The City of Edinburgh Council

2023/24 Annual Audit Report

AUDIT SCOTLAND

Prepared for the Members of The City of Edinburgh Council and the Controller of Audit

September 2024

Contents

Key messages

2023/24 annual accounts

1 Our proposed audit opinions on the annual accounts of the council and its group are unmodified.

Best Value

2 A clear framework is in place for measuring performance against the council's priorities. Our 2022/23 Best Value thematic work highlighted the need for the council to develop comprehensive workforce planning across its services. Plans should be underpinned by better data to support decision making and measure impact.

3 The council has made good progress on Best Value improvement recommendations from previous years.

Financial management

4 The council has appropriate arrangements to secure sound financial management. Concerns from members around budget-setting in 2023/24 has led to improvements in the process.

5 The council operated within budget in 2023/24, reporting an underspend of £2.278 million. In future years, the scale of the budget gap will mean the council will find it increasingly difficult to achieve financial balance in future years.

Financial sustainability

6 The council has appropriate financial planning arrangements in place. It has developed a medium-term financial plan and detailed proposals to secure financial sustainability are being developed with regular reporting to members.

7 Options are being explored to close a budget gap of £26.4 million for 2024/25 but it is unclear if these will result in the savings required. Financial plans forecast a budget gap of £29.9 million in 2025/26 rising to £109.1 million by 2028/29. Members will need to make difficult decisions about spending priorities, service levels and income generation whilst ensuring the results of public consultation exercises are taken into account.

Vision, leadership and governance

8 Governance arrangements are appropriate but there is scope to improve decision-making arrangements. Work is ongoing to support scrutiny of the council's arms-length bodies.

Use of resources to improve outcomes

9 The council reports its performance against local government benchmarks, publishes a quarterly scorecard and assesses progress against its business plan.

10 The council has reported a mixed picture of performance since last year, with a trend of improvement apparent in several areas, but there are significant challenges in housing services.

11 The council has satisfactory arrangements for the preparation and publication of Statutory Performance Information (SPIs).

Introduction

1. This report summarises the findings from the 2023/24 annual audit of The City of Edinburgh Council (the council). The scope of the audit was set out in an Annual Audit Plan presented to the 19 March 2024 meeting of the Governance, Risk and Best Value Committee. This Annual Audit Report comprises:

- significant matters arising from an audit of the council's annual accounts
- conclusions on the council's performance in meeting its Best Value duties
- conclusions on the following wider scope areas that frame public audit as set out in the *Code of Audit Practice 2021:*
    - Financial Management
    - Financial Sustainability
    - Vision, Leadership, and Governance
    - Use of Resources to Improve Outcomes.

2. This report is addressed to the council and the Controller of Audit and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

Audit appointment

3. The 2023/24 financial year was the second of our five-year appointment. Our appointment coincides with the new Code of Audit Practice which was introduced for financial years commencing on or after 1 April 2022.

4. We would like to thank councillors, senior management and other staff, in particular, the finance team, for their cooperation and assistance and we look forward to working together constructively over the remainder of the five-year appointment.

Responsibilities and reporting

5. The council has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual accounts that are in accordance with proper accounting practices. The council is also responsible for compliance with legislation, and putting arrangements in place for governance and propriety that enable it to successfully deliver its objectives.

6. The responsibilities as the independent auditor are established by the Local Government (Scotland) Act 1973, the Code of Audit Practice 2021 and supplementary guidance, and International Standards on Auditing in the UK.

7. Weaknesses or risks identified are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management of the council from its responsibility to address the issues raised and to maintain adequate systems of control.

8. This report contains an agreed action plan at Appendix 1. It sets out specific recommendations, the responsible officers, and dates for implementation.

Auditor Independence

9. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2023/24 audit fee of £722,950 as set out in our 2023/24 Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

1. Audit of 2023/24 annual accounts

Public bodies are required to prepare annual accounts comprising financial statements and other related reports. These are the principal means of accounting for the stewardship of public funds.

Main judgements

Our proposed audit opinions on the annual accounts of the council and its group are unmodified.

Our proposed opinion is that the management commentary, annual governance statement and remuneration report were consistent with the financial statements and properly prepared in accordance with the applicable guidance.

Audit opinions on the annual accounts are unmodified

10. The council's Finance and Resources Committee approved the annual accounts for City of Edinburgh Council and its group for the year ended 31 March 2024 on 19 September 2024. Our proposed opinion is that:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- the audited part of the remuneration report was prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014
- the management commentary and annual governance statement were consistent with the financial statements and properly prepared in accordance with the applicable requirements.

Overall materiality was assessed on receipt of the unaudited annual accounts as £57 million

11. Broadly, the concept of materiality is applied by auditors to determine whether misstatements identified during the audit could reasonably be expected to influence the economic decisions of users of the financial statements, and hence impact their opinion set out in the independent auditor's report. Auditors set a monetary threshold when considering materiality, although some issues may be considered material by their nature. It is ultimately a matter of the auditor's professional judgement.

12. Our initial assessment of materiality was carried out during the risk assessment phase of the audit. This was reviewed and revised on receipt of the unaudited annual accounts and is summarised in Exhibit 1.

Exhibit 1
Materiality values

Materiality level	Council	Group
Overall materiality	£53 million	£57 million
Performance materiality	£34 million	£37 million
Reporting threshold	£0.5 million	£0.5 million

13. The overall materiality threshold for the audit of the annual accounts of the council was set with reference to gross expenditure, which was judged as the figure most relevant to the users of the financial statements.

14. Performance materiality is used by auditors when undertaking work on individual areas of the financial statements. It is a lower materiality threshold, set to reduce the probability of aggregated misstatements exceeding overall materiality. Performance materiality was set at 2% of overall materiality, reflecting a relatively low history of errors and from our overall risk assessment.

15. It is our responsibility to request that all misstatements, other than those below the reporting threshold, be corrected. The final decision on making the correction lies with those charged with governance.

Significant findings and key audit matters

16. Under ISA (UK) 260, we communicate significant findings from the audit to the council, including our view about the qualitative aspects of the council's accounting practices.

17. The Code of Audit Practice also requires us to highlight key audit matters, which are defined in ISA (UK) 701 as those matters judged to be of most significance.

18. The significant findings including key audit matters, are summarised in Exhibit 2.

Exhibit 2
Significant findings and key audit matters from the audit of the annual accounts

Issue	Resolution
1. Payments to providers of social care Swift is a social care case management system which the council has agreed to replace as an ‘end of life’ system. In response to internal audit findings on the Swift system, which identified significant improvements were required, and from our own review of the process for social care payments, we undertook testing on a sample of payments, primarily to providers of care homes and at-home carers, to verify the underlying basis for the payment. From our testing, we found instances of: • errors in the rates being paid to third-party providers • inaccurate cost data on the Swift system • weaknesses in the control environment where invoices from suppliers are approved for payment We also experienced significant delays in receiving documentation and explanations for the basis of payment, such as contracts or agreements. Both the complexities and weaknesses of the system were major contributing factors to delays..	We concluded that, for all items we examined, there existed a valid underlying basis for the transaction and therefore that the accounts are not materially misstated. We recommend the council strengthens the overall control environment around social care transactions, from initiation to payment stages. This should include measures to address the limitations of the current Swift system. **Recommendation 1** (Refer Appendix 1, action plan)
2. Errors in payments system – invoice price variances corrections During 2023/24 the council adopted a new accounts payable invoice automation solution, with some purchase invoices being automatically entered into the ledger with others requiring to be manually processed by staff. A large number of purchase invoices were processed incorrectly resulting in multiple corrections on the ledger. Invoices were not always matched correctly to purchase orders and data was entered in incorrect fields	From our review of the evidence submitted to audit, we are satisfied that incorrect purchase order entries were identified and that controls were in place to ensure they were not paid.
3. Impact of Reinforced Autoclave Aerated Concrete (RAAC) Reinforced Autoclave Aerated Concrete (RAAC) panels are a lightweight concrete plank commonly used in roofs, walls, floors and eaves. The strength of these panels was raised as a safety concern in	Our impairments testing confirmed that assets affected operationally by RAAC were impaired in value and asset lives were significantly reduced for assets where the extent of RAAC requires longer term options appraisals

Issue	Resolution
June 2023 initiating an urgent inspection process of the council's estate. An update report to the Finance and Resources Committee in January 2024 summarised the operational assets affect by RAAC at the council and the details of works required and the estimate costs of remedial actions. The committee approved the short-term spending to be put forward to the 2024/25 budget process where £14.9 million was approved for capital spend on asset management RAAC works as disclosed in the Capital Commitments Note 15.2. We considered on a sample basis whether the assets affected by RAAC were appropriately impaired. We also considered whether the council needed to provide for these costs in their accounts.	On longer term costs of RAAC, options appraisals are required to inform council decision making. Therefore, the council agreed to disclose a contingent liability in their accounts as the costs and obligation are currently uncertain.
4. Revaluation of council dwellings The council undertook a full valuation of its council homes stock in 2023/24 in line with its revaluation policy. This valuation is based on specialist and management assumptions using the 'beacon method' in accordance with mandatory guidance from the Local Authority (Scotland) Accounts Advisory Committee (LASAAC). The discount factor applied to council dwellings dropped from 38% to 28.2% and reflects a widening gap in the rental market over the last 5 years between social rent and market rents as well as better market data being used by valuers compared to 5 years ago. Therefore, there has been a downward valuation of council dwellings from £1.109 billion to £885 million. Once residual balances in the Revaluation Reserve were taken into account, as well as gains on revaluation from the council's wider rolling revaluation, the net impact in the revaluation reserve is a gain of £26 million.	We assessed the council's approach to valuation of council dwellings and from our review and testing, we are satisfied that the inputs and assumptions made by the valuer are reasonable and support the valuation.
5. Rolling revaluation of council land and buildings The council's rolling programme of revaluation of land and buildings was a significant audit matter given the level of estimation and judgement involved in determining values.	We performed detailed testing of valuations and confirmed key inputs used by the valuer to supporting evidence such as floor area plans. One classification error was identified where a surplus asset of £0.581 million

