

**FALKIRK COUNCIL**

**MINUTE of the MEETING of the AUDIT COMMITTEE held in the MUNICIPAL BUILDINGS, FALKIRK on MONDAY 20 APRIL 2015 at 9.30 a.m.**

**MEMBERS:** Roseann Davidson (Convener)  
Councillor Rosie Murray  
Baillie Joan Paterson  
Councillor Tom Coleman  
Provost Pat Reid

**OFFICERS:** Margaret Anderson, Director of Social Work Services  
Fiona Campbell, Head Of Policy, Technology & Improvement  
Rhona Geisler, Director Of Development Services  
Gary Greenhorn, Head Of Educational Planning & Resources  
Kenny McNeill, Educational Resources Manager  
Robert Naylor, Director of Children's Services  
Gordon O'Connor, Internal Audit Manager  
Mary Pitcaithly, Chief Executive  
Brian Pirie, Democratic Services Manager  
Bryan Smail, Chief Finance Officer  
Amanda Templeman, Acting Depute Finance Officer

**ALSO ATTENDING:** David Meechan and Jim Rundell, Audit Scotland

**AC1. ORDER OF BUSINESS**

The Convener welcomed Robert Naylor, Director of Children's Services, to the meeting. She then, in terms of Standing Order 14.2(i), revised the order of business. The following items are recorded in the order in which they were taken at the meeting.

**AC2. APOLOGIES**

Apologies were intimated on behalf of Depute Provost Patrick and Councillor Carleschi.

**AC3. DECLARATIONS OF INTEREST**

No declarations were made.

**AC4. MINUTE**

**Decision**

**The minute of the meeting held on 15 December 2014 was approved.**

**AC5. NARRATIVE ASPECTS OF THE FINANCIAL STATEMENTS**

Jim Rundell, Audit Scotland, provided an overview of the narrative sections within the Council's Annual Accounts. The presentation highlighted:-

- the information set out in the financial statements; and
- changes to Accounts Regulations, including the introduction of a management commentary, the requirement for an Annual Governance Statement, and the publication dates for the unaudited and audited accounts.

The presentation focused on the content and signatories of:-

- the management commentary in the accounts;
- the remuneration report; and
- the Annual Governance Statement.

Following a question on the Annual Governance Statement, Mr Rundell outlined how an Audit Committee would 'consider the findings of an annual review of the system of internal control', noting the value in a fully resourced Internal Audit team with a mix of skills. Gordon O' Connor summarised the process for reviewing and assessing the adequacy of the Internal Audit function.

**Decision**

**The Committee noted the presentation.**

**AC6. CORPORATE RISK MANAGEMENT (CRM) POLICY AND FRAMEWORK REVIEW**

The Committee considered a report by the Director of Development Services presenting an updated Corporate Risk Management (CRM) Policy and Framework for information.

The Council's current CRM Policy and Framework was approved in November 2013. Following a review, an updated Policy and Framework had been developed. The report highlighted the key amendments arising from the review and provided the revised Policy and Framework as appendices.

**Decision**

**The Committee noted the report.**

## **AC7. CORPORATE WORKING GROUPS REVIEW**

The Committee considered a report by the Director of Development Services providing an update on the Council's Corporate Working Groups.

The Audit Committee had asked on 23 September 2013, following consideration of a report setting out the role of the then 52 Corporate Working Groups, for a review of the Groups with a new to reducing this number (ref AC19).

Following the review the number has reduced to 14, each aligned to the 7 Corporate Risk Register categories.

The report summarised the key changes to the Corporate Working Group structure following the review and provided information on the objectives of each of the working groups and their membership.

Members welcomed the reduction in the number of working groups and suggested that there may be advantages in links being established between the working groups and their respective portfolio holders.

The Chief Executive, in response to a question, provided information on the reporting structure for the various groups.

### **Decision**

**The Committee noted the report.**

## **AC8. INTERNAL AUDIT PROGRESS REPORT**

Committee considered a report by the Internal Audit Manager summarising the progress with the 2014/15 Internal Audit Plan.

In regard to the Audit Plan, 19 assignments had been completed to final report and 2 were in progress. The findings from assignments completed to final report were set in appendices to the report.

Of the 21 assignments, a number would not result in a formal assurance being provided. The Convener suggested that future reports should indicate those activities in which the output would be a formal assurance report.

Following questions, Gordon O'Connor set out the reasons for the limited assurance provided following a review of Business Gateway Contract Monitoring and provided detail on the audits of Corporate Purchasing and Council House Buy Back. Following a question on the substantial assurance placed of a site key control test at St Bernadette's Primary, Gary Greenhorn confirmed that the learning points would be circulated to all schools.

## **Decision**

**The Committee noted:-**

- (1) the progress with completing planned 2014/15 internal audit work; and**
- (2) Internal Audit performance.**

### **AC9. INTERNAL AUDIT PLAN 2015/16**

The committee considered a report by the Internal Audit Manager presenting the 2015/16 Internal Audit plan.

The Plan set out 21 assignments to be undertaken during 2015/16. These had been determined taking account of role and progress on the plan would be reported to Committee. The Committee sought clarification on the planned reviews of Reducing Bureaucracy in Schools and Member's Services Training, Allowances and Expenses. . Additionally Gordon O' Connor explained the arrangements for auditing Falkirk Community Trust.

## **Decision**

**The committee noted the report and agreed the planned Internal Audit coverage for 2015/16.**

### **AC10. ANNUAL EXTERNAL AUDIT PLAN 2014/15**

The Committee considered a report by the Chief Finance Officer presenting the Audit Scotland Audit Plan for 2014/2015.

The Audit Plan set out the key challenges and risks facing Falkirk Council and the audit work undertaken in 2014/15, and detailed in an appendix significant financial statement audit risks and the assurance procedures for these.

Members sought clarification on the definition of 'materiality' and how this was set by Audit Scotland.

In terms of the identified risks, further clarification was sought by members in regard to the arrangements to audit the Health and Social Care Integration Joint Board, Preparation of Accounts, and on the current staffing levels within the Internal Audit team.

## **Decision**

**The Committee noted the report.**

#### **AC11. EXTERNAL AUDIT PROGRESS REPORT**

The Committee considered Audit Scotland's External Audit Progress Report.

The report set out progress against the Audit Plan for 2014/2015. Of the 6 planned activities, 3 had been delivered within the target timescale and 3 were on target.

The Committee discussed the Council's long term financial planning process and was advised that known factors were considered as part of that process.

The report recommended that Council should ensure that financial plans are in place for the short (1-2 years), medium (3-5 years) and longer term (5-10 years).

##### **Decision**

**The Committee noted the report.**

#### **AC12. LOCAL CONSIDERATION OF NATIONAL AUDIT REPORTS**

The Committee considered a report by the Director of Corporate and Neighbourhood Services detailing those National Audit reports published by Audit Scotland since March 2015 and advising to which bodies within the Council they had been reported to.

##### **Decision**

**The Committee noted the report.**

#### **AC13. LOCAL SCRUTINY PLAN 2015 -16**

The Committee considered a report by the Chief Executive providing the Local Area Network's Local Scrutiny Plan for Falkirk Council for 2015-2016.

The Local Area Network, led by Audit Scotland and comprising representatives of the Scottish Housing Regulator, Education Scotland, the Care Inspectorate and Healthcare Improvement Scotland had developed a scrutiny plan for Falkirk Council for 2015-16. The Plan identifies national and local risks and sets out how they will be audited. The Plan also provides a summary of the conclusions from 2014-2015 in regard to:-

- governance and accountability;
- performance management;
- housing and homeless services;
- health and social work services for older people; and
- targeted follow-up work on National Performance Audits

##### **Decision**

**The Committee noted the report.**



**FALKIRK COUNCIL**

**Subject:** HEALTH AND SOCIAL CARE INTEGRATION –  
INTERNAL AUDIT AND ASSURANCE  
**Meeting:** AUDIT COMMITTEE  
**Date:** 22 June 2015  
**Author:** INTERNAL AUDIT MANAGER

**1. INTRODUCTION**

- 1.1 This is the first in a series of reports that will summarise, and provide updates on, the Internal Audit and Assurance processes associated with the integration of Health and Social Care Services.
- 1.2 Members will be aware of the work being progressed to meet the requirements of the Public Bodies (Joint Working)(Scotland) Act 2014. As part of the process of establishing a body corporate approach to integration, Internal Audit has a role in providing assurance to the Audit Committee (or equivalent) of the Joint Board and of Falkirk Council.

**2. INTERNAL AUDIT AND ASSURANCE**

- 2.1 The Scottish Government's 'Health and Social Care Integration: Guidance for Integration Financial Assurance' (the Guidance) provides advice to Health Boards, Local Authorities, and Integration Joint Boards (IJB) on a process of assurance to help make integration a success.
- 2.2 The Guidance recommends that Health Board and Local Authority Chief Finance Officers, along with the shadow Chief Officer and the shadow Chief Finance Officer of the IJB, foster an assurance process based on mutual trust and confidence. This should involve an open book approach and an honest sharing and discussion of the assumptions and risks associated with the delegated services.
- 2.3 IJBs will not be able to formally participate in the assurance process until completion of the 'shadow' period. It is, nevertheless, important that arrangements are established to allow the IJB to obtain assurance that its resources are adequate to allow it to carry out its functions, as well as the associated risks. On that basis, the Guidance recommends that:
  - The shadow Chief Officer and shadow Chief Finance Officer work with the Health Board and Local Authority Chief Finance Officers to carry out assurance work up to establishment of the IJB;
  - The shadow IJB receives reports on the assurance work until the IJB is established; and

- The Health Board and Local Authority Internal Auditors provide a report to their respective Audit Committees (copied to the shadow Integration Board) on the assurance process.
- 2.4 As a first step, a joint paper by the NHS Forth Valley and Falkirk Council Internal Audit Managers was presented to the Transitional IJB on 05 June. A copy of this paper is attached at **Appendix 1**. The purpose of the paper is four fold:
- to highlight areas where the Transitional IJB should seek assurances from managers employed by each partner on key principles relating to project management;
  - to highlight the potential for Internal Audit to feed into the ongoing work of the Risk Management workstream;
  - to suggest other areas where Internal Audit may have a value adding role, particularly in relation to the review of key governance documents such as Financial Regulations; and
  - to propose that NHS Forth Valley and Falkirk Council jointly provide Internal Audit services to the IJB.
- 2.5 The formal assurance and due diligence process will commence with the appointment of a shadow Chief Officer and shadow Chief Finance Officer. In the interim, however, the report at **Appendix 1** will assist the Transitional IJB seek initial assurances and help drive and shape the assurance and due diligence approach adopted when appointments are finalised. Internal Audit have developed a supporting checklist to assist with this initial assessment.
- 2.6 As well as the ongoing recruitment processes for shadow Chief and Chief Finance Officers, arrangements are being put in place to work towards full IJB Board membership by August 2015. Falkirk Council's Depute Chief Governance Officer presented an amended Integration Scheme to the Transitional Board in early June, and this will be re-submitted to the Scottish Government for approval and to proceed through the parliamentary order process.
- 2.7 To support the Integration Scheme, the shadow IJB is required to prepare a Strategic Plan. This requires to be finalised by 31 March 2016, and will be substantively progressed once the Chief and Chief Finance Officer appointments are made. Internal Audit will seek to feed into the draft Strategic Plan consultation process, focussing on the reasonableness of the underlying assumptions.
- 2.8 Internal Audit have also sought to engage with the ongoing integration Risk Management workstream. While it is for the Transitional Board, supported by the Risk Management Workstream, to develop a preferred approach to risk management, as well as initial risk registers, Internal Audit is able to comment on the process and approach adopted. To that end, both Falkirk Council and NHS Forth Valley's Internal Auditors have offered to attend, and feed into, risk management workshops to be run later in the year.



- 2.9 As well as feeding into the risk management process, Internal Audit could also make a positive contribution by providing assurance on, and input into, the preparation of key documents such as Financial Regulations, Schemes of Delegation, etc. While Internal Audit cannot be responsible for drafting these documents, there is clearly a role to ensure that each key governance document strikes the right balance between robust yet proportionate control and streamlined and efficient systems.
- 2.10 Finally, it is worth noting that the Internal Audit teams of Falkirk Council and NHS Forth Valley have worked closely and effectively to date on developing our approach to delivering our service in the run-up to full integration. We have maintained a good, open dialogue, and shared information and guidance as this has developed. It is for the IJB, once formed, to appoint a Chief Internal Auditor with responsibility for providing an effective Internal Audit Service. To build on this collaborative approach, and to ensure additional resilience, it may be desirable for the Internal Audit service to be delivered jointly.

### **3. RECOMMENDATIONS**

#### **3.1 Members are invited to note:**

- 3.1.1 the recommendations set out in the ‘Guidance for Integration Financial Assurance’;**
- 3.1.2 the approach to seeking initial assurance set out at paragraph 2.4 and Appendix 1;**
- 3.1.3 that the formal assurance and due diligence process will commence on the appointment of shadow Chief and Chief Finance Officers;**
- 3.1.4 that Internal Audit will contribute to arrangements for preparing the Strategic Plan, developing the approach to risk management, and for drafting key governance documents, as appropriate; and**
- 3.1.5 that the Internal Audit teams of Falkirk Council and NHS Forth Valley have worked well together and support the joint delivery of Internal Audit services to the IJB.**

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**Internal Audit Manager**

**Date: 11 June 2015**

**Title/Subject:** Internal Audit and Assurance

**Meeting:** Transitional Board

**Date:** 5 June 2015

**Submitted By:** Internal Audit Manager Falkirk Council and  
Chief Internal Auditor NHS Forth Valley

**Action:** For Decision

## **1. PURPOSE OF REPORT**

- 1.1 This report presents key issues in relation to Internal Audit and assurance highlighted by Falkirk Council and Heath Board Internal Auditors for consideration by the Falkirk Transitional Board.

## **2. RECOMMENDATION**

- 2.1 It is recommended that the Transitional Board:
- a) note the Internal Auditors' comments regarding the need to seek assurance on key aspects of project planning and due diligence associated with the integration process;
  - b) note the potential contribution of Internal Audit; and
  - c) note the contents of the report.

## **3. BACKGROUND**

- 3.1 Both Falkirk Council and NHS Forth Valley Internal Audit teams have provision within their 2015/16 Internal Audit plans for reviewing issues relating to Health and Social Care Integration. In order to take this work forward, it may be helpful for Internal Audit to provide an initial briefing paper for the Transitional Board.

## **4. INTERNAL AUDIT CONSIDERATIONS**

- 4.1 As part of the process of integrating health and social care being progressed by the Falkirk Transitional Board, both Falkirk Council and NHS Forth Valley have bodies within their governance structures which will require assurance on the adequacy and effectiveness of the project management arrangements being used by managers employed by each partner, including those relating to planning, monitoring, and risk managing the integration process. The Transitional Board will itself, of course, also have a direct interest in satisfying itself that all relevant matters are being progressed in a timely manner.
- 4.2 Both Falkirk Council and NHS Forth Valley Internal Auditors (in consultation and agreement with Audit Scotland, who act as External Auditors to both organisations) consider that it would be appropriate for the Transitional Board to seek assurance from managers employed by each partner on key principles in relation to project planning. This should include:
- Are there proportionate and realistic plans for Health and Social Care Integration with appropriate project management and governance arrangements which take into account the particular issues resulting from joint working and decision-making?
  - Are these plans subject to regular review and monitoring?
  - Do plans identify likely timescales and have these been communicated and agreed with full involvement from both partners?
  - Are there overarching plans incorporating all key aspects including the preparation of comprehensive Integration Plans and Strategic Plans?
  - Have potential obstacles to the achievement of the plans and other risks been identified and recorded in the project and Board risk registers as appropriate?
  - Are there appropriate project management structures and sufficient resources to deliver the plans?
- 4.3 Guidance<sup>1</sup> has also recommended that Health Boards and Local Authority Director of Finance/Chief Finance Officers and the shadow Chief Officer and shadow Chief Financial Officer of the Integration Joint Board (IJB) foster an assurance process based on mutual trust and confidence involving an open-book approach and an honest sharing and discussion of the assumptions and risks associated with the delegated services. The assurance process should be proportionate to the potential risks, cover the whole transition period from pre-integration, through implementation and post integration, and include financial, legal, and operational aspects. The guidance also recommends that Local Authority and Health Board Internal Auditors provide a report to the Local Authority and Health Board Audit Committees (copied to the shadow IJB) on the assurance process.

