Conclusion

The council has effective and appropriate arrangements in place for securing Best Value.

The Management Report on themes prescribed by the Accounts Commission reported the council's approach to strategic asset management is fragmented, which makes it harder for the council to make well informed decisions about priorities.

The council has effective and appropriate arrangements in place for preparing and publishing statutory performance.

Audit approach to Best Value

88. Under the Code of Audit Practice, the audit of Best Value in councils is fully integrated within the annual audit. As part of the annual audit, auditors are required to take a risk-based approach to assessing and reporting on whether the council has made proper arrangements for securing Best Value in accordance with statutory guidance, including follow up of findings previously reported in relation to Best Value.

89. The Accounts Commission also reports nationally on thematic aspects of councils' approaches to, and performance in, meeting their Best Value duties. As part of the annual audit, thematic reviews, as directed by the Accounts Commission, are conducted on the council. The thematic review for 2025/26 was about asset management and involved considering how councils are managing their assets to ensure high-quality services while also responding to challenges around financial sustainability and climate change. Conclusions and judgements on the thematic review were reported in a separate report which was considered by the Governance, Risk and Best Value Committee in June 2026 and summarised in this chapter.

Conclusions on Best Value

The council's arrangements and performance in meeting Best Value and community planning duties

90. The council was part of the second year of the programme for Controller of Audit reports to the Accounts Commission on the council's performance in meeting its Best Value duties. The Controller of Audit report, published in October 2024, is available on the Audit Scotland

website. Following its consideration of the report, the Commission made the following findings as summarised below:

- Given the council's ambitious strategic priorities and financial challenges, work must be concluded as soon as possible on the actions to embed community engagement in service improvement and delivery, and to implement the Edinburgh Partnership's new governance arrangements and progress reporting.
- Given the fine balance of political power, collaborative political leadership will be essential to take difficult decisions on how to transform services to make them financially sustainable.
- The Commission acknowledges the ambitious plans in place to end poverty and become a net zero city by 2030. However, based on progress to date, there is still much to do in relation to the targets set. Specific project costs must be established urgently to better inform decision-making about priorities.
- The Commission notes that the council plans to significantly increase levels of borrowing to realise its ambitious capital plan. We do not underestimate the major infrastructure challenges facing Edinburgh, in particular around housing and the school estate, but increasing levels of borrowing bring risks that could impact future financial sustainability.
- Given its priorities and the scale of the financial challenge, the council must accelerate its transformation and change programme.
- Engaging staff, partners, and communities in shaping transformation and change will be vital, along with clear and transparent communications about what is and isn't possible. The council should provide the opportunity for a range of voices to be heard, not just those who have engaged previously, and the intelligence from communities should be clearly laid out in the options presented to elected members to inform decision-making.
- Unlike some other councils, Edinburgh has opportunities on the horizon to raise additional income, for example the introduction of a visitor levy. The Commission will watch with interest as work to maximise these opportunities progresses, but would warn the council against using the benefits of potential future income to defer difficult decisions in the short term.

91. As previously outlined, the Best Value thematic review for 2025/26 considered asset management. Conclusions and judgements on the council's approach to asset management are outlined in a separate Management Report which is available on the Audit Scotland website. A summary of the conclusions and judgments made in the report is outlined below.

- The council's approach to strategic asset management is fragmented, which makes it harder for the council to make well informed decisions about priorities.
- The Corporate Property Strategy would benefit from including more details about the use of its properties, timescales for delivering the strategy's ambitions and the governance and leadership arrangements for monitoring progress.
- The council's Corporate Property Strategy clearly aligns with the corporate objectives of creating good places to live and work and tackling the twin climate and nature crisis by 2030. The strategy references new ways of working, the changing needs of its population, and aspirations around net zero commitments at a high level. However, the strategy does not provide enough detail about how the council will achieve its net zero commitments.
- The council's Local Housing Strategy aligns with the corporate objective to end poverty in Edinburgh. The strategy also recognises the increase in demand for housing due to the growing population.
- The council has asset management plans (such as Learning Estate and Retrofit) and a Capital Strategy that align with the Corporate Property Strategy however the plans are not sufficiently detailed to guide decision making. For example, the plans do not set out specific projects, how these are prioritised, and the resources required.
- The council considers affordability in its capital strategy, medium-term financial plan and business cases.
- The council has an established approach to reporting on the condition of its operational buildings annually through the Asset Management Works programme and the condition of these has been incrementally improving. In contrast, housing is not included in this programme, and the condition of council housing is declining per the Local Government Benchmarking Framework metric.
- There is also insufficient detail about how remedial work is prioritised on buildings in poor condition, or what impact this work will have on the building's condition. The council is in the process of gathering data and developing building improvement plans that will enable a more proactive approach to addressing building safety risks in the future.
- The council took a methodical approach to addressing the risk of Reinforced Autoclaved Aerated Concrete in buildings however progress on RAAC works is not reported clearly enough.
- Governance arrangements for implementing and overseeing the corporate property strategy are not sufficiently detailed. There is