Issue	Resolution
	was not correctly categorised in the draft accounts. This was subsequently corrected. One valuation used incorrect and out-of-date floor plan data which meant an error in the valuation, and that 'Other land and Buildings' in Note 15.5 is overstated by £1.623 million. This has been recorded as an unadjusted error given the value is immaterial to the overall balance in Note 15.5 PPE. This was the only unadjusted error within the accounts.
6. Classification errors in non-current assets Our testing of additions found classification errors where two assets (£3.9 million) sampled were recognised as Vehicles, Plant and Equipment instead of intangible assets. Another asset was recognised as 'Other land and buildings' rather than an asset under construction (£4.2 million).	The council agreed to update the accounts to correct these misclassifications of assets in the Property, Plant and Equipment Note 15.5 and Intangible assets Note 17.
7. IFRS 16 lease disclosures The council has a large number of lease arrangements and uses a third-party provider to supply information to meet IFRS 16 Leases disclosure requirements. There were differences between the council's closing 2022/23 position and the opening position provided by the third party due to a system error. This was identified by the council prior to audit. Our audit approach included verifying a sample of leases to underlying evidence (lease agreements) and we re-performed liability calculations to assess the accuracy of the data provided by the third-party provider. Two of the sample did not have interest applied (which is required under IFRS 16 to show the present value of the lease liability and related right of use asset) due to system error. Further evidence provided demonstrated this error was confirmed to 153 leases. One lease contained a set increase in the rental agreement which was not considered when calculating the lease liability and corresponding right of use asset. This error was quantified as	The council recorded an in-year adjustment of £12 million in the property, plant and equipment (PPE) note in the accounts submitted to audit to bring the figures into line with the closing position from the third-party provider. The council has received assurances that the system has been changed to preserve the audit trail in future years. As a result of our testing, right of use assets in notes disclosures increased by £2.5 million and the lease liability increased by £2.7 million. The net impact on the council's balance sheet of these adjustments is £0.137 million. The disclosure note for lease interest was increased by £0.575 million for the identified leases where no interest was originally applied.

Issue	Resolution
£1,166,330 and was subsequently amended. We are content this was an isolated error.	
8. Heritage asset valuations The council's heritage assets, valued in the accounts at £31.4 million, includes historic buildings, civic regalia, museum and gallery collections and works of art. In some cases, the values for heritage assets disclosed are largely based on valuations made more than ten years ago. The council's accounting policy should be improved to provide clarity around actual practice, and the valuations should be reviewed with sufficient frequency to ensure they valuations remain current.	The council should consider its approach to revaluation of heritage assets and its accounting policy on valuations. **Recommendation 2**
9. Accounting for pension asset The pension liability is an area of audit focus due to the material value and significant assumptions used within the complex calculation of this liability. In common with other local government pension scheme employers, the City of Edinburgh commissions a firm of actuaries to value its pensions liability. The actuary reported that, as at 31 March 2023, CEC did not have a liability but rather a funding surplus of £998 million. Accounting standards (IAS 19 and IFRIC 14) impose a limit on the maximum amount of surplus which can be recognised on an employer's balance sheet, what is described as an 'asset ceiling'. As a result, the unaudited accounts restricted the funded pension asset on the balance sheet to nil. As a result of our audit work, the authority also adjusted prior year figures to accurately disclose its unfunded pension liabilities, which should be accounted for separately. As the unfunded liabilities were included in the calculation of interest on the asset ceiling, this resulted in a notional increased amount of interest income of £2.4 million. In addition, the unaudited accounts were subsequently updated with more recent figures provided by the actuary.	We worked with the finance team to resolve these issues during the year, and reviewed and challenged the actuarial assumptions and calculations provided by the actuary. The financial statements were adjusted to include additional interest income of £2.4 million. The accounts presented for audit were subsequently adjusted to provide updated figures from the actuary.

Issue	Resolution
10. Disclosure of accounts relating to Low Emissions Zone The council received approval for the introduction of a Low Emission Zone in the city centre in 2022, with enforcement commencing in June 2024. Under The Low Emission Zones (Scotland) Regulations 2021, the council is required to prepare a statement of account each year disclosing the costs of proposing, making and operating the scheme. This should be published in the authority's annual accounts. As the scheme was not operating during 2023/24, the authority included only narrative disclosures on its LEZ scheme.	In our judgement, the council's disclosures should have provided more detail on specific expenditure incurred as a separate note to the accounts. A revised note was accordingly included in the audited version of the accounts.

19. In addition, we identified "areas of audit focus" in our 2023/24 Annual Audit Plan where we considered there to be risks of material misstatement to the financial statements. These areas of specific audit focus were:

- **System changes** – The council planned upgrades or modifications to financial systems being implemented during 2023/24 or shortly after, including an upgrade to the general ledger, a new HR/payroll system and a new accounts receivable system. As we have reported in Exhibit 2, an update to the purchase invoice system had an impact on our ability to follow the audit trail efficiently. As a result of human error, erroneous postings were made which were later reversed. The council provided additional training to staff on using the new system and introduced further controls ensuring that incorrectly processed invoices are not paid. The implementation of the new HR/Payroll system was delayed and therefore did not affect our audit work. We also considered the migration of data from the old accounts receivable system (PPSL) to the new APEX system and no issues were identified, other than user access control issues which are explained in paragraph 73. The challenges in the audit trail that we encountered for Health and Social care payments has been set out in Exhibit 2.

- **Pensions valuations** - Significant estimation and judgements are required in the measurement, valuation and disclosures of the council's pensions valuations under IAS 19. We have reported our findings on these matters in Exhibit 2.

The unaudited annual accounts were received in line with the audit timetable

20. The unaudited annual accounts were received in line with the agreed audit timetable on 28 June 2024.

21. The council's finance team is experienced and effective. They provided an excellent level of support to the audit team. We did experience some delays in establishing a clear audit trail due to the nature and complexity of the underlying evidence and the need to involve multiple departments. There are opportunities to improve the audit trail provided, for example, by improving the clarity of working papers that are based on complex, legacy spreadsheets. Recommendation 3.

Good progress was made on prior year recommendations

22. The council has made good progress in implementing the agreed prior year audit recommendations. For actions not yet implemented, revised responses and timescales have been agreed with management, and are set out in Appendix 1.

2. Best Value

Councils have a statutory duty to make arrangements to secure continuous improvement in the performance of their functions.

Conclusions

A clear framework is in place for measuring performance against the council's priorities. Our 2022/23 Best Value thematic work highlighted the need for the council to develop comprehensive workforce planning across its services. Plans should be underpinned by better data to support decision making and measure impact.

The council has made good progress in Best Value improvement recommendations from previous years

Best Value work in 2023/24

23. For 2023/24, the scope of Best Value work included conclusions on:

- Effectiveness of council performance reporting
- Best value thematic work covering Workforce Innovation
- Progress made against Best Value improvement actions made in previous years

24. As set out in the Code of Audit Practice 2021, Best Value audit is integrated with other wider-scope annual audit work. Therefore, in addition to the work set out in the remainder of this section, Best Value work has informed the content and conclusions set out in respect of our wider scope responsibilities.

The council has developed a clear framework to measure and monitor progress against the council's priorities. It should ensure reporting highlights where improvements are required

25. In March 2023, the council updated its Planning and Performance Framework 2023-2027, which seeks to address the BVAR recommendations we made in 2020. The framework identifies milestones and specific key performance indicators (KPIs). It is aligned with the refreshed business plan and maps out the plan's outcomes against the National Performance Framework, the Accounts Commission's seven Best Value themes and the community plan's priorities.

26. The performance framework commits the council to reviewing performance measures and targets on an annual basis to ensure that they remain aligned to the delivery plan. Local Government Benchmarking Framework (LGBF) reports are reviewed by service committees and the council plans to submit an overview report to the Governance, Risk and Best Value Committee. The council is planning to produce three annual performance reports:

Progress with	Time of reporting	Report to council via
• Business Plan	• summer	• Policy and Sustainability Committee
• Public Performance Scorecard	• end of financial year	• Governance Risk and Best Value Committee
• Local Government Benchmarking Framework	• end of financial year	• Governance Risk and Best Value Committee

27. The council is considering how the Public Performance Scorecard can be enhanced following a public consultation and plans to review the format and content with elected members to ensure it meets their needs. Public performance reports are available on the council's website. Last year, we reported that accessibility requirements were not being met. This year, we are pleased to note that improvements were made, for example, there is information provided on whether performance reports are available in alternative formats or different languages.

28. Officers and members should continue to review these revised arrangements once they are embedded to assess their effectiveness and should be able to demonstrate that they have been used to drive improvement. It is important that performance reporting is fair and balanced, and should clearly and easily highlight where underperformance or weaknesses exist so that timely, targeted action can be taken.

Workforce Innovation

29. Annual thematic Best Value work is set by the Accounts Commission. For the 2023/24 financial year, auditors were asked to focus on workforce innovation within the council. The results of this work will be reported to elected members at the Governance, Risk and Best Value committee in September 2024. This report will also be published on Audit Scotland’s website.

30. The key findings from this report completed in May 2024 were:

- The City of Edinburgh Council employs nearly 16,000 full-time equivalent (FTE) employees. Staff costs amount to £795 million, representing a significant proportion (30 per cent) of the council’s total expenditure. Effective workforce planning is essential for the council to ensure it has the operational and leadership capacity and skills to meet future service demands and financial pressures.

