

City of Edinburgh Council

Report to Members and the Controller of Audit on the 2007/08
Audit

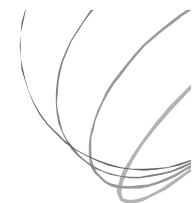


October 2008



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Key Messages

Introduction

In 2007/08 we looked at the key strategic and financial risks being faced by the council. We audited the financial statements and we looked at aspects of performance management and governance. This report sets out our main findings, summarising key outcomes from the 2007/08 audit and the outlook for the period ahead.

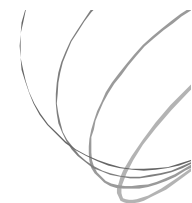
Key outcomes from 2007/08 audit

We have given an **unqualified** opinion on the financial statements of the City of Edinburgh Council. We have, however, drawn attention to a failure to comply with the statutory requirement that all statutory trading organisations break even on a rolling three year basis. For the three year period to 31 March 2008, five trading organisations continued to fail to achieve the statutory requirement. In the case of two of these – Direct Cleaning and Other Catering – this was due to unplanned costs associated with the settlement of equal pay claims and will probably continue to fail to meet statutory requirements until these costs are outwith the three year period. BlindCraft, School and Welfare Catering and Refuse Collection largely continued to experience significant financial pressures but work is ongoing to deliver service improvements and reduce costs.

We have raised concerns about the council's approach to the valuation of its council houses for the purposes of the accounts. There should also be more involvement from Estates officers in providing evidence to support their professional judgments about the extent to which capital plan expenditure enhances the value of council assets, as aspects may more correctly be accounted for as revenue expenditure. Otherwise, improvements were identified in the working paper package provided to support the financial statements but further work is required.

The council ended 2007/08 with some improvement in its unallocated balance on its general fund which increased from £0.4 million to £1.8 million. The council recognises that this balance is insufficient to meet future uncertainty and has therefore recently agreed to aim for an unallocated balance of £11 million by 2011. Within the overall outturn for 2007/08, however, some services continued to experience overspends, most notably Children and Families and Health and Social Care. There were particular pressures in services for vulnerable children, emergency foster care, free personal care, the rising use of specialist schools and more recently the impact of rising energy and fuel costs. An additional contribution from the capital fund was approved to ease pressure on service outturn figures.

Performance against the capital plan was £25 million lower than anticipated partly due to an absence of funding where sales did not materialise. A significant element of the 2007-08 capital programme related to the commencement of the tram project. Strong governance arrangements have been established for the



project involving all relevant partners. This is a significant project for the city involving high risks and is a major element of the council's transport strategy.

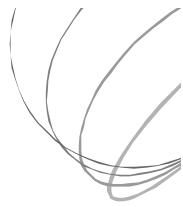
The council had generally good systems of internal financial control. More work is however required to demonstrate the governance arrangements in place for the group i.e. the companies in which the council holds an interest. Risk management is developing in the council with most services becoming increasingly risk aware and sound internal audit services continue to be provided.

During 2007/08, around 56% of performance targets were met (2006/07 60%) as measured through the council's balanced scorecards. A new corporate plan, 'Our Priorities 2007-2011' was implemented and progress was reported on a number of the priorities. For example, a group has been established to take forward the council's school rationalisation programme and the Edinburgh Trams Project is underway.

During the year, inspectors reported serious weaknesses in Edinburgh's child protection services. In addition, the council has important action to take in response to the inspection of its social work services. Both these inspections are being addressed with some urgency by the council. In social work, there were concerns about the high numbers of people on waiting lists, the backlog of reviews and the inability of services to respond to changes in people's need. Inadequate risk assessments and poor planning with regard to child protection services had left some children in unsafe environments and help and support had not always been available when required.

Significant work has been undertaken to develop a performance management framework using the covalent system. Further work is now required so that this system can effectively support the needs of the single outcome agreement but at the same time, produce information which is timely, concise and meaningful for council decision making processes. Over the last year a lot of time has been invested by the council in improving the quality and quantity of financial information provided at all levels of the organisation.

A Best Value and Community Planning audit of the council was completed in early 2007. This concluded that the council displayed many of the features of a Best Value council. The council is progressing many aspects of its best value improvement plan but progress is slower than anticipated in some aspects due to the complex nature of many of the actions. It is important that improved outcomes can be demonstrated from the changes and the single outcome agreement will play an important role here in the future by linking priorities, targets and outcomes.



Outlook for future audits

As a result of the recent crisis in the global economy, the UK is experiencing a period of slowing growth and rising inflation. Edinburgh in particular needs to prepare for the impact of the problems experienced by its financial services sector including restricted access by developers to low cost finance. Serious and difficult ongoing challenges faced by the council in curtailing spending in line with available resources are therefore exacerbated in the current economic climate and may impact on council services. Market conditions are also adversely affecting land and property prices which may lead to capital receipts not being realised and in turn will affect the council's ability to deliver its capital programme.

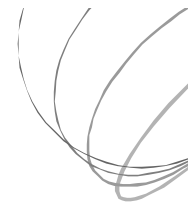
During 2007/08, the council continued to place reliance on one-off contributions and delays in the capital programme to meet the budget. In our opinion, these practices are not sustainable. Difficult decisions need to be taken in the period ahead. The council's corporate management team have highlighted the urgent need for services to bring forward action plans demonstrating real reductions in planned expenditure in an attempt to curtail overspending on the revenue budget. There is also the uncertainty around pay structures as the council has yet to implement single status proposals. It is therefore critical that the council continues to manage a number of risks in relation to the morale and motivation of some staff groups, higher than average sickness levels and, in particular, reaction to potential service reduction.

In February 2009, the council is required to submit a second single outcome agreement covering the work of the Community Planning Partnership. Recognising that this will provide additional challenges, the process will be developed through the Edinburgh Partnership Board and the council.

A revised political governance structure was introduced by the new administration in 2007 which has been reviewed and a range of improvements identified. Council meetings are currently very demanding and may require stricter working practices to ensure that the business is dealt with more effectively. The Policy and Strategy Committee has scope to play a greater role which should reduce the pressure on full Council agendas. There is also scope for the Audit Committee to extend its scrutiny and continuous improvement role by, for example, confirming that desired outcomes have been achieved following the implementation of actions by the council.

The co-operation and assistance given to us by the City of Edinburgh Council councillors and staff during the year is gratefully acknowledged.

Audit Scotland
October 2008



Introduction

1. This report summarises the findings from our 2007/08 audit of City of Edinburgh Council, the second year of a five year appointment. Findings are set out in four sections: financial statements; financial position; governance and performance. Within each of these sections we have also provided an outlook setting out key issues and concerns facing the council going forward.
2. The scope of the audit is set out in our Annual Audit Plan (AAP), which was submitted to the council in March 2008. The AAP summarises the specific governance and other risks that could affect the council's financial statements. It describes the work we planned to carry out in response to these risks.
3. As part of the planned work we submitted a Strategic Audit Risk Analysis (SARA) to the council in March 2008. Under the following strategic themes, the SARA set out our views on the key business risks facing the council and described the work we planned to carry out as part of the annual audit:
 - realising the vision, transforming service delivery
 - improving partnership working
 - sustainable and affordable use of resources
 - maintaining sound governance.
4. Overall conclusions about the council's management of key risks are discussed throughout this report. Appendix A sets out the key risks highlighted in this report which we wish to draw to the attention of members and the action planned by management to address them.



Financial statements

Introduction

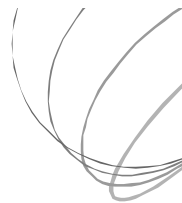
5. In this section we summarise key outcomes from our audit of the council's financial statements for 2007/08. We comment on the significant accounting issues faced and provide an outlook on future financial reporting issues.
6. We audit the financial statements and give an opinion on:
 - whether they present fairly the financial position of the council and its expenditure and income for the year
 - whether they have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements.
7. We also review the statement on the system of internal financial control by considering the adequacy of the process put in place by the council to obtain assurances on systems of internal financial control and assessing whether disclosures in the statement are consistent with our knowledge of the council.

Overall conclusion

8. We have given an **unqualified** opinion on the financial statements of City of Edinburgh Council for 2007/08. We have, however, drawn attention to a failure to comply with a statutory requirement. This does not impact on the fairness of the financial statements and, therefore, does not affect the opinion on the accounts.
9. The Local Government in Scotland Act 2003 requires councils to maintain and disclose trading accounts for significant trading operations, which are required to break-even over a three year rolling period. As highlighted earlier in this report, five of the nine statutory trading organisations made aggregate losses in the three years to 31 March 2008, with the result that the council failed to meet this statutory requirement for the following trading organisations - Direct Cleaning; Blindcraft; Other Catering; School and Welfare Catering and Refuse Collection.

Key Risk Area 1

10. The council's unaudited financial statements were submitted to the Controller of Audit prior to the deadline of 30 June. On conclusion of the 2006/07 audit we highlighted the need to review final accounts preparation processes and working papers to ensure an adequate package is available for audit. Improved information was provided to support the 2007/08 accounts. Nevertheless, a more co-ordinated approach is required between services and finance to ensure that sufficient information is provided to demonstrate an adequate audit trail between the accounts and the supporting evidence.



We would also reiterate the observation that in our view there is too much reliance placed on one officer for the production of the accounts and in dealing with audit queries. We intend to continue to work with finance to improve the processes for the preparation and audit of the financial statements. In particular, it would be helpful to advance the timetable for receipt of audited information from group companies in order that the consolidation of information within the council's group accounts can be completed earlier.

11. Audited accounts were finalised by the target date of 30 September 2008 and are now available for presentation to the council and publication. The financial statements are an essential means by which the council accounts for its stewardship of the resources made available to it and its financial performance in the use of those resources.

Accounting practice

12. Local authorities in Scotland are required to follow the *Code of Practice on Local Authority Accounting in the United Kingdom – A Statement of Recommended Practice* (the 'SORP'). The 2007 SORP required a number of significant changes to be made to the 2007/08 financial statements to make them more consistent with the accounts of other public and private sector entities. The major changes included:
 - accounting for financial instruments based on FRS 25, FRS 26 and FRS 29
 - replacement of the fixed asset restatement account and capital financing account by a revaluation reserve and capital adjustment account.
13. Except for the matters set out in paras 15 to 20, we were satisfied that the council had prepared the accounts in accordance with the revised SORP. We also note that the council opted for early adoption of the revised SORP covering pension fund accounting.
14. The council adjusted the financial statements to reflect our audit findings. As is normal practice, immaterial unadjusted errors have been reported to the Director of Finance and the Audit Committee in our letter issued in line with International Standard on Auditing 260 (ISA 260) *communication of audit matters with those charged with governance*. Details of significant accounting issues arising in the course of our audit are summarised below.

Accounting for financial instruments – assets available for sale

15. The new regulations for financial instruments require councils to reflect assets available for sale at fair value ie the consideration exchanged in an arms-length transaction. The council's unaudited accounts continued to show such assets at historical cost. We asked the council to review its investments held in companies with a view to identifying any falling within the available for sale category i.e. investments that could be traded in an active market. As a result, Lothian Buses plc and



CEC Holdings Ltd were considered to meet this definition and have been included within the council's audited single entity accounts at £79.6 million, compared with £36.6 million at historical cost value. In accordance with the SORP, the difference of £43.3 million between the two values has been recognised as an available for sale reserve on the balance sheet.

Revaluation of council house stock

16. The SORP requires fixed assets to be revalued at least once every 5 years. In 2007/08, council house dwellings were revalued adding £77 million to their balance sheet value. The city was split into areas and an average value was calculated based on the average sales value under the right to buy arrangements for properties sold within their respective areas. This meant that the value in some areas was based on one or two sales, or where there were no sales, the value of a neighbouring area was used. However, these values were not adjusted to reflect either the size or the condition of properties. Overall, therefore, council house stock was valued at £868 million at 31 March 2008 which equates to approximately £39,000 per property.
17. In order to meet the Scottish Housing Quality Standards (SHQS), the council agreed a delivery plan with the Scottish Regulator (formerly Communities Scotland) in 2007 which includes plans to demolish a number of properties in serious disrepair. In terms of the accounts, the value of properties to be demolished should be impaired to reflect their reduced economic useful life. No evidence was provided as part of the audit process to demonstrate if an impairment review had been conducted or how such properties were treated within the financial statements where demolition was awaited at 31 March 2008.
18. The council needs to examine and justify its basis for valuing its council house stock. In particular, consideration of asset size and condition needs to be documented as part of the valuation process and, where there are issues affecting the useful life of property, then an impairment view needs to be undertaken and fully disclosed in the financial statements.
19. The working papers provided in support of the revaluation was limited to a series of spreadsheets. Given that this is a formal valuation process, it is important that the council's property manager with responsibility for valuation formally certifies the work undertaken and fully sets out the bases and approach adopted.