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<sup>1</sup> Scottish Government, Health and Social Care Integration, Public Bodies (Joint Working)(Scotland) Act 2014, Guidance for Integration Financial Assurance

This guidance has recently been reiterated within an Audit Scotland Technical Bulletin<sup>2</sup>, which stated that *'the reports provided to the Audit Committee should be considered in the preparation of the 2014/15 governance statement. Where assurance reports have not been provided to the Audit Committee, this should be considered for inclusion within the governance statement.'* It is recommended that, before Governance Statements are considered, both parties' Audit Committees receive a report, setting out the timetable and process for the due diligence process, together with confirmation from Internal Audit on the adequacy of the process in relation to the requirements of the guidance. The timetable would include arrangements for the completion and audit of the process and subsequent reporting to both Audit Committees and Transitional Board.

- 4.4 It is important that the Transitional Board continues to develop its understanding of risks in relation to the integration process, and builds on its consideration of risk management arrangements for the Integration Board. Both Internal Auditors have offered to feed into ongoing Risk Management workstream discussions on identifying and recording key risks associated with the integration process.
- 4.5 There are further areas where Internal Audit may be able to make a positive contribution including assurance on, and input to, the preparation of key governance and accountability documents such as the Financial Regulations and Schemes of Delegation, Clinical and Care Governance Framework etc.
- 4.6 The Transitional Board will require an Internal Audit function. IRAG guidance<sup>3</sup> states that it is for the IJB to appoint a Chief Internal Auditor. All parties are agreed that a joint arrangement between the Falkirk Council and NHS Forth Valley Chief Internal Auditors would be desirable and would allow the relevant knowledge, skills and experience of both audit teams to be utilised most effectively.

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Approved for Submission by: Audit Manager, Falkirk Council

**Author** – Chief Internal Auditor (01334 696028) and Audit Manager (01324 506 339)

**Date:** 22 May 2015

**List of Background Papers:**

- Scottish Government - Guidance for Integration Financial Assurance
- Audit Scotland – Audit Technical Bulletin 2015/1
- Integrated Resources Advisory Group – Finance Guidance

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<sup>2</sup> Audit Scotland, Technical Bulletin 2015/1.

<sup>3</sup> Integrated Resources Advisory Group, Finance Guidance.

**FALKIRK COUNCIL**

**Subject:** INTERNAL AUDIT: ANNUAL ASSURANCE REPORT  
2014/15  
**Meeting:** AUDIT COMMITTEE  
**Date:** 22 June 2015  
**Author:** INTERNAL AUDIT MANAGER

**1. INTRODUCTION**

- 1.1 This paper reports on 2014/15 Internal Audit work, and provides an overall assurance on the Council's control framework based on that work.
- 1.2 As Members are aware, it is Senior Managers' responsibility to establish and maintain effective and proportionate risk management, governance, and control arrangements. Internal Audit is not an extension of, or substitute for, operational management, and Auditors have no direct responsibility or authority over any operational activities. Internal Audit is, therefore, organisationally independent, and able to provide an objective opinion to Members.
- 1.3 The Public Sector Internal Audit Standards 2013 (the Standards) require the Internal Audit Manager to provide an Annual Assurance Report that includes:
- a statement on the overall adequacy of the Council's control environment;
  - a summary of Internal Audit work undertaken during the year; and
  - a statement on conformance with the Standards.
- 1.4 This report has been prepared to meet those requirements.

**2. OVERALL OPINION**

- 2.1 Internal Audit completed 21 main assignments during 2014/15. As with previous years, these comprised a mix of assurance reports, continuous auditing, position statements, and involvement in on-going workstreams. This mix of outputs reflects the complex and changing context within which the Council operates, and Internal Audit's evolving role in providing assurance.
- 2.2 On the basis of work completed, then, I am content that the breadth and depth of coverage was sufficient to allow me to provide a balanced opinion on the overall adequacy of the Council's control environment.
- 2.3 As Members are aware, Internal Audit use a set of Assurance Categories to provide an opinion on the adequacy of arrangements for risk management, governance, and control. A summary of these is set out at **Appendix 1**.
- 2.4 Internal Audit can, therefore, provide **SUBSTANTIAL** assurance in relation to the Council's overall framework of controls for the year to 31 March 2015.

### 3. OPERATIONAL ACTIVITY DURING 2014/15

- 3.1 Internal Audit's Annual Plan for 2014/15, as presented to Audit Committee on 24 March 2014, consisted of 22 main reviews. Over the course of the year various changes were made to the programme of work, with 4 assignments added to the Plan and 5 removed or deferred. These changes were made to reflect changing priorities and risks, and resulted in a total of 21 completed assignments.
- 3.2 Details of these 21 completed assignments are set out at **Appendix 2**, with a summary of the scope of, and findings arising from, each set out at **Appendix 3**.
- 3.3 Internal Audit provided a formal assurance in relation to 12 planned reviews and, for most of these, we provided Substantial Assurance, confirming that largely satisfactory risk, governance, and control arrangements were in place.
- 3.4 There were a number of areas where we did not provide an overall assurance (for example assignments relating to ongoing workstreams or continuous auditing). Nevertheless, several of these assignments resulted in recommendations to management, and we will continue to ensure that appropriate action is taken to implement these recommendations.
- 3.5 Internal Audit is considered by Audit Scotland to be a key element of the Council's governance framework. Members should note that Audit Scotland, in their 'Annual External Audit Plan 2014/15' considered at the April meeting of Audit Committee, confirmed that they will place formal reliance on work undertaken by Internal Audit in the following areas:
- Non-Domestic Rates / Strategic Projects;
  - Payroll Overtime, Allowance, and Payroll Change Administration;
  - Council House Buy Back Arrangements;
  - Central Purchasing Unit;
  - Continuous Auditing (of transactional systems);
  - Statutory Performance Indicators; and
  - 2013/14 work on Debtors.
- 3.6 To allow them to place reliance on Internal Audit work, Audit Scotland undertake an annual assessment of the work of the Section. This assessment allowed Audit Scotland to conclude that Internal Audit operates in accordance with Public Sector Internal Audit Standards (PSIAS) and that our documentation standards and reporting procedures are sound.
- 3.7 As Members are aware, a key element of our reporting framework continues to be the five Key Performance Indicators set out overleaf.

Key Performance Indicator	2014/15 Performance	2013/14 Performance	2012/13 Performance
1. Complete <b>85%</b> of agreed audits.	<b>100%</b>	<b>100%</b>	100%
2. Have <b>90%</b> of recommendations accepted.	<b>100%</b>	<b>100%</b>	99%
3. Spend <b>75%</b> of time on direct audit work.	<b>77%</b>	<b>76%</b>	78%
4. Issue <b>75%</b> of draft reports within 3 weeks of completion of fieldwork.	<b>95%</b>	<b>96%</b>	96%
5. Complete (to issue of final report) <b>75%</b> of main audits within budget.	<b>95%</b>	<b>88%</b>	87%

3.8 Internal Audit's performance against each indicator has been stable for some years, and this continues to be the case for 2014/15.

#### **4. COMPLIANCE WITH PUBLIC SECTOR INTERNAL AUDIT STANDARDS**

4.1 Internal Audit seeks to undertake all work in conformance with the Public Sector Internal Audit Standards. The Standards, which have applied since April 2013, have 4 objectives, namely:

- to define the nature of Internal Auditing within the UK public sector;
- to set basic principles for carrying out Internal Audit in the UK public sector;
- to establish a framework for providing Internal Audit services, which add value to the organisation, leading to improved organisational processes and operations; and
- to establish the basis for the evaluation of Internal Audit performance and to drive improvement planning.

4.2 Fundamentally, the Standards seek to ensure that Internal Audit is a value adding activity, and compliance is mandatory.

4.3 One of the requirements of the Standards is that the Internal Audit Manager establishes a Quality Assurance and Improvement Programme (QAIP). The aim of the QAIP is to enable evaluation of compliance with the Standards. This comprises an annual self assessment, and five yearly external assessment.

4.4 We have completed our first self assessment, which confirmed that our existing arrangements are broadly in line with the Standards. We will also be subject to an independent External Quality Assessment by South Ayrshire Council's Audit Services Manager during 2015/16 (with the results reported to Audit Committee in due course).

## **5. RECOMMENDATIONS**

### **5.1 Members are invited to note that:**

- 5.1.1 sufficient Internal Audit activity was undertaken to allow a balanced assurance to be provided;**
- 5.1.2 Internal Audit can provide SUBSTANTIAL assurance on the Council's control framework for the year to 31 March 2015;**
- 5.1.3 Audit Scotland will place formal reliance on the work of Internal Audit;**
- 5.1.4 performance against Key Performance Indicators for the year to 31 March 2015 was as set out at paragraph 3.7; and**
- 5.1.5 Quality Assurance and Improvement Programme outputs confirm no material non-conformance with the Public Sector Internal Audit Standards.**

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**Internal Audit Manager**

**Date: 11 June 2015**



## DEFINITION OF INTERNAL AUDIT ASSURANCE CATEGORIES

Level of Assurance	Definition
<b>Substantial assurance</b>	Largely satisfactory risk, control, and governance systems are in place. There is, however, some scope for improvement as current arrangements could undermine the achievement of objectives or leave them vulnerable to error or abuse.
<b>Limited assurance</b>	Risk, control, and governance systems have some satisfactory aspects. There are, however, some significant weaknesses likely to undermine the achievement of objectives and leave them vulnerable to an unacceptable risk of error or abuse.
<b>No assurance</b>	The systems for risk, control, and governance are ineffectively designed and operated. Objectives are not being achieved and the risk of serious error or abuse is unacceptable. Significant improvements are required.

## SUMMARY OF 2014-15 INTERNAL AUDIT PROGRAMME

No.	Service/Status	Assignment	Level of Assurance
<b><i>Planned Assignments Completed During 2014-15</i></b>			
1.	Corporate and Neighbourhood	Central Purchasing Unit	<b>Substantial</b>
2.	Corporate and Neighbourhood	Overtime, Allowance, and Payroll Change Administration	<b>Substantial</b>
3.	Corporate and Neighbourhood / Governance / Finance	Council House Buy Back Arrangements	<b>Substantial</b>
4.	All Services	Performance Indicator Verification	<b>Substantial</b>
5.	All Services	Continuous Auditing	Not Applicable
6.	All Services	National Fraud Initiative	Not Applicable
7.	All Services	Corporate Purchasing	<b>Substantial</b>
8.	Social Work	Criminal Justice Services – Position Statement	Not Applicable
9.	Development	Business Gateway Contract Monitoring	<b>Limited</b>
10.	Social Work	Health and Social Care Integration – Ongoing Workstream	Not Applicable
11.	Finance	Corporate Fraud – Ongoing Workstream	Not Applicable
12.	Social Work	Administration of Medicines Across Falkirk Council Care Homes	Not Applicable
13.	All Services	Senior Officer Financial Controls	Not Applicable
14.	Education	Site Key Control Testing – St Bernadette's Primary School	<b>Substantial</b>
15.	Finance	Non-Domestic Rates	<b>Substantial</b> (combined report)
16.	Development	Strategic Projects	
17.	Falkirk Community Trust	Vehicle Management and Inventory Control	<b>Substantial</b>

<b><i>Additional Assignments Completed During 2014-15</i></b>			
18.	All Services	Consultation Exercises	Not Applicable
19.	Corporate and Neighbourhood	Contact Centre Security	<b>Substantial</b>
20.	Development	INTERREG Funding – Young SMEs – Spot Check	Not Applicable
21.	Development / Finance / Governance	Cash Spot Checks at Abbotsford House, Callendar Square, and Licensing Section	<b>Substantial</b>

	<i>2014-15 Assignments Deferred / Not Undertaken</i>	
1.	All Services	System Interfaces
2.	Development	Falkirk Townscape Heritage Initiative
3.	Education	Community Learning and Development
4.	Education	Devolved School Management
5.	Social Work	Self Directed Support

## DETAILS OF 2014-15 INTERNAL AUDIT PROGRAMME

Assignments Completed During 2014-15		
No.	Assignment Area and Service	Assurance and Key Findings
1.	Central Purchasing Unit  Corporate and Neighbourhood Services	<p><b>Substantial Assurance</b></p> <p>Internal Audit reviewed strategies, guidance, and training; Central Purchasing Unit (CPU) accountability, roles, and responsibilities; the purchasing and contract management procedures followed in a sample of CPU led procurement exercises; and performance, financial, and management information.</p> <p>We found much evidence of good practice, with a recently approved Procurement Strategy and Procurement Improvement Plan in place. The Procurement Board meets regularly, and considers the procurement governance and internal control framework.</p> <p>The introduction of Commodity Teams (and Commodity Strategies) has been a positive development, and it is important that this approach to delivering savings, benefits, and contract management responsibilities is sustained.</p> <p>We did identify a need for the role, responsibilities, authority, and reporting arrangements of the Procurement Board to be formalised, and for improving arrangements for monitoring and managing strategic procurement risk.</p>
2.	Overtime, Allowance, and Payroll Change Administration  Corporate and Neighbourhood Services	<p><b>Substantial Assurance</b></p> <p>Covered the adequacy of controls over the authorisation and processing of payroll changes, and the control framework in relation to overtime and allowances. In particular, we reviewed rules and guidance; procedures for checking, approving, processing, and monitoring claims / changes; arrangements for making payments and recovering overpayments; and management information.</p> <p>We found that operational controls around the processing of overtime and allowance payments and payroll related changes were working effectively. All staff were aware of their roles and responsibilities, and key pre-payment checks were being carried out.</p> <p>We did, however, note the need for a standard overtime / allowance claim form, incorporating appropriate claimant and authoriser declarations. There was some scope for improving the monitoring of over and under payments, and we noted a number of discrepancies during our testing of a sample of overtime claim forms.</p> <p>Payroll and HR staff are working to develop the use of employee and manager self service functionality. This will, in time, allow the electronic completion and authorisation of overtime and allowance claim forms, and further improve the framework of control.</p>

Assignments Completed During 2014-15		
No.	Assignment Area and Service	Assurance and Key Findings
3.	Council House Buy Back  Corporate and Neighbourhood, Governance, and Finance Services	<p><b>Substantial Assurance</b></p> <p>Work focussed on roles and responsibilities; policy, procedures, and guidance; operational buy back arrangements; financial governance and control; and management information.</p> <p>We found systems and controls to be generally sound. The Strategy and Private Sector Housing Team (along with Legal and Finance Services) were actively involved in the management and co-ordination of the buy back scheme and there was regular contact with external stakeholders like estate agents and solicitors.</p> <p>While we found processes to be well controlled, we also noted that sustained upturn and demand in the housing market may lead to the risk of sellers not waiting for the Council to undertake its processes to then receive a market valuation offer. Opportunities to further streamline administrative processes should, therefore, continued to be explored.</p> <p>We also found there to be scope for developing better work instructions; improving resilience around the Stage 1 and 2 sign-off process; and the potential for fast-tracking the buy back of high priority properties.</p>
4.	Performance Indicator Validation  All Services	<p><b>Substantial Assurance</b></p> <p>Reported on Internal Audit's role in collecting and validating Performance Indicator returns prepared by Services. For each of the Indicators falling within our remit, we found that the information gathered for publication was accurate and complete.</p>
5.	Continuous Auditing  All Services	<p><b>Not Applicable – Ongoing Reporting and Assurance</b></p> <p>Work has been undertaken on:</p> <ul style="list-style-type: none"> <li>• Creditors Duplicate Payments;</li> <li>• Non-Domestic Rates Refunds;</li> <li>• Civic Licensing;</li> <li>• Payroll Suspense Accounts;</li> <li>• IA Self Assessment Against PSIAS;</li> <li>• Extra Mural Employment / Gifts and Hospitality / Notifiable Associations; and</li> <li>• IT Application Licensing.</li> </ul> <p>Reports have been issued on each of the above and, in the main, these provided positive assurance.</p> <p>A number of duplicate creditors payments have been identified (totalling c£70k for 2014/15) – action has been taken (or is being taken) to recover these amounts (either by credit note or refund).</p>