- The council approved a new people strategy in March 2024 which supports the Council Business Plan 2023-27. This sets out an overarching vision on how the council will achieve its future workforce requirements. The strategy will be underpinned by a revised workforce action plan, due for consideration in August 2024, which will set out how to deliver this in more detail.

- Our 2022/23 Best Value Thematic report highlighted the need for the council to develop comprehensive workforce planning across its services. Only some services have workforce plans, and many of these require to be updated. This is particularly important for large employment service areas such as the Edinburgh Health and Social Care partnership where workforce plans of the council and the Integration Joint Board (IJB) need to be more closely aligned.

- Better data is needed to support the council's approach to workforce planning and how it measures impact. Work is underway to improve the information that is available for decision-making and the council has developed a new suite of key performance indicators against the new People Strategy 2024-27.

- The existing Strategic Workforce Plan (covering 2021 to 2024) did not contain information on key areas such as service vacancies, turnover, or length of service, and there is limited evidence of scenario planning. The council did not identify or report on performance measures against its Strategic Workforce Plan 2021-24 or People Strategy 2021-24. In addition, the council’s former HR and payroll systems did not allow efficient analysis of key workforce metrics.

- The new HR and payroll system (Oracle) to be introduced in October 2024 provides the opportunity for the council to provide real-time and robust workforce data. The council has developed workforce dashboards and deep dive reports to provide more comprehensive reporting across the council’s services, but there is scope to present key information in a way that is more accessible and directs scrutiny to emerging challenges. The council plans to improve how it measures the impact of its workforce planning approach.

- The council has engaged with its staff in developing its new People Strategy 2024-27. Staff engagement sessions, internal pulse surveys, webinars and focus groups were held, and there was engagement with colleague networks and trade unions. The new People Strategy 2024-27 also commits to incorporating the voice of employees in the development of policy and workplace initiatives. The council plans to incorporate this feedback as well as wider engagement with service managers, providers, and trade unions in developing its workforce plan.

- Home-working and hybrid working are now commonplace and the council’s new People Strategy and the ‘Our Behaviours’ framework commits the council to being a flexible employer. The council’s Our Future Work strategy set out the council’s approach to flexible and hybrid working based on the principles of flexibility, trust and empowerment and was informed by staff consultation. It is important that the council understands and assesses the impact of hybrid/flexible working on service performance, productivity and staff wellbeing.

- The new People Strategy 2024-27 contains a focus on growing and retaining talent within the council, and the workforce plan is expected to set out in more detail how it intends to address future skills and capacity requirements. The council is developing a Talent and Attraction plan to support the council's approach to recruitment and retention. It is critical that robust plans are in place to ensure that future skills requirements are identified with appropriate actions to address any gaps.

- The council's approach to workforce planning needs to be clearly aligned to other key strategies. The council's Digital and Smart City Strategy (2020-23) is now out of date, and a revised strategy is being progressed. There needs to be a clear assessment and understanding of the impact of digital technologies on workforce plans and working practices to better inform future requirements.

The council has made good progress against Best Value improvement actions

31. City of Edinburgh Council received a full Best Value Assurance report (BVAR) in November 2020. A Best Value Assurance action plan update was considered in August 2024. It reported that of the nine outstanding recommendations, four were proposed to be closed and the remaining five were due to be completed by April 2025. It will be important for the Council to ensure revised timescales are met given the time that has now passed since the recommendations were made.

32. We considered progress against our Best Value recommendations, including the council's own reporting to the Policy and Sustainability Committee, during 2023/24.

Exhibit 3
Progress against Best Value improvement actions from 2020

1. Council vision and strategic direction		
Action	**Status**	**Audit observation**
To help them carry out their best value responsibilities, elected members should take advantage of the learning and development opportunities provided by the council.	**Closed**	Elected member training and induction programme took place during May 2022 and June 2022. All elected members have access to the "mylearning" hub where all materials are stored and members can use this to enhance their personal learning and development.

		There is an ongoing programme of training available to councillors and external organisations such as the Improvement Service, Consultation Institute and Scottish Women's Budgeting Group have all delivered sessions. Briefings have covered topics such as consultation activities, climate change, the budgeting process and procurement. A skills survey of members, seeking to understand how the learning programme can be improved, was launched in July 2024.
In order to make community engagement an integral part of service improvement and delivery, the council should support community groups to complete asset transfers.	**Closed**	During 2023/24, three applications for community asset transfer were received, and three assets, at a total value of £1.265 million, were transferred to community groups under the Community Empowerment (Scotland) Act. The council now considers the process integrated into business as usual.
2. Performance and outcomes, including public performance reporting		
Action	**Status**	**Audit observation**
The council should further improve its performance reporting by making better use of performance measures and targets, particularly to demonstrate the impact of improvement work.	**Closed**	The council has updated its Planning and Performance Framework, revising targets and how they are measured. A quarterly Public Performance Scorecard is produced, and an Annual Performance report which will be scrutinised by the Governance, Risk and Best Value Committee. Progress against the business plan is monitored through an annual progress report due to be published later this year. The council has recently undertaken a consultation with the public and with elected members on the format and content of the Public Performance Scorecard.
The council should further improve its performance reporting by publishing easily accessible, up-to-date performance information on its website.	**Closed**	The layout and content of performance information available on the council's website has been improved. It has recently sought feedback from citizens and is working to produce accessible versions of these reports.

3. Effective use of resources		
Action	**Status**	**Audit observation**
As part of its Adaptation and Renewal Programme, the Council should prepare sustainable medium and long-term financial plans, and detailed workforce plans, to support its strategic priorities.	**Closed**	The council has a medium-term financial framework in place and is developing a medium-term financial plan. The council approved a new people strategy in March 2024 which supports the Council Business Plan 2023-27. The strategy is underpinned by a revised workforce action plan, agreed in August 2024.

4. Partnership working and community engagement		
Action	**Status**	**Audit observation**
In order to make community engagement an integral part of service improvement and delivery, the council should embed the lessons from effective community engagement activity and clearly communicate the results of, and the council's response to, community consultation.	**Ongoing**	As we have reported in our Best Value thematic report in 2022/23, there is evidence that the council has improved the way it engages with communities and partners. In October 2023 the consultation and engagement policy was updated and a consultation on budget proposals has been launched. A new approach is being piloted to contact individuals directly who have previously responded in order to gather a consultation network. The council has a target date for completion of these actions by April 2025.
The council should work with the Edinburgh Partnership Board to implement its new governance arrangements, effectively involve community representatives and deliver improved outcomes for communities.	**Ongoing**	Progress against some aspects of planned improvements to partnership engagement has been slow and interrupted by the pandemic. A dedicated community empowerment and engagement team was in place by April 2023, following a pause in the lifelong learning organisational review during the pandemic. The partnership has agreed to undertake a transformation and improvement programme to strengthen the city's approach to community planning, with an implementation plan to be considered in March 2025

		following engagement with stakeholders. An evaluation of the Neighbourhood Networks and community grant funding models, which will assess the effectiveness of the networks and explore ways to enhance community engagement was considered in August 2024.
The council should work with the Edinburgh Partnership Board to produce progress reports with clear targets, accountable leads and links between the actions taken and the impact on performance.	**Ongoing**	An improvement plan was created to address this recommendation in 2021. Progress in implementing these actions has been delayed. In March 2024, the Edinburgh Partnership committed to developing an integrated performance framework and is expected to complete this work by March 2025.

5. Continuous improvement		
Action	**Status**	**Audit observation**
The council should implement a strategic approach to self-evaluation and continuous improvement. This should include better demonstrating how it responds to feedback and scrutiny findings.	**Ongoing**	The council has reported it is working with the Improvement Service to pilot approach for implementing the Public Sector Improvement Framework for two service areas, with the results being used to determine a council-wide roll-out of the approach.

3. Financial management

Financial management means having sound budgetary processes, and the ability to understand the financial environment and whether internal controls are operating effectively.

Conclusions

The council has appropriate arrangements to secure sound financial management. Concerns from members around budget-setting in 2023/24 has led to improvements in the process.

The council operated within budget in 2023/24, reporting an underspend of £2.278 million. In future years, the scale of the budget gap will mean the council will find it increasingly difficult to achieve financial balance in future years.

Controls within the main financial systems should be strengthened, particularly in relation to payroll, general ledger and the SWIFT social care system.

The council operated within budget in 2023/24

33. The council approved its 2023/24 budget on 23 February 2023. The budget was set at £1,282 million with a funding gap of £26.6 million and savings to be made in future years. This was based on the council's provisional grant funding settlement and a 5% increase in council tax rates.

34. The annual accounts report an underspend against the budget of £2.278 million (0.2 per cent), however this was only made possible by utilising a £13.638 million underspend from 2022/23 and in-year savings achieved from corporate budgets of £13.264 million. The council reported that 84% of planned savings were delivered.

35. The overspend in service directorates totalled £24.624 million, largely attributable to additional expenditure to fund Edinburgh Integration Joint Board (EIJB). Set against this, the council benefited from additional council tax income, a dividend of £2.912 million from Lothian Buses and savings from energy costs of £5.2 million.

36. EIJB, of which the council is a partner with NHS Lothian, continues to face severe financial pressures. In November 2023, members agreed to provide additional funding in principle limited to £14.1 million to close the IJB's funding gap. Despite this, a further £4.61 million was provided to the IJB for the financial year. It is likely that the council's obligations towards IJB funding will continue to be a source of significant financial pressure.

37. Changes to service concession arrangements allow councils to write off the debt costs associated with these schemes over the expected lives of the respective assets rather than over the contract period of each arrangement. As a result, the council was able to transfer £101.8 million to the General Fund of which £19 million was drawn down in-year to meet revenue expenditure.