insufficient Corporate Leadership Team oversight of the Corporate Property Strategy's progress. It is unclear where key decisions are taken and progress is not routinely reported.

- The current reporting arrangements for delivering the Corporate Property Strategy lack transparency as performance measures are not clearly defined and budget monitoring reports do not give specifics around individual projects, such as costs of projects. This makes it difficult to provide a coherent, comprehensive view of progress and its alignment with corporate and strategic objectives.
- The council is performing in line with its family group and nationally in the two relevant asset Local Government Benchmarking Framework (LGBF)Indicators for operational property, however it is underperforming against the LGBF metric for council dwelling standards.
- The council has a clear ambition to work with partners to manage operational property in line with a place-based approach, but there is not enough detail to be able to effectively scrutinise whether the council is on track to achieving its ambition. There is also limited evidence of collaboration across council services.
- The council has provided examples of engagement with communities on operational property such the future use of libraries and community centres in the city, community hubs and new schools using a structured consultation process. However, the council lacks a coordinated and strategic approach to engaging communities in setting a long-term vision for the future use of its assets.
- The council has a clear policy and scoring matrix approach in place for assessing community asset transfer requests, however the council could provide more transparency about the outcome of requests or how these have been assessed.

Statutory performance information (SPI) and service performance

92. The Accounts Commission has issued a Statutory Performance Information Direction which requires the council to publish information that will:

- enable comparisons of performance between councils and over time
- show how well it is improving local outcomes with community planning partners in their area.

93. Auditors have a statutory duty to satisfy themselves that the council has made proper arrangements for preparing and publishing SPI in

accordance with the Direction and report a conclusion in the Annual Audit Report.

94. Audit work on the arrangements the council has in place for preparing and publishing SPI concluded the arrangements in place were effective and appropriate.

95. The Accounts Commission also requires auditors to report a summary of the LGBF indicators the council has reported, which can be seen in Exhibit 1.

Exhibit 12
Summary of LGBF indicators the council has reported

	Cost indicators %	Performance indicators %	Satisfaction indicators %	All indicators %
Movement in last year				
Improved	25%	49%	45%	45%
Stayed the same	15%	29%	27%	26%
Declined	60%	22%	27%	29%
Movement since base year				
Improved	60%	71%	1%	63%
Stayed the same	0%	8%	0%	6%
Declined	40%	21%	91%	31%
Indicators in the top two quartiles				
Most recent year	60%	64%	82%	65%
Base year	40%	56%	45%	52%

Source: LGBF at 2 September 2026

Fairness and Equality

96. We noted in our Annual Audit Plan 2025/26 that auditors are required to carry out a review of the 'fairness and equality' Best Value characteristic at least once during our audit appointment. We completed a review of how the council's arrangements for meeting this Best Value characteristic as part of our 2025/26 audit.

97. The Scottish Government's statutory guidance states that fairness and equality are cross-cutting themes that should be integral to all the functions and activities carried out by a local authority to deliver good outcomes and achieve Best Value.

98. The council demonstrates it meet the requirements of equality legislation through a range of strategies, policies and monitoring mechanisms. This is embedded within Equal Edinburgh (the Equality, Diversity and Inclusion framework for 2026-2030). This framework aims to fulfil its duties and sets out the council's ambition to advance equality and promote diversity. A progress report on the Equality and Diversity Framework 2021-2025 was presented to the Policy and Sustainability (P&S) Committee in March 2025.

99. The council reports progress on mainstreaming equality, with the most recent progress report presented to the Policy and Sustainability Committee in March 2026 alongside a revised Equality, Diversity and Inclusion Framework for 2026-2030.