Assignments Completed During 2014-15		
No.	Assignment Area and Service	Assurance and Key Findings
6.	National Fraud Initiative  All Services	<p><b>Not Applicable</b></p> <p>The purpose of the NFI exercise is to review and investigate the outcomes of data matching undertaken by Audit Scotland on behalf of the Audit Commission. Matches cover areas such as Payroll, Pensions, Housing and Council Tax Benefit, and Creditors. Internal Audit are responsible for co-ordinating the process of ensuring that all relevant matches are followed-up.</p> <p>The 2012/13 NFI exercise is now substantively complete, with a total of 3,362 matches investigated and c£62k returned (or in the process of being recovered and returned) to the public purse as a result of successful investigation of errors or discrepancies.</p> <p>The 2014/15 NFI exercise is now underway. All of the required data has been submitted to the Audit Commission, with the resultant matches made available in January 2015. Services are in the process of reviewing and investigating these matches.</p>
7.	Corporate Purchasing  All Services	<p><b>Substantial Assurance</b></p> <p>On a weekly basis Internal Audit reviews a sample of payments to suppliers who have been paid more than £10,000 in the preceding week, to assess compliance with Financial Regulations and Contract Standing Orders.</p> <p>All sampled payments are checked to ensure that a contracted supplier has been used. Where this is not the case, Internal Audit contact the 'authorising officer' to confirm whether the appropriate quotation / tendering exercise was undertaken.</p> <p>Over the course of 2014/15 we have found there to be broad compliance with Financial Regulations and Contract Standing Orders when procuring goods and services.</p>
8.	Criminal Justice Services – Position Statement  Social Work Services	<p><b>Not Applicable – Position Statement</b></p> <p>Significant strategic and operational changes will take place across Criminal Justice services in the coming years, with the transition to Community Planning Partnerships (CPP). CPPs will be responsible for the delivery of services locally, with a national joint board established to provide strategic direction.</p> <p>Internal Audit produced a Position Statement considering these changes. As part of this, we confirmed that an Action Plan has been developed by Fife and Forth Valley Criminal Justice Authority to facilitate the transition, and we will maintain an oversight role as implementation of this Action Plan progresses.</p>

Assignments Completed During 2014-15		
No.	Assignment Area and Service	Assurance and Key Findings
9.	Business Gateway Contract Monitoring  Development Services	<p><b>Limited Assurance</b></p> <p>This assignment focussed on the monitoring of contracts in liaison with external bodies for the provision of support to new and growing businesses in the Forth Valley area, via the Business Gateway contract. We reviewed roles and responsibilities, control, monitoring, and financial governance arrangements, and management information.</p> <p>We found there to be scope to improve the framework of control, including that involving these external bodies (STEP, Ceteris, Stirling and Clackmannanshire Councils). In particular, there is a need to extend existing contract monitoring procedures, conduct additional compliance checks on funding recipients, and verify the delivery of service interactions through liaison with external bodies. There is a need to report annually on contract delivery. Consistent with the outcomes of a national review, it is suggested that the role and remit of Business Gateway groups at Forth Valley level be reviewed to ensure clarity of purpose.</p> <p>The scope to streamline various financial / accounting arrangements should also be considered.</p>
10.	Health and Social Care Integration  Social Work Services	<p><b>Not Applicable – Ongoing Workstream</b></p> <p>We have worked closely with the Internal Audit teams of NHS Forth Valley and of neighbouring Authorities to consider and develop our approach to delivering Internal Audit services to the Integration Joint Board. The Forth Valley Finance Workstream and Core Group are currently considering this approach.</p>
11.	Corporate Fraud  Finance Services	<p><b>Not Applicable – Ongoing Workstream</b></p> <p>Internal Audit have worked with the Depute Chief Finance Officer (Revenues and Benefits) to undertake development and scoping work around the establishment of a ‘corporate fraud’ team. This would draw on existing fraud investigation expertise within the Revenues and Benefits Service.</p> <p>To date, this has allowed the team to undertake investigation work arising from an externally facilitated data matching exercise focussing on Council Tax Single Person Discount.</p> <p>The Team will also assist with the sifting and review of 2014/15 National Fraud Initiative (NFI) data matches, referring these to the DWP Single Fraud Investigation Service if appropriate.</p>

Assignments Completed During 2014-15		
No.	Assignment Area and Service	Assurance and Key Findings
12.	Administration of Medicines Across Falkirk Council Care Homes  Social Work Services	<p><b>Not Applicable</b> This review was undertaken by West Lothian Council's Audit and Risk Team as part of our continuing reciprocal arrangement.</p> <p>Internal Audit assessed the adequacy of controls around the storage, administration, and disposal of medicines at a sample of four Care Homes (Cunningham House, Burnbrae, Summerford House, and Torwoodhall).</p> <p>While there was much evidence of good practice, we did note some scope for improving the framework of control, particularly around finalising policy and procedures, incident reporting, risk management, pharmacy audits, and the handover of unused drugs (to pharmacy drivers).</p>
13.	Senior Officer Financial Controls  All Services	<p><b>Not Applicable</b> Internal Audit undertook preparatory work with Chief Officers in relation to the planned review and update of Falkirk Council's Financial Regulations (as part of our 2015/16 Internal Audit Plan). This involved a series of interviews to discuss specific Chief Officer responsibilities as well as opportunities and themes for improvement and change.</p>
14.	Site Key Control Testing – St Bernadette's Primary School  Education Services	<p><b>Substantial Assurance</b> Internal Audit visited St Bernadette's Primary School to review the local framework of controls. This included visitor arrangements, security, fire safety, health and safety, maintenance, inventory, first aid provision, risk management, business continuity, budget monitoring, ordering of and payment for goods and services, and income collection and recording.</p> <p>While we found there to be a number of areas of good practice, we did identify scope for improvement in relation to: Premises Manager responsibilities and checks; building security; inventory requirements; risk management; school meals income collection, reconciliation and storage; and business continuity testing.</p>



Assignments Completed During 2014-15		
No.	Assignment Area and Service	Assurance and Key Findings
15. & 16.	Non-Domestic Rates AND Strategic Projects  Finance and Development Services	<p><b>Substantial Assurance</b> These two reviews were undertaken and reported on jointly.</p> <p>We focussed on roles, responsibilities, policies, and procedures; completion of the NDRI return, including the reporting of additional TIF revenues; the billing process; collection arrangements; the application of reliefs and exemptions; arrangements for write-offs and arrears; and management information.</p> <p>Sound systems of control were in place with clear roles and responsibilities. The annual billing process was subject to robust checking and there was evidence of regular review of NDR input to ensure that these have been accurately processed. NDR receipts were being processed on a regular basis, with monthly reconciliations between the bank account, ledger, and NDR system. There was, however, scope to enhance the overall control framework by ensuring that discretionary policies remain current.</p> <p>Finance Services provide financial assistance for the TIF initiative, helping to ensure the debt costs incurred are matched by additional NDR income and that the overall project remains cost neutral to the Council. The return for first year, certified by Audit Scotland, confirms a yield of over £800k towards proposed capital expenditure.</p>
17.	Consultation Exercises  All Services	<p><b>Not Applicable</b> The purpose of this review was to assess the controls in place for planning, undertaking, recording, and reporting on consultation exercises. This included detailed review of a sample of three consultation exercises.</p> <p>In general, we found arrangements to be sound. That said, there was scope for reviewing and updating the Community Participation Strategy and supporting guidance / training. In addition, our review of a sample of consultation exercises highlighted some areas where guidance had not been fully applied.</p>
18.	Contact Centre Security  Corporate and Neighbourhood Services	<p><b>Substantial Assurance</b> We reviewed Contact Centre security policies, procedures, roles, and responsibilities; ICT and physical access security; and business continuity arrangements.</p> <p>We found arrangements to be sound, with a number of areas of good practice, particularly in relation to security roles and responsibilities, monthly security audits, physical security, risk management, staff training, and business continuity.</p>

Assignments Completed During 2014-15		
No.	Assignment Area and Service	Assurance and Key Findings
19.	INTERREG Funding – Young SMEs – Spot Check  Development Services	<b>Not Applicable</b> Internal Audit undertook an on the spot check for a sample of expenditure recorded within a previous INTERREG Re-Imbursement Claim Form. The purpose of this was to provide independent assurance to the Chief Finance Officer in his role as First Level Controller.  Our work highlighted a small number of anomalies, which will be corrected via future claims. That said, these were not material within the context of the total amounts claimed.
20.	Cash Spot Checks  Development, Finance, and Governance Services	<b>Substantial Assurance</b> We visited Abbotsford House, Callendar Square, and Licensing Section to assess whether adequate procedures for cash handling and banking had been established.  While we found some scope for improvement at each site, we were generally content that procedures and good practice were being applied.
21.	Vehicle Management and Inventory Control  Falkirk Community Trust	<b>Substantial Assurance</b> As reported to Falkirk Community Trust Audit and Performance Sub-Group.

**FALKIRK COUNCIL**

**Subject:** ANNUAL GOVERNANCE STATEMENT 2014/15  
**Meeting:** AUDIT COMMITTEE  
**Date:** 22 June 2015  
**Author:** CHIEF EXECUTIVE

**1. INTRODUCTION**

- 1.1 The purpose of this paper is to advise Members of arrangements for reporting on the Council's governance framework for the year ended 31 March 2015 and to seek approval of a draft Annual Governance Statement for inclusion in the Council's 2014/15 Annual Accounts.

**2. GOVERNANCE ARRANGEMENTS AND GUIDANCE**

- 2.1 In 2007 the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE) jointly issued guidance entitled 'Delivering Good Governance in Local Government'. This defined the six principles that should underpin the governance of each local government body, namely:

- focussing on the purpose of the Authority and outcomes for the community, and creating and implementing a vision for the local area;
- Members and Officers working together to achieve a common purpose with clearly defined functions and roles;
- promoting values for the Authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour;
- taking informed and transparent decisions which are subject to effective scrutiny and managing risk;
- developing the capacity and capability of Officers and Members to be effective; and
- engaging with local people and other stakeholders to ensure robust public accountability.

- 2.2 The guidance recommends that Authorities prepare an Annual Governance Statement based on a review of their own arrangements.

- 2.3 Building on this, the Local Authority Accounting (Scotland) Regulations 2014 place various new requirements on Authorities. Two in particular are worth highlighting:

- The Local Authority must conduct a review, at least once in each financial year, of the effectiveness of its system of internal control; and
  - An Annual Governance Statement must be prepared for inclusion in the Annual Accounts.
- 2.4 Falkirk Council already complies with both of these requirements.
- 2.5 In relation to the requirement for an annual review of the effectiveness of the Council's system of internal control, the following should be taken into account:
- Internal Audit Annual Assurance Report 2014/15;
  - External Audit Key Financial Systems Controls Report 2014/15; and
  - the Statement of Assurance Process that informs the Annual Governance Statement.
- 2.6 Taken together, these constitute a robust and risk based annual review, the outputs from which are included on the Agenda of this meeting.
- 2.7 As Members are aware, Falkirk Council has included an Annual Governance Statement in its Annual Accounts since 2008/09. The Council has chosen to do this to demonstrate the openness, transparency, and proportionality of governance arrangements, and means that no additional work is required to comply with the new Statutory requirement.
- 2.8 On that basis then I attach, at **Appendix 1**, a draft Annual Governance Statement for the year to 31 March 2015, based on the CIPFA / SOLACE guidance referenced above.
- 2.9 Following consideration by Committee, the Statement requires to be signed by the Leader of the Council and Chief Executive, and will be published with the Council's 2014/15 Annual Accounts.

### **3. RECOMMENDATIONS**

#### **3.1 Members are invited to:**

- 3.1.1 note this report on the Council's governance arrangements;**
- 3.1.2 note the requirements for an annual review of the effectiveness of the Council's system of internal control, and inclusion of an Annual Governance Statement in Annual Accounts;**
- 3.1.3 note the Council's compliance with these requirements;**
- 3.1.4 review and approve the draft Annual Governance Statement; and**

**3.1.5** note that the Annual Governance Statement will form part of the Council's 2014/15 Annual Accounts.

.....

**Chief Executive**

**Date: 11 June 2015**

## Falkirk Council

### Annual Governance Statement – 2014/2015

#### Introduction

1. Falkirk Council has a duty under the Local Government in Scotland Act 2003 to secure best value and ensure continuous improvement in the Services it delivers. Public money must be used economically, efficiently, and effectively, and with due regard to the achievement of sustainability. To help ensure these responsibilities are met the Council must establish and apply robust governance arrangements.
2. Responsibility for ensuring good governance rests with all Council employees and elected Members, and Falkirk Council remains absolutely committed to the principles set out in the CIPFA / SOLACE guidance '*Delivering Good Governance in Local Government*'. This guidance defines governance as doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest, and accountable manner.
3. The Local Authority Accounting (Scotland) Regulations 2014 require that all Councils conduct a review, at least once in each financial year, of the effectiveness of the system of internal control<sup>1</sup> and that an Annual Governance Statement is included in the Annual Accounts. Falkirk Council has complied with both of these requirements voluntarily for some years now, underlining our commitment to openness and transparency.
4. Preparation of this Statement also meets the requirements of the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

#### Falkirk Council's Governance Framework

5. The aim of this Statement is to summarise the key elements of Falkirk Council's governance framework, set out within the context of each of the CIPFA / SOLACE Principles:
  - focussing on the purpose of the Authority and outcomes for the community, and creating and implementing a vision for the local area;
  - Members and Officers working together to achieve a common purpose with clearly defined functions and roles;
  - promoting values for the Authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour;
  - taking informed and transparent decisions which are subject to effective scrutiny and managing risk;
  - developing the capacity and capability of Officers and Members to be effective; and
  - engaging with local people and other stakeholders to ensure robust public accountability.
6. These principles dovetail with the vision, ambition, goals, outcomes, and priorities set out in the Council's Corporate Plan 2012-17 ('One Council One Plan'), as well as the wider Falkirk Area Strategic Community Plan and Single Outcome Agreement. They must, however, also be considered against the backcloth of continuing financial constraint and the significant change across the public sector as a whole, as well as the Falkirk and Forth Valley area, over the course of 2014/15.

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<sup>1</sup> **NOTE:** any review of governance can provide only reasonable (not absolute) assurance that policies, aims, and objectives are being applied and implemented as intended.

7. That said, it is testament to the effective working relationships across Officers and elected Members that, in February 2015, Council agreed a balanced budget for 2015/16 and (provisionally) for 2016/17. This provides the Authority with financial stability, and a solid platform on which to further develop longer term financial plans based on that agreed short / medium term position.
8. As always, the process of reaching an agreed budgetary position was challenging, but the more streamlined and inclusive approach adopted (which included earlier engagement with Members and Service management teams, and an improved capital bid process) helped ensure that a full and comprehensive report was presented to Members for consideration and agreement in February 2015.
9. Related to that, work has been undertaken over the course of the year to review the format of reports presented to Members to ensure that these are as clear, concise, relevant, and timely as possible. As the majority of Council meetings are held in public, with papers available on the Council's website, improvements to the corporate reporting format will also help external readers of those reports understand why and how decisions were reached.
10. The website itself has undergone significant change, with improved on-line payment and enquiry functionality for customers, resulting in a better customer experience and savings to the Council via a move away from more costly face to face and telephone transactions.
11. All significant decisions and changes do, however, have to take account of all relevant risks as well as opportunities. The Council's approach to risk management has continued to develop and mature, with corporate and Service risks considered as part of the cyclical business of the Corporate Risk Management Group. This Group reports to the Corporate Management Team, and the Chair of the Group presents reports on risk management arrangements and developments to the Council's Audit Committee. All of the Council's risk management activity is supported by a recently revised, updated, and approved Strategy and Framework, as well as a rationalised hierarchy of operational working groups.
12. The Audit Committee itself continues to be a key element of the Council's governance structures. It is chaired by an external lay member and meets four times per year to consider the adequacy of the Council's arrangements for risk management, governance, and control. As well as updates on risk management, the Committee considers reports from both Internal and External Audit, with membership from both administration and opposition.
13. The Audit Committee fits into the revised Committee and scrutiny structure agreed by Council on 31 March 2015. All political Groups are now fully engaged in the Council's decision making structures, including two new scrutiny committees chaired by members of the opposition. A review of scrutiny arrangements, protocols, and guidance will be undertaken during the coming year. The aim of this review will be to ensure the new arrangements provide meaningful assistance, support constructive challenge, and add value for Members and others engaged in the scrutiny process.
14. To further enhance the effectiveness of the decision making and scrutiny functions, all elected Members now have a Personal Development Plan and access to Improvement Service masterclasses and Continuing Professional Development programme. This follows a Training Needs Assessment process which allowed Members to identify their own training and development needs. Similarly, the Council's Achievement and Personal Development Scheme allows Officers to identify and work towards aims and objectives, and to demonstrate behaviours, consistent with wider organisational goals.
15. To help provide a framework of control, the Council has a Code of Conduct for Members and Officers, and all Members are expected to apply the Standards Commission Scotland's Councillors' Code of Conduct. Contract Standing Orders and Financial Regulations regulate financial and transactional activity, and the latter will be subject to a full review and refresh during 2015/16 to take account of evolving systems and emerging risks.
16. To supplement this, work will continue on ensuring that fraud prevention and detection processes and procedures remain robust, and consideration will be given to how existing whistle-blowing and confidential reporting systems can be enhanced.