Concerns around budget setting in 2023/24 has led to significant changes to strengthen the process

38. Following a round of voting, the Labour administration's budget was not approved and after three rounds of voting the Liberal Democrats budget was passed by members. The revised approved budget included reversing planned spending cuts of £5.55 million in education and increased spending of £3 million in cleansing, plus additional capital spending of around £19 million.

39. Following the budget resolution being passed, officers developed a revised schedule of fees and charges, which were then resubmitted for approval by the council in March 2023.

40. Following concerns from members, in March 2023, the Governance Risk and Best Value Committee passed a motion noting complaints from residents, councillors and stakeholders which included concerns over a lack of information, and information being provided very late in the process, concluding it did not represent “a good model for budget setting, transparency or the reputation of the council.”

41. Members requested that the council’s Corporate Leadership Team (CLT) formally review the budget-setting process and provide recommendations to strengthen the process for 2024/25.

42. In June 2023, the CLT provided proposals to change the budget process in future. These included:

- to provide budget training for all councillors to start the budget process, particularly identifying change proposals earlier in the year, before summer recess
- to build in support and regular meetings with each political group through the autumn and winter
- that where possible, proposals should be taken through relevant Executive Committees
- that a report is taken to council in September to amend the standing orders to alter the deadline for budget motions to a week and a day before Council.

43. An internal audit report on lessons learned from the budget-setting process was presented to the GRBV Committee in August 2023. This added further recommendations including a review of best practice from other local authorities. In 2024/25, the council committed to producing integrated impact assessments for all budget proposals, that when proposals are considered by executive committees they should not add to budget pressures, and that transparent information should be provided to members – including the last time a ‘zero-based’ budget approach was taken in a particular area. A further “lessons learned” process is planned for the new 2024/25 financial year.

The council’s consultation with residents on budget proposals has been limited. A multi-year exercise has now been launched to seek views on spending proposals and the impact of cuts

44. The Accounts Commission has, for many years, highlighted the importance of councils consulting communities as part of their budget setting processes, including seeking the views of local citizens on priority areas for investment or disinvestment. In 2024/25, 24 of Scotland’s 32 local authorities informed or consulted residents about the financial pressures it faces. Of those, 20 consulted all residents and four consulted only specific groups within their communities.

45. CEC chose not to consult directly on its budget proposals for 2023/24, relying instead on its 2021-24 Council Budget Engagement which was intended to support decisions over a three-year period, with a particular focus on post-pandemic recovery. At the time of budget setting, the council formally considers a number of deputations from trades union and residents’ group on its budget proposals.

46. In 2024/25, the council did not directly consult its residents prior to the budget being approved. Instead, however, a consultation was launched in April 2024, the month following approval of the budget.

47. The consultation sought to communicate its overall budget position over multiple years and strategic priorities to residents, emphasising the need to create efficiencies and in some cases reduce services provided. Residents were asked for their views on how the council can save money, which services could be reduced and where the council has done well. Contributions were sought at drop-in sessions and an online consultation hub, with a series of focus groups planned to explore subjects raised by residents.

48. The final phase includes plans for a series of workshops with council staff, trade unions and partner organisations to focus on more complex issues that require multi-agency co-operation. The results are expected to be reported to the Policy and Sustainability Committee, along with relevant action plans.

The housing revenue account has reported a large accounting deficit following a revaluation of council homes

49. The council is required by legislation to maintain a separate housing revenue account and to ensure that rents are set at a level which will at least cover the costs of its social housing provision.

50. The Housing Revenue Account is self-financing and receives no funding from the general fund. In 2023/24, total expenditure on the council’s housing stock was £241 million, which includes repairs, maintenance and management, but also includes depreciation and impairment of homes. On 23 February 2023, the council approved the motion to increase rents by 3% for 2023/24 while also establishing a tenant hardship fund to support tenants for whom a rent rise would result in severe financial difficulty.

51. In 2023/24, there was an accounting deficit of £111.208 million on the HRA accounts (2022/23: surplus of £12.087 million) due to a downward revaluation of the council's housing stock. The in-year charge this year for depreciation and impairment was £159.809 million, as compared to £48.418 million in prior year. This is an accounting loss, which reflects the reduction in market value since the last valuation. The council is reporting in its outturn a net overspend of £8.7m against budget, with a drawdown of £1.7 million required from reserves.

52. The value of council's owned dwellings was £1,115 million in 2022/23, which has now been reduced to £887 million, however this is after being reduced by a factor known as 'existing use value' for social housing. The council revalues its council dwellings every five years, and 2023/24 was the year of a full revaluation, so a larger than usual change in values might be expected.

53. Council-owned dwellings are valued using the 'beacon' method, in line with relevant standards and guidance. Values of groups of similar homes are calculated by assessing the value of one of them (the beacon), then extrapolating the value across the rest of the group. That value is then adjusted to reflect differences between valuation of private housing and socially-rented housing stock. The beacon discount factor is determined by comparing levels of private rent with social rent for each beacon property and calculating the average to apply across the whole portfolio to take account of the difference between private housing stock (the source of the comparable sales data) and socially-rented stock. The discount factor applied in the 2023/24 revaluations decreased from 38% to 28.2% due to the increased gap between market rents and social rents since the last revaluation.

Housing remains one of the council's key challenges, with a shortage of homes and a need to fund improvements

54. In November 2023, the council declared a housing emergency due to the acute nature of Edinburgh's homelessness crisis, along with the shortage of social rented homes and increasing pressure within the private rental market.

55. In February 2023, as noted above, the council agreed a 3% rent increase for its social housing in 2023/24, as part of a longer-term aim to raise revenue to bring existing homes up to energy efficiency standards over a 30-year business plan.

56. For 2024/25, the council agreed to increase rent by 7% each year for the next five years in 2024/25 to 2028/29, with an assumption that this increase will achieve the key ambitions in the HRA's ten-year capital investment programme, although this is less than the 8.4% recommended by officers to reach the same level of investment.

57. The Scottish Housing Regulator is engaging with the council about its services for people who are homeless, service quality, stock quality and tenant and resident safety. The issues being examined by the SHR at the council are significant and include:

- The demands on the city for homelessness services, which exceeds its capacity to respond
- Engagement around complaints, repairs performance, void management and rent arrears
- The extent of reinforced autoclaved aerated concrete (RAAC) in some of its homes and the plans to manage those risks
- Compliance with safety, fire detection, and addressing dampness and mould

Budget monitoring information is appropriate, but there is an opportunity to make budget papers more accessible

58. We observed that members receive regular financial information on the council's performance against budget. Three budget monitoring reports were provided at intervals during the financial year, providing an overall summary as well as further details and explanations about specific financial pressures and potential mitigation actions and savings to close financial gaps. It is expected that a final report against outturn will be provided in September 2024. The council is supported by an experienced and effective finance team.

59. The budgeting process is a complex exercise and takes several months to develop. Planning assumptions and proposals are developed by directorates and agreed by the Finance and Resources Committee before agreement by the full council.

60. Audit Scotland's briefing on local government budgets 2024/25 identified that the way in which budget papers at some local authorities were presented means that elected members and communities cannot easily determine the impact of budget decisions nor the overall financial position of the council, highlighting a need to improve accessibility and transparency.

61. Budget papers should present key information in a way that is easily accessible and understandable to the public and elected members. It should be clear what the impact of different budget choices might mean, and the overall financial health of the council. There is an opportunity for the council to improve its budget papers by providing more specific savings proposals, the impact of these budget reductions on services, and how these are to be achieved.

There has been an increase in the level of General Fund reserves over recent years, but much is already allocated to agreed future spending commitments

62. One of the key measures of the financial health of a council is the level of reserves held. The total level of usable reserves held by the council (Exhibit 4) increased from £377 million in 2022/23 to £429 million in 2023/24. Most of this has been earmarked for specific purposes and only £25.7 million is unallocated and available as revenue expenditure.

Exhibit 4
City of Edinburgh Council – usable reserves 2021/22 to 2023/24

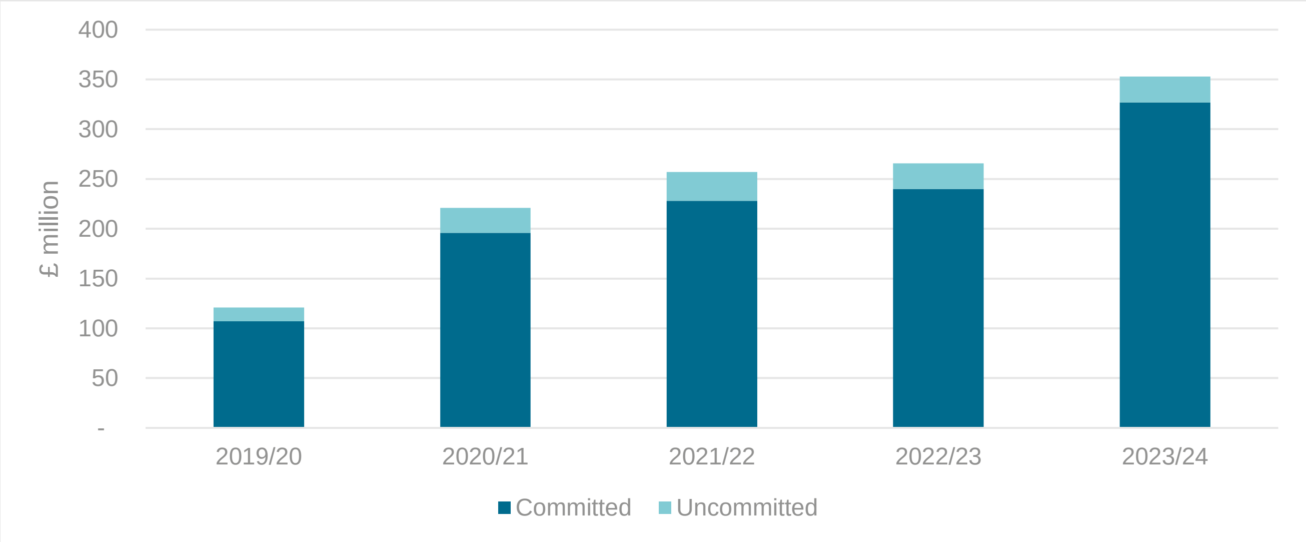
Usable reserve	31 March 2022 £ million	31 March 2023 £ million	31 March 2024 £ million
General fund	257.205	266.306	353.238
Housing Revenue Account	0	0	0
Repairs and Renewals Fund	50.407	37.430	35.880
Capital grants unapplied reserve	46.994	31.189	20.404
Capital Fund	42.550	42.194	19.851
Total usable reserves	**397.156**	**377.119**	**429.373**

Source: The City of Edinburgh Council accounts 2021/22 – 2023/24

63. The general fund balance increased by £87 million (33%) since last year, with a significant element of this due to adoption of the service concession financial flexibility, with those funds set aside for future years.