100. The council engages with its staff to ensure they are informed of the organisational objectives and commitment to equalities outcomes. This is evidenced through multiple employee networks which council representatives meet with on a regular basis. EDI learning is delivered on equalities considerations, and engagement with staff takes place via newsletters, vlogs and through in-person meetings.

101. The council has established arrangements for the use of Integrated Impact Assessments (IIAs). Guidance is available to support staff in undertaking assessments and completed IIAs are published on the council's website. An internal audit report in 2025, however, found 'a number of gaps, areas of non-compliance and scope for improvement within the process', highlighting there was a lack of understanding of the guidance and that it was not routinely adhered to. In response, the council revised internal guidance, introduced new templates and provided revised training in April 2026 and implemented a new IIA template to support consistency of approach across the council.

102. The council collects some information and data on the impact of policies on different equality groups. It intends to use this to identify trends, insights and inform potential policy changes. The council recognises it needs to strengthen its approach to data collection, including improving how service users are asked questions, and how it builds trust and confidence to encourage disclosure.

103. The new Equality and Diversity Framework 2026-30 was approved at the Policy and Sustainability Committee on 10 March 2026. This new Framework aims to "build a single picture of equality work across the Council and to ensure that equality principles are embedded across service design and delivery." It also identifies gaps and demonstrates how the Council will aim to deliver improvements through its equality outcomes.

Progress against previous Best Value findings and recommendations

104. Best Value findings and recommendations have been made in previous years' Annual Audit Reports, Management Reports on themes prescribed by the Accounts Commission, and in Best Value reports published by the Accounts Commission, which are based on Controller of Audit reports.

105. Details of previous recommendations and progress the council is making against these can be seen in Appendix 1.

Appendix 1

Action plan 2025/26

2025/26 recommendations

Matter giving rise to recommendation	Recommendation	Agreed action, officer and timing
1. **Leasing data in the accounts** The council experienced a number of issues obtaining accurate lease accounting information from its specialist provider, requiring several iterations to correct and validate the data.	Management should improve its review and validation checks to ensure data provided to, and received from, its lease accounting provider is accurate.	**Accepted** The council will consider opportunities to take control of data input by bringing this function in-house, rather than continuing to place reliance on its specialist provider. This notwithstanding, officers will carry out in-year testing of information in our provider's lease database and make any corrections ahead of the year end. Responsible officer – Financial Controller. Agreed date – by 31 March 2027 (for 2026/27 accounts).
2. **Asset reconciliation** There were differences identified between the asset register maintained by finance, and the estates register held by the valuations team. As a result, the register used to prepare the accounts was incomplete and did not include all revaluations recorded by the estates team.	Management should prepare a reconciliation between information held by finance and the estates team to ensure data is complete and accurate prior to the accounts being prepared for audit.	**Accepted** A reconciliation will be prepared between the register maintained by Finance and the estates register held by the valuations team. This will show each asset, its valuation status/approach and a reconciliation of values held on each record. Responsible officer –Senior Strategic Finance Partner (Capital/Projects/HRA). Agreed date – by 30 April 2027.

Matter giving rise to recommendation	Recommendation	Agreed action, officer and timing
3. Strengthening governance The Annual Governance Statement highlights a number of weaknesses in the council's governance arrangements. Internal and external reviews carried out in recent years have identified concerns about organisational culture, leadership, and levels of trust and confidence in management.	The council should ensure that planned actions from critical governance reviews are effectively implemented and reviewed to ensure improvements are sustained, with lessons shared across all council areas. It should also actively identify areas of service underperformance and commit to being open and transparent about where it needs to address failures. Paragraph 77	**Accepted** Corporate Directors will oversee delivery of actions arising from critical governance reviews, review whether intended improvements have been sustained and share relevant lessons learned across services. They will also use performance and governance information to identify areas of underperformance early and ensure they are addressed openly and promptly. Responsible officer – Chief Executive, Corporate Directors and Chief Officer of the Edinburgh Health and Social Care Partnership. Agreed date - Ongoing, with initial assessment of effectiveness in April 2027.

Follow-up of prior year recommendations where the original due date was in 2025/26 or earlier, including any previous Best Value report findings and recommendations.

There are a further ten recommendations where actions are due in 2026/27. These will be followed up as part of our 2026/27 audit.