Key Risk Area 2



Enhancement expenditure

20. In 2007/08, additions to council house stock amounted to £24 million and were generally regarded by the council as enhancement of fixed assets. It is appropriate to capitalise expenditure where it is considered to lengthen the useful life of an asset, increase its market value or increase the extent to which an asset can be used. In applying these tests, there is a requirement that the impact is substantial in nature before expenditure can be classified as an enhancement. This is a complex area and a professional property opinion is required to determine if expenditure such as re-wiring and replacement of doors and boilers is extending use or simply a replacement due to wear and tear. The latter should be accounted for as revenue whereas the former may be capitalised and written off through depreciation over the life of the asset.
21. The council's capital programme is in line with plans set out in its SHQS delivery plan. The general view is that individual items of spend such as door replacement or re-wiring should not be considered in isolation but is part of a much bigger improvement programme which combined will improve the satisfaction of council tenants. However, the accounts should be prepared in accordance with the SORP and therefore it is important that the substantial tests defined earlier are considered on an annual basis. There should be close liaison between property specialists and finance staff to ensure that a professional opinion is provided to confirm the element of expenditure considered to be an enhancement and therefore capitalised on the balance sheet. These opinions should be documented and included within the supporting evidence provided for audit.

Key Risk Area 2

Group accounts

22. The widening diversity of service delivery vehicles used by local authorities means that consolidated group accounts are required to present fairly the activities of an authority. The council has interests in 4 subsidiaries and a total of 8 associates and joint ventures which have been included in group accounts in accordance with the SORP (refer to Exhibit 1). Audited accounts were received by the council in respect of component bodies and the latest information included in the group accounts.
23. Audit assurances were obtained through review of board minutes, internal audit reports and audited accounts. In addition, we contacted the external auditors of component entities to discuss the findings from their audits and consider the impact for the group accounts. We completed this work through a mix of audit questionnaires and meetings with auditors of the more significant companies. This provided useful context to enable us conclude our audit of the group.

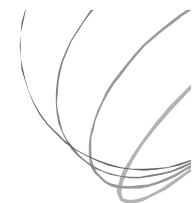
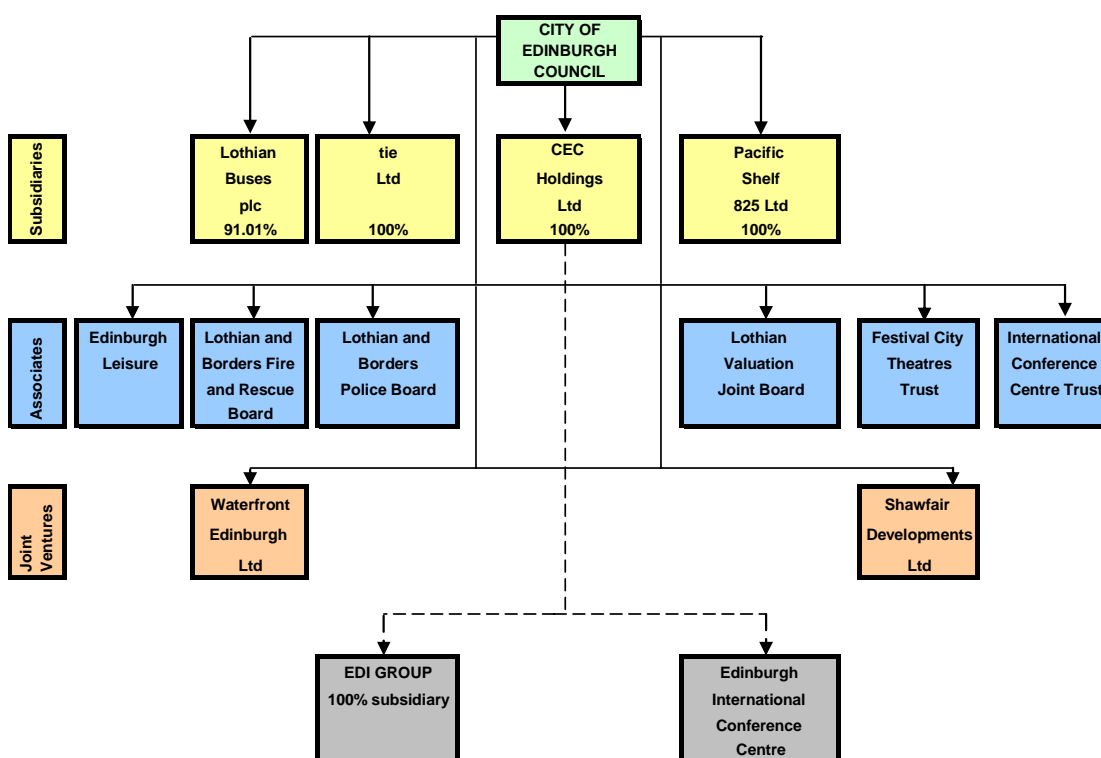


Exhibit 1

- City of Edinburgh Council Group Structure



tie Limited and the Edinburgh Tram Project

24. tie Limited, a wholly owned subsidiary of the council, is responsible for delivery of the Edinburgh Tram project and is funded by Transport Scotland and the City of Edinburgh Council. As the company's cash flow is managed through the council to minimise risk exposure, it is important, from an accounting perspective, to consider the substance of transactions between all three entities.
25. At 31 March 2008 Transport Scotland's financial statements included a prepayment of £22.2 million in respect of a contribution for the advance purchase of steel in order to mitigate the effects of price volatility and, to a lesser extent, exchange rate risk. This prepayment was made to the council (as part of a larger payment of £38 million) on 28 March 2008, although it was not due until financial close of the contracts for the construction of the trams and tram lines in early April 2008. However, contracts were not formally completed until 14 May 2008. Therefore the £22.2 million for the advance purchase of steel was paid out in advance of need. This would have had consequent borrowing and opportunity costs for central government.



26. Transport Scotland record expenditure on the Edinburgh Trams project on the basis of the underlying activity. For 2007/08 this comprised the contract payments due, adjusted for prepayments. During 2007/08, a compatible position was recorded by Transport Scotland, the council and tie Ltd. However, adjustments were made by tie Limited's auditors to remove this income as it has been recognised too early in tie Limited's accounts. This meant that tie's accounts were now out of synchronisation with both Transport Scotland and the council which created some uncertainty as to the appropriateness of the figures recorded in their respective accounts at a late stage in the completion of the accounts and the audit process.
27. Having examined the overall arrangements between the three bodies and following discussion with Transport Scotland's external auditor, we are satisfied that the expenditure of £22.2 million remains in the council's single entity accounts as a creditor. For group account purposes, tie Limited's audited accounts have been consolidated but on this occasion, there is no matching consolidation adjustment. While this matter has been satisfactorily resolved for this year, arrangements need to be put in place to ensure that the accounting treatment is reviewed at an early stage to ensure that there is a consistent approach across bodies and, given the increasing profile on Whole of Government Accounts, that in-year transaction values and year-end balances are agreed early and promptly.

Key Risk Area 3

28. We would also like to highlight the following issues in respect of the council's group accounts:
- all bodies within the group received unqualified audit opinions from respective external auditors
 - in accordance with the SORP, key policies for component bodies such as pension costs and the valuation of fixed assets at market value; have been aligned with the council
 - Edinburgh Leisure experienced financial problems which resulted in a deficit of £1.1 million in their accounts. The Ratho Centre was closed for refurbishment which impacted on membership numbers and there were also additional running costs. In order to minimise cash flow problems, the council provided a loan of £380,000 to Edinburgh Leisure
 - Waterfront Edinburgh Ltd continues to incur a deficit largely due to downward revaluation of land - over the last 2 years, a total of £14 million was written off. In terms of its business plan, this is regarded as a long term project which will assist the council deliver its long term objectives. For this reason the company was not regarded as an asset available for sale within the council's single entity accounts and we obtained management representations covering this matter
 - following our recommendation last year, the council's interests in Shawfair Developments Ltd and Pacific Shelf 825 Ltd have been brought into the group for the first time.



Provisions for non-collection of council tax and housing rents

29. At 31 March 2008, the provision for non-collection of council tax was £115 million against a debtor of £135 million. In order to reflect improved collection rates, the basis for calculating the provision was changed to 3.5% of outstanding debt billed in 2007/08 (from 4% in 2006/07). This change in basis has been reflected in a note to the financial statements; and given the improvement in collection rates; this approach does not seem unreasonable for 2007/08.
30. In overall terms, a provision exists for 84% of outstanding council tax debt and where debt is older than 6 years, it has been fully provided for. It would be helpful if the council's annual review of the adequacy of the provision formally considered the level of cash collected during the year with regard to each of the financial years for which council tax remains outstanding. This will provide trend analysis and improve the quality of the information supporting any increase/decrease in provision.
31. Also included in the financial statements is a provision for non-collection of housing rents which amounts to £1.2 million and represents 55% of rent arrears. The working paper provided in support of the provision was difficult to follow and the calculation only considered current rent arrears – former tenant arrears were excluded. While we are satisfied there is no material error in the calculation of the provision, the annual review should consider cash collected and the age of outstanding debt so that trend analysis can be established which will provide a better profile and understanding of the debt.

Key Risk Area 4

Identification and valuation of common good assets

32. There have been a number of Scottish parliamentary petitions concerning the proper recording, auditing and safeguarding of common good assets and this area continues to produce correspondence and complaints. In December 2007, the Local Authority (Scotland) Accounts Advisory Committee (LASAAC) issued a guidance note for practitioners. The paper recognises the legislative distinction of the Common Good as a managed fund, which requires disclosure within the local authority financial statements this year, with common good asset registers in place by March 2009. A separate account for the Common Good is already disclosed within the City of Edinburgh's financial statements. While a separate fixed asset register is also retained, work is ongoing to ensure the completeness of common good assets. During 2007/08, following a detailed review of specific title deeds, assets valued at £11 million were transferred from the council's fixed assets to the Common Good. While the council is concerned about the time involved in reviewing title deeds, a process will be put in place to review significant assets over a reasonable period of time to determine if there are other potential common good assets.

Key Risk Area 5



Legality

33. Each year we request written confirmation from the Director of Finance that the council's financial transactions accord with relevant legislation and regulations. Significant legality requirements are also included in audit programmes. The Director of Finance confirmed that, to the best of his knowledge and belief and having made appropriate enquiries of the council's management team, the financial transactions of the council were in accordance with the relevant legislation and regulations governing its activities.
34. We reported last year that local authorities with registered charitable bodies (ie registered trust funds) are required to comply with the requirements of the Charities Accounts (Scotland) Regulations 2006. In effect, this means a full set of financial statements is required for each trust fund, although the date of full implementation has been deferred by the Scottish Charity Regulator. The Office of the Scottish Charities Regulator (OSCR) has indicated that the interim measures introduced in 2006/07, can again be used in 2007/08 and reliance placed on the existing disclosures for trust funds in the council's financial statements, supplemented by appropriate working papers.
35. There are no additional legality issues arising from our audit which require to be brought to members' attention.

Financial reporting outlook

IFRS adoption

36. Central government and NHS bodies are to move from UK Generally Accepted Accounting Principles to International Financial Reporting Standards (IFRS) with effect from 2009/10. The government also announced its intention to publish Whole of Government Accounts on an IFRS basis from 2009/10. The intention is that local government will adopt IFRS for 2010/11, although there is a possibility that early adoption may be required in some areas and this might include PFI.



Financial position

Introduction

37. In this section we summarise key aspects of the council's reported financial position and performance to 31 March 2008, providing an outlook on future financial prospects, including our views on potential financial risks. Our findings and key messages are set out in this section, highlighting the significant challenges being faced by the council in managing ongoing financial pressures in funding existing service delivery and future improvement.

Council tax and the general fund

Operating performance 2007/08

38. The council's net operating expenditure in 2007/08 was £827 million. This was met by government grants and local taxation of £813 million, resulting in an income and expenditure account deficit of £14 million. This is 1.7% of the net expenditure for the year. After taking into account statutory and non-statutory adjustments a contribution of £8 million, largely earmarked balances, was added to the general fund during the year. The budget set for 2007/08 was based on a Band D council tax level of £1,169 with planned contributions of £4.6 million and £0.3 million from the capital fund and general fund respectively.