64. Exhibit 5 provides an analysis of the general fund over the last five years split between committed and uncommitted reserves. It shows that the level of uncommitted funds is a low proportion of overall funds, and as the general fund has grown, this proportion has remained relatively stable over the last five years. The level of uncommitted reserves is reviewed annually by the council as part of the budget setting process.

Exhibit 5
Analysis of committed and unallocated general fund balances



Source: The City of Edinburgh Council annual audited accounts

The council achieved 84% of its savings and income plans to manage a £26.6 million budget gap

65. The 2023/24 budget included planned savings and contributions from reserves to address the budgeted funding gap of £26.6 million. The council achieved actual savings of £22.437 million (84% of this total). Some of the savings and increased income plans in the revised budget included:

- Staffing savings from vacancy and turnover management - £1.173 million
- Initiatives and funding relating to homelessness - £5.325 million
- Various fees and charges including penalty notices – £8.8 million
- Additional income from Millerhill Recycling Centre – £3.45 million

66. The council has a good track record of achieving planned savings. In 2022/23, it achieved £18.816 million (98% of planned savings) and received additional income of £9.8 million from higher council tax income than forecast, in part due to a growth in the tax base. In future years, the scale of the budget gap will mean more difficult savings and income generation decisions will need to be made.

Capital expenditure increased in 2023/24, with planned spending accelerated ahead of budget

67. Total capital expenditure in 2023/24 was £425 million (2022/23: £409 million). Capital expenditure relating to general services was £288.3 million against a revised budget of £285.3 million; and capital expenditure of £136.5 million against a revised budget of £125.5 million for the Housing Revenue Account.

68. Overall, there was 'acceleration' of the council's capital strategy of £13.9 million i.e. capital spending progressed faster than budget in-year, although only after the budget was adjusted in-year to reflect anticipated slippage.

Total external borrowing increased to £1.731 billion

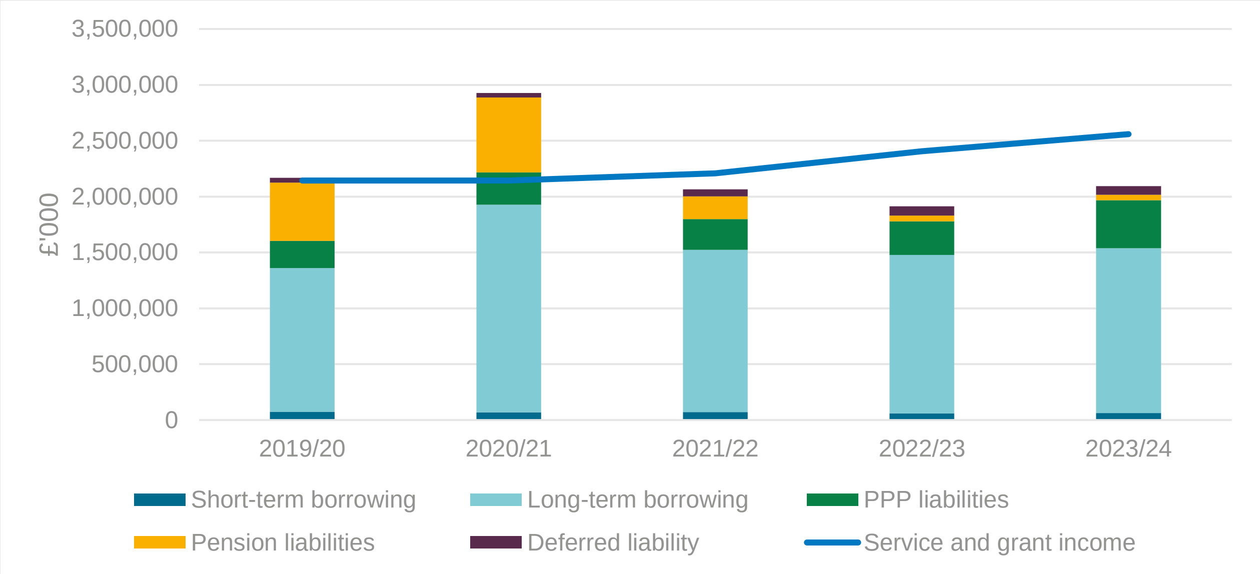
69. At 31 March 2024, the council’s total long-term borrowing stood at £1.476 billion, an increase of £57 million from 31 March 2023 (£1.419 million). During the same period, short-term borrowing increased from £59.744 million to £62.099 million. Total external debt, which includes borrowing, finance leases and PPP school schemes, was £1.731 billion (2022/23: £1.681 billion).

70. The council borrowed £70 million during the 2023/24 financial year, of which £50 million was for housing. In March 2024, in its annual Treasury Management Strategy, the council forecast total capital expenditure to be £3.25 billion between 2023/24 and 2028/29 with a forecast underlying need to borrow of £2.879 billion as at 31 March 2029.

71. The covering report to the annual Treasury Management Strategy 2024/25, approved in March 2024, noted that the council had reached the limit in resources for funding its Capital Financing Requirement from temporary investment balances and requires to undertake significant external borrowing.

72. Exhibit 6 shows the council’s overall indebtedness as a percentage of its annual income over the past five years. With total service and grant income of £2.559 billion, the chart shows a growing gap between income and total indebtedness (including pension liabilities, PPP and borrowing).

Exhibit 6
Overall indebtedness as a percentage of annual income over past 5 years



Source: City of Edinburgh Audited Annual Accounts 2018/19 to 2023/24

There are areas where financial controls could be strengthened

73. From our high-level review of the design and implementation of systems of internal control (including those relating to IT) and the testing of the operating effectiveness of specific controls, we have identified areas where key controls could be strengthened as below:

Payroll Validation (carried forward from 2022/23): Employee validation checks to confirm the existence of employees provides assurance on the completeness and accuracy of payroll records and is an important control within any payroll system. Our payroll work identified that this is done indirectly through regular budget monitoring. This control could be stronger if budget holders were required to confirm directly, on an annual basis, that the payroll establishment listing for their business area was accurate and remained up to date.

User access: Our review found that line managers do not have to approve requests when a request is made for user access to the accounts receivable system, with access granted by a systems administrator. We understand the council has since improved controls and retrospectively reviewed access to this system.

SWIFT social care system (carried forward from 2022/23): SWIFT is the council's legacy IT system for social care data, including costs of care. Internal audit has reported data quality and compliance issues, concluding the system is not fit for purpose. In February 2024 the council approved procurement for a new system for administering social care finance replacing SWIFT, with an expected implementation during the second half of 2025.

As part of our high-level review of the system, we have noted quality checks were not in place for annual uprating of provider costs, and for financial assessments which determine the share of cost between the council and the client. We have reported in Part 1 the results of our audit testing on the payments which originate from SWIFT.

Internal audit provided a ‘reasonable’ level of assurance overall, but a significant number of audits highlighted deficiencies to be addressed

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

75. Internal Audit’s annual report, presented to the September 2024 Governance, Risk and Best Value Committee, provided an opinion that reasonable assurance can be placed upon the adequacy and effectiveness of the council’s governance, risk management and internal control systems in the year. In 2023/24, 31 internal audits were completed across the council's activities including the IJB, reporting a total of 287 audit recommendations (75 rated with ‘high’ importance). Of these 31 audits, 10 audits relating directly to council services received the lowest scoring of 'limited assurance'. These were:

- Health and Safety: thematic control gaps and findings related to general health and safety risks
- Supplier and Contract Management
- Cybersecurity - Directorates Incident Response: review of directorates and service level approach to cyber incident management.
- Review of Historic Complaints and disciplinaries
- Edinburgh Employer Recruitment Incentive (EERI): review of the design and effectiveness of processes established for managing EERI fund.
- Health and Safety - Outdoor Infrastructure
- Management of ad hoc mixed tenure works
- Housing - Repairs Right First Time
- Management of scaffolding for housing property repairs
- Community Centres: review of oversight arrangements to confirm that community centres are safely and effectively managed.

The council recognises that arrangements for the prevention and detection of fraud and error should be improved

76. In the public sector there are specific fraud risks, including those relating to tax receipts, welfare benefits, grants and other claims made by individuals and organisations. Public sector bodies are responsible for implementing effective systems of internal control, including internal audit, to safeguard public assets and aim to prevent and detect fraud, error and irregularities, bribery and corruption.

77. An internal audit was carried out on fraud and serious and organised crime in 2022/23. It identified significant and numerous control weaknesses in both the design and effectiveness of the council's fraud and serious organised crime (SOC) (including anti-money laundering (AML)) control environment and governance and risk management frameworks. During 2023/24, internal audit noted in their follow-up report that the Fraud and Serious Organised Crime (SOC) Group had been meeting regularly and were on track to complete their implementation plan by the end of November. The Fraud and SOC Group are to meet quarterly and report to the Edinburgh Multi-Agency Serious Organised Crime Board chaired by Police Scotland.