17. As part of this, the Council will require to be alive to the risks of cyber crime, and the potential impact on the security, availability, and integrity of our data. Information management is one of the key risk categories embedded within our Corporate Risk Register, reflecting the value of information as an asset to organised crime groups and others. While we have robust arrangements and controls in place to access, secure, and manage our data and information (including Public Services Network re-accreditation in January 2015), the way in which we go about applying that control is being reviewed as part of the wider business transformation agenda. This encompasses our shift towards more modern and flexible ways of working, as well as the mechanisms in place to share information (both internally and with external partners).

18. Work being undertaken via the business transformation workstream (as part of the Council's budget strategy), will drive changes to the way services are delivered, with the aim of improving process efficiency. For the most part these will be internally driven changes aimed at improving the customer's experience of transacting with Falkirk Council.

19. There are, however, some significant external drivers for change, none more challenging than the integration of health and adult social care services. One by-product of that has been the formation of a new Children's Service, with responsibility for education and young persons' social work services.

20. While this represents a major change to the Council's organisational structure (with further restructuring of Services being considered by Members), it has been necessary to undertake this alongside the planning process for the shift in responsibility for adult social care services (as well as delegated primary and community health care and specific hospital services) to a Transitional Integration Joint Board. On the basis of the Public Bodies (Joint Working)(Scotland) Act 2014, Falkirk Council and NHS Forth Valley have established a Health and Social Care Partnership adopting a Body Corporate model of integration.

21. A Transitional (shadow) Joint Board has operated from April 2015, with arrangements in place to appoint a Chief Officer and Chief Finance Officer over the summer months, ahead of the partnership becoming fully operational on 01 April 2016. Full membership of the Joint Board should be achieved by August 2015.

22. The shadow year from April 2015 allows the Transitional Board and each of the partners to undertake the required planning and due diligence, including the preparation of an Integration Scheme setting out the services to be delivered by the Partnership as well as financial and operational arrangements. An Integration Scheme has been submitted to the Scottish Government, and work has commenced on the drafting of a Strategic Plan to support this, in line with the required timescale.

23. The Internal Audit teams of Falkirk Council and NHS Forth Valley will have a role in assisting the Transitional Board seek assurance on the adequacy of transition and due diligence arrangements. Reports will be submitted to respective partner Audit Committees, at the appropriate time, on the assurance processes established by Falkirk Council and NHS Forth Valley.

24. Internal Audit have been fully engaged in the process to date, most recently with the presentation of a report on Assurance and Internal Audit to the Transitional Board on 05 June 2015. The timing of future work and reports will largely be driven by the formal appointment of a shadow Chief Officer and Chief Finance Officer. As stated above, processes to make those appointments are ongoing.

### **Monitoring and Review of Governance Arrangements**

25. Falkirk Council's governance arrangements are formally monitored via:
- the Committee framework, including the Audit Committee;
  - Corporate and Departmental Management Teams;
  - Corporate Risk Management Group and other Corporate Working Groups;
  - Internal and External Audit work; and
  - the work of Falkirk Council's Local Area Network.



26. This monitoring is done within the context of the Delivering Good Governance guidance, the Council's Corporate Plan, Strategic Community Plan, agreed Single Outcome Agreement, and the fundamental statutory requirement to demonstrate and achieve best value.

### **System of Internal Financial Control**

27. This section relates to the systems of internal financial control of Falkirk Council and of the consolidated entries in the Council's group accounts for the year to 31 March 2015. The Chief Finance Officer is responsible for ensuring the operation and maintenance of an effective system of internal financial control that provides reasonable (not absolute) assurance that: assets are safeguarded; transactions are authorised and properly recorded; and material errors or irregularities are either prevented or detected.

28. The system of internal financial control is based on a framework of risk management; Contract Standing Orders, Financial Regulations, and associated guidance; delegation and accountability; budgeting systems; clear financial targets; and robust management information.

29. The Council's Internal Audit Section provides assurance on arrangements for risk management, governance, and control, and undertakes an annual, risk based, programme of work approved by the Chief Executive, Chief Finance Officer, and Audit Committee.

30. The Internal Audit Manager has established a Quality Assurance and Improvement Programme for the Section, including annual self assessment and periodic external assessment of compliance with the Public Sector Internal Audit Standards. The initial self assessment confirmed broad compliance with the Standards, and an independent External Quality Assessment is scheduled for 2015/16. In addition, the Council's appointed External Auditors, Audit Scotland, have undertaken an assessment of the adequacy of the Internal Audit function, concluding that they are able to place reliance on Internal Audit work and that documentation standards and reporting procedures are sound.

31. All Internal Audit reports are issued to the relevant managers, and include recommendations and agreed action plans. It is then management's responsibility to ensure that appropriate action is taken to address these recommendations. Significant matters arising, and recommendations which remain outstanding beyond their agreed implementation date, are brought to the attention of Audit Committee.

32. The Audit Committee operates in accordance with relevant CIPFA guidance. The Committee is chaired by an external lay member, and has a remit to provide:

- independent assurance on the adequacy of the risk management framework and associated control environment;
- independent scrutiny of the Authority's financial and non-financial performance to the extent that it affects risk exposure and weakens the control environment; and
- assurance that any issues arising from the process of drawing up, auditing, and certifying the Annual Accounts are properly dealt with.

33. The Committee considers the Internal Audit Manager's Annual Assurance Report, which provides an independent opinion on the adequacy and effectiveness of the Council's arrangements for risk management, governance, and control. In his 2014/15 Report the Internal Audit Manager concluded that he was able to provide substantial assurance on the Council's overall framework of control for the year to 31 March 2015.

34. The Local Authority Accounting (Scotland) Regulations 2014 require that a review is undertaken, at least once in each financial year, of the effectiveness of the system of internal control. In practice, the Chief Finance Officer considers the work of managers, Internal Audit, and External Audit. Based on his considerations, the Chief Finance Officer has concluded that substantial assurance can be placed on the adequacy and effectiveness of the Council's internal control systems for the year to 31 March 2015.

35. In relation to other entities that fall within the Council's group boundary, the Chief Finance Officer's review is informed by the:

- Annual Governance Statement included within the Annual Accounts of Central Scotland Valuation Joint Board;
- Statements of Assurance from the Chief Executives of Falkirk Community Trust and Falkirk Community Stadium Limited; and
- work of these bodies' respective External Auditors (and, where relevant, Internal Auditors) and other interim reports.

36. Based on consideration of the above, the Chief Finance Officer has concluded that, on the whole, substantial assurance can be placed on the internal financial control systems of other bodies falling within the Council's group boundary.

37. In undertaking his duties, and in forming the above opinions, the Chief Finance Officer worked in conformance with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government.

### **Governance Arrangements – Areas for Improvement**

38. Falkirk Council is committed to ensuring robust and proportionate governance. That said, the ever changing environment within which the Council operates means that there will always be scope for improvement. Areas that will be addressed over the coming year include:

- a review of scrutiny arrangements, protocols, and guidance will be undertaken;
- the Council's Financial Regulations will be subject to a full review and refresh during 2015/16;
- existing whistle-blowing and confidential reporting systems will be reviewed and enhanced;
- we will further develop our approaches to information security and management as part of the business transformation workstream; and
- work will continue to develop arrangements for the joint delivery of adult health and social care services.

### **Conclusion**

39. This Annual Governance Statement summarises, openly and transparently, arrangements established by Falkirk Council for 2014/15 and the period to date. It highlights areas for improvement, and is consistent with the Council's established improvement agenda.

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**Councillor Craig Martin**  
**Leader of Falkirk Council**  
**22 June 2015**

.....  
  
**Mary Pitcaithly**  
**Chief Executive of Falkirk Council**  
**22 June 2015**

**FALKIRK COUNCIL**

**Subject: REVIEW OF SYSTEMS OF INTERNAL CONTROL**  
**Meeting: AUDIT COMMITTEE**  
**Date: 22 June 2015**  
**Author: CHIEF FINANCE OFFICER**

**1. INTRODUCTION**

- 1.1 I attach a report from the Council's Auditor following his 2014/15 review of the Systems of Internal Control.

**2. FINDINGS**

- 2.1 The External Auditor has commented that the key controls within the Council's main financial systems are operating satisfactorily and that based on the audit work they have carried out, they did not identify any areas which were exposed to significant risk. There is however some scope for improvement and the report includes an Action Plan which contains 7 points which are being followed-up by senior management.

**3. RECOMMENDATION**

- 3.1 The Committee is invited to note the External Auditor's report and the proposed management actions.

**Chief Finance Officer**

**Date: 3 June 2015**

**Contact Officer: Amanda Templeman**

**LIST OF BACKGROUND PAPERS**

NIL



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Mr Bryan Smail  
Chief Finance Officer  
Falkirk Council  
Municipal Buildings  
West Bridge Street  
Falkirk  
FK1 5RS

12 June 2015

Dear Bryan

**Falkirk Council 2014/15  
Review of Systems of Internal Control**

Audit Scotland's Code of Audit Practice requires us to assess the systems of internal control put in place by management. In carrying out this work, we seek to gain assurance that Falkirk Council:

- has systems for recording and processing transactions which provide a sound basis for the preparation of financial statements and the effective management of its assets and interests
- has systems of internal control which provide an adequate means of preventing and detecting material misstatement, error, fraud or corruption
- complies with established policies, procedures, laws and regulations.

The purpose of this review was to evaluate whether the internal controls operating within the main financial systems are adequate so as to enable us to place reliance on them when forming an opinion on the 2014/15 financial statements. It should be highlighted that these reviews were restricted to the key controls in place to meet our audit objectives for each system.

In accordance with *International Standard on Auditing (ISA) 330: the auditor's response to assessed risk* paragraphs 14 and 15 our audit judgements are based on current year testing of controls and, where appropriate, prior year results.

Auditing standards require external and internal auditors to work closely together to make optimal use of available audit resources, therefore we seek to rely on the work of internal audit wherever possible.

The following table summarises the main financial systems that were tested during 2014/15. It also identifies those where we are placing reliance on prior years' testing and those where we have placed formal reliance on internal audit work to avoid duplication of effort:

System	External audit testing in 2014/15	Reliance on prior year audit work	Reliance on aspects of internal audit work in 2014/15
General ledger		✓	
Payroll	✓		✓
Capital accounting		✓	✓
Cash and cash equivalents		✓	
Treasury management		✓	
Trade receivables	✓		
Trade payables (including corporate procurement cards)		✓	
Council tax billing and collection	✓		
Non-domestic rates billing & collection			✓
Housing rents		✓	

*Note - internal audit findings do not feature in this letter and are reported separately to management.*

### Audit Findings

Overall, we have concluded that the key controls within the council's main financial systems are operating satisfactorily. Where controls have not been tested or where the evidence of a control's effective operation does not exist, we will adjust our planned coverage of the financial statements to obtain sufficient evidence that they are free of material misstatement.

Based on the audit work we carried out we did not identify any areas exposed to significant risk. However, there are some areas where there is scope for improvement and these are included in the action plan agreed with management which accompanies this management letter.

A number of other minor issues were also identified and notified to management during the course of our audit work but these do not feature in this letter.

### Follow-up of 2013/14 internal controls management letter

We also followed up the issues reported to management in 2013/14 to ensure that progress has been made in implementing the agreed actions. Of the 13 issues and risks reported last year, we have identified 2 instances (payroll related) where the action is either outstanding or the action taken has not led to improvement. These issues have been included in the 2014/15 action plan and we will continue to monitor progress in these areas. Additionally, work on the formal review of non-domestic rates charity relief cases is in progress.

### **Management Action**

The weaknesses identified in this management letter are only those that have come to our attention during the course of our normal audit work and, therefore, are not necessarily all the weaknesses that may exist.

Although we have identified a number of areas for improvements to the systems of internal control, it is the responsibility of management to decide on the extent of the internal control systems appropriate to Falkirk Council. We would stress, however, that an effective system of internal control is an essential part of the efficient management of any organisation.

The matters included in the action plan at Appendix 1 have been agreed with management.

### **Acknowledgement**

The contents of this management letter have been agreed with relevant officers to confirm factual accuracy. The co-operation and assistance we received during the course of our audit is gratefully acknowledged.

Yours sincerely

**Jim Rundell**  
**Senior Audit Manager**

Cc:

- Mary Pitcaithly, Chief Executive
- Ian Renton, HR Systems & Payroll Manager
- Paul Ferguson, Revenues Manager
- Amanda Templeman, Acting Deputy Chief Finance Officer
- Karen Algie, Head of HR and Customer First
- Gordon O'Connor, Internal Audit Manager

# Falkirk Council 2014/15

## Review of Systems of Internal Control

### Action Plan

#### Key Risk Areas and Planned Management Action

Ref	Audit issue, risk and recommendation	Management action/response	Responsible officer / Target date
<b>Payroll</b>			
1	<p><b>Payroll validation:</b> Upon review of the employee validation procedures carried out by payroll section it was noted that Development, Social Work, Roads, and Education Services had not submitted their January validation returns. This represents a significant proportion of the Council workforce, and includes services where staff turnover might be expected to be relatively high, thus increasing potential for error. Also the control spreadsheet which payroll maintain to record the monthly returns received from services has not been kept up to date.</p> <p><b>Risk:</b> Increased risk of inaccurate or fraudulent payments being processed, and of payments being made to individuals who have left the council's employment.</p> <p><b>Recommendation:</b> As a key control over ensuring that payments are made only to valid employees, validation checks should be carried out as scheduled and responses monitored. It should be re-emphasised to service managers that response to these validation checks is mandatory.</p> <p><b>Also reported in 2013/14.</b></p>	<p>Since completion of the Audit, confirmation has been received that the January reports for Development, Roads and Social Work have been checked.</p> <p>A new follow up procedure will be introduced in response to this recommendation. The reports will continue to be issued monthly and will be subject to a 6 week follow up by the Payroll Officer and a further follow up 4 weeks later. The requirement to provide confirmation of checking forms part of the financial regulations. If confirmation has not been received following these two reminders, the breach of financial regulations will be reported to the Chief Finance Officer (or his delegate) for further action.</p> <p>It should be noted that a system of electronic delivery of these reports is being developed and is expected to be implemented for the 2016/17 financial year. The means of confirmation will be reviewed and agreed with Internal Audit as part of this change.</p>	<p>HR Systems &amp; Payroll Manager</p> <p>30 September 2015</p> <p>30 April 2016</p>