39. Over the past year, the council has invested a lot of time in improving the quality and quantity of financial information so that budget holders and service heads are better informed to make decisions and senior managers and elected members are better placed to receive an earlier warning of problem areas within the revenue budget. The corporate management team kept budgets under close review during the year and implemented a 'budget grip' exercise to scrutinise specific budget items in order to improve the financial position.

40. Overall, the council's actual outturn was in line with budget. However, services continued to overspend, in particular Children and Families, City Development and Health and Social Care continued to face budget pressures as outlined in Exhibit 2 below. Overall, the overspends amounted to £10.3 million. This position would have been worse had it not been for additional contributions of £4 million from the capital fund, a delay in capital projects and other savings. This position is not sustainable as services cannot continue to rely on one-off measures to meet recurring costs.



Exhibit 2

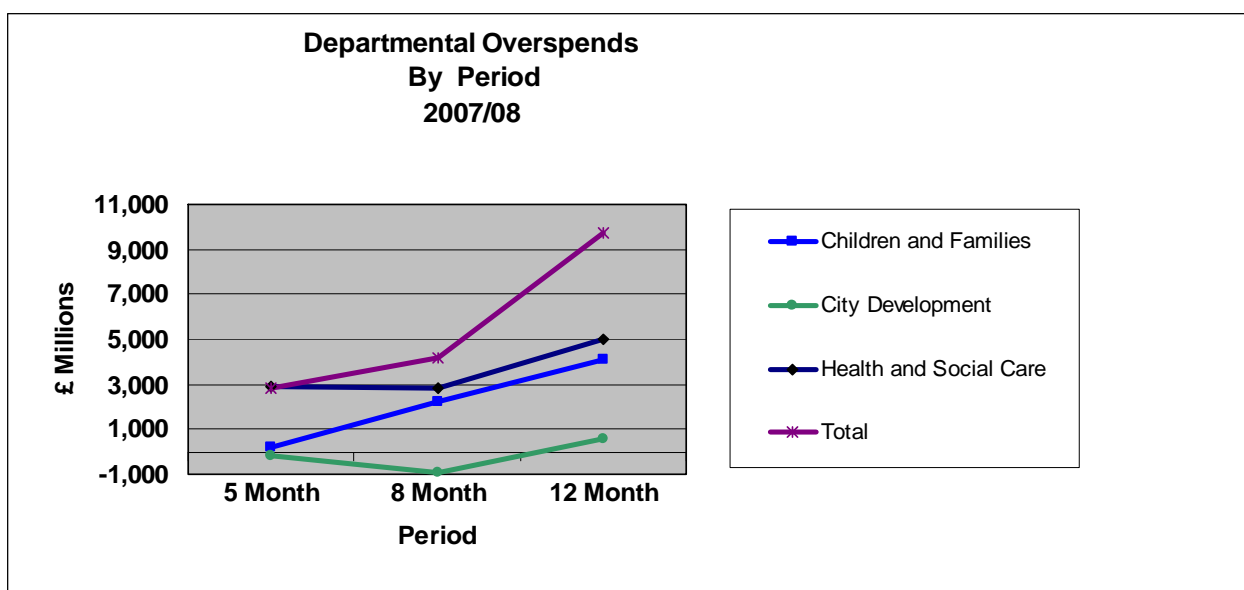
- Failure to deliver balanced budgets 2007/08 – service overspends

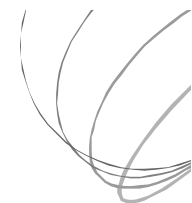
- **Children and Families £4.8 million (2006/07 £9.6 million)** – the service has experienced variances across a range of budgets including energy costs, school estate rationalisation and staff costs. Budget lines where particular financial pressures were experienced are the subject of in-depth reviews and include school transport costs, out of authority and independent schools/secure placements and foster payments. The outturn position was improved by deferring capital projects and utilisation of the capital fund.
- **City Development £0.6 million (2006/07 £2.8 million)** – while some of the additional costs relate to the management of the repairs and maintenance service, the majority of the overspend relates to unexpected, additional IT infrastructure, staff and energy costs.
- **Health and Social Care £4.9 million (2006/07 £2.3 million)** - the overspend arose from a range of additional costs including learning disabilities staff costs, pension fund strain payments and free personal care. The planned contribution from the capital fund to enable repayment of debt was doubled in order to reduce the service overspend.

41. Exhibit 3 shows the projected departmental results for months 5 and 8 and the actual outturn for period 12. This clearly highlights the different spending patterns for the year. Health and Social Care, for example, shows a significant increase in spend in the final quarter while City Development were showing an improving position through the year before an increase in spend towards the year end. Children and Families, however, showed increasing overspends throughout the year.

Exhibit 3

- Quarterly overspends by period 2007/08





42. It is also important that the impact of overspends on ongoing council plans is analysed and explained for members. In making decisions about balancing budgets in the short term, members need to be fully apprised of the effect of diverting resources in the longer term. For example, delaying a capital project will provide saving opportunities in the short term but in the longer term, the impact on both revenue and capital budgets will need to be assessed, as illustrated by the postponement of the schools rationalisation programme in 2007.

Reserves and balances

43. Exhibit 4 shows the balance in the council's funds at 31 March 2008 compared to the previous year. At 31 March 2008, the council had total cash backed funds of £69 million, an increase of £17 million on the previous year. Funds include a capital fund which may be used to defray capital expenditure or repay loan principal and a repair and renewal fund to finance expenditure incurred in repairing, maintaining, replacing and renewing fixed assets.

Exhibit 4

- Reserves and Funds

Description	31 March 2008 £ Million	31 March 2007 £ Million
General Fund	28.947	20.809
Repair and Renewal Fund	7.565	4.061
Capital Fund	32.514	27.127
	69.026	51.997

44. The council achieved a general fund surplus of £8.1 million during the year which is largely represented by an increase in ear-marked balances. Added to the amount brought forward from 2006/07, the council has a general fund balance of £28.9 million. This equates to 3.5% of the council's net annual expenditure.

45. The council reviews the level of its unallocated general fund balance annually as part of the budget setting process. At 31 March 2007, the unallocated balance was £0.4 million which the council recognised needed to be increased. At 31 March 2008, £27.1 million of the general fund balance was earmarked for specific purposes leaving an unallocated balance of £1.8 million. Earmarked amounts have been identified for devolved education management balances held by individual schools, insurances and council tax income received in respect of second home discounts which is due to be paid across to registered social landlords. While there has been an increase in the unallocated



balance, further steps were needed to restore reserves. The council has therefore recently agreed a target for unallocated balances of £11 million over the next 3 financial years.

Key Risk Area 6

Group balances and going concern

46. The widening diversity of service delivery vehicles used by local authorities means that group accounts are required to present fairly all the activities of councils. The overall effect of inclusion of all of the council's subsidiaries, associates and joint ventures on the group balance sheet is to reduce net assets by £582 million, substantially as a result of pension liabilities. All group bodies' accounts have been prepared on a going concern basis as pension liabilities will be funded as they fall due through a combination of employee and employer contributions, government grants and council tax.
47. The council has an obligation to meet a proportion of the expenditure of the joint boards of which it is a constituent member. All of these boards (Lothian and Borders Police, Lothian and Borders Fire and Rescue and Lothian Valuation) had an excess of liabilities over assets at 31 March 2008 due to the accrual of pension liabilities. In total these deficits amounted to £1,246 million (2006/07 £1,520 million), with the council's group share being £695 million (2006/07 £849 million).

Spending on assets and long-term borrowing

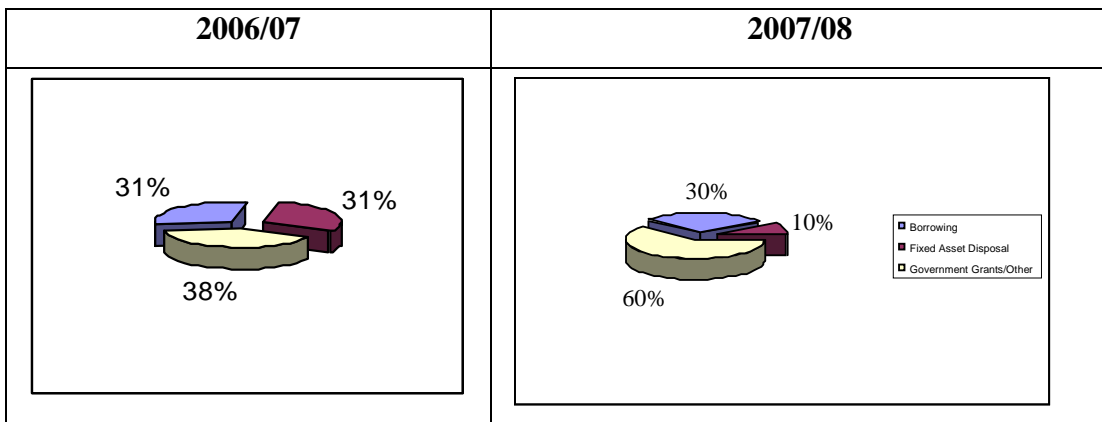
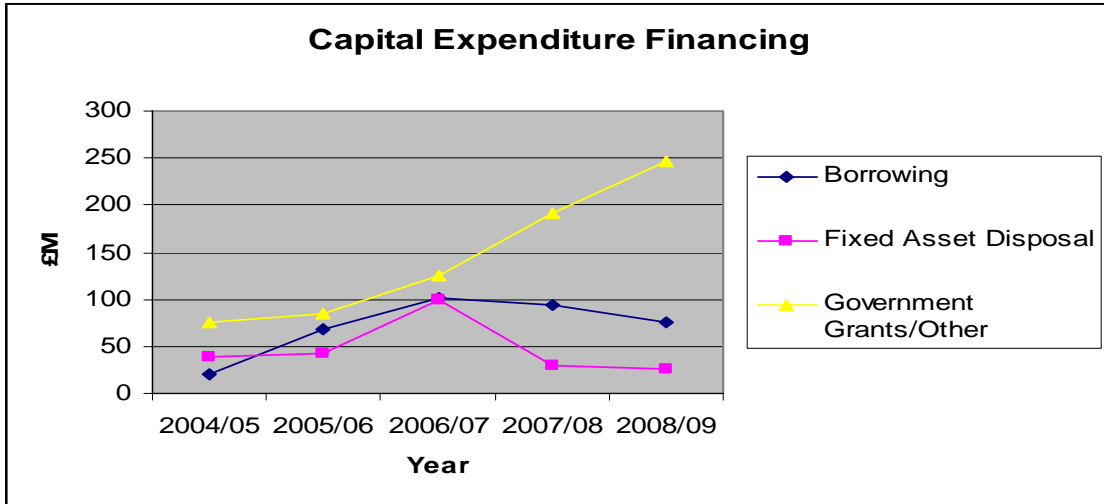
Capital performance 2007/08

48. Capital expenditure in 2007/08 totalled £314 million, a drop of £10 million from 2006/07 and an underspend of £25 million compared with the capital plan. City Development had the most significant spend with £129 million, 41% of the capital expenditure taking place in the year. Of this £82 million related to the trams project which received funding of £75 million from Transport Scotland.
49. The trend in capital investment in recent years is reflected in Exhibit 5 which also shows the percentage split position for each source of funding. Overall for 2007/08, £15 million less than planned required to be funded through borrowing. While there was an under spend of £25 million against the plan, £10 million was due to an absence of funding where asset sales did not materialise and reduced grant income. All services experienced slippage, though less than in previous years. One of the main reasons for delays was the postponement of work to avoid conflict with the tram project. There has also been ongoing unforeseen problems with the refurbishment of the Usher Hall due to the complicated design of the building.



Exhibit 5

- Sources of finance for capital expenditure 2007/08



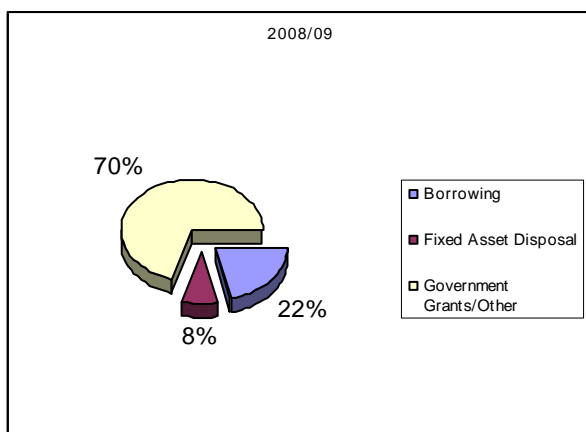
Forward capital programme

50. Revised General Fund capital investment programmes for 2008/09 anticipate annual capital expenditure of £349 million. This is expected to be funded by a number of sources including capital receipts, grants and other contributions. Exhibit 6 shows an increasing reliance on government grants to fund capital expenditure but this is largely associated with the Edinburgh Tram Project.