Matter giving rise to recommendation	Update
1. Given the council's ambitious strategic priorities and financial challenges, work must be concluded as soon as possible on the actions to embed community engagement in service improvement and delivery, and to implement the Edinburgh Partnership's new governance arrangements and progress reporting. (Report: Controller of Audit's report on Best Value at The City of Edinburgh Council (2024))	**Work in progress** The council and the Edinburgh Partnership have refreshed the city's Community Plan (Locality Outcome Improvement Plan/LOIP). A revised Edinburgh Partnership governance structure is in place aimed at helping services collaborate effectively around communities and be directly informed by them. This is complemented by five Neighbourhood Prevention Partnerships, covering the five city areas of highest SIMD deprivation, which are partially implemented. **Responsible Officer:** Head of Strategy, Chief Executive's Office **Target date:** March 2027 (including evaluation of effectiveness)
2. Given the fine balance of political power, collaborative political leadership will be essential to take difficult decisions on how to transform services to make them financially sustainable. The Commission would urge the council not to lose sight of community priorities and the impacts of savings options on service delivery as it goes through its political decision-making processes. (Report: Controller of Audit's report on Best Value at The City of Edinburgh Council (2024))	**Work in progress** The council reported that further opportunities to expand existing consultation and IIA-related activity are being considered in the context of the Council's funding gap and the specific proposals brought forward to address this gap. The proposed approach to consultation and engagement for the 2027/28 budget-setting process, drawing upon lessons learned from previous exercises, will be presented to the Finance and Resources Committee in November 2026. **Responsible Officer:** Head of Strategy, Chief Executive's Office and Service Director: Finance and Procurement. **Target date:** November 2026 (for 2027/28 budget-setting process).

Matter giving rise to recommendation	Update
3. The Commission acknowledges the ambitious plans in place to end poverty and become a net zero city by 2030. However, based on progress to date, there is still much to do in relation to the targets set. Specific project costs must be established urgently to better inform decision-making about priorities. (Report: Controller of Audit's report on Best Value at The City of Edinburgh Council (2024)) The council should continue to build on its existing net zero plans to include further detail on specific project costs and budgets. This should include outturn information and details of any additional funding required. This would provide better information for decision-making about prioritising projects which make the most impact and therefore maximising the contribution to achieving its 2030 Climate Strategy goals. (Report: Best Value thematic: Leadership of the development of new local strategic priorities (2023))	**Work in progress** The council reported that capital budget reports to the Finance and Resources Committee and full Council include detail on required projects (and their costs) to address the twin climate and nature emergencies. The Zero-Based Budgeting prioritisation process for the capital programme also involved assessing new and proposed projects against Council priorities, including delivery of net-zero. The council reported that its approved budget for 2026/27 contains a range of investments including a long-term third sector support fund, an income maximisation fund, a neighbourhood prevention partnership development fund and further investment in homelessness prevention activity. **Responsible Officer:** Head of Strategy, Chief Executive's Office and Service Director: Finance and Procurement **Target date:** March 2027

Matter giving rise to recommendation	Update
4. Given its priorities and the scale of the financial challenge, the council must accelerate its transformation and change programme. This will require a review of how services are delivered in the future, the detailed delivery plans required to achieve the necessary savings, and an understanding of how these plans will deliver on the council's priorities and performance outcomes. (Report: Controller of Audit's report on Best Value at The City of Edinburgh Council (2024))	**Work in progress** The council reported that a transformational roadmap has been developed and is being implemented, with refreshed governance arrangements to monitor progress and seek assurance on delivery also being developed. **Responsible Officer:** Corporate Director – Customer and Corporate Services **Target date:** On-going
5. Engaging staff, partners, and communities in shaping transformation and change will be vital, along with clear and transparent communications about what is and isn't possible. The council should provide the opportunity for a range of voices to be heard, not just those who have engaged previously, and the intelligence from communities should be clearly laid out in the options presented to elected members to inform decision-making. (Report: Controller of Audit's report on Best Value at The City of Edinburgh Council (2024))	**Work in progress** The council reported that further opportunities to expand existing consultation and IIA-related activity are being considered in the context of the council's funding gap and the specific proposals brought forward to address this gap. The proposed approach to consultation and engagement for the 2027/28 budget-setting process, drawing upon lessons learned from previous exercises, will be presented to the Finance and Resources Committee in November 2026. **Responsible Officer:** Head of Strategy, Chief Executive's Office and Service Director: Finance and Procurement Target date: November 2026 (for 2027/28 budget-setting process)