Ref	Audit issue, risk and recommendation	Management action/response	Responsible officer / Target date
2	<p><b>Overpayments:</b> Prior to April 2015, each payroll officer was responsible for monitoring overpayments to staff within their own payroll group. This was done via notes held on employee's individual files. However, no formal monitoring process was in place which could track all overpayments made. A new control spreadsheet has been introduced for 2015/16 which will record all overpayments in one location, but will capture only those overpayments occurring from April 2015 onward.</p> <p><b>Risk:</b> Overpayments are not fully recovered.</p> <p><b>Recommendation:</b> The council wide monitoring system should include all previously recorded overpayments so that a total opening recoverable balance can be established. Subsequent overpayments and recoveries should be reflected in the new system to derive an ongoing balance for total overpayments recoverable.</p>	<p>It should be noted that although the procedures have been reviewed and improved in relation to overpayments, the responsibility placed on Payroll Officers (and indeed on Payroll Team Leaders) to monitor overpayments remains unchanged from the position prior to April 2015.</p> <p>The recommendation to assimilate overpayments recorded under the previous monitoring arrangements is not accepted. We are satisfied that whilst improvements could and have been made, the arrangements in place previously are sufficient to ensure that the overpayments that existed are being recovered in accord with Council Policy without implementing this recommendation.</p>	Ongoing Monitoring by HR Systems & Payroll Manager
3	<p><b>Reconciliation of payroll to financial ledger:</b></p> <p>(i) It has not been normal practice to produce a formal monthly reconciliation for net pay, as is the case for NI, PAYE and other payroll adjustments.</p> <p>(ii) We noted that reconciliations carried out for NI, PAYE, etc did not appear to have been independently checked.</p> <p><b>Risk:</b> Errors/mispastings are not detected timeously, and will likely require significant staff resource to correct at a later date.</p> <p><b>Recommendation:</b> Produce formal</p>	<p>A more formalised procedure for reconciliation of the net pay accounts will be implemented.</p> <p>Although this matter was reported in 2013/14, it was agreed that this would be reviewed together with Internal Audit. That review concluded that it would not be necessary for the in-year reconciliations to be independently checked and countersigned but that the final reconciliations for the year</p>	HR Systems & Payroll Manager 30 September 2015

Ref	Audit issue, risk and recommendation	Management action/response	Responsible officer / Target date
	<p>quarterly net pay reconciliations, subject to review and authorisation by a senior officer, with all other payroll reconciliations also subject to independent review.</p> <p><b>Also reported in 2013/14.</b></p>	would be signed off, as has in fact happened for 2014/15 subsequent to the visit from External Audit.	
<b>Accounts receivable</b>			
4	<p><b>Invoices for amounts less than £20:</b></p> <p>From discussion with Revenues officers we have established that the council issues a large number of very small invoices (less than or equal to £20) across all services.</p> <p><b>Risk:</b> The administrative cost of raising these invoices and pursuing non payment may exceed the amounts recovered.</p> <p><b>Recommendation:</b> Consideration should be given to reviewing the underlying costs of invoicing and credit control, and possible application of a minimum charging policy to ensure that recovery of administrative costs is maximised.</p>	<p>Given the increasing move towards charging for services we are promoting pre-payment where possible and limit invoicing to where this is not possible or practical.</p> <p>The current cost per invoice (including recovery) is around £2-£3 on average. However for unpaid invoices the default recovery action (Court action and/or referral to sheriff officers) may not be appropriate for lower value debts. We have a high number of regular Social Work invoices at around £13.00 so will introduce a £10 minimum and then review based on feedback from services.</p>	<p>Revenues Manager</p> <p>£10 limit in place from 2/6/15.</p>
5	<p><b>Debts greater than 6 years old:</b></p> <p>Within the total for accounts receivable there is a significant balance of overdue invoices outstanding for more than 6 years (around £240k excluding Falkirk Community Stadium Ltd).</p> <p><b>Risk:</b> These long outstanding amounts cannot be collected.</p> <p><b>Recommendation:</b> Provision should be made for non recovery of debts where there is no likelihood of any meaningful amount being repaid.</p>	<p>Some debts have had more recent activity which means they are not prescribed (and recovery therefore can be enforced), but in 2014/15 we were aware that debts that were not recommended by us to services were written-off (due to being prescribed). We have spoken with the appropriate staff within the area(s) involved and would expect this to be remedied in</p>	<p>Revenues Manager</p> <p>31 March 2016</p>

Ref	Audit issue, risk and recommendation	Management action/response	Responsible officer / Target date
		2015/16. The bad debt provision does already allow for the non-collection of these debts.	
<b>Council tax billing and collection</b>			
6	<p><b>Empty property verification:</b> From a review of a sample of empty property visit reports, a small number were noted where the result of the visit had been inconclusive, but there was no indication as to subsequent confirmation of the property status.</p> <p><b>Risk:</b> Discount continues to be allowed on a non qualifying property.</p> <p><b>Recommendation:</b> Procedures for inspection of void/empty properties should include an audit trail which evidences the subsequent resolution of any initially unsatisfactory property visit.</p>	<p>Where a visit has been undertaken we would generally have documentary evidence on file, but with immediate effect we will introduce a secondary stage where we cannot inspect through an unannounced visit.</p> <p>We will telephone/write to liable person to arrange a date and time to visit. If we receive no response we will remove the relief (until a visit can be carried out).</p> <p>This work will be carried out within our compliance team.</p>	<p>Revenues Manager</p> <p>30 September 2015</p>
<b>Treasury management</b>			
7	<p><b>Treasury management policy:</b> The council's treasury management policy has not been updated to reflect changes in regulations which now allow councils to lend to registered social landlords.</p> <p><b>Risk:</b> Although no such transactions have occurred, nor are any envisaged currently, if the situation arose where this became relevant the policy issue could cause delays, or could result in claims of irregularity.</p> <p><b>Recommendation:</b> Treasury management policy should be updated at the next opportunity, in order that any future transactions of this nature can be accommodated.</p>	<p>Our Treasury Management Practices will be updated to reflect this amendment. We will also include it in our Interim Strategy Report that is presented to the Executive Committee for review and thereafter is referred onto Council for Approval.</p>	<p>Capital &amp; Treasury Manager</p> <p>Treasury Management Practices updated by 31 July 2015.</p> <p>Interim Strategy Review Report to Executive in November 2015 will include amendment.</p>



**FALKIRK COUNCIL**

**Subject:** FALKIRK COUNCIL ANNUAL ACCOUNTS 2014/15 AND FALKIRK  
TEMPERANCE TRUST ACCOUNTS 2014/15  
**Meeting:** AUDIT COMMITTEE  
**Date:** 22 June 2015  
**Author:** CHIEF FINANCE OFFICER

**1. INTRODUCTION**

- 1.1 The Local Authority Accounts (Scotland) Regulations 2014 requires the Council to submit the Unaudited Annual Accounts of the Council and Falkirk Temperance Trust for the financial year ended 31 March 2015 to the Auditor by the statutory deadline of 30 June 2015. Under the regulations, a Committee of the local authority, whose remit includes audit and governance functions, must meet to consider the unaudited Annual Accounts.

**2. 2014/15 ACCOUNTS**

- 2.1 Officers have been working on preparing the Unaudited Accounts for the past few months and the closure of accounts process is proceeding in accordance with the project plan to allow them to be lodged with the Auditor by the due date of 30 June. The Unaudited Accounts will be posted on the Council's website on 22 June 2015.
- 2.2 It is anticipated that the statutory three week public inspection period will commence on 29 June following public notice on 11 June. The audit stage will commence formally at the beginning of July and is due to be completed by the end of September. Copies of the draft accounts are available from the Chief Finance Officer from 22 June.

**3. RECOMMENDATION**

- 3.1 That Members consider the Unaudited Annual Accounts to be passed to the Auditor by the statutory deadline of 30 June 2015.

**Chief Finance Officer**

**Date:** 3 June 2015

**Contact Officer:** Amanda Templeman

**LIST OF BACKGROUND PAPERS**

1. 2014/15 Unaudited Annual Report and Accounts for Falkirk Council and Falkirk Temperance Trust.

Any person wishing to inspect the background papers listed above should telephone Falkirk 01324 506371 and ask for Amanda Templeman.



**Unaudited  
Annual Report  
& Accounts**

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2014/2015



**Falkirk Council**

# ANNUAL REPORT AND ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2015

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## INTRODUCTION TO THE ACCOUNTS

The statements which follow, show the financial results of Falkirk Council for the year to 31 March 2015.

They comprise:

- A Management Commentary providing a summary and explanation of the Council's financial position.
- A Statement of Responsibilities for the Statement of Accounts.
- An Annual Governance Statement.
- A Remuneration Report detailing payments and pension information for senior officers and senior elected members.
- The Movement in Reserves Statement which shows the movement in the year of the different reserves used by the Council.
- The Comprehensive Income and Expenditure Statement - this highlights gross revenue expenditure, income and net expenditure for the Council. The Account shows how net expenditure has been financed.
- The Balance Sheet - sets out the overall financial position of the Council as at 31 March 2015.
- The Cash Flow Statement - shows where the Council's money came from and how it was spent.
- Notes to the Core Financial Statements including the General Accounting Policies and other explanatory information.
- The Group Financial Statements consolidate the Council's interest in other entities to provide services and improve the well-being of the local area.

## MANAGEMENT COMMENTARY

### 1. INTRODUCTION

- 1.1 The Local Authority Accounts (Scotland) Regulations 2014 include the requirement for a management commentary which reflects those matters companies are required to disclose under the Companies Act 2006, as interpreted for local authorities. This management commentary has been prepared in accordance with Local Government Finance Circular 5/2015 which in turn refers to the Financial Reporting Council (FRC) Guidance on the Strategic Report, published in June 2014. This guidance sets out communication principles and the content elements required for the management commentary. The management commentary aims to provide context to the financial statements, an analysis of performance, and insight into the main objectives, strategies and risks and how these may impact future performance.
- 1.2 The financial results for Falkirk Council for 2014/15 are set out on pages 26 to 104 and have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15. The statement of accounting policies which have been adopted are shown in notes 1 to 5. The adoption of these policies is to ensure that the annual accounts provide a true and fair view of our financial performance.

#### Financial Statements

- 1.3 The Code of Practice on Local Authority Accounting (Code) requires local authorities to produce Annual Accounts and governs the format and content of those Accounts. The pages that follow are the Council's Accounts for 2014/15.

#### Group Accounts

- 1.4 Local authorities are required to prepare Group Accounts in addition to their own Council's accounts where they have a material interest in other organisations. Group Financial Statements have been prepared (see pages 98 to 104) which consolidate the results of the Council with its share of the following entities – the Valuation Joint Board, FCSL (Holdings) Ltd, Falkirk Community Stadium Limited, Falkirk Community Trust Limited and Common Good Funds. The effect of the inclusion of the Council's interests on the Group Balance Sheet is to reduce both Reserves and Net Assets by £2.256m. This represents the Council's share of the net liabilities in those entities.

### 2. STRATEGIC MANAGEMENT

#### Principal Activities

- 2.1 Falkirk Council serves a population of 157,640, providing a diverse and wide range of services to all residents, including bin collection, education, home care, planning application services, social housing, fostering and adoption services and roads maintenance. The Council employs c7,500 employees.

#### Strategic Planning

- 2.2 The Falkirk Area Strategic Community Plan, 2010-2015, Moving Forward Together, was developed by the Falkirk Community Planning Partnership and sets out the vision for the Falkirk Council area. The Strategic Community Plan outlines the challenges that we face and how we will respond to those challenges. The vision of the Council reflects that of the Strategic Community Plan and is set out in its corporate plan One Council, One Plan (2012-2017), which states:
- 2.3 “The positive transformation of the Falkirk Council area will continue if we make the most of our natural assets, location and strength of community spirit. This is at the core of the vision for Falkirk. Our vision is shared by our partners and communities and is a key driver in our journey as the ‘Place to be’.”
- 2.4 The priorities of the Council are:
- Alleviating the causes and affects of poverty and addressing inequalities;
  - Ensuring all people in our communities are valued and their contribution to communities is recognised, valued and celebrated;

- Stimulating business, growth, jobs and investment;
  - Continuing to raise the ambition and aspiration of our children, our citizens, our businesses and our services; and
  - Making sure that our communities and citizens come first and we do not plan services for organisational imperatives.
- 2.5 The priorities of the Council are reflected in the service plans produced for each service of the Council, and ultimately into the objectives of each member of staff through the Achievement and Personal Development System (APDS) process. They underpin our goals and outcomes by giving increased emphasis to those issues of most importance to the Council, our partners and importantly our communities.
- 2.6 Scrutiny arrangements have recently been revised and in 2015/16, Members have agreed that two Scrutiny Committees will be established to look at external organisations and internal service issues respectively. This work will be complemented by scrutiny panels including the standing Performance Panel which scrutinises service performance.
- 2.7 In addition Policy Development Panels (PDPs) will deliver Member led initiatives where key areas are reviewed and consideration will be given as to how services can be improved/transformed. The work of the PDPs informs the decision making of the Council by reporting directly to the Executive of the Council.
- 2.8 Corporate and service planning and Member involvement in setting the priorities of the Council inform the work of the Council on a day to day basis.

### **3. ENVIRONMENT**

#### **Economic Climate**

- 3.1 The Council has faced unprecedented pressures on its revenue budget and has had to make savings of £70.6m over the last 8 years. The budget set in February 2015 recognised the requirement to make an estimated £46m of savings over the period 2015-2018. The main reasons for this are:
- The ongoing council tax freeze which has now been in place for 8 years;
  - Government grant levels which have not kept pace with inflation and service demand;
  - Continuing demographic pressures with rising school rolls at one end of the spectrum and a higher number of elderly people requiring care at the other end;
  - Uncontrollable events, such as changes to the contracting out arrangements for national insurance relating to defined benefit pension schemes, with an estimated cost to the Council of £4m per annum from 2016/17.
- 3.2 Revenue support grant income from the Scottish Government represents 61.7% of the overall level of funding received. The other two main funding streams are council tax and non-domestic rates income. A significant proportion of the Council's funding is therefore outwith the Council's control which is a major factor to be taken account of when expenditure plans are being considered.
- 3.3 The Council's medium term financial strategy, covering a five year period, has been developed to reflect cost pressures as they are identified, along with funding projections and other financial assumptions.

#### **Principal Risks and Uncertainties**

- 3.4 The Council's approach to risk is included in the Annual Governance Statement within these accounts. This statement also explains the system of Internal Control in place along with some improvement actions identified.
- 3.5 It is recognised that with c60% of the Council's costs coming from employee costs, the number of employees of the Council will have to reduce. The budget approved in February 2015 noted that the savings approved would result in the loss of c430 full time equivalent staff. The loss of staff knowledge and experience will have to be carefully managed and services re-designed as required.

- 3.6 Whilst the economic outlook in the UK has improved, the UK government has continued its policy of balancing its budget and reducing the fiscal deficit. This has led to ongoing public spending cuts. Although the Scottish Government has distributed the 2015/16 settlement figures, there have been suggestions that the recent budget announcement by the Chancellor of the Exchequer could result in further cuts which may flow through to Scottish local authorities in 2015/16.
- 3.7 The continuation of the austerity programme means that all local authorities will undoubtedly face budget cuts in real terms. It is anticipated that Scottish local authorities will face the most difficult years in 2016/17 and 2017/18. Whilst a two year budget framework was developed for 2015/16 and 2016/17, setting out a significant number of budget cuts, work has already started to develop further savings proposals for the years ahead. This will likely be met with an increasing demand for services. This will be a challenging and difficult time for the Council. One of the biggest risks to the Council is that projected savings are not delivered. This area will continue to be closely monitored going forward.
- 3.8 The outcome of the report by the Commission on Local Tax Reform, due to be published in autumn 2015, and any subsequent proposals that might be brought forward by the Scottish Government will also be assessed and will inform the Council's medium term financial strategy over the coming years.
- 3.9 The Council and Forth Valley Health Board continue to make progress on the development of Health and Social Care Integration. From 1 April 2016, responsibility for adult social care will pass to an Integrated Joint Board.