Exhibit 6

- Split of capital expenditure financing 2008/09



51. The world's financial markets are experiencing unprecedented turbulence and uncertainty. There is limited scope to achieve savings through debt restructuring especially with recent PWLB changes. It is also increasingly difficult to forecast interest rate movements as the balance between preventing recession and managing inflation is sought. Due to the current economic climate, falling asset values and a slow market will add significant pressure to the council's ability to deliver its capital programme. There are also implications for the delivery of joint projects as partners i.e. group companies, developers and others, are facing difficulties in accessing affordable finance. It is paramount, therefore, that the council closely monitors its capital expenditure programme and how it is to be financed to ensure that it continues to borrow in a prudent, affordable and sustainable manner.

Borrowing and temporary investments

52. In recent years, some councils have held significant amounts of cash and temporary investments to take advantage of favourable interest rates for planned capital programmes. In these circumstances, the early borrowing must be justified in its own right as representing the best time for borrowing the amount required. This should be assessed without regard to temporary investment possibilities, otherwise the action may be judged to be unlawful or to have subjected public money to unnecessary speculation risk.

53. As at 31 March 2008, the City of Edinburgh Council held cash and temporary investments totalling £146 million. We received specific representation from the Director of Finance that all borrowing in advance of immediate requirements was made for a legitimate purpose in accordance with legislation and was on-lent in the interests of prudent cash management. In the Director's assessment any early borrowing is justified in its own right as representing the best time for borrowing the amounts required, without regard to temporary investment possibilities and the 'profit' that might arise from these.



54. Furthermore, approximately half the funds on deposit at 31 March 2008 related to balances held on behalf of the joint boards and tie Limited. In both cases, the council operates bank accounts on behalf of these entities. Only £90 million of the total amount represents investment of council monies.

Significant trading operations

55. The Local Government in Scotland Act 2003 replaced compulsory competitive tendering regulations with a duty to maintain and disclose trading accounts for significant trading operations (STOs), which are required to break even over a three year rolling period.
56. The council has nine STOs of which five continued to return a cumulative deficit for the three years to 31 March 2008. In the case of two of these – Direct Cleaning and Other Catering – this was entirely due to the impact of equal pay costs. These results mirror the outcome in 2006/07.
57. One of the issues highlighted by the Best Value audit was the need for the refuse collection service to demonstrate its competitiveness. Since October 2006, the service has been assisted by external management consultancy in developing and implementing a comprehensive change management programme across waste management services including refuse collection. While there has been a reduction in the 2007/08 deficit, implementation of the plan is dependent on changing working practices which are closely linked with the council's modernising pay agenda. As outlined elsewhere in the report, the council has some way to go before single status is implemented which will have implications for delivery of the council's waste management transformation plan.
58. However, more recently, the service has been involved through a pathfinder project in changing routes, shift patterns and staff duties. A pilot has just commenced in the south of the city which may in time deliver the necessary budget improvements for the service.

Key Risk Area 7

Pension funds

59. The council is responsible for the management and administration of two pension funds – the Lothian Pension Fund and the Lothian Buses Pension Fund. The investment assets for both funds are largely under the management of external fund managers and have been on an upward trend over the last few years as indicated by Exhibit 7. With regard to the Lothian Pension Fund, £670 million is managed in house representing 22% of total fund investments while Lothian Buses investments are all managed externally.



Exhibit 7

- Pension Fund Investments

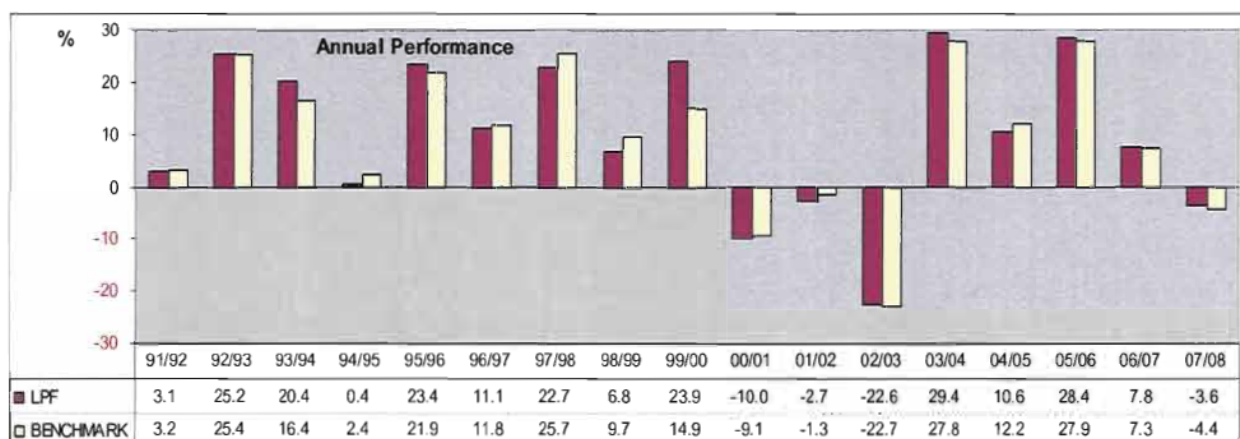
	31/03/05 £000	31/03/06 £000	31/03/07 £000	31/03/08 £000
Lothian Pension Fund*	2,089.0	2,855.8	3,101.6	3,026.7
Lothian Buses Pension Fund	144.9	188.4	196.8	198.8

* From 2006/07, Scottish Homes became an admitted body of the Lothian Pension Fund.

60. The total investment value has been increasing steadily since 2005 but has recently declined in line with global economic downturn and the 'credit crunch'. Since September 2008, there has been considerable uncertainty and volatility in world financial markets which has resulted in significant movements in share prices particularly in the banking sector. This will affect the investment asset valuation, however the dynamic nature of the current market does not lend itself to a reliable estimate of any long term effect.
61. With regard to 2007/08, the fund returned -3.6% compared to the benchmark of -4.4% Exhibit 8 shows the negative performance of the fund over 2007/08 with the strong absolute performance over the previous 4 years.

Exhibit 8

- Lothian Pension Fund – fund and benchmark return 1991 – 2008



62. The long term impact of these fluctuations will be monitored on an ongoing basis by the council and the effect on the asset values of the pension fund and the future outlook for employers' contributions will be assessed at the next actuarial valuation of the pension fund. The triennial valuation as at 31 March 2008 is due to be reported early in 2009 when the future employer contribution rates will be considered.



Financial outlook

Council tax freeze and ongoing financial pressures

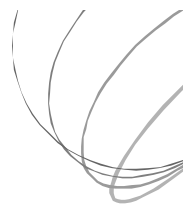
63. As a result of the recent crisis in the global economy, the UK is experiencing a period of slowing growth and rising inflation. Edinburgh in particular needs to prepare for the impact of the problems experienced by its financial services sector. Also, current market conditions are adversely affecting land and property prices which may mean capital receipts cannot be realised which in turn would affect the council's ability to deliver its capital programme.
64. The council is party to the concordat between the Scottish Government and COSLA. The financial features of this include an arrangement to allow councils to freeze council tax levels in return for additional funding and the removal of some ringfencing. The council accepted this arrangement as part of its 2008/09 budget and assumed additional ongoing efficiency savings to meet budget pressures and service developments.
65. The council continues to face difficult financial pressures in 2008/09 with departmental overspends currently estimated around £4 million. This has been exacerbated by rising utility costs. The corporate management team are closely involved in monitoring budgets so that the unallocated balance on the general fund can be built up to meet future uncertainties. For example, services are expected to produce action plans demonstrating reductions in expenditure while particular pressure points are being targeted for benchmarking.

Key Risk Area 6

66. Major work is progressing to deliver the council's £300 million plan to meet Scottish Housing Quality Standards by 2015. This includes demolition of some estates over the next 6 years where houses are in serious disrepair, an extensive modernisation programme and more recently, plans to build new council houses if funding can be secured.
67. On a positive note, the Scottish Government has recognised that the council incurs additional expenditure through its capital city status with the announcement of a 'Capital City Supplement' in December 2007. The council submitted a bid identifying an annual revenue commitment of £10.7 million and an initial additional supported borrowing requirement of £22.2 million. An announcement is expected in time to make provision for a supplement in the council's 2009/10 budget.

Equal pay

68. The 1970 Equal Pay Act makes it unlawful for employers to discriminate between men and women in terms of their pay and conditions where they are doing the same or similar work, work rated as equivalent, or work of equal value. Employees who consider that they have been discriminated against in terms of pay can put forward claims to an Employment Tribunal. Following cases pursued



against English councils, the extent of exposure of Scottish councils arising from individual pay claims began to emerge during 2006/07. At 31 March 2008, £12.3 million continues to be reflected as a provision in the balance sheet with regard to outstanding backdated pay claims. In order to reflect other potential liabilities where the outcome is considered uncertain until the outcome of cases south of the border are clearer, £8 million has been earmarked within the general fund and a reference included in contingent liabilities.

Single status

69. In 1999 a single status agreement was reached between Scottish local authorities and trade unions to harmonise the terms and conditions of manual and administrative, professional, technical and clerical workers (covering pay, working hours, leave and negotiating mechanisms). The original agreement specified that implementation should take place by April 2002 but, following national difficulties in establishing a model job evaluation scheme, was extended to April 2004.
70. The City of Edinburgh Council is one of a number of councils that do not expect to implement single status until 2009. The council's negotiation period with the union was delayed pending the provision of additional information requested by the unions. A significant amount of work has been done in terms of job evaluation but legal cases elsewhere have identified further issues around pay protection schemes. Until single status is implemented, the initial and continuing costs to the council cannot be reliably estimated, representing a continuing risk.

Key Risk Area 8

Pension liabilities

71. Financial planning and accounting for the costs of pensions presents a difficult challenge. The amounts involved are large, the timescale is long, the estimation process is complex and involves many areas of uncertainty that are the subject of assumptions. In accounting for pensions, Financial Reporting Standard 17 (Retirement Benefits) is based on the principle that an organisation should account for retirement benefits at the point at which it commits to paying them, even if the actual payment will be made years into the future. This requirement results in very large future liabilities being recognised in the annual accounts.
72. The council's estimated pension liabilities at 31 March 2008 exceeded its share of the assets in the Lothian Pension Fund by £98 million, reducing from £253 million in the previous year. In line with professional practice, the actuary discounts the liability using an AA-rated corporate bond rate. The value for estimated pension liabilities will therefore fluctuate accordingly. Employer contributions are expected to rise from 19.0% in 2007/08 to 19.4% in 2008/09, reflecting the reduction in the funding level as at 31 March 2005. This will however be subject to further review as part of the triennial valuation which is currently in progress.



Governance

Introduction

73. In this section we comment on key aspects of the council's governance arrangements during 2007/08. We also provide an outlook on future governance issues, including our views on potential risks.

Overview of arrangements in 2007/08

74. Corporate governance is concerned with structures and processes for decision-making, accountability, control and behaviours at the upper levels of the organisation. Based on the work undertaken, we concluded that the council had systems in place that operated well, within a sound control environment.

Political governance

75. The political context for councils changed significantly in 2007, with a new Scottish Government and a shift to more coalition and minority administrations in local government
76. The former Labour administration of the City of Edinburgh Council was replaced by a Liberal Democrat and Scottish National Party coalition and, in common with other councils, there was a high number of new councillors. In total terms, 29 of the City of Edinburgh Council's 58 councillors were newly elected in May 2007.
77. The council's cabinet style of management led by an Executive supported with scrutiny panels was changed in favour of an overarching Policy and Strategy Committee, Executive Committees and an Audit Committee. The new arrangements were implemented in August 2007 and are reviewed regularly by the council. The most recent review in June 2008 confirmed that the new structures were working well and could be improved by further considering the development and effectiveness of the elements of scrutiny, review and monitoring; and by providing a better balance between business transacted at full council and the new committees, especially the Policy and Strategy Committee. Key findings from the review are set out in Exhibit 9.



Exhibit 9

- Council's six month review of political governance – key findings

- decision making had quickened and improved
- more involvement of members, able to focus on bigger issues and given the number of new councillors, direct involvement in executive committees had accelerated learning about the council
- there should be a stronger role for the Policy and Strategy Committee in co-ordinating overall council business
- with regard to scrutiny of performance, a greater contribution to be made by the Audit Committee
- following a significant increase in council questions and motions for debate, council meetings have become long which may require stricter adherence to time limits and other penalties already set out in standing orders.