Matter giving rise to recommendation	Update
6. The Commission notes that the council plans to significantly increase levels of borrowing to realise its ambitious capital plan. We do not underestimate the major infrastructure challenges facing Edinburgh, in particular around housing and the school estate, but such levels of borrowing bring risks that could impact future financial sustainability. The council will need to manage this carefully to ensure that its levels of borrowing are affordable and that service impacts are minimised. (Report: Controller of Audit's report on Best Value at The City of Edinburgh Council (2024))	**Work in progress** As part of the implementation of the Budget Strategy, the Section 95 officer undertook a review of the Council's policies and strategy towards borrowing. **Responsible Officer:** Service Director: Finance and Procurement **Target date:** On-going (March 2027 for 2027/28 budget-setting process).
7. Unlike some other councils, Edinburgh has opportunities on the horizon to raise additional income, for example the introduction of a visitor levy. The Commission will watch with interest as work to maximise these opportunities progresses, but would warn the council against using the benefits of potential future income to defer difficult decisions in the short term. (Report: Controller of Audit's report on Best Value at The City of Edinburgh Council (2024))	**Completed** In February 2026, the Council confirmed the allocation of the first three years' visitor levy revenues. While an element of this income has been allocated to support relevant existing services, the majority has been allocated to support additional investment.

Matter giving rise to recommendation	Update
8. Digital skills of staff The council's Digital and Smart City Strategy (2020-23) did not consider how new technologies will impact on the workforce. There needs to be a clear assessment of digital technologies on workforce plans and working practices to better inform future requirements, including identifying skills gaps. (Report: Best Value thematic: Workforce innovation: how councils are responding to workforce challenges (2024))	**Completed** The Strategic Workforce Plan (SWP) identified critical skills, and specialist and technical posts which are in short supply such as environmental health officers. The plan factored in the impact of AI and technological change, and some of the projected job roles of the future. The council also undertook a skills audit of 3,500 managers to provide a consistent benchmark for leadership capability.
9. Measuring impact of the workforce strategy The council did not evaluate its success against the specific 'measures of success' identified in the 2021-24 People Strategy. The council should ensure it has a robust measurement and reporting framework to evaluate progress of the new people strategy and workforce plan. It should report on specific key performance measures and assess the impact of its actions, including identifying timescales and assigning service leads. (Report: Best Value thematic: Workforce innovation: how councils are responding to workforce challenges (2024))	**Work in progress** The council reported that a mid-Plan review was undertaken to assess impact and achievement of actions derived from workforce plans and new corporate and service level workforce dashboards are considered at committee level. The council has yet to develop on specific key performance measures to assess the impact of its actions, so this recommendation remains in progress. **Responsible Officer:** Service Director – Human Resources. **Target date:** to be further developed as part of refreshed Strategic Workforce Plan in 2027 (Originally August 2024).

Matter giving rise to recommendation	Update
10. Plans for transformation There are no medium- to long-term deliverables or savings targets for the council's organisation-wide transformation programme, but the council reports that these are currently in development. The council has not yet made the shift to delivering transformational change at scale to deliver recurring savings to ensure its financial sustainability and reduce demand-led pressures on services in the longer term. (Report: Best Value thematic: Transformation (2025))	**Work in progress** The council reported that a transformational roadmap has been developed and is at implementation stage. The council also reports that a review of service budget plans has taken place and these are being enhanced through the zero-based budgeting programme. Work has been undertaken by the Strategic Programme Board to review all projects which can demonstrate financial savings or changes in processes and operating models that will make the council more sustainable. **Responsible Officer**: Corporate Director – Customer and Corporate Services. **Target date:** On-going (Originally March 2026).

Matter giving rise to recommendation	Update
11. Transformation governance There is a need for greater leadership focus on transformation within the council. In doing so, the council needs to ensure changes to governance arrangements are working effectively and provide clarity over roles, responsibilities and reporting lines. In doing so, the council needs to better support effective oversight and scrutiny of progress towards meeting its transformation aims and objectives. This should include ensuring that progress against identified costs, anticipated savings and non-financial benefits is clearly and routinely reported to the Corporate Leadership Team and elected members. (Report: Best Value thematic: Workforce innovation: how councils are responding to workforce challenges (2024))	**Work in progress** A new governance framework has been formally approved, and the first phase rollout is underway focusing initially on senior structure. **Responsible Officer:** Corporate Director for Customer and Corporate Services. **Target date:** March 2027 (Originally December 2025)
12. Staffing resource for transformation The council should consider if it has the necessary skills and capacity required at all levels within the organisation to deliver its transformation vision to move to a more preventative operating model. (Report: Best Value thematic: Workforce innovation: how councils are responding to workforce challenges (2024))	**Completed** The council reports that it has undertaken a skills audit of 3,500 managers to provide a consistent benchmark for leadership capability with a focus on change and transformation. It also reports that refreshed leadership role-specific learning has been launched, and leadership of the change and transformation team has been reviewed, along with a review of requirements for individual members.