## **4. PERFORMANCE**

### **Significant Achievements**

- 4.1 Significant activities and achievements of the Council during 2014/15 include:
- Progress on the development of Health and Social Care Integration;
  - Pension Fund investment of £30m in social and affordable housing;
  - Continuing investment in the Tax Incremental Financing (TIF) initiative which will deliver investment of £67m on infrastructure improvements;
  - Continuing progress towards all of our housing stock meeting the Scottish Housing Quality Standard (SHQS) with c87% meeting it as at 31<sup>st</sup> March 2015. The Council is on target to meet the SHQS for all housing stock within 2015. There has also been spend of £7.3m towards the delivery of new housing stock which will be completed during summer 2015;
  - Creation of a Centre of Excellence for supported employment;
  - 3<sup>rd</sup> biggest increase in educational attainment in the last ten years, across all Councils;
  - Increased recycling rates which have been recognised at national level and movement to three weekly bin collection;
  - Revisions to the budget process, including the development of a two year budget framework covering 2015/16 and 2016/17.

### **Public Performance Reporting**

- 4.2 The performance of the Council is reported in the Performance section of the Council's website which can be found at:  
<http://www.falkirk.gov.uk/services/council-democracy/budgets-spending-performance/council-performance/>
- 4.3 This section of the website includes information on our statutory performance, key performance indicators, citizen panel outputs and benchmarking information. The Local Government Benchmarking Framework (LGBF) published their report on Scottish local authorities for 2013/14. This work highlights positive and negative trends in performance which can be used to help plan and focus resources. Some headline indicators where Falkirk is above the Scottish average include:
- 80% of adults satisfied with social care or social work services;
  - % of adults satisfied with libraries and leisure facilities

Work will continue to improve in other areas including:

- % of self directed support as a % of total social work spend on adults over 18;
- cost of maintenance per kilometre of roads

### Financial Performance

4.4 The General Fund is the statutory fund into which all the receipts of the Council are required to be paid and out of which all liabilities of the Council are to be met, except to the extent that statutory rules might provide otherwise. The General Fund is funded by government grants, fees & charges, council tax income, non-domestic rates income (subject to pooling arrangements) and interest/returns on investments and is split between uncommitted balances (the level of funding available to the Council to manage financial risks and unplanned expenditure) and balances which have been earmarked for specific purposes.

4.5 The Movement in Reserves Statement shows an overall net decrease in General Fund balances of £6.8m for the year, which can be analysed as follows:

	<b>Uncommitted Balance £'000</b>	<b>Earmarked Funds £'000</b>	<b>Total General Fund £'000</b>
Balance b/fwd 1 April 2014	12,309	18,541	30,850
Balances Utilised in 2014/15	(4,370)	(6,881)	(11,251)
Increase in Funds in 2014/15	430	3,997	4,427
<b>Balance c/fwd 31 March 2015</b>	<b>8,369</b>	<b>15,657</b>	<b>24,026</b>

The uncommitted funds shown above of £8.4m are within the reserves strategy range of £6.6m to £10m as approved by the Executive on 13 January 2015.

4.6 The Council set its budget in February 2014. Throughout the course of the year, virements will be made as appropriate and projections reported to Executive. The outturn against budget for 2014/15 is shown below. This reflects the use of £4.370m from the general fund reserve, offset with a transfer from the spend to save reserve back to the general fund of £0.430m, giving a net movement of £3.940m. The budgeted use of general fund reserves was £1.500m. An additional £2.440m of general fund reserves was therefore applied to offset cost pressures.

	<b>Budget 2014/15 £'000</b>	<b>Actual 2014/15 £'000</b>	<b>Variance £'000</b>
General Fund Services	328,840	332,202	3,362
Significant Trading Operations	(949)	(938)	11
Falkirk Community Trust	13,085	13,085	
Valuation	1,251	1,251	-
Transfer to Repair and Renewals			-
Capital Funded from Current Revenue	500	500	-
Severance Payments	-	1,124	1,124
Capital Charges	(8,193)	(7,963)	230
<b>Total Net Expenditure</b>	<b>334,534</b>	<b>339,261</b>	<b>4,727</b>
<b>Funding</b>			
Revenue Support Grant	204,917	205,188	271
Non-Domestic Rates	74,307	74,307	-
Council Tax	52,272	53,316	1,044
<b>Total Funding</b>	<b>331,496</b>	<b>332,811</b>	<b>1,315</b>
<b>(Surplus)/Deficit</b>	<b>3,038</b>	<b>6,450</b>	<b>3,412</b>
Transfer to/(from) Earmarked Reserves	(1,900)	(2,883)	(983)
Transfer to/(from) Other Reserves	362	373	11
<b>Net Movement in Uncommitted General Fund</b>	<b>1,500</b>	<b>3,940</b>	<b>2,440</b>
Housing Revenue Account	-	-	
Transfer to Earmarked Funds – Housing Revenue Account	-	-	
<b>Movement to be funded from General Fund</b>	<b>1,500</b>	<b>3,940</b>	<b>2,440</b>

4.7 The main explanations for the outturn against budget are noted below:

- The main area of pressure on the Council budget is in social work, in particular childrens' services, although adult services are also under some strain. The total overspend for 2014/15 for social work was £3.343m. A specific report on the pressures facing this service was presented to the Executive on 30 September 2014. This area continues to be monitored closely.
- Compensatory lump sums have been paid to individuals who have left or will leave the Council under the voluntary severance scheme (£1.124m). Where employees have accepted an offer made before 31 March 2015 but have not yet left, these costs must be accounted for in 2014/15. The loss of these posts will generate savings for the Council in future years.
- A combination of factors has increased the council tax yield in particular the reduced cost of the council tax reduction scheme which has been reflected nationally and may be an indication of the financial recovery in the economy. There is also an ongoing improvement in the collection rate with an in year collection rate for 2014/15 of 95.7%.

Further detail on the revenue budget variances can be found on the Council's website:

<http://www.falkirk.gov.uk/coins/Agenda.asp?meetingid=2250>

#### **Earmarked and Other Reserves**

4.8 The table above shows earmarked reserves of £15.657m as at 31 March 2015, a reduction of £2.9m from 1 April 2014. The main movements are noted below:

- There was a net increase in the repairs and renewals reserve of £0.4m. This increase was primarily due to transferring £0.5m to augment funding for the vehicle replacement programme in future years.
- The devolved school management reserve decreased by £0.8m, reflecting timing differences between the academic and financial years in respect of balances held at school level.
- The spend to save reserve decreased by £1.0m. This included £0.5m to facilitate a spend to save initiative aimed at assisting people who find difficulty in accessing the labour market through underlying issues such as disability. A further £0.4m was transferred back to the general fund.
- There was a net decrease of £0.3m in the economic development reserve, reflecting spend a number of initiatives involving tourism and landscaping.

#### **Housing Revenue Account (HRA)**

4.9 Overall, the HRA is broadly in line with budget. There were savings in support services, staff costs and supplies & services together with additional rental income from commercial properties. These savings were utilised in a number of areas across the Housing Revenue Account, including estates improvement work and provision of additional funding to the capital programme to undertake housing investment.

4.10 The balance brought forward as at 1 April 2014 was £5.093m and the closing balance as at 31 March 2015 remains the same. The HRA reserve will be deployed over the longer term in a planned manner in order to ensure that there are sufficient funds to meet funding of the HRA capital investment programme.

#### **Trading Operations**

4.11 The Council operates one statutory trading account for Building Maintenance which achieved a surplus for the year of £0.9m for the year, consistent with budget.

## Financial Indicators

- 4.12 The Council sets its capital investment programme in accordance with the Prudential Code. The objective of the Code is to ensure that all capital spending is affordable, prudent and sustainable.

Indicator	Purpose	2013/14	2014/15
Uncommitted general fund reserve as a % of annual net budget	Reflects the amount of funding available to manage unplanned events.	3.75%	2.5%
Movement in the uncommitted general fund balance	Shows the extent to which the Council is using its uncommitted general fund balance.	(12.8)%	(32.0)%
In year council tax collection	Reflects the Council's effectiveness in collecting council tax debt.	95.6%	95.7%
Capital financing requirement	Reflects the Council's underlying need to borrow.	£397.4m	£408.6m
External debt levels	The actual external debt and long term liabilities of the Council. This should never exceed the Council's authorised limit which has been set at £400m.	£326.2m	£353.4m
Ratio of finance costs to net revenue stream	This is a measure of how affordable the Council's capital plans are. It takes actual finance costs as a % of net revenue spend.	GF 5%	GF 5%
		HRA 23%	HRA 13%
Impact of capital investment on council tax and housing rents	This measures the impact of capital investment decisions on the Council's bottom line. The figures shown are council tax per band D household and housing rents per week/per house.	Council Tax £23.17	Council Tax £22.78
		Housing Rents £6.79	Housing Rents £9.54

## Capital Investment

- 4.13 In 2014/15, the Council incurred capital expenditure of £26.4m on areas such as Education, Social Work, Leisure, Economic Development and Roads infrastructure and a further £35.1m on Council Housing. Major investment by the Council included:
- £5.9m on school buildings
  - £8.4m on roads and infrastructure in the Falkirk area
  - £3.4m on the Council's commercial property portfolio and other community assets
  - £6.2m on vehicle, plant and equipment purchases, including IT equipment
  - £7.3m on new build housing
  - £12.9m on elemental improvements to the Council's housing stock, including external fabric improvements, kitchen/bathroom renewals and electrical upgrading.

Further detail on the capital investment programme for 2014/15 can be found on the Council's website:

<http://www.falkirk.gov.uk/coins/Agenda.asp?meetingid=2250>

### **Borrowing Activity**

- 4.14 The Council's borrowing strategy is prepared in accordance with the Code of Practice on Treasury Management in Local Authorities. The majority of the Council's borrowing, which is used to finance capital expenditure, comes from the Public Works Loan Board with the remainder from market bonds or other market lenders. Further details are provided at note 32.

### **Pension Liabilities**

- 4.15 In terms of International Accounting Standard 19 "Employee Benefits" (IAS19), the Council is required to show the actuarially assessed net pension deficit/liability within the Balance Sheet. The deficit is assessed as £381m as at 31 March 2015 (£253m as at 31 March 2014). The Pension Fund deficit has increased since last year due to failing real bond yields, albeit that this has been partially offset by strong asset returns. Further information on accounting for retirement benefits can be found in note 17. A valuation of the pension fund as at 31 March 2014 has taken place and disclosed that the Fund is 85% funded compared with a funding level of 86% at the previous valuation in 2011. The actuary has certified a phased increase in employer contributions to ensure that payments are sufficient to meet the cost of future benefit accrual and continue to repair the Council's share of the fund deficit.

## **5. FUTURE PLANS**

### **Ongoing Developments**

- 5.1 As noted at paragraph 3.1, significant budget savings will be required in the years ahead. The projects identified through the Council's business transformation agenda are expected to make a significant contribution towards dealing with the financial pressures. This agenda includes such corporate wide projects as mobile and flexible working, centralisation of creditors, and a restructure of administration functions. As well as these projects, other methods of service delivery will be reviewed.
- 5.2 The Improvement Governance Board has been set up to oversee the implementation of the ICT strategy which will involve a number of significant projects which will change how we deliver services, including mobile and flexible working and channel shift.
- 5.3 Work continues to implement Adult Health and Social Care Integration. This will result in a new Integrated Joint Board for the Falkirk area. The first milestone of this project has been achieved, with the submission of the Integration Scheme to the Scottish Government. The new Integrated Joint Board will be operational from 1 April 2016.
- 5.4 The Council is also committed to the Joint Resourcing Agenda whereby community planning partners must ensure that delivery of the Scottish Governments Single Outcome Agreements (SOAs) are the focal point for the planning and deployment of resources locally. This includes agreement on how total resources can most effectively be used to achieve the outcomes.
- 5.5 The Scottish Parliament has recently passed the Community Empowerment Bill. This will have significant implications for the Council. Work is ongoing to determine the implications of the Act, some of which were introduced very late in its progress through Parliament, and to make recommendations to Council. The main aims of the Bill are to:
- empower community bodies through the ownership of land and buildings and strengthening their voices in the decisions that matter to them; and
  - support an increase in the pace and scale of public service reform by cementing the focus on achieving outcomes and improving the process of community planning.



### **Pension Fund**

- 5.6 2014/15 has been an important year in the continuing development of the Local Government Pension Scheme. Much work has taken place paving the way for the momentous change in April 2015 when the Scheme moved from a 'Final Salary' basis to a 'Career Average' basis. A major communications exercise has been conducted during 2014/15 to publicise members about the key changes, with the national website [www.scotlgps2015.org](http://www.scotlgps2015.org) proving to be an invaluable source of information.
- 5.7 A valuation of the Scheme at a national level is due to be completed in Autumn 2015 and will help ensure that the balance of cost between member, employer and tax payer remains fair and balanced. It is pleasing to note that, despite the changes, the Scheme remains one of significant quality with guaranteed, inflation linked benefits offering security and stability of income for present and future generations of members.
- 5.8 During 2015/16 a review of the Funds' investment strategy is scheduled to take place, including risk tolerance and relevant asset classes.

Bryan Smail, CPFA MBA  
Chief Finance Officer  
xx 2015

## STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

### 1. FALKIRK COUNCIL RESPONSIBILITIES

#### 1.1 The Council is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that the proper officer of the authority has responsibility for the administration of those affairs (section 95 of the Local Government (Scotland) Act 1973). In Falkirk Council that officer is the Chief Finance Officer.
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- Ensure the Annual Accounts are prepared in accordance with legislation (The Local Authority Accounts (Scotland) Regulations 2014), and so far as is compatible with that legislation, in accordance with proper accounting practices (section 12 of the Local Government in Scotland Act 2003).
- Approve the Annual Accounts for signature.

#### 1.2 I can confirm that these Annual Accounts were approved for signature by the Council at its meeting of xx 2015.

Councillor Craig Martin  
Leader of the Council  
xx 2015

### 2. THE CHIEF FINANCE OFFICER'S RESPONSIBILITIES

#### 2.1 The Chief Finance Officer is responsible for the preparation of the authority's Annual Accounts in accordance with proper practices as required by legislation and as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Accounting Code).

#### 2.2 In preparing the Annual Accounts the Chief Finance Officer has:

- Selected suitable accounting policies and then applied them consistently;
- Made judgements and estimates that were reasonable and prudent;
- Complied with legislation;
- Complied with the Accounting Code (in so far as it is compatible with legislation).

#### 2.3 The Chief Finance Officer has also:

- Kept adequate accounting records which were up to date;
- Taken reasonable steps for the prevent and detection of fraud and other irregularities.

#### 2.4 I certify that the financial statements give a true and fair view of the financial position of the Council as at 31 March 2015 and the transactions of the Council for year ended 31 March 2015.



Bryan Smail, CPFA MBA  
Chief Finance Officer  
22 June 2015

## ANNUAL GOVERNANCE STATEMENT 2014/15

### 1. INTRODUCTION

- 1.1 Falkirk Council has a duty under the Local Government in Scotland Act 2003 to secure best value and ensure continuous improvement in the Services it delivers. Public money must be used economically, efficiently, and effectively, and with due regard to the achievement of sustainability. To help ensure these responsibilities are met the Council must establish and apply robust governance arrangements.
- 1.2 Responsibility for ensuring good governance rests with all Council employees and elected Members, and Falkirk Council remains absolutely committed to the principles set out in the CIPFA / SOLACE guidance *‘Delivering Good Governance in Local Government’*. This guidance defines governance as doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest, and accountable manner.
- 1.3 The Local Authority Accounting (Scotland) Regulations 2014 require that all Councils conduct a review, at least once in each financial year, of the effectiveness of the system of internal control<sup>1</sup> and that an Annual Governance Statement is included in the Annual Accounts. Falkirk Council has complied with both of these requirements voluntarily for some years now, underlining our commitment to openness and transparency.
- 1.4 Preparation of this Statement also meets the requirements of the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

### 2. FALKIRK COUNCIL’S GOVERNANCE FRAMEWORK

- 2.1 The aim of this Statement is to summarise the key elements of Falkirk Council’s governance framework, set out within the context of each of the CIPFA / SOLACE Principles:
  - focussing on the purpose of the Authority and outcomes for the community, and creating and implementing a vision for the local area;
  - Members and Officers working together to achieve a common purpose with clearly defined functions and roles;
  - promoting values for the Authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour;
  - taking informed and transparent decisions which are subject to effective scrutiny and managing risk;
  - developing the capacity and capability of Officers and Members to be effective; and
  - engaging with local people and other stakeholders to ensure robust public accountability.
- 2.2 These principles dovetail with the vision, ambition, goals, outcomes, and priorities set out in the Council’s Corporate Plan 2012-17 (‘One Council One Plan’), as well as the wider Falkirk Area Strategic Community Plan and Single Outcome Agreement. They must, however, also be considered against the backdrop of continuing financial constraint and the significant change across the public sector as a whole, as well as the Falkirk and Forth Valley area, over the course of 2014/15.
- 2.3 That said, it is testament to the effective working relationships across Officers and elected Members that, in February 2015, Council agreed a balanced budget for 2015/16 and (provisionally) for 2016/17. This provides the Authority with financial stability, and a solid platform on which to further develop longer term financial plans based on that agreed short / medium term position.
- 2.4 As always, the process of reaching an agreed budgetary position was challenging, but the more streamlined and inclusive approach adopted (which included earlier engagement with Members and Service management teams, and an improved capital bid process) helped ensure that a full and comprehensive report was presented to Members for consideration and agreement in February 2015.