78. By way of example, we observed the council meeting in June 2008 when the agenda contained 4 delegations and 31 questions from councillors in addition to 13 items of new business (including approval of the council's single outcome agreement and unaudited accounts), 17 motions and various reports referred from committees. The meeting lasted 10 hours with new business only commencing at 6pm; some 8 hours into the meeting. In our view this is not sustainable nor is it conducive to delivering best value. We would endorse the findings of the council's review which advocated the need for a more appropriate balance in the direction of business between Executive Committees, the Policy and Strategy Committee and the full Council. We would also suggest a need to prioritise the business to be conducted on demanding agendas to ensure that the most urgent and critical matters are dealt with appropriately.

Key Risk Area 9

Member training and development

79. An initial programme of training provided shortly after the election was well attended and focused on areas of core knowledge such as the councillors' code of conduct, departmental briefings, audit and media awareness. Specialist training was provided with regard to members' responsibilities on committee and partnership bodies and for those involved in the administration of the pension fund, specific training was provided with further annual updates planned.
80. In June 2007, the council approved a learning and development programme for councillors which is based on an approved role description and competencies framework for councillors. This will enable development according to need in a range of areas including change, corporate focus, decision making and leadership.



81. The creation of multi-member wards has required new ways of working to support efficient representation and sharing of the workload. The council has had a Member/Officer Relations Protocol since May 2000. This was extended in May 2007 to include a protocol for information sharing in multi-member wards and guidance on the use of council facilities by councillors. This additional guidance clearly established that all members have equal status as representatives of a multi-member ward and have a duty to be accessible to all people in their area. Officers have also to properly consider this equity of status when providing information and advice to members. While correspondence between constituents and councillors will be regarded as confidential, officers need to ensure that consistent advice is given. However, multi-member wards are still fairly new in Scotland and the practical issues will become clearer as the new arrangements mature.

Audit Committee

82. Effective scrutiny is central to good governance, with a significant role for members to scrutinise performance, hold management to account and support the modernisation agenda. Following the May elections, an interim panel was put in place until the new Audit Committee was formed in August 2007, with a high number of new members. In addition to audit, the committee's remit includes risk management, IT security and anti-fraud reporting which includes benefit fraud. The committee also has a wider role in terms of promoting, monitoring and developing continuous improvement.

83. CIPFA sets out a number of good practice statements for audit committees under three main principles (refer Exhibit 10)

Exhibit 10

- CIPFA's good practice principles for audit committees

- | | |
|--|---|
| ▪ Administration | an audit committee which demonstrates by the way that it is structured and organised that it is effective. |
| ▪ Principle 1 – The Control Environment | independent assurance of the adequacy of the risk management framework and the associated control environment within the authority. |
| ▪ Principle 2 – Risk related performance | independent scrutiny of the authority's financial and non-financial performance to the extent that it affects the authority's exposure to risk and weakens the control environment. |
| ▪ Principle 3 – Annual Accounts and the External Auditor | standard assurance that any issues arising from the process of drawing up, auditing and certifying the authority's annual accounts are properly dealt with. |

84. The committee is well attended and in overall terms its remit and working practices are in accordance with the good practice principles. For example, the committee:

- is a formally constituted committee with clear terms of reference which reports directly to council and generally meets in public



- has membership in line with the political balance of the council and there is regular attendance by appropriate senior officers of the council
- considers internal and external audit plans and respective annual reports
- reviews the audit certificate and considers matters arising from the audit of the annual accounts.

85. In our opinion the committee has had a busy first year with a range of complex reports on its agenda and with the development of a risk register. It is still a relatively new committee and will continue to evolve as members become more experienced and have an improved understanding of what is expected of them. There is scope for further learning and development opportunities so that members are appropriately supported and equipped to challenge officers which will enhance the effectiveness of the committee's work. In particular, we would highlight the following matters for consideration by the committee:

- internal and external audit plans are prepared on the basis of risks identified. The committee needs to be assured that audit plans have been completed and where slippage has been experienced that significant risks have been addressed
- the committee currently receives a selection of internal audit reports and is advised of significant issues by the external auditor. It is for the committee to decide the level of detail it wishes to receive but provided all significant issues are reported to committee, then current practices are acceptable. The area for improvement is in relation to the implementation of action plans. A more formal process needs to be put in place which will provide the committee with assurance that recommendations are being implemented and the desired outcomes achieved.
- over the last year, council services such as social work and child protection services were inspected by relevant inspection agencies. The detail of these reports will be addressed by the relevant services and executive committees but good practice suggests audit committees have a role in monitoring implementation to ensure that key risks faced by the council are being managed.
- the Accounts Commission issue a range of national study reports, the most recent are referred to in the performance section later in this report. In addition, on conclusion of annual audits, an overview of local government is published. Recommendations are generally directed at all councils so it would be appropriate for the committee to consider findings and ensure that significant matters are being addressed by the council.

86. The six-month review of the council's political arrangements outlined earlier confirmed that the committee operated well in addressing its audit function but had yet to address its responsibilities with regard to continuous improvement. The council's review expressed a general feeling that the committee should make a greater contribution to scrutiny and that it should lead in setting its agenda rather than focus on issues referred to it. We would support these conclusions.

Key Risk Area 10



Systems of internal control

87. In accordance with the SORP, a statement on the system of internal financial control for the council and its group was included within the financial statements. Following receipt of a range of assurances from managers across the council, the chief internal auditor and self-assessment questionnaires from subsidiary and associate companies, the Director of Finance concluded that he was satisfied that reasonable assurance could be placed on the adequacy and effectiveness of the systems of internal control operated by the council and its group.
88. As previously mentioned, the council has a complex and diverse group arrangement. While this offers innovative ways of delivering services, strong governance arrangements need to be put in place to ensure that the council's corporate objectives are delivered. In our opinion, more work is required by the council to formalise monitoring mechanisms in relation to subsidiary and associate companies.
89. Assurances in respect of 2007/08 were collated in July 2008 after the production of the unaudited accounts. During the year, a huge amount of management and performance information is provided to councillors and officers who are involved on company boards and/or in supporting company activities. This needs to be captured and streamlined so that appropriate assurances are gathered about the group from within the council and used to substantiate information returned by companies through self-assessment questionnaires. It would also be appropriate for the Audit Committee to consider its role in monitoring the impact of group arrangements and risks affecting delivery of council priorities.

Key Risk Area 10

90. We also noted that the Director of City Development commissioned a review of the council's development companies to provide background information to assist an assessment of whether these companies continue to be the best mechanism for the council to deliver key priorities. Findings from this review are expected shortly and may lead to a revision of the group structure.
91. CIPFA and SOLACE have recently produced revised guidance notes on 'Delivering good governance in local government' which sets out good practice. Councils continue to have the option to replace the statement on the system of internal financial control with an assurance statement on governance arrangements. This too will cover the council and its group and go beyond financial arrangements and internal controls to cover performance and risk management arrangements. We would encourage the council to formally adopt a governance statement but this will increase the need for strengthened monitoring arrangements in respect of the group.

Key Risk Area 11



Internal Audit

92. Internal audit provides an independent appraisal service to management by reviewing and evaluating the effectiveness of the internal control system. We carry out an annual review of the council's internal audit arrangements against CIPFA's revised Code of Practice for Internal Audit in Local Government 2006. We found that the function continues to deliver quality work in accordance with a risk based framework.
93. In effect, this means that internal audit focuses resources on examining the key risks facing the council which is an important element of the council's system of internal control. Historically, there is an expectation that external audit will draw on the work of internal audit to provide assurances to support the audit opinion on the council's financial statements. In undertaking our work, we are required to comply with International Standards on Auditing (ISAs) which became effective from 1 April 2005. ISAs require an increased focus on assessing and testing key controls in critical financial systems on an annual basis. While we work with internal audit in drawing up our audit plans, there is less scope for us to use the work of internal audit to provide assurances on the financial statements. We are required to consider systems annually while internal audit's approach will allocate resources if an important risk has been linked with a particular system.
94. An example of the type of work now carried out includes a review of the problems encountered with the site for the new school at Craigoyston which identified significant weaknesses in the council's management of this important project. Following this report, the chief executive called for a review of the council's project management framework which we note has not yet been completed. While this assists us in understanding the council's business and challenges, it does not provide assurances for internal financial controls on which we could place reliance and therefore reduce the level of testing required to support our audit opinion. We will however continue to discuss our needs with internal audit with a view to minimising the combined audit effort.

Key Risk Area 12

Financial systems

95. As part of our work to provide an opinion on the annual financial statements we assessed the extent to which we could gain assurance on a number of the council's main financial systems. We assessed the following central systems as having a satisfactory level of control for our purposes:
- Payroll
 - Housing rents
 - Main accounting system
 - Debtors and income
 - Creditors payments
 - Council tax
 - Non-domestic rates



Prevention and detection of fraud and irregularities

96. At the corporate level, the council has appropriate arrangements in place to help prevent and detect fraud, inappropriate conduct and corruption. These arrangements include an anti-fraud and corruption policy and response plan, a whistle blowing policy, codes of conduct for elected members and staff, and defined remits for relevant regulatory committees.

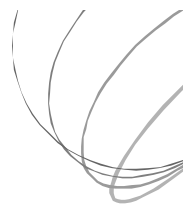
NFI in Scotland

97. The National Fraud Initiative (NFI) in Scotland is undertaken as part of the audits of the participating bodies. It brings together data from councils, police and fire and rescue boards, health bodies and other agencies, to help identify and prevent a wide range of frauds against the public sector. These include housing benefit fraud, occupational pension fraud and payroll fraud. The NFI has generated savings of £37 million for Scottish public bodies but, if fraud or overpayments are not identified in a body, assurances may be taken about internal arrangements for preventing and detecting fraud.
98. The City of Edinburgh Council was one of six bodies highlighted in Audit Scotland's national report published in May 2008 where overall the arrangements for managing the NFI exercise were inadequate. A nominated individual had not been identified at an early enough stage in the exercise and there was insufficient commitment across services to examine the output from the data matching exercise timeously. It is important that data is examined early while cases remain live, adopting a risk based approach to target resources effectively.
99. The 2008/09 NFI exercise commenced in October 2008 when data was again collected from the participating bodies. Internal audit are co-ordinating the exercise for the council and have undertaken a huge amount of work to raise awareness and confirm expectations with services in the months ahead.

Key Risk Area 13

Data handling and security

100. Data handling and security has received increased public and media attention recently as a result of a number of national incidents relating to lost data. The council shares data with a number of organisations such as the Department for Work and Pensions and other government departments. Information security is now a service delivery issue where a significant failure of controls could lead to loss of stakeholder confidence and opt out from services, higher compliance costs due to enforcement action, withdrawal of third party services such as payment card processing and legal fees relating to civil and criminal litigation.
101. We carried out a review of data handling and security and we noted important elements of good practice, for example, the council has effective leadership from Corporate Services and a sound framework of policies and standards are in place. Furthermore, the council has made good progress



in risk assessing its information sources and data transfers and provides staff with appropriate technical and physical security measures. Regular security updates are also provided to the Audit Committee. There is however a need for service managers to take greater ownership of information security issues, to raise awareness and develop formal linkages with the corporate information security team.

Governance outlook

Single outcome agreements

102. The concordat between the Scottish Government and COSLA sets out the terms of a new relationship between the Scottish Government and local government. It underpins the funding to be provided to local government over the period 2008/09 to 2010/11. Central to the concordat is the single outcome agreement (SOA) between each council and the government. The SOA sets out the council's contribution to the government's 15 key national outcomes as set out in the concordat. It also reflects established corporate and community planning commitments. In this way progress at a national level is supported by outcomes at a local level.

103. Every council had agreed its first SOA by 30 June 2008. Edinburgh produced its SOA in partnership with Lothian and Borders Police and NHS Lothian. In February 2009, the council is required to submit a SOA covering the work of the Community Planning Partnership. Recognising that this will provide additional challenges, it has been agreed that the process will be developed through the Edinburgh Partnership Board. In future SOA's will be used to engage partners and to monitor performance. It is important therefore that the council develops robust governance arrangements for the development and monitoring of this key document.