78. The governance statement highlights that a number of directorate assurance schedules identified policies and procedures as an area where improvement was needed, and these concerns have also been reported by internal audit. We share these concerns and encourage officers to maintain its progress in strengthening procedures and controls across the council.

79. The National Fraud Initiative (NFI) is a counter-fraud exercise across the UK public sector which aims to prevent and detect fraud. The council submitted datasets on time for the data matching exercise which commenced in January 2023. The council has engaged well with the process. In February 2024 we noted that approximately 85% of cases had been processed, and the annual results are expected to be reported to members later this year.

4. Financial sustainability

Financial sustainability means being able to meet the needs of the present without compromising the ability of future generations to meet their own needs.

Conclusion

The council has appropriate financial planning arrangements in place. It has developed a medium-term financial plan and detailed proposals to secure financial sustainability are being developed with regular reporting to members.

Options are being explored to close a budget gap of £26.4 million for 2024/25 but it is unclear if these will result in the savings required. Financial plans forecast a budget gap of £29.9 million in 2025/26 rising to £109.1 million by 2028/29. Members will need to make difficult decisions about spending priorities, service levels and income generation whilst ensuring the results of public consultation exercises are taken into account.

A budget of £1,361 million was approved for 2024/25, but savings and income are required to close a projected gap of £26.4 million

80. In February 2024, the council approved a revenue budget for 2024/25 with total planned expenditure of £1,361 million (2023/24: £1,282 million). The council did not increase council tax, utilising the Scottish Government's offer of £16.1 million to compensate for the income which would have been raised through a rise to residential taxpayers.

81. As at September 2024, the delivery of the budget is dependent upon achieving savings and additional income totalling £26.4 million, representing two per cent of its total revenue budget. The most significant area of savings required is within Health and Social Care (£17.2 million), followed by Place (£10.8 million) which includes spending areas such as homelessness, repairs and maintenance and cleansing and waste. These pressures are offset slightly by reductions in transitional support required for Edinburgh Leisure and reductions in NDR rebates.

82. In addition, in setting the 2024/25 budget, the council recognised there are widespread financial pressures creating significant risks to the delivery of a balanced 2024/25 budget. Key pressures include:

- Delivery of almost £48 million of **savings within Edinburgh IJB**.

- **Demand-led pressures** in services but particularly homelessness, with an associated full-year pressure of £7.5 million.
- **Pay awards**, with an average of 3% included in the approved budget but further unbudgeted increases could arise dependent on negotiations with unions.
- A rise in **superannuation contributions** for teachers' pensions, with funding for a 3% increase not yet confirmed.

83. The council has developed a high-level revenue budget framework and medium-term financial plan (MTFP), and progress is reported regularly to the Finance and Resources Committee (F&R). It forecasts the financial landscape facing the council to 2028/29, sets out the financial gap and outline scenarios for tackling the main financial challenges to sustainability. The plan is a working document which places emphasis on strategic proposals and is informed by the priorities set by members in the business plan.

A medium-term financial plan has been developed which forecasts a £109 million budget deficit by 2028/29

84. The June 2024 update to the MTFP, forecast a £29.9 million budget gap for 2025/26 rising to £109.1 million by 2028/29. This assumes planned increases to council tax and delivery of approved savings underpinning the 2024/25 budget. The plan outlines the work needed to meet the short-term challenge in 2025/26 and move towards a sustainable position over the medium term.

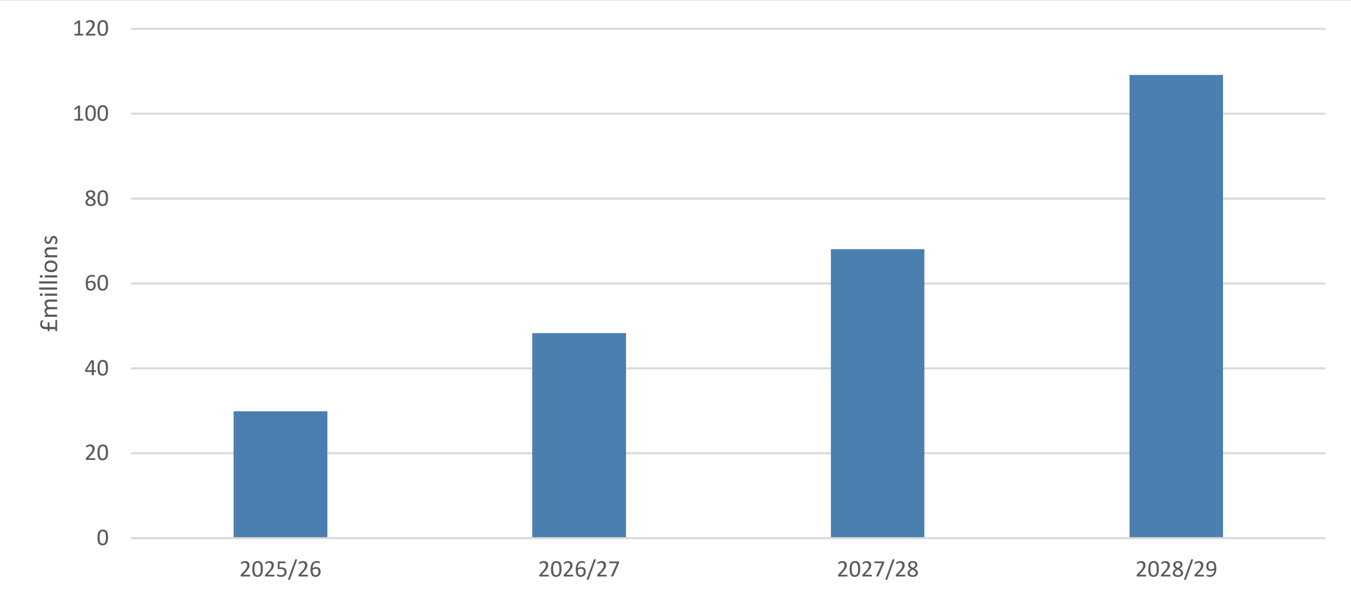
85. The plan is supported by the Strategic Programme Board, which provides governance and monitoring to around 20 projects identified to support transformational change to release savings or efficiencies.

86. The plan identifies three strands:

- savings and efficiency initiatives, for example, a review of the corporate estate
- strategic investment opportunities, and
- service transformation to guide development of these short-term measures, with an associated savings target of £30 million.

87. The plan acknowledges, however, there is a lack of detailed clarity over how savings will be achieved, or how the budget gap can be met. More specific plans are expected to be formed by late 2024 after being considered by service committees and informed by the results of residents' consultations.

Exhibit 7
Cumulative financial gap forecast 2025/26 to 2028/29 (£m)



Source: City of Edinburgh Council Medium Term Financial Plan

Difficult decisions about spending priorities are now needed, requiring members to work more constructively together

88. In recent years, the council has been able to focus on immediate budget pressures while benefitting from one-off measures and increased income such as reduced pensions' contributions, use of reserves, changes to empty property relief and service concession financial flexibilities.

89. From 2025/26 onwards, the council will need to make increasingly difficult choices about spending priorities and levels of service provided and balance short-term pressures with fundamental reform to provide long-term financial sustainability. The fine balance of political power at the council, which is controlled by a minority administration, means that members will need to work constructively together to reach agreement on options for reform.

90. The council has set out key dates for progress in its budget planning, with proposals for the 2025/26 budget to be developed and considered by service committees by October 2024. Consultation with the public will commence in Autumn 2024 with overall budget options to be presented to the finance and resources committee by late 2024. The budget options are then expected to be presented to the full council in early 2025.

91. The council is exploring savings options and has also pushed forward plans to raise additional sources of income. These plans include the creation of a Forth Green Freeport, which the council could benefit from through retained NDR estimated at £107 million, as well as the introduction of a visitor levy, which has been estimated could generate up to £46 million annually for the city, dependent on the rate charged.

The pensions’ triennial funding valuation as at 31 March 2023 has resulted in a reduction in costs to the pension fund

92. The most recent triennial funding valuation took place across Local Government Pension Scheme pension funds at 31 March 2023. The main purpose of the valuation is to review the financial position of each fund and to set appropriate contribution rates for each employer for the upcoming three-year period as part of the fund’s overall funding strategy.

93. The results for Lothian Pension Fund showed an improved funding position, increasing overall from 106% at the 2020 valuation to 157% at the 2023 valuation. An improved funding position may allow the fund to retain a surplus, change the investment strategy, take less funding risks, or reduce employer contributions.

94. Reducing employer contributions has allowed some councils additional flexibility to manage immediate financial pressures while taking steps to enhance financial sustainability over the longer term. CEC opted to reduce the employer contribution rate by 5.1% to 17.6% for the three-year period to 31 March 2027. This has resulted in a total estimated saving of £19.9 million effective from 2024/25, of which £16.5 million relates to council employees and £3.4 million relates to staff employed by the HSCP.

5. Vision, leadership and governance

Public sector bodies must have a clear vision and strategy and set priorities for improvement within this vision and strategy. They work together with partners and communities to improve outcomes and foster a culture of innovation.

Conclusion

Governance arrangements are appropriate but there is scope to improve decision-making arrangements. Work is ongoing to support scrutiny of the council's arms-length bodies.