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<sup>1</sup> **NOTE:** any review of governance can provide only reasonable (not absolute) assurance that policies, aims, and objectives are being applied and implemented as intended.

- 2.5 Related to that, work has been undertaken over the course of the year to review the format of reports presented to Members to ensure that these are as clear, concise, relevant, and timely as possible. As the majority of Council meetings are held in public, with papers available on the Council's website, improvements to the corporate reporting format will also help external readers of those reports understand why and how decisions were reached.
- 2.6 The website itself has undergone significant change, with improved on-line payment and enquiry functionality for customers, resulting in a better customer experience and savings to the Council via a move away from more costly face to face and telephone transactions.
- 2.7 All significant decisions and changes do, however, have to take account of all relevant risks as well as opportunities. The Council's approach to risk management has continued to develop and mature, with corporate and Service risks considered as part of the cyclical business of the Corporate Risk Management Group. This Group reports to the Corporate Management Team, and the Chair of the Group presents reports on risk management arrangements and developments to the Council's Audit Committee. All of the Council's risk management activity is supported by a recently revised, updated, and approved Strategy and Framework, as well as a rationalised hierarchy of operational working groups.
- 2.8 The Audit Committee itself continues to be a key element of the Council's governance structures. It is chaired by an external lay member and meets four times per year to consider the adequacy of the Council's arrangements for risk management, governance, and control. As well as updates on risk management, the Committee considers reports from both Internal and External Audit, with membership from both administration and opposition.
- 2.9 The Audit Committee fits into the revised Committee and scrutiny structure agreed by Council on 31 March 2015. All political Groups are now fully engaged in the Council's decision making structures, including two new scrutiny committees chaired by members of the opposition. A review of scrutiny arrangements, protocols, and guidance will be undertaken during the coming year. The aim of this review will be to ensure the new arrangements provide meaningful assistance, support constructive challenge, and add value for Members and others engaged in the scrutiny process.
- 2.10 To further enhance the effectiveness of the decision making and scrutiny functions, all elected Members now have a Personal Development Plan and access to Improvement Service masterclasses and Continuing Professional Development programme. This follows a Training Needs Assessment process which allowed Members to identify their own training and development needs. Similarly, the Council's Achievement and Personal Development Scheme allows Officers to identify and work towards aims and objectives, and to demonstrate behaviours, consistent with wider organisational goals.
- 2.11 To help provide a framework of control, the Council has a Code of Conduct for Members and Officers, and all Members are expected to apply the Standards Commission Scotland's Councillors' Code of Conduct. Contract Standing Orders and Financial Regulations regulate financial and transactional activity, and the latter will be subject to a full review and refresh during 2015/16 to take account of evolving systems and emerging risks.
- 2.12 To supplement this, work will continue on ensuring that fraud prevention and detection processes and procedures remain robust, and consideration will be given to how existing whistle-blowing and confidential reporting systems can be enhanced.
- 2.13 As part of this, the Council will require to be alive to the risks of cyber crime, and the potential impact on the security, availability, and integrity of our data. Information management is one of the key risk categories embedded within our Corporate Risk Register, reflecting the value of information as an asset to organised crime groups and others. While we have robust arrangements and controls in place to access, secure, and manage our data and information (including Public Services Network re-accreditation in January 2015), the way in which we go about applying that control is being reviewed as part of the wider business transformation agenda. This encompasses our shift towards more modern and flexible ways of working, as well as the mechanisms in place to share information (both internally and with external partners).
- 2.14 Work being undertaken via the business transformation workstream (as part of the Council's budget strategy), will drive changes to the way services are delivered, with the aim of improving process efficiency. For the most part these will be internally driven changes aimed at improving the customer's experience of transacting with Falkirk Council.
- 2.15 There are, however, some significant external drivers for change, none more challenging than the integration of health and adult social care services. One by-product of that has been the formation of a new Children's Service, with responsibility for education and young persons' social work services.

- 2.16 While this represents a major change to the Council's organisational structure (with further restructuring of Services being considered by Members), it has been necessary to undertake this alongside the planning process for the shift in responsibility for adult social care services (as well as delegated primary and community health care and specific hospital services) to a Transitional Integration Joint Board. On the basis of the Public Bodies (Joint Working)(Scotland) Act 2014, Falkirk Council and NHS Forth Valley have established a Health and Social Care Partnership adopting a Body Corporate model of integration.
- 2.17 A Transitional (shadow) Joint Board has operated from April 2015, with arrangements in place to appoint a Chief Officer and Chief Finance Officer over the summer months, ahead of the partnership becoming fully operational on 1 April 2016. Full membership of the Joint Board should be achieved by August 2015.
- 2.18 The shadow year from April 2015 allows the Transitional Board and each of the partners to undertake the required planning and due diligence, including the preparation of an Integration Scheme setting out the services to be delivered by the Partnership as well as financial and operational arrangements. An Integration Scheme has been submitted to the Scottish Government, and work has commenced on the drafting of a Strategic Plan to support this, in line with the required timescale.
- 2.19 The Internal Audit teams of Falkirk Council and NHS Forth Valley will have a role in assisting the Transitional Board seek assurance on the adequacy of transition and due diligence arrangements. Reports will be submitted to respective partner Audit Committees, at the appropriate time, on the assurance processes established by Falkirk Council and NHS Forth Valley.
- 2.20 Internal Audit have been fully engaged in the process to date, most recently with the presentation of a report on Assurance and Internal Audit to the Transitional Board on 5 June 2015. The timing of future work and reports will largely be driven by the formal appointment of a shadow Chief Officer and Chief Finance Officer. As stated above, processes to make those appointments are ongoing.

### **3. MONITORING AND REVIEW OF GOVERNANCE ARRANGEMENTS**

- 3.1 Falkirk Council's governance arrangements are formally monitored via:
- the Committee framework, including the Audit Committee;
  - Corporate and Departmental Management Teams;
  - Corporate Risk Management Group and other Corporate Working Groups;
  - Internal and External Audit work; and
  - the work of Falkirk Council's Local Area Network.
- 3.2 This monitoring is done within the context of the Delivering Good Governance guidance, the Council's Corporate Plan, Strategic Community Plan, agreed Single Outcome Agreement, and the fundamental statutory requirement to demonstrate and achieve best value.

### **4. SYSTEM OF INTERNAL FINANCIAL CONTROL**

- 4.1 This section relates to the systems of internal financial control of Falkirk Council and of the consolidated entries in the Council's group accounts for the year to 31 March 2015. The Chief Finance Officer is responsible for ensuring the operation and maintenance of an effective system of internal financial control that provides reasonable (not absolute) assurance that: assets are safeguarded; transactions are authorised and properly recorded; and material errors or irregularities are either prevented or detected.
- 4.2 The system of internal financial control is based on a framework of risk management; Contract Standing Orders, Financial Regulations, and associated guidance; delegation and accountability; budgeting systems; clear financial targets; and robust management information.
- 4.3 The Council's Internal Audit Section provides assurance on arrangements for risk management, governance, and control, and undertakes an annual, risk based, programme of work approved by the Chief Executive, Chief Finance Officer, and Audit Committee.

- 4.4 The Internal Audit Manager has established a Quality Assurance and Improvement Programme for the Section, including annual self assessment and periodic external assessment of compliance with the Public Sector Internal Audit Standards. The initial self assessment confirmed broad compliance with the Standards, and an independent External Quality Assessment is scheduled for 2015/16. In addition, the Council's appointed External Auditors, Audit Scotland, have undertaken an assessment of the adequacy of the Internal Audit function, concluding that they are able to place reliance on Internal Audit work and that documentation standards and reporting procedures are sound.
- 4.5 All Internal Audit reports are issued to the relevant managers, and include recommendations and agreed action plans. It is then management's responsibility to ensure that appropriate action is taken to address these recommendations. Significant matters arising, and recommendations which remain outstanding beyond their agreed implementation date, are brought to the attention of Audit Committee.
- 4.6 The Audit Committee operates in accordance with relevant CIPFA guidance. The Committee is chaired by an external lay member, and has a remit to provide:
- Independent assurance on the adequacy of the risk management framework and associated control environment;
  - Independent scrutiny of the Authority's financial and non-financial performance to the extent that it affects risk exposure and weakens the control environment; and
  - Assurance that any issues arising from the process of drawing up, auditing, and certifying the Annual Accounts are properly dealt with.
- 4.7 The Committee considers the Internal Audit Manager's Annual Assurance Report, which provides an independent opinion on the adequacy and effectiveness of the Council's arrangements for risk management, governance, and control. In his 2014/15 Report the Internal Audit Manager concluded that he was able to provide substantial assurance on the Council's overall framework of control for the year to 31 March 2015.
- 4.8 The Local Authority Accounting (Scotland) Regulations 2014 require that a review is undertaken, at least once in each financial year, of the effectiveness of the system of internal control. In practice, the Chief Finance Officer considers the work of managers, Internal Audit, and External Audit. Based on his considerations, the Chief Finance Officer has concluded that substantial assurance can be placed on the adequacy and effectiveness of the Council's internal control systems for the year to 31 March 2015.
- 4.9 In relation to other entities that fall within the Council's group boundary, the Chief Finance Officer's review is informed by the:
- Annual Governance Statement included within the Annual Accounts of Central Scotland Valuation Joint Board;
  - Statements of Assurance from the Chief Executives of Falkirk Community Trust and Falkirk Community Stadium Limited; and
  - work of these bodies' respective External Auditors (and, where relevant, Internal Auditors) and other interim reports.
- 4.10 Based on consideration of the above, the Chief Finance Officer has concluded that, on the whole, substantial assurance can be placed on the internal financial control systems of other bodies falling within the Council's group boundary.
- 4.11 In undertaking his duties, and in forming the above opinions, the Chief Finance Officer worked in conformance with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government.

## **5. GOVERNANCE ARRANGEMENTS – AREAS FOR IMPROVEMENT**

5.1 Falkirk Council is committed to ensuring robust and proportionate governance. That said, the ever changing environment within which the Council operates means that there will always be scope for improvement. Areas that will be addressed over the coming year include:

- a review of scrutiny arrangements, protocols, and guidance will be undertaken;
- the Council's Financial Regulations will be subject to a full review and refresh during 2015/16;
- existing whistle-blowing and confidential reporting systems will be reviewed and enhanced;
- we will further develop our approaches to information security and management as part of the business transformation workstream; and
- work will continue to develop arrangements for the joint delivery of adult health and social care services.

## **6. CONCLUSION**

6.1 This Annual Governance Statement summarises, openly and transparently, arrangements established by Falkirk Council for 2014/15 and the period to date. It highlights areas for improvement, and is consistent with the Council's established improvement agenda.

.....  
**Councillor Craig Martin**  
**Leader of Falkirk Council**  
**xx 2015**

.....  
**Mary Pitcaithly**  
**Chief Executive of Falkirk Council**  
**xx 2015**

## **FALKIRK COUNCIL ANNUAL REMUNERATION REPORT**

The Local Authority Accounts (Scotland) Regulations 2014 require the annual accounts of the Council to contain a Remuneration Report. This Report for the financial year 2014/15 contains the information specified in the Schedule to the above Regulations.

All information disclosed in the tables below will be audited by Audit Scotland. The other sections of this Report will be reviewed by Audit Scotland to ensure that they are consistent with the financial statements.

### **1. SENIOR COUNCILLORS' REMUNERATION ARRANGEMENTS**

- 1.1 The remuneration of Councillors is regulated by the Local Governance (Scotland) Act 2004 (Remuneration) Amendment Regulations 2013. The Regulations provide for the grading of Councillors for the purposes of remuneration arrangements, as either the Leader of the Council, the Civic Head, Senior Councillors or Councillors. The Leader of the Council and the Civic Head cannot be the same person for the purposes of payment of remuneration. A Senior Councillor is a Councillor who holds a significant position of responsibility in the Council's political management structure.
- 1.2 The salary that is to be paid to the Leader of the Council is set out in the Regulations. For 2014/15 the salary for the Leader of Falkirk Council is £33,123. The Regulations permit the Council to remunerate one Civic Head. The Regulations set out the maximum salary that may be paid to that Civic Head as £24,842. On 12<sup>th</sup> February 2014 the Council agreed that the remuneration paid to the Civic Head would remain at the level previously set in 2007 (£23,179).
- 1.3 The Regulations also set out the remuneration that may be paid to Senior Councillors and the total number of Senior Councillors the Council may have. The maximum yearly amount that may be paid to a Senior Councillor is 75 per cent of the total yearly amount payable to the Leader of the Council (£24,842). The total yearly amount payable by the Council for remuneration of all of its Senior Councillors is specified by the above Regulations and shall not exceed £289,815. The Council is able to exercise local flexibility in the determination of the precise number of Senior Councillors and their salary within these maximum limits. The Council policy agreed on 12 February 2014 is that there will be 11 level 1 Senior Councillors each with a salary of £22,242 and 2 level 2 Senior Councillors each with a salary of £18,646.
- 1.4 In 2014/15 Falkirk Council had 13 Senior Councillors and the remuneration paid to these Councillors totalled £281,954. The Regulations also permit the Council to pay contributions or other payments as required to the Local Government Pension Scheme in respect of those Councillors who elect to become Councillor members of the pension scheme.
- 1.5 In addition to the Senior Councillors of the Council the Regulations also set out the remuneration payable to Councillors with responsibility of a Convener or Vice-Convener of a Joint Board such as a Joint Valuation Board. The Regulations require the remuneration to be paid by the Council of which the Convener or Vice-Convener (as the case may be) is a member. The Council is also required to pay any pension contributions arising from the Convener or Vice-Convener being a member of the Local Government Pension Scheme.
- 1.6 The Council is reimbursed by the Joint Board for any additional remuneration paid to the member from being a Convener or Vice-Convener.



## 2. SENIOR EMPLOYEES' REMUNERATION ARRANGEMENTS

- 2.1 The salary of senior employees is set by reference to national arrangements. The Scottish Joint Negotiating Committee (SJNC) for Local Authority Services sets the salaries for the Chief Executives of Scottish local authorities. Circular CO/146 sets the amount of salary for the Chief Executive of Falkirk Council for the period 2013 to 2015.

The salaries of Service Directors and Chief Officers are based on a fixed percentage of the Chief Executive's salary as shown in the following table:

Senior Employee Post	Percentage of Chief Executive's Salary
Director	78%
Chief Finance Officer	68%
Chief Governance Officer	68%

The above arrangements were approved at a meeting of full Council on 22 June 2011 and came into operation on 1 August 2011.

- 2.2 The Council does not have a role in determining the remuneration policy of Falkirk Community Stadium Ltd., a subsidiary of the Council.
- 2.3 In terms of Falkirk Community Trust Limited (FCT), a company limited by guarantee with charitable status established by the Council in summer 2011 to deliver cultural and leisure services for the Falkirk Council area, the Funding Agreement between the Council and FCT provides that FCT is to provide terms and conditions to its employees (including remuneration) no less favourable than the relevant corresponding terms and conditions of employment enjoyed by employees of the Council at any time.