Key Risk Area 14

The Edinburgh Tram Project

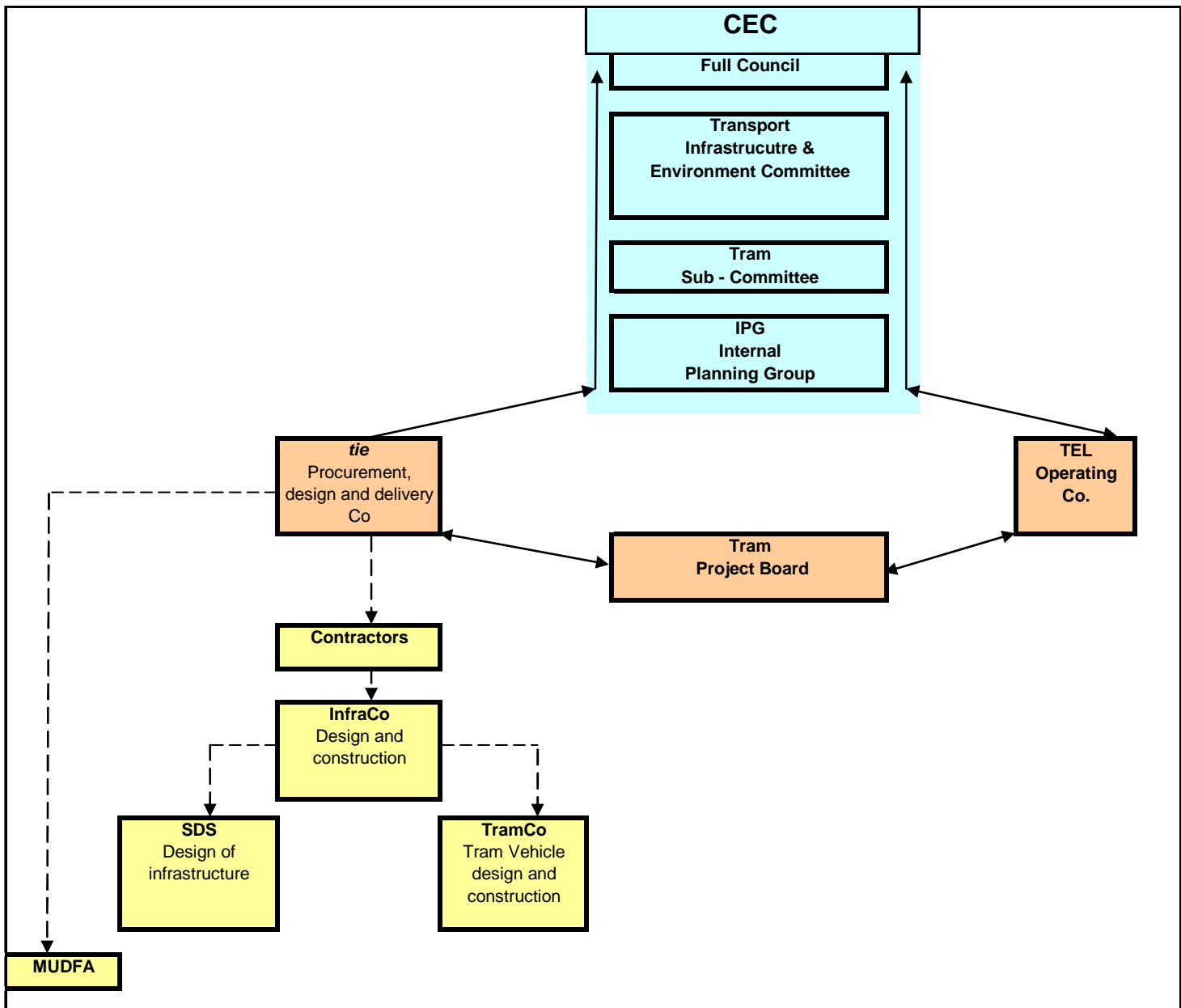
104. Tie Limited, a wholly owned subsidiary of the City of Edinburgh Council, is responsible for the delivery of the Edinburgh Tram project by 2011 within a funding limit of £545 million. This major project for the city, jointly funded by Transport Scotland and the council, commenced during the year with the diversion of utilities. The council provides banking facilities to tie Limited and manages their cash flow which minimises the company's risk. Project management is the responsibility of the Tram Project Board whose membership includes senior officers from Transport Scotland, Transport Edinburgh Ltd, tie Limited and the council. This is a high profile and complicated project for the city and a key priority within the council's strategic outcomes for modern and effective transport arrangements.



105. Exhibit 11 illustrates the complex governance arrangements for the project involving the council, tie limited, Transport Edinburgh Limited and the contractors. The council's Internal Planning Group chaired by the Chief Executive considers the tram project from the council's perspective while the main governing body for the project is the Tram Project Board. Senior officers from the council, tie limited and TEL are represented on the Tram Project Board.

Exhibit 11

- Edinburgh Tram Project : partner governance structure





106. The tram business case set out the funding arrangements for the project which included capped funding of £500 million from Transport Scotland. The balance of £45 million is to be provided by the council largely from developers' deposits. The project will be delivered through a suite of 18 contracts with various partners. Following a procurement process, preferred bidders were identified and financial close reached in May 2008. The final business case agreed in December 2007 amounted to £498 million but was revised on financial close to £512 million following a negotiation process. Close financial monitoring is required to ensure that the project does not exceed the overall budget of £545 million. Any additional costs will require to be picked up by the council as Transport Scotland have provided a capped contribution.

107. This is a high risk project for the council given its size and complexity, with the potential to overrun in terms of time and cost. Detailed and timely financial and performance information will be required by the Project Board on a regular basis to ensure that the project remains on target. Initial indications are that the governance structure is strong and the involvement of senior officers from all partner bodies demonstrates the profile and commitment attached to this project.

Housing benefit

108. From April 2008, Audit Scotland took over responsibility for inspecting the housing and council tax benefit functions from the Department for Work and Pensions. We are carrying out risk based inspections on a cyclical basis and all councils will be inspected during an 18 month period.

Integrated human resources and payroll system

109. The council is currently implementing a new integrated human resources and payroll system. Clearly this is a major project for the council because payroll accounts for a large element of the organisation's expenditure. Internal audit provided advice to the service particularly in relation to expected key controls which management should have implemented for this system. A comprehensive action plan was agreed between internal audit and the service and we will assess its implementation as part of the 2008/09 audit.

Lothian Pension Fund administration

110. The council's Pensions and Trusts Committee oversees the administration of the Lothian pension funds and a range of trusts administered by the council. It is supported by an Investment Strategy Panel (the Panel) which includes officers and specialists who advise the committee. Key reports considered by the committee include:



- a review of investment strategy – during 2007/08, the cash requirement of the pension fund was reduced as net contributions received each month were deemed sufficient to meet immediate needs
- six monthly reviews of fund managers' performance – the pension fund is managed by a diverse range of managers each with agreed performance targets set out in service level agreements. Performance of individual portfolios is monitored by the internal investment team and the Panel. Where concerns exist, more regular and in-depth monitoring is undertaken.

111. From April 2009, the rates of contributions made by employees and the calculation of benefits payable on retirement are changing. This will provide additional challenges to the pension fund as the governance and control arrangements will need to be developed to collect and take account of the changes in contribution rates. In particular, each authority, scheduled or admitted body will need to ensure it has reviewed its payroll systems to ensure that the changing contribution rates will be actioned and accurate deductions made and remitted. The pension fund staff will also have to adapt to changes in the calculation of pensions payable.

112. Looking further ahead, the Scottish Government is leading a partnership with the Edinburgh, Fife and Scottish Borders Councils to examine the potential for delivering greater efficiency by adopting a shared services approach for the provision of Local Government Pension Scheme services.



Performance

Introduction

113. In this section we summarise how the council manages its performance. We discuss the overall arrangements and comment on the findings of Audit Scotland's national performance studies, relating them to the council's situation. Finally, we give an outlook on future performance, including our views on the current status of identified risks.

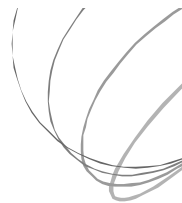
Strategic outcomes and priorities

114. A new corporate plan 'Our Priorities 2007 – 2011' incorporating the council's vision and the following nine strategic outcomes for the next four years was approved by the council in June 2007:

- Edinburgh is a safe, green, clean and attractive city
- Edinburgh has a competitive and successful economy with sustainable communities
- the city has modern, effective transport arrangements
- the city has a range of affordable housing options
- children and people of all ages are supported to achieve and fulfil their potential
- people who need extra help get the support they need
- high quality cultural, sporting and leisure facilities and events are provided for Edinburgh' citizens and visitors
- the council is an efficient and effective organisation which supports continuous improvement
- the council displays sustainable and sound financial management in setting, monitoring and implementing its budgets.

115. A total of 40 priorities and 87 priority actions are linked to the strategic outcomes and some of the more significant are listed below:

- minimise the proportion of the city's waste sent to landfill, improve the cleanliness of the city and improve the performance of the refuse collection service
- implement the tram project and reduce congestion
- improve all council homes to the new Scottish Housing Quality Standard
- raise attainment for all pupils
- implement the joint capacity plan for older people's services to develop new models of care



- improve financial management and control, deliver efficiencies and investigate opportunities for shared services.

Overview of performance in 2007/08

Annual Report

116. Later than normal, the Chief Executive will provide his annual report to the council in November 2008.

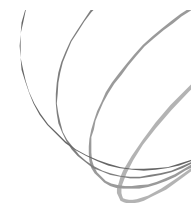
This report will highlight the council's most important achievements over the previous 12 months, outline progress with ongoing major areas of work and identify issues to be addressed in the coming year. Key conclusions to be reported include:

- the council's programme of structural change, 'Council Review 2007' has been completed. This included a reduction in the number of council departments and the introduction of joint governance arrangements for health and social care services. The next stage in the council's development will be taken forward under the banner 'achieving excellence' which will focus on corporate and city leadership and improving performance and customer services.
- the Social Work Inspection Agency inspected social work services and HMIE inspected child protection services. In both cases, demanding improvement agendas were developed and prioritised.
- a significant amount of resources are being devoted to the redevelopment of culture and sport facilities in the city which will support the health agenda but also assist in promoting the city.
- in June 2008, the council agreed its single outcome agreement.

Measuring performance

117. The council continued to develop Covalent, its performance measurement system of balanced scorecards and performance indicators. Work in this area is co-ordinated by the Performance Management Group which has representation from all services and meets regularly. A major piece of work for this group during the year was the production of the council's Single Outcome Agreement,

118. Performance reports are prepared every two months and submitted to the Policy and Strategy and Executive Committees. The rate of progress in developing scorecards has varied across service departments as has the stability of the performance indicators used to measure and monitor progress against targets. Overall, three reports are produced covering service departments, the Strategic Work Programme and Statutory Trading Organisations involving some 188 indicators (2006/07 140 indicators)

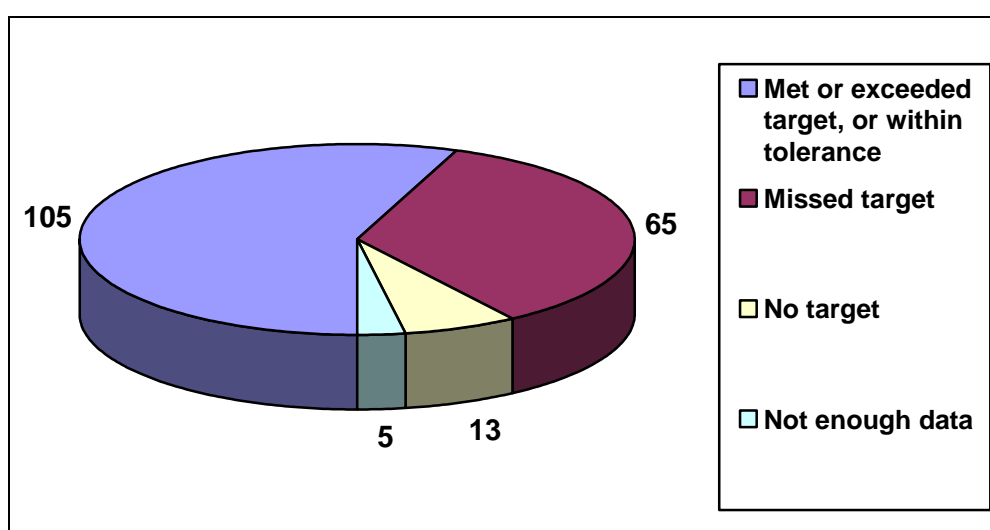


119. A review was undertaken by the council to identify improvements and to move to a thematic approach involving high level indicators aligned with corporate objectives. Some refinements have been made but work continues to develop the performance framework.

120. While information has been submitted to the corporate management team and members in accordance with an approved timetable, data is, on occasion, being considered three months after the month to which it relates. There is merit in identifying a reduced number of key indicators linked with core activities and priorities which should be reported more promptly, or for members to consider service information on a rotational basis.