95. In making our assessment of the governance arrangements in place at the council, we considered:

- council and committee structure and conduct
- overall arrangements and standards of conduct including those for the prevention and detection of fraud, error, bribery and corruption
- openness of council and committees
- the effectiveness of governance arrangements for delivery, which includes openness and transparency of decision-making; robustness of scrutiny and shared working arrangements; and reporting of decisions and outcomes, and financial and performance information

Governance arrangements generally support scrutiny and decision making

96. The council's governance arrangements have been set out in the annual governance statement in the annual accounts. We have reviewed these arrangements and concluded that they are appropriate. Our observations at committee meetings have found that these are conducted in a professional manner and there is a reasonable level of scrutiny and challenge by members.

97. We observed that many committee meetings have lengthy agendas with several supporting papers and reports. This can place significant strain on officers in supporting committees particularly at a time of limited capacity and existing pressures. It also places additional demands on elected members. It is important that every effort is taken to ensure an appropriate balance between committees' discharging their responsibilities, allowing effective scrutiny of agenda items and ensuring that officers' capacity to delivery policy decisions is not adversely impacted.

98. Papers and minutes for council and committee meetings, including financial and performance information, details the decisions made and are publicly available on the council's website, excluding those considered of a confidential or commercially sensitive nature.

99. Some elected members have voiced concern over how scrutiny and governance is exercised at the council, particularly the balance of decision-making power held between officers and councillors. The finely balanced political share of power provides another challenging element to this environment. Ensuring that those involved in the scrutiny process have the right skills and competencies, and fully understand their role in the process, is key - particularly as members are required to make difficult decisions around financial sustainability.

100. As we reported in our thematic Best Value work in 2022/23, there is scope to strengthen scrutiny arrangements by improving processes to support collaboration, particularly in the annual budget-setting process. We have reported on the council's progress in this area in the financial management section of this report. Other actions being undertaken to improve governance processes include:

- Review of effectiveness of current arrangements for developing and reporting Integrated Impact Assessments (IIAs)
- Review of effectiveness of current scrutiny arrangements for services delegated to Edinburgh Integration Joint Board, particularly as these interact with the Council's committee governance structures
- Review of effectiveness of officer-level governance structures and procedures

The council has approved a new whistleblowing policy as part of its work to support cultural change

101. A revised whistleblowing policy, in response to the recommendations of the Tanner Review, was approved by the Policy and Sustainability Committee in January 2024 and implemented on 1 February 2024. The policy places a greater emphasis on consensual early resolution, help reduce and define timescales as to when matters raised will be dealt with and provide an independent process for investigating complaints about senior officers. The Council's Service Director: Legal and Assurance, as Monitoring Officer, has overall responsibility for monitoring whistleblowing and undertaking periodic reviews to reflect any organisational changes or legislative requirements and drawing on best practice.

Work is ongoing to support scrutiny of the council's arms-length bodies

102. The council has several arm's length external organisations (ALEOs) to provide services on its behalf, including Transport for Edinburgh Limited and Edinburgh Leisure. The council's scrutiny of ALEOs is through both executive committees and the Governance, Risk and Best Value Committee (the council's scrutiny committee).

103. While the ALEOs are responsible for the delivery of some services, the council remains responsible for the public money it provides to the ALEOs and the quality of services the ALEOs provide. In 2023, in response to calls from members, the council planned to clarify the governance framework for ALEOs. This aims to review the arrangements within the council on how it works with ALEOs, and ensuring there are robust governance arrangements in place within each ALEO. This is expected to be published later in 2024.

104. Given the scale and nature of the services that Edinburgh provides, including significant infrastructure projects of national importance, ensuring appropriate governance arrangements is of particular importance, and can be challenging. Recent actions the council has undertaken involving governance of its ALEOs and external partners include:

- An approach agreed in October 2023 to restructure governance of Edinburgh Trams and Lothian Buses
- Agreeing a number of actions in response to the fundings of Lord Hardie's Tram Inquiry report in December 2023, which include improving governance processes
- improving oversight and decision-making in the council's charitable trusts, including a decision in August 2023 to transfer ownership of Lauriston Castle to council control
- Reviewing the effectiveness of current arrangements for developing and reporting Integrated Impact Assessments (IIAs)
- Reviewing the effectiveness of current scrutiny arrangements for services delegated to Edinburgh Integration Joint Board.

6. Use of resources to improve outcomes

Public sector bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities.

Conclusions

The council reports its performance against local government benchmarks, publishes a quarterly scorecard and assesses progress against its business plan.

The council has reported a mixed picture of performance since last year, with a trend of improvement apparent in several areas, but there are significant challenges in housing services

The council has satisfactory arrangements for the preparation and publication of Statutory performance information (SPIs)

Benchmarking against other local authorities in Scotland shows improvement across the council's services, but draws attention to significant challenges in housing

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

106. The most recent National Benchmarking Overview Report 2022/23 by the Improvement Service was published in June 2024 with the results considered by the council's GRBV committee. The data provides an additional perspective on how the council is performing and informs the council's own Planning and Performance Framework, which is described in section 2). In addition, during 2023/24, the council has begun to publish more detailed overview reports on LGBF themes for each individual executive service committee of the council.

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

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

- Comparison and benchmarking with councils with similar populations and areas (family groups) to drive improvement
- Trends in performance over time so the direction of travel is clear.
- Driving decision-making using performance data to identify improvement priorities,
- Effective scrutiny by councillors of service performance, delivery of strategic priorities and improvement plans

108. The LGBF indicators allow comparison over time and also with the other 31 Scottish local authorities. The 2022/23 report notes that the data reflects a period when communities and council services were managing unprecedented financial challenges due to high inflationary pressures and the cost-of-living crisis against a backdrop of deepening fiscal, demand and workforce pressures, including those resulting from the ongoing effects of the Covid pandemic.

109. Exhibit 8 shows the council’s 2022/23 performance across services when compared with the relevant data’s base year. Based on the indicators within each service area, the council shows a mixed picture of improvement over time. The council's own analysis of the results reported that overall Edinburgh’s relative position is in the top two quartiles for 58% of the indicators (48 out of 82 available measures) and less than a fifth sit in the bottom quartile (11 indicators).

Exhibit 8
City of Edinburgh's Council's LGBF 2022/23 results – trend since base year

Source: Improvement Service. Note that the LGBF covers over 100 indicators and base years range from 2007 to 2019 depending on when each indicator was introduced.

110. Overall, 67 of 104 available performance indicators had improved since the base year. The council reported that compared to 2021/22 it had improved its relative position in 35 of the indicators and maintained its relative position in ten of the indicators. The comparative relative position compared to other councils had declined in 37 of the indicators.

111. Relative performance was improved or maintained, as compared to last year, in the areas of financial sustainability, children's services, adult social work services, corporate services, culture and leisure services, economic development and tackling climate change.

112. The council's analysis shows the four housing measures sit in the second bottom quartile, just below the national average. This reflects the challenges the council has acknowledged in delivering its housing service. Specific indicators where performance has declined include:

- The proportion of council dwellings meeting Scottish Housing Quality Standards (48.6%, as compared to 69.9% in 2021/22, against a 'family group' average of 63%)
- Average number of days taken to complete non-emergency repairs (15.8 days as, as compared to 14.4 days in 2021/22, against a 'family group' average of 12.6 days)

113. Given the service demand and cost pressures facing all local authorities across Scotland, it is unlikely the council will be able to maintain performance across all services it currently provides. This means councils will need to make increasingly difficult choices about their service and performance priorities.

The council's own performance indicators show a mixed picture, with 31 out of 78 marked as being on target with data showing declines in street cleaning, waste and housing

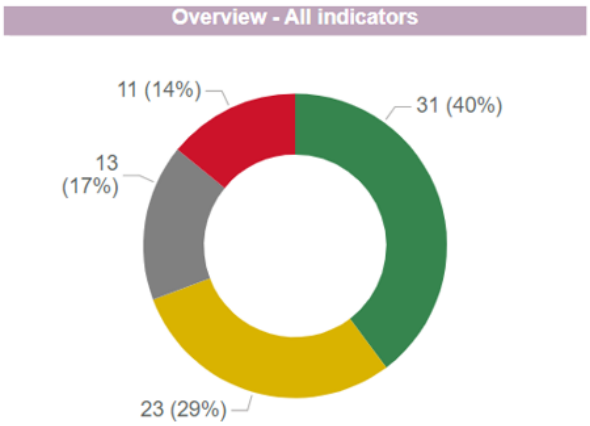
Public performance scorecard

114. The Public Performance Scorecard covers core service-level KPIs and shows how performance is progressing. Updates are provided on a quarterly basis and each year in the form of an annual performance report.

115. The council's Public Performance Scorecard annual report 2023/24 was considered at the September 2023 meeting of the GRBV Committee. Of the council's own 78 indicators, 11 were flagged as red (behind target), while 31 were marked as green (on or ahead of target).

116. As with the LGBF indicators, a mixed picture of progress across the council was presented, with indicators showing improvement in children's services and education, communities and climate change. Areas with a declining, negative trend include street cleaning, waste and housing.

Exhibit 9
City of Edinburgh's Council's performance scorecard 2023/24



Indicators are assessed against a target and given a RAG status where:

Green - Performance is on or ahead of target

Amber - Performance is behind target by 5% or less

Red - Performance is behind target by more than 5%

Grey - Monitoring only or awaiting target

Business plan progress annual report

117. In March 2023, the council agreed a refreshed Business Plan 2023-2027. The plan reflects discussions held at the council in December 2022, developed from a motion in June 2022 led by the council leader, which identified shared priorities across the political parties in the council. The business plan sets out three core priorities:

- Create good places to live and work
- End poverty in Edinburgh
- Become a net zero city by 2030

118. To support these priorities, the business plan identified ten medium-term outcomes, each supported by short-term actions to be implemented over the next two years. The first Business Plan Progress Update Report was considered by the August 2024 meeting of the Policy and Sustainability Committee. It provides an update on the council's three core strategic priorities, and progress with actions under the ten designated outcomes. The statuses of the milestones are summarised below:

Status	Definition	Count
Completed	Action has been completed and milestones achieved.	43
In Progress – on track	Action has started and milestones are expected to be completed in full to the original timeline and within budget. This only applies to actions identified as spanning across 'Year 1 and 2'.	39
In Progress – off track	Action has started but milestones have not been completed in time or on budget. These will now be completed in Year 2.	13
Pending	Not yet started.	2
Closed	Either it has been decided not to progress with this action or the action started and then ceased part way through. Closure requires a reason.	2

Source: City of Edinburgh Council Business Plan Progress report 2023/24

The council has satisfactory arrangements for the preparation and publication of Statutory performance information (SPIs)

119. The Accounts Commission's 2021 Statutory Performance Direction defines the performance information that councils must publish. The commission does not prescribe how councils should report this information but expects them to provide the public with fair, balanced, and engaging performance information.