Matter giving rise to recommendation	Update
13. Clarity of reporting to elected members and the public Budget papers, financial monitoring and treasury management reports should present key information in a way that is accessible and understandable to elected members and the public. The council should improve reporting to present key financial information such as budget reports, savings measures and borrowing in an understandable and consistent way, including summary information, to better inform decision-making. (Report: Annual Audit Report 2024/25)	**Work in progress** The council has taken some positive steps in relation to this recommendation including improvements to revenue and capital budget reporting to members. However more work is required to improve the reporting of key financial information to support elected members and the public in their scrutiny and understanding of the council's finances. This includes spend-to-date information on revenue budgets, details of individual capital project performance against project budgets or timescales, and greater clarity around risk and risk management options with its treasury management strategy. The council reports that the month three-based capital monitoring report to be presented to the Finance and Resources Committee in September 2026 will include additional detail at project-specific level. **Responsible Officer:** Service Director: Finance and Procurement **Target date:** April 2027 (Originally January 2026)
14. Payroll validation The council should ensure all budget holders directly validate their establishment list on a regular basis. This would provide assurance that only genuine, active employees are paid and ensure accurate financial reporting. (Report: Annual Audit Report 2024/25)	**Work in progress** Our audit work in 2025/26 identified that employee existence checks were carried out indirectly through monthly budget monitoring, and through the council's work to establish a zero-based budgeting approach. We also confirmed there is no consistent approach to employee monitoring across the council as arrangements vary according to services. Information to support employee existence checks is available to budget holders through the HR system even where it is not included within monthly budget monitoring reports The council reported that Finance is working partnership with HR on data governance and control of data to ensure it remains up to date. **Responsible Officer:** Service Director: Human Resources and Service Director: Finance and Procurement. **Target date:** December 2026 (Originally March 2026).

Matter giving rise to recommendation	Update
15. Clarity of audit evidence The council should look to improve the audit trail provided in support of the accounts submitted for audit. This should involve reviewing and simplifying evidence that is provided using complex, legacy spreadsheets. This would provide assurance to the council over the evidence underpinning the accounts as well as supporting the efficient completion of the annual audit. (Report: Annual Audit Report 2023/24)	**Work in progress** The action remains in progress. The council plans to simplify the audit trail for more complex areas, with any resulting changes presented as part of the working papers prepared to accompany 2026/27 accounts closure (i.e. by June 2027). **Responsible Officer:** Head of Strategic Corporate Finance **Target date:** June 2027 (Originally March 2025, then June 2026)

Appendix 2

Supporting national and performance audit reports

Report name	Date published
Local government budgets 2025/26	22 May 2025
NHS in Scotland: Spotlight on governance	28 May 2025
Delivering for the future: Responding to the workforce challenge	7 August 2025
Flooding in communities: Moving towards flood resilience	28 August 2025
Adult Disability Payment	18 September 2025
Scotland's colleges 2025	2 October 2025
Improving care experience: Delivering The Promise	8 October 2025
Local government performance: Spotlight on culture and leisure services	23 October 2025
Financial sustainability and taxes	13 November 2025
NHS in Scotland 2025: Finance and performance	4 December 2025
Delayed discharges: A symptom of the challenges facing health and social care	8 January 2026
Community health and social care: Performance 2025	8 January 2026
Administration of Scottish income tax 2024/25	16 January 2026
Local Government in Scotland: Financial bulletin 2024/25	29 January 2026
The Scottish Budget 2026/24: Supplement to the Financial bulletin 2024/25	12 February 2026
Integration Joint Boards: Finance bulletin 2024/25	26 February 2026
Annual Assurance and Risks Report: A review of 2024/25 local government audits in Scotland	12 March 2026
Transforming the approach to climate change: Lessons from public audit	19 March 2026

The City of Edinburgh Council

2025/26 Annual Audit Report

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