121. Exhibit 12 summarises progress over 2007/08 against the **188 targets** measured through the balanced scorecard.

Exhibit 12
- Achievement of City of Edinburgh Council's targets 2007/08



Total 188 indicators

122. During the year there have been some strong operational achievements but the council also faced a range of challenges. A summary of progress in relation to a number of priorities set out in the corporate plan is provided in Exhibit 13.

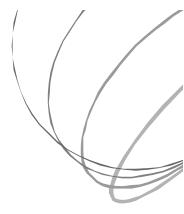


Exhibit 13

- 'Our Priorities 2007-2011' : a selection of achievements and challenges

Edinburgh is a safe, green, clean and attractive city

- EU targets require recycled waste to be 65% of municipal waste by 2015. As at 31 March 2008, the council's recycled waste was 27% (March 2007 24%) compared with its target of 30%. Nine percent less waste was land filled than in 2006/07. Nationally, Audit Scotland confirmed that recycling rates vary across councils from 10% to 40%.
- The Scottish Government announced changes in approach on strategic waste management which has suspended planned penalties for councils exceeding landfill limits but has also effectively suspended Edinburgh, Lothian and Borders business case to develop residual waste treatment facilities.
- The inspection of child protection services identified major risks e.g. some children were left in unsafe environments, and help and support was not always available when required due to inadequate risk assessments and poor planning. The follow up identified slow progress with urgent attention required.

Edinburgh has a competitive and successful economy with sustainable communities

- In line with planning legislation, Sesplan was established (six councils in south east Scotland) as the body responsible for the production of the regional development plan.
- Improvement in issuing decisions on household planning applications within two months increased from 79% to 85%. Also, 99.5% of planning application decision notices are issued with 2 days.
- Planning applications received electronically were just above the 10% target, an increase of 4% on 2006/07, and electronic processing of building warrants showed a 17% increase on the previous year.

The city has a range of affordable housing options

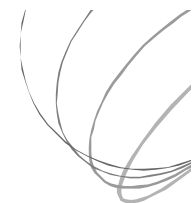
- Rent lost on empty homes is below target indicating quick turn around on void properties.
- Investment of £44.1 million in new affordable homes delivered 491 homes and commissioned a further 625. Plans have also been announced to build 1,100 new council houses if funding can be secured.

People who need extra help get the support they need

- Occupancy rates for long term stay in care homes are above target.
- The council has met all of its targets for people waiting for discharge from hospital.

The council is an efficient and effective organisation which supports continuous improvement

- New directors were successfully appointed for children and families and city development.
- High sickness levels within Health and Social Care continue to present challenges in service delivery. Overall, APT&C % sickness rates were 9.5% (target 6.2%) and craft/manual workers was 15% (target 11%).

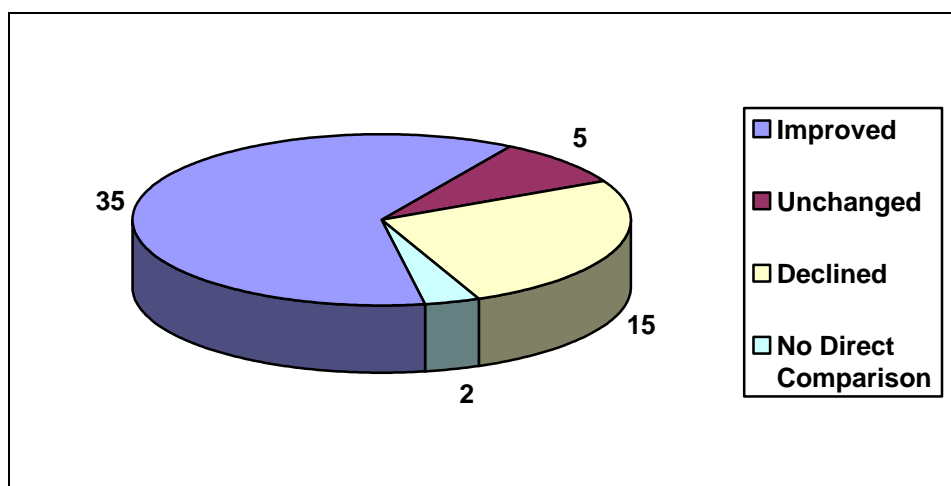


Statutory performance indicators

123. One of the ways of measuring council performance is through the statutory performance indicators (SPIs). Within the City of Edinburgh Council, key SPIs are already included within service scorecards. With regard to 2007/08, a total of **57 SPIs** were required. These were published by 30 September 2008 and were submitted to the Council's Policy and Strategy Committee. In overall terms, Exhibit 14 confirms that the council has made improvement in a number of areas, some of which were described within Exhibit 13 earlier

Exhibit 14

- Improvements demonstrated by SPIs (Total 57 indicators)



124. Each year we review the reliability of the council's arrangements to prepare SPIs. Overall, the quality of working papers provided to support the SPIs continued to be variable although we did note improvements in the process. Three indicators were classified as unreliable compared with four in 2006/07. Issues raised last year with regard to incomplete data for corporate management (condition of operational property); and usage of swimming pools and other leisure facilities (out of hours community use) have still to be resolved so these indicators continue to be assessed as unreliable. This year, the library service had improved its information so that this long standing indicator has been regarded as reliable for the first time.



Progress on delivery of the council's best value improvement plan

125. The Local Government in Scotland Act 2003 established best value and community planning as statutory duties for local authorities. In response the Accounts Commission introduced new arrangements for the audit of best value based on a full review by a specialist team once every three years. In the intervening years short follow-up reviews are carried out by the local auditor.
126. In February 2007 the Accounts Commission published the report on the Best Value audit (BVA) of the City of Edinburgh Council together with its own findings. The report and findings identified a number of areas for action by the council which were required to be followed up by the local auditor.
127. This section of the report comments on the council's overall progress in delivering its improvement plan and the impact of the actions taken. Best Value applies across all of the council's activity and more detailed comments on a number of the areas included in the improvement plan are provided throughout this report.
128. The BVA report highlighted that the council needed sustained action to improve community planning, refuse collection, roads, planning, educational attainment and some aspects of adult social care. It needed to take a more strategic approach to workforce planning and longer term financial planning, and performance information needed to be used more widely throughout the council to report on the progress of strategic initiatives and projects. The council also needed to implement and further develop its improvement programme to provide a clear focus for investment for action.
129. We found that the council is moving in the right direction but that the pace of change has been slow due to the complex nature of the actions. In particular, progress has been affected by the impact of the 2007 elections and the implementation of new political structures. The council continues to face significant financial pressures and needs to deliver efficiencies in order to achieve its budget proposals. Some services such as Children and Families and Health and Social Care continue to overspend against budget resulting in a need to balance delivery of basic need and ability to achieve service improvement.
130. Since the publication of the report, there has been some improvement in services such as planning and in pockets of education. The council has also:
- revised its political structures to provide for greater scrutiny and wider inclusion of elected members in the decision making process
 - introduced a new corporate plan for 2007-11
 - delivered its Council Review 2007 programme and is now taking stock
 - progressed its transport strategy and has commenced construction of the trams infrastructure



- implemented risk management processes across services.

131. In other areas progress has been more limited:

- a revised community plan for 2007-11 is currently being prepared and a new planning structure involving local community planning partnership areas has been introduced. The pace of change has however been much slower than planned.
- the Social Work Inspection Agency (SWIA) reported in May 2008 that the council has good capacity for improvement and good leadership. In all, 10 indicators are evaluated across a 6 level scale where 6 is the best level. Five indicators were considered at level 4, four at level 3 and one at level 2. While the financial pressures facing the service was acknowledged by the inspector, concerns were raised about the high numbers of people on waiting lists, the backlog of reviews and the inability of services to respond to changes in people's need.
- five of the council's nine statutory trading organisations continue to make deficits. A transformation programme was put in place to improve the overall refuse collection service by September 2009. Recent changes in structures and working practices have been made but it is too early to assess their impact.
- the council continues to be challenged by the need to provide affordable housing. Progress on creating a public sector land register to maximise the supply of land has been slow. The recent downturn in the economy will severely affect developers' plans to deliver housing projects and in other aspects of sustainable development, the council's strategy has yet to be implemented.
- the council has usefully combined all improvement activity within its performance management framework. There is a need however for more effective reporting highlighting key issues promptly to assist decision making. The introduction of the SOA has required the council to consider how this best fits within its performance management framework and the SOA process should also provide the impetus to develop performance arrangements with community partners.
- long term planning has not yet been developed. Work is ongoing in relation to asset management, workforce planning and financial planning but none of the strands have yet been completed. Such plans need to be linked to improve strategic direction.

132. The council is progressing many aspects of the improvement plan but needs to maintain the momentum on delivering its improvement plan. Due to the complex nature and linkages between actions, there has been some delay. Consequently, there was a need to take time to review its priorities, especially in light of ongoing budget pressures, so that resources are effectively targeted to deliver change in the most critical areas. This review was undertaken in Summer 2008 and many of the actions are now being addressed through the council's 'Achieving Excellence' initiative which sets out the strategic direction of the council over the next 3 -4 years.

Key Risk Area 15



Performance outlook – opportunities and risks

133. In the course of our audit work we identified some of the strategic risks to the City of Edinburgh Council in delivering its stated objectives and priorities in the years ahead. These risks were set out in our SARA and grouped under four risk themes.

- realising the vision, transforming service delivery
- improving partnership working
- sustainable and affordable use of resources
- maintaining sound governance.

134. We have commented upon these areas earlier in this report and the work yet to be done is reflected in the action plan in the appendix to this report.

National studies

135. Audit Scotland carries out a national study programme on behalf of both the Accounts Commission and the Auditor General for Scotland. Reports published in the last year of direct interest to the council are described below. Further information on these studies and copies of the reports can be obtained from Audit Scotland's web page at www.audit-scotland.gov.uk

Free personal and nursing care

136. Since July 2002, all councils have had systems in place to deliver free personal and nursing care (FPNC). People of all ages living in care homes are entitled to free nursing care and people over 65, living in any setting, are entitled to free personal and nursing care. Our national report about the financial implications of FPNC, published in September 2007, found that councils:

- have interpreted the legislation and guidance relating to food preparation differently across Scotland
- should improve their information systems to enable them to collect comprehensive and accurate information on FPNC and other aspects of care and support services
- should provide clear information to older people on what is covered by FPNC
- should work with local health partners to evaluate the longer term consequences of reducing domestic homecare services.

137. In October 2007, the City of Edinburgh Council provided a detailed submission to the Sutherland Review of Free Personal Care. In common with other councils, the main concern was that councils were spending more on FPNC than the funding received from the Scottish Government.



138. The council ceased charging new clients for food or meal preparation tasks from March 2006 and existing clients as they were reviewed. Refunds of £1million were made. We understand that COSLA and the Scottish Government have established a working group to take forward developments in this area.

Scotland's school estate

139. A major programme of school building renewal started at the end of the 1990s and is continuing today. The programme aims to create a school estate that achieves the government's vision for 21st century schools that are well designed, well built and well managed. Our national study reviewed what has been achieved so far, how much it is costing, how effective the improvements are and how well the Scottish Government and councils are working together to manage improvements to the school estate.

140. One of the main conclusions of our report, published in March 2008, is that the current rate of progress will take up to 20 years to remove all schools from poor or bad condition. The report recommends actions for the Scottish Government and councils to work closer in planning for the school estate strategy, more consistent school design in line with government guidance and more sharing of good practice design practices.

141. In summer 2008, two new primary schools in one conjoined building were opened in Edinburgh. Niddrie Mill and St Francis were both build through PARC, a joint venture with the EDI Group, to support the regeneration of the area. Work is also progressing with the council's PPP2 schools.

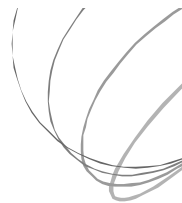
142. In 2007, the new council administration withdrew its consultation programme with regard to the intended school rationalisation proposals. Thereafter a group was established involving councillors and community representatives to produce a revised consultation programme. A range of factors were considered in identifying schools for closure including parental choice patterns and educational outcomes. A new consultation process is currently taking place with a report scheduled to go to full council in November 2008.

Key Risk Area 16

Overview of sport in Scotland

143. Public bodies spend on average £558 million a year on sport in Scotland. Councils are responsible for 90% of this expenditure. Most of the money is spent on providing and maintaining facilities as well as programmes to encourage participation and support individual athletes. Our national report, published in April 2008, found that:

- the provision of sports facilities and other services is fragmented, with no clear links between the government's national strategy for sport and councils' investment. The development of single



outcome agreements is an opportunity to clarify and align the links between national and local strategies.