120. The Accounts Commission issued a Statutory Performance Information (SPIs) Direction in December 2021 which applies for the three years from 2022/23. It requires a council to report its:

- performance in improving local public services (including those provided with its partners and communities), and progress against agreed desired outcomes (SPI 1). The Commission expects this reporting to allow comparison both over time and with other similar bodies (drawing on Local Government Benchmarking Framework and/or other benchmarking activities).

- own assessment and audit, scrutiny, and inspection body assessments of how it is performing against its duty of Best Value, and how it has responded to these assessments (SPI 2).

121. We have evaluated the council's arrangements for fulfilling the above requirements and concluded that overall they are satisfactory. The council has developed a clear framework to measure and monitor progress against the council's priorities. As we note in paragraph 28, the council should not just highlight successes, but also ensure performance reporting clearly and easily highlights where underperformance or weaknesses exists so that timely, targeted action can be taken. It should also be able to demonstrate how the reporting of performance indicators has led to improvement in services.

122. Best Value guidance is clear that meaningful consultation and engagement with communities in relation to strategic planning should take place. The Commission expects the council to, in agreeing its outcomes with its partners and communities, report on how it has engaged with, responded to and helped to empower its communities, including those who require greater support. As we note in Exhibit 3, work still needs to be done to make community engagement make more of an integral part of service improvement, and the council should approach this with a view to continual self-improvement.

Appendix 1. Action plan 2023/24

2023/24 recommendations

<table>
<tr><th>Issue/risk</th><th>Recommendation</th><th>Agreed management action/timing</th></tr>
<tr><td>1. Payments to providers of social care
The council has plans to replace its SWIFT social care payments system as an ‘end of life’ system. A new system is planned to be introduced in the second half of 2025.
While the council continues to use the existing SWIFT system, there is a need to:
improve the quality and accuracy of data used within the system,
improve the control environment within the system
reduce the errors in the rates being paid to third party providers
Risk - There is a risk that without improving the current approach, the council will make incorrect payments to suppliers.</td><td>The council should take action to improve the SWIFT system. In particular, there is a need to:
improve the quality and accuracy of data used within the system,
improve the control environment within the system
reduce the errors in the rates being paid to third party providers</td><td>Accepted
Agreed action: A lessons learned session will be arranged with all relevant stakeholders across the organisation. An action / improvement plan to implement the recommendations will be developed.
Responsible officer: Pat Togher, Chief Officer of the Edinburgh Health and Social Care Partnership</td></tr>
<tr><td>2. Heritage Assets
The values for heritage assets disclosed are largely based on valuations in some cases made more than ten years ago. The council’s accounting policy should be improved to provide clarity</td><td>The council should consider its approach to revaluation of heritage assets and its accounting policy on valuations.</td><td>Accepted
Agreed action: Fine Arts and/or All Risks insurance cover is in place for the Council’s heritage assets. Heritage items are part of a programme of items that is regularly reviewed, with</td></tr>
</table>

Issue/risk	Recommendation	Agreed management action/timing
around actual practice, and the valuations should be reviewed with sufficient frequency to ensure the valuations remain current. **Risk** – There is a risk that the value applied to heritage assets may be out of date without a clear accounting policy.		insurance values uplifted in line with wider property increases. While the cost of obtaining bespoke annual valuations for these items would be prohibitive, the Insurance Team keeps abreast of the approach taken in other councils (through membership of the ALARM organisation) which confirms that the same approach is adopted elsewhere. This notwithstanding, opportunities will be considered to align more closely these insurance valuations and those maintained for accounting purposes. **Responsible officer:** Head of Corporate Finance, Financial and Procurement Division **Implementation date:** March 2025
3. Clarity of audit evidence We experienced some delays in establishing a clear audit trail due to the nature and complexity of the underlying evidence and the need to involve multiple departments. There are opportunities to improve the audit trail provided, for example, improving the clarity of working papers that are based on complex, legacy spreadsheets. **Risk** – There is an increased risk of errors occurring in the financial statements if the	The council should look to improve the audit trail provided in support of the accounts submitted for audit. This should involve reviewing and simplifying evidence that is provided using complex, legacy spreadsheets. This would provide assurance to the council over the evidence underpinning the accounts as well as supporting the efficient completion of the annual audit. Paragraph 21	**Partially accepted** **Agreed action:** As noted in the audit finding, the Council is a complex organisation with a wide range of detailed and specialised financial models in operation, some of which date back many years and, in a number of cases, are close to expiry. Opportunities to simplify and streamline evidence where significant delays have been encountered will, however, be explored with the audit team as part of next year's audit planning process with a view

Issue/risk	Recommendation	Agreed management action/timing
underpinning evidence is overly-complex and unclear.		to reducing response times in subsequent years' audits. **Responsible officer:** Head of Corporate Finance, Finance and Procurement Division **Implementation date:** March 2025

Follow-up of prior year recommendations

Issue/risk	Recommendation	Agreed management action/timing
1.Developing a medium-term financial plan The council is developing strategic and cross-cutting plans and initiatives as part of the development of a Medium-term financial plan (MTFP) which seeks to use technology and assets to better achieve efficiencies and service delivery. **Risk** – operating in a challenging financial context without medium-term financial planning can compromise financial resilience and sustainability.	The council needs to accelerate this work to outline how it will deliver financial sustainability over the next five years. **Agreed action:** The council has in place governance to oversee both the development and delivery of the medium-term financial plan. This work will continue but following recent appointments, officers will be reviewing both governance arrangements and the pipeline of MTFP projects and programmes to ensure they will be able to deliver the scale of savings required over the next five financial years.	**Closed** The council has a medium-term financial framework in place and is developing a medium-term financial plan. The council approved a new people strategy in March 2024 which supports the Council Business Plan 2023-27. The strategy will be underpinned by a revised workforce action plan, due for consideration in August 2024, which will set out how to deliver this in more detail.
2. Costing of net zero projects The council has identified tackling climate change as a priority, working towards an ambitious 'net zero by 2030' target. Plans for reducing emissions compete with other	The council should continue to build on its existing net zero plans to include further detail on specific project costs and budgets. This should include outturn information and details of any additional funding required.	**Open** Officers have advised that the climate and sustainability team works with finance colleagues to ensure that, subject to overall resource availability, opportunities to invest in projects and

Issue/risk	Recommendation	Agreed management action/timing
priority policy areas for funding, and significant additional investment will be required to achieve this target. **Risk –** without a full understanding of the costs involved, the council cannot make informed decisions about where finite resources are targeted.	This would provide better information for decision-making about prioritising projects which make the most impact and therefore maximising the contribution to achieving its 2030 Climate Strategy goals. **Agreed action:** The funding of sustainability actions will be considered as part of the annual budget setting process for 2024/25 and beyond. Delivery will continue to be monitored through our suite of annual climate reports to the Policy and Sustainability Committee.	activities aligned to the Council's 2030 Climate Strategy are considered as part of the budget process. However, in order to achieve existing net zero plans, the council should provide detail on specific project costs and budgets.
3. Workforce plans A workforce plan is in place, but it has not been aligned to the council's priorities, and lacks detail at a service level. **Risk –** current workforce service plans across the council are not sufficiently detailed to support effective service delivery of council priorities.	The council should develop the people strategy and strategic workforce plan to align with the 2023-27 business plan. The council should develop comprehensive workforce planning on a consistent basis across services, identifying skills gaps and aligning resources to council priorities as set out in the business plan. This would support effective service delivery. **Agreed action:** Development of People Strategy for 2024-2027 underway for publication from 1 April 2024. Will be aligned to council's business plan. Workforce Plan for 2024-2027 developed following consideration of above.	**Closed** The council has a Strategic Workforce Plan now in place which was approved by the Policy and Sustainability Committee in August 2024.

Issue/risk	Recommendation	Agreed management action/timing
4. Property action plan A refreshed Corporate Property Strategy was approved by the Policy and Sustainability Committee in August 2023. It's predecessor, the Corporate Asset Strategy was created in 2015. There has been a significant impact on how the council uses its owned properties as a result of changes to working practices, market conditions and environmental and legislative requirements. The council has committed to creating a property action plan, building on the framework created in the property strategy. **Risk** – the council is not maximising its assets in pursuit of its strategic priorities.	The council plans to develop a Property Action Plan to take forward the framework provided by the Corporate Property Strategy to implement changes to working practices due to Covid-19, market conditions and new environmental and legislative requirements. The action plan should focus on maximising the effective and efficient use of its assets. **Agreed action:** Update on development of Property Action Plan to be reported to the Policy and Sustainability Committee during first quarter of 2024. Annual reviews of progress with the Corporate Property Strategy to be provided from September 2024.	**Closed** An update on the Corporate Property Strategy was considered by the Policy and Sustainability Committee in January 2024. The council has advised a further report on the council's place-based Property Improvement Programme will be considered by the Finance and Resources Committee in September 2024.