- SportsScotland estimates that an additional £110 million a year is needed for the next 25 years to bring sports facilities up to an acceptable standard.
- arrangements to deliver the 2014 Commonwealth Games are still being developed. These will be critical in ensuring the success of the games and safeguarding the large sums of public money that will be invested.

144. With the City of Edinburgh, a range of initiatives are already well advanced and these were set out for members of the Culture and Leisure Committee in June 2008, following the publication of Audit Scotland's report. Important aspects include:

- Edinburgh's Sport and Physical Recreation Strategy was implemented in 2003 but is being revised to reflect the Scottish Government's new national strategy and the work Edinburgh is involved in through the pathfinder project, access to sport and culture. It is hoped to use the single outcome agreement to demonstrate improved links and outcomes between national and local policies and targets.
- the national strategy recognises the importance of sport and physical activity in its own right but also as a means to improve health and promote wellbeing. Edinburgh's strategy focuses on sport but is developing a complementary strategy, in partnership with NHS Lothian, to pursue the health aspects of the agenda. The partnership, known as the Edinburgh Physical Activity and Health Alliance has set targets for a more physically active population and will form part of the new Joint Health Improvement Plan.
- the council has already established a Commonwealth Games legacy working group incorporating representatives from the health sector, education, leisure, culture and sport and planning; who will develop a plan for maximising the sporting legacy from both the 2012 Olympics and the 2014 Commonwealth Games.
- linked with these initiatives the council is currently proceeding with a full refurbishment of the Royal Commonwealth Pool and is working with SportsScotland on a funding package. It is also active in considering the best option for a new build at Meadowbank stadium.



Final Remarks

145. Attached to this report is an action plan setting out the key risks identified by the audit which we are highlighting for the attention of members. In response, officers have considered the issues and have agreed to take the specific steps set out in the column headed 'planned management action'. On occasion, officers may choose to accept the risk and take no action. Alternatively, there may be no further action that can be taken to minimise the risk. Where appropriate, the action plan clearly sets out management's response to the identified risks.
146. Appropriate mechanisms should be considered and agreed by members for monitoring the effectiveness of planned action by officers. We will review the operation of the agreed mechanism as part of the 2008/09 audit.
147. The co-operation and assistance given to us by City of Edinburgh Council members and staff is gratefully acknowledged.



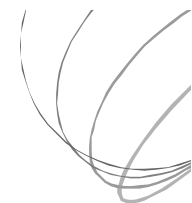
Appendix A: Action Plan

Key Risk Areas and Planned Management Action

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1.	9	<p>Statutory trading organisations</p> <p>Five of the STOs continue to return cumulative losses.</p> <p>Risk: the council may not be achieving best value from current arrangements for services provided by those STOs.</p>	<p><u>Refuse Collection</u> – the risk will be mitigated by the implementation of a range of initiatives, including modernising pay, further roll-out of the pathfinder project, reviewing trade waste services and fleet arrangements, restructuring supervision and improving complaint handling through the Right First Time initiative.</p>	Waste Services Manager	April 2010
			<p><u>Direct Cleaning and Other Catering</u> have returned losses as a result of equal pay payments – had these not been incurred, cumulative surpluses would have been reported.</p>	Director of Corporate Services	On-going
			<p><u>School and Welfare Catering</u> – an update report was presented to the Policy and Strategy Committee in August 2008. Joint working arrangements are being established between the STO and the Children and Families department. Marketing / Customer Focus Groups are being established to examine service development opportunities.</p>	Director of Corporate Services	September 2009
			<p><u>BlindCraft</u> – a strategic review of the operation of BlindCraft is currently being undertaken.</p>	Director of Health and Social Care	March 2009
2.	16-21	<p>Revaluation of council house stock and enhancement expenditure</p> <p>Estates officers need to provide improved information to support their professional judgements.</p> <p>Risk : the council may not</p>	Review of valuation method for housing stock will be undertaken, together with consideration of enhancement expenditure.	Head of Corporate Property and Contingency Planning and Corporate Finance Manager	March 2009



Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		<i>be complying with the SORP with regard to these important areas.</i>	Finance and housing property services staff will liaise with estates staff to obtain their independent professional confirmation that the 2008-2009 Scottish Housing Quality Standards capital programme satisfies the SORP tests for capitalisation. This will then become an annual certification exercise.	Principal Finance Manager / Housing Property Services Manager	Quarter three for 2008-09 and thereafter quarter four annually
3.	27	Tram project In-year transactions and year end balances need to be confirmed early and promptly with relevant bodies. <i>Risk: inconsistency in accounting which affects group accounts and whole of government accounts</i>	Appropriate checks to ensure consistency in accounting treatment will be undertaken with Transport Scotland and tie Limited.	Principal Finance Manager (City Development) / Head of Transport	June 2009
4.	29-31	Provisions for non-collection of council tax and housing rents Improved trend analysis should be prepared to support provisions for non-collection. <i>Risk: provisions are not fairly stated in the financial statements.</i>	Further trend analysis on the basis suggested will be undertaken to supplement existing analysis £117 million of the Council Tax debtor relates to the Council since re-organisation. It is worth noting that since 1997, Council Tax liabilities have been in excess of £2,525 million.	Head of Revenues and Benefits and Director of Services for Communities	June 2009
5.	32	Common Good Using a risk based approach, a process should be put in place to confirm title of the council's land and buildings. <i>Risk: Common Good assets have not been separately identified and accounted for as required.</i>	Process has been put in place to check title issues in regard to common good where land is subject to disposal or change of use. Areas which are regarded as being high risk and / or high value will be subject to separate review.	Head of Corporate Property and Contingency Planning	On-going
6.	45, 65	Financial position and restoration of general fund balance Expenditure needs be contained within available resources and steps put in place to restore the unallocated general fund balance to sustainable levels.	Approved revenue allocations for 2008-2011 assume an unallocated general fund in excess of £10 million by March 2011.	Director of Finance	June 2009



Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		<p>There is an ongoing dependence on non-recurring contributions to minimise the level of overspending which is not sustainable.</p> <p>Key emerging pressures on the council's 2008/09 budget include rising energy costs, the impact of the credit crunch, residential schools and foster payments.</p> <p>Risks: <i>Unplanned action such as service reduction may be necessary to control expenditure within the approved budget.</i></p> <p><i>Non-recurring contributions are no longer possible and/or efficiency savings may not cover financial pressures in future years.</i></p>	<p>Previous reliance on non-recurring savings has been acknowledged and budget strategy is to deliver a sustainable budget.</p> <p>Key budget expenditure pressures such as energy and superannuation costs and care home fees have been recognised in the 2009-2012 budget process.</p> <p>Budget 'grip' exercise and customised budget holder reports have also been developed to increase budget transparency and responsibility, and to increase robustness of the monitoring process.</p>		
7.	57-58	<p>Refuse collection</p> <p>Plans need to be progressed to deliver essential improvements in the service.</p> <p>Risk: <i>the service is unable to demonstrate that its competitiveness is in accordance with best value criteria.</i></p>	<p>The risk will be mitigated by the implementation of a range of initiatives, including modernising pay, further roll-out of the pathfinder project, reviewing trade waste services and fleet arrangements, restructuring supervision and improving complaint handling through the Right First Time initiative.</p>	Waste Services Manager	April 2010
8.	70	<p>Single status</p> <p>The council has yet to implement the single status agreement.</p> <p>Risk: <i>Initial and continuing costs are considerably in excess of expected levels.</i></p> <p><i>Industrial relations difficulties restrict the ability to deliver on key objectives.</i></p> <p><i>The council may be judged to be contravening the Equal Pay Act.</i></p>	<p>Working towards achieving the budgeted cost level, if possible. However, final cost will be unknown until the pay structure is implemented and any grading appeals are resolved. Directions from the Director of Finance are that any costs in excess of budget must be offset by efficiency savings.</p> <p>A number of possible approaches to mitigating industrial relations difficulties are currently being considered. Senior external legal advisors are being consulted. The most</p>	Head of Human Resources	On-going



Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
			<p>appropriate approach for the Council is to be determined.</p> <p>The overall aim of all work commitments is to ensure that all pay inequalities are resolved on implementation of the new pay structure. An external gender impact assessor from Strathclyde University will assess all pay proposals to provide an independent view of the outcome</p>		
9.	77-78	<p>Political governance</p> <p>There needs to be a more appropriate balance of business between the full council, Policy and Strategy Committee and the Executive Committees.</p> <p>Risk: Urgent and critical business may not be dealt with appropriately.</p>	The June 2008 Council meeting approved changes to the new political management arrangements, including the balance of business between Executive Committees, Policy and Strategy and Full Council.	Council Secretary	On-going
10.	85-86, 89	<p>Work of the Audit Committee</p> <p>The committee should review its role with regard to implementation of action plans, inspection and national study reports and group arrangements. These aspects will also assist the committee develop its scrutiny and continuous improvement role.</p> <p>Risk: the committee is not fully complying with CIPFA Audit Committee principles</p> <p>There is no effective scrutiny function within the council.</p>	<p>Currently internal audit follows up all audits and report to Committee when action is not taken. An annual summary will be provided in the Chief Internal Auditor's report.</p> <p>The current remit allows national studies to be discussed by the Committee.</p> <p>Arrangements will be put in place with external audit to ensure briefings are provided.</p>	Directors of Corporate Services and Finance	December 2008
11.	87-91	<p>Statement on the system of internal financial control</p> <p>Improved mechanisms need to be put in place to collate group assurances.</p> <p>Risk: Unknown gaps in governance arrangements across the group result in additional pressures for the</p>	On completion of the companies review, internal audit will review the procedures to collate group assurances.	Director of Finance	May 2009



Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		<i>council (financial, reputation or otherwise) The council does not comply with the SORP.</i>			
12.	94	Project management The review of the council's project management framework needs to be completed. Risk: Recent lessons learnt are not shared for the benefit of existing and new projects leading to additional, unforeseen costs.	A report on project management has been considered by the Council Management Team and will be disseminated to relevant staff together with the development of an appropriate training programme.	Head of Corporate Property and Contingency Planning and All Service Directors	On-going
13.	99	National Fraud Initiative The council should give higher regard to investigating matches as part of the 2008/09 NFI exercise. Risk: Potential cases of fraud are undetected and potential savings are not realised.	Every two years the Council takes part in the National Fraud Initiative where information, including payroll, is matched with data held by other bodies taking part. This is done in order to prevent and detect fraud and complies with the Data Protection Act 1998. Planning for this is now complete and a higher profile has been given to the exercise, including intranet and staff notices.	Director of Finance	December 2008
14.	103	Single outcome agreement Performance management arrangements are being amended to support the SOA. Plans are being put in place to involve strategic partners in the next version of the SOA. Risk: If arrangements are not effectively aligned to the SOA, planned community outcomes may not be achieved.	The Edinburgh Partnership is fully involved in the development of the 2009 single outcome agreement (SOA). The SOA will incorporate revised Community Plan outcomes and will be supported by performance management arrangements. The development timetable for 2009 will be adhered to.	Corporate Projects Manager / Community Planning Manager (Corporate Services)	February 2009
15.	132	Best Value improvement plan The council needs to ensure that the best value improvement plan is being effectively addressed by reviewing priorities,	The final Best Value Improvement Plan progress report was made to the Policy and Strategy Committee on 30 September 2008. Revised and re-prioritised improvement action from this	Director of Services for Communities	On-going



Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		<p>especially in light of ongoing budget pressures, so that resources are targeted to deliver change in the most critical areas.</p> <p>Risk: best value is not being delivered across the council.</p> <p>Targets are not being linked with impact and outcomes.</p>	<p>will be included in the Achieving Excellence Programme 2008-2012 (the Council's new improvement programme). Achieving Excellence is designed to ensure that improvement action is targeted in the most critical areas, with progress reviewed and reported regularly.</p>		
16.	142	<p>Schools rationalisation project</p> <p>The council needs to progress its rationalisation plans to improve the overall school estate and experience for pupils, and deliver the necessary anticipated savings</p> <p>Risk: Unsatisfactory educational outcomes as schools operate below capacity in crumbling buildings leading to expensive repairs and maintenance.</p>	<p>Since 1997, the Council has closed sixteen schools, created seven new facilities and invested heavily through its capital programme and two PPP projects in school estates. By 2010, 35 schools will have been transformed.</p> <p>The Council is presently undertaking statutory consultation to close a further three primary schools and will consider recommendations in November 2008.</p>	Director of Children and Families	On-going