## 3. GENERAL DISCLOSURE BY PAY BAND

- 3.1 The number of employees whose remuneration was £50,000 or more in 2014/15 is as follows:

Remuneration Bands	Number of Employees		Chief Officials		Teachers		SJC Employees	
	2013/14	2014/15	2013/14	2014/15	2013/14	2014/15	2013/14	2014/15
£50,000 - £54,999	56	98	-	-	49	54	7	44
£55,000 - £59,999	18	29	-	-	16	21	2	8
£60,000 - £64,999	3	3	1	-	2	2	-	1
£65,000 - £69,999	10	5	7	1	3	1	-	3
£70,000 - £74,999	6	15	5	11	1	4	-	-
£75,000 - £79,999	4	2	1	-	3	2	-	-
£80,000 - £84,999	2	3	1	-	1	3	-	-
£85,000 - £89,999	2	3	2	2	-	1	-	-
£90,000 - £94,999	-	1	-	1	-	-	-	-
£95,000 - £99,999	3	-	3	-	-	-	-	-
£100,000 - £104,999	-	3	-	3	-	-	-	-
£105,000 - £109,999	-	-	-	-	-	-	-	-
£110,000 - £114,999	1	-	-	-	1	-	-	-
£115,000 - £119,999	-	-	-	-	-	-	-	-
£120,000 - £124,999	-	-	-	-	-	-	-	-
£125,000 - £129,999	1	-	1	-	-	-	-	-
£130,000 - £134,999	-	1	-	1	-	-	-	-
<b>Total</b>	<b>106</b>	<b>163</b>	<b>21</b>	<b>19</b>	<b>76</b>	<b>88</b>	<b>9</b>	<b>56</b>

Note these figures do not include employees of Falkirk Community Trust (1 Chief Official and 1 SJC employee).

#### 4. DISCLOSURE – LOCAL AUTHORITY SUBSIDIARY BODIES

4.1 Falkirk Community Stadium Ltd is a subsidiary body of the Council and the details to be provided in this Report are as follows:

- The Stadium Manager is Mr Peter Eadie;
- There were no Councillors of Falkirk Council remunerated by the body in 2014/15; and
- There were no employees of the body whose remuneration in 2014/15, including any annual remuneration from Falkirk Council, was £150,000 or more.

4.2 Falkirk Community Trust Limited (FCT) is a subsidiary body of the Council and the details to be provided in this Report are as follows:

- The Chief Executive is Ms Maureen Campbell;
- There were no Councillors of Falkirk Council remunerated by the body in 2014/15; and
- There were no employees of the body whose remuneration in 2014/15, including any annual remuneration from Falkirk Council, was £150,000 or more.

#### 5. DISCLOSURE OF REMUNERATION FOR RELEVANT PERSONS

5.1 The Regulations require that the Report shows in tabular form, against the post held and name of each relevant person the total amounts, whether received or receivable, by each relevant person from Falkirk Council or, as the case may be, Falkirk Community Stadium Ltd or Falkirk Community Trust Ltd.

5.2 The information is provided in separate tables as follows:

##### Remuneration paid to Falkirk Council's Senior Councillors.

Name	2014/15	2013/14
	Salary, Fees and Allowances £	Salary, Fees and Allowances £
David Alexander	19,667	19,472
James Blackwood	22,242	20,553
William Buchanan	22,242	22,021
Dennis Goldie	22,242	22,021
Gerald Goldie	22,242	22,021
Charles MacDonald	20,702	20,497
Adrian Mahoney	22,242	22,021
Craig Martin	33,123	32,795
Craig R Martin	22,242	22,021
John McLuckie	22,242	22,021
Cecil Meiklejohn	18,646	18,462
Rosemary Murray	18,646	18,324
Malcolm Nicol	22,242	22,021
Alan Nimmo	22,242	22,021
Joan Paterson	22,242	18,052
John Patrick	22,242	22,021
Patrick Reid	23,179	23,179
<b>Total</b>	<b>378,625</b>	<b>369,523</b>

The amount recharged to Central Scotland Valuation Joint Board in 2014/15 was £2,231 (2013/14 £2,210). There were no taxable expenses or non-cash expenses and benefits in kind in 2014/15

### Remuneration of Senior Employees of Falkirk Council

Name	Post Title	Salary, Fees and Allowances £	Other Amounts £	Total Remuneration 2014/15 £	Total Remuneration 2013/14 £
M Anderson	Director of Social Work Services	100,730	-	100,730	99,733
R Geisler	Director of Development Services	100,730	600	101,330	99,733
R M Glackin	Chief Governance Officer (Monitoring Officer)	87,816	4,268	92,084	86,946
M Pitcaithly	Chief Executive	129,141	2,436	131,577	127,863
S Ritchie	Director of Corporate & Neighbourhood Services	100,730	1,200	101,930	99,733
B Smail	Chief Finance Officer (Section 95 Officer)	87,816	-	87,816	86,946
A Sutherland	Director of Education Services (left 01/09/2013)	-	-	-	41,832
N Fletcher	Joint Acting Director of Education from 02/09/2013 to 31/12/2014 *	37,851	-	37,851	50,050
G Greenhorn	Joint Acting Director of Education from 02/09/2013 *	50,451	700	51,151	49,178
A Pearson	Joint Acting Director of Education from 15/12/14 *	14,893	-	14,893	-
<b>Total</b>		<b>710,158</b>	<b>9,204</b>	<b>719,362</b>	<b>742,014</b>

\* The Joint Acting Directors of Education received a responsibility payment to reflect the additional responsibilities of the vacant Director's post undertaken by them. The total expenditure of the Director of Education post and the Acting arrangements were within the budget provision for the three posts for 2014/15. The full time annual equivalent salary for the post was £100,730.

There were no payments to senior employees by way of Bonuses, Taxable Expenses, Compensation for Loss of Office or Benefits other than in cash.

The "Other Amounts" value above covers election duties and related fees received during 2014/15 (2013/14 £nil).

The senior employees included in the table include any local authority employee:

- Who has responsibility for management of the local authority to the extent that the person has power to direct or control the major activities of the authority (including activities involving the expenditure of money), during the year to which the Report relates, whether solely or collectively with other persons;
- Who holds a post that is politically restricted by reason of section 2(1) (a), (b) or (c) of the Local Government and Housing Act 1989(a); or
- Whose annual remuneration, including any remuneration from a local authority subsidiary body, is £150,000 or more.

**Remuneration paid to relevant persons of Falkirk Community Stadium Ltd**

Name	Post Title	Salary, Fees and Allowances £	Benefits other than in cash £	Total Remuneration 2014/15 £	Total Remuneration 2013/14 £
Peter Eadie	Stadium Manager	40,559	-	40,559	40,699
<b>Total</b>		<b>40,559</b>	<b>-</b>	<b>40,559</b>	<b>40,699</b>

**Remuneration paid to relevant persons of Falkirk Community Trust Ltd**

Name	Post Title	Salary, Fees and Allowances £	Other Amounts £	Total Remuneration 2014/15 £	Total Remuneration 2013/14 £
M Campbell	Chief Executive	91,041	-	91,041	91,041
<b>Total</b>		<b>91,041</b>	<b>-</b>	<b>91,041</b>	<b>91,041</b>

**6. PENSION BENEFITS**

- 6.1 Pension benefits for councillors and local government employees are provided through the Local Government Pension Scheme (LGPS).
- 6.2 Councillors' pension benefits are based on career average pay. The Councillor's pay for each year or part year ending 31 March (other than the pay in the final year commencing 1 April) is increased by the increase in the cost of living, as measured by the appropriate index (or indices) between the end of that year and the last day of the month in which their membership of the scheme ends. The total of the revalued pay is then divided by the period of membership to calculate the career average pay. This is the value used to calculate the pension benefits.
- 6.3 For local government employees this is a final salary pension scheme. This means that pension benefits are based on the final year's pay and the number of years that person has been a member of the scheme.
- 6.4 The scheme's normal retirement age for both Councillors and employees is 65.
- 6.5 From 1 April 2009 a five tier contribution system was introduced with contributions from scheme members being based on how much pay falls into each tier. This is designed to give more equality between the cost and benefits of scheme membership. Prior to 2009 contributions rates were set at 6% for all non-manual employees.
- 6.6 The tiers and members contribution rates for 2014/15 were revised from April 2014 to reflect a 2.7% increase in the cost of living index and are as follows:

Wholetime Pay	Contribution Rate	
	2013-14	2014-15
On earnings up to and including £19,800	5.50%	
On earnings up to and including £20,500		5.50%
On earnings above £19,400 and up to £24,200	7.25%	
On earnings above £20,500 and up to £25,000		7.25%
On earnings above £23,700 and up to £33,200	8.50%	
On earnings above £25,000 and up to £34,400		8.50%
On earnings above £32,500 and up to £44,200	9.50%	
On earnings above £34,400 and up to £45,800		9.50%
On earnings above £44,200	12.00%	
On earnings above £45,800		12.00%

If a person works part-time their contribution rate is worked out on the whole-time pay rate for the job, with actual contributions paid on actual pay earned.

- 6.7 There is now no automatic entitlement to a lump sum. Scheme members may opt to give up (commute) pension for lump sum up to the limit set by the Finance Act 2004. The accrual rate guarantees a pension based on 1/60th of final pensionable salary and years of pensionable service. (Prior to 2009 the accrual rate guaranteed a pension based on 1/80th and a lump sum based on 3/80th of final pensionable salary and years of pensionable service).
- 6.8 The value of the accrued benefits has been calculated on the basis of the age at which the person will first become entitled to receive a full pension on retirement without reduction on account of its payment at that age; without exercising any option to commute pension entitlement into a lump sum; and without any adjustment for the effects of future inflation.
- 6.9 The pension figures shown relate to the benefits that the person has accrued as consequence of their total pensionable service, which may include service derived from other employments, and not just their current appointment. The pension figures shown must be rounded to the nearest £1,000.

#### Pension Rights of Senior Councillors of Falkirk Council

The pension entitlements for Senior Councillors for the year to 31 March 2015 are shown in the table below, together with the contribution made by the Council to each Senior Councillor's pension during the year.

Name	In-Year Pension Contributions For year to 31/03/2015 £	Accrued Pension Benefits			
		As at 31/03/2015		Difference from 31/03/2014	
		Pension £	Lump Sum £	Pension £	Lump Sum £
4,032		7,000	15,000	-	1,000
4,560		3,000	2,000	1,000	-
4,560		1,000	-	-	-
4,560		11,000	25,000	1,000	1,000
4,560		11,000	-	1,000	-
4,560		3,000	2,000	1,000	1,000
4,560		3,000	2,000	1,000	1,000
3,822		2,000	-	1,000	-
3,822		1,000	-	-	-
4,560		3,000	2,000	-	-
4,560		2,000	-	1,000	-
4,560		1,000	-	-	-
-		-	-	-	-
<b>52,716</b>		<b>48,000</b>	<b>48,000</b>	<b>7,000</b>	<b>4,000</b>

The

pension benefits shown relate to the benefits that the individual has accrued as a consequence of their total pensionable service in the Scheme, and not just their current appointment.

\* Councillor John Patrick has reached 75 and therefore no longer pays into the pension fund.

### Pension Rights of Senior Employees of Falkirk Council

The pension entitlements of Senior Employees for the year to 31 March 2015 are shown in the table below, together with the contribution made by the Council to each Senior Employees' pension during the year.

Name	Post Title	In-Year Pension Contributions For year to 31/03/15 £	Accrued Pension Benefits			
			As at 31/03/2015		Difference from 31/03/2014	
			Pension £	Lump Sum £	Pension £	Lump Sum £
M Anderson	Director of Social Work Services	20,650	45,000	103,000	3,000	1,000
R Geisler	Director of Development Services	20,650	47,000	110,000	2,000	1,000
RM Glackin	Chief Governance Officer (Monitoring Officer)	18,002	38,000	88,000	2,000	1,000
M Pitcaithly	Chief Executive	26,474	58,000	135,000	3,000	2,000
M Pitcaithly	Returning Officer	-	1,000	1,000	-	-
S Ritchie	Director of Corporate & Neighbourhood Services	20,650	44,000	102,000	2,000	1,000
B Smail	Chief Finance Officer (Section 95 Officer)	18,002	36,000	80,000	2,000	-
N Fletcher	Joint Acting Director of Education from 02/09/2013 to 31/12/2014	13,412	48,000	118,000	5,000	9,000
G Greenhorn	Joint Acting Director of Education from 02/09/2013	17,570	33,000	75,000	4,000	7,000
A Pearson	Joint Acting Director of Education from 15/12/2014	10,661	24,000	73,000	-	2,000
<b>Total</b>		<b>166,071</b>	<b>374,000</b>	<b>885,000</b>	<b>23,000</b>	<b>24,000</b>

The pension benefits shown relate to the benefits that the individual has accrued as a consequence of their total pensionable service in the Scheme, and not just their current appointment.

**Pension Rights of relevant persons of Falkirk Community Stadium Ltd**

The Stadium Manager of Falkirk Community Stadium Ltd is not a member of a pension scheme requiring a contribution from Falkirk Community Stadium Ltd.

**Pension Rights of relevant persons of Falkirk Community Trust Ltd**

The pension entitlement of the Chief Executive for the year to 31 March 2015 is shown in the table below, together with the contribution made by the Trust during the year.

Name	Post Title	In-Year Pension Contributions For year to 31/03/15 £	Accrued Pension Benefits			
			As at 31/03/2015		Difference from 31/03/2014	
			Pension £	Lump Sum £	Pension £	Lump Sum £
M Campbell	Chief Executive	18,663	34,000	76,000	1,000	0

**7. EXIT PACKAGES**

- 7.1 The Local Authority Accounts (Scotland) Regulations 2014 require a local authority to disclose the number of exit packages agreed in the financial year in bands as disclosed in the table below.

The total cost shown in the following tables is for exit packages that have been agreed, accrued for and charged to the Comprehensive Income and Expenditure Statement or equivalent statements in 2014/15.

The costs in respect of compensatory and pension fund payments have been converted to capital values using factors agreed by the LGPS sub-committee of the Association of Consulting Actuaries in 1998 and published in November 1998, uprated to 2009 values as advised by the actuary to the Falkirk Council Pension Fund. These factors have also been used to arrive at capital values for the equivalent costs in the Teachers Pension Scheme.

There were no compulsory redundancies in either 2014/15 or 2013/14. However, in 2014/15 two temporary employees were given exit packages due to the nature of their contracts being ended. These two payments are included in the table below.

**Exit Packages agreed with former employees of Falkirk Council**

Bands	Number of Exit Packages			
	2013/14	Total Payments £	2014/15	Total Payments £
Up to £20k	38	490,004	37	366,711
Over £20k up to £40k	15	417,638	17	479,831
Over £40k up to £60k	2	85,014	10	491,251
Over £60k up to £80k	2	136,372	2	133,480
Over £80k up to £100k	1	85,124	1	85,419
Over £100k up to £150k	1	103,369	3	335,516
Over £150k up to £200k	-	-	-	-
Over £200k	-	-	-	-
<b>Number of Packages</b>	<b>59</b>	<b>1,317,521</b>	<b>70</b>	<b>1,892,208</b>

**Exit Packages agreed with former employees of Falkirk Community Stadium Ltd**

The were no exit packages agreed in either 2014/15 or 2013/14.

**Exit Packages agreed with former employees of Falkirk Community Trust Ltd**

Bands	Number of Exit Packages			
	2013/14	Total Payments	2014/15	Total Payments
		£		£
Up to £20k	2	10,918	-	-
Over £20k up to £40k	-	-	-	-
Over £40k up to £60k	-	-	-	-
Over £60k up to £80k	-	-	-	-
Over £80k up to £100k	-	-	-	-
Over £100k up to £150k	-	-	-	-
Over £150k up to £200k	-	-	-	-
Over £200k	-	-	-	-
<b>Number of Packages</b>	<b>2</b>	<b>10,918</b>	<b>-</b>	<b>-</b>

Councillor Craig Martin  
Leader of Falkirk Council  
xx 2015

Mary Pitcaithly  
Chief Executive  
xx 2015



# MOVEMENT IN RESERVES STATEMENT FOR THE YEAR ENDED 31 MARCH 2015

This statement shows the movement in the year on the different reserves held by the Council, analysed into “usable reserves” (i.e. those that can be applied to fund expenditure or reduce local taxation) and ‘unusable reserves’. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the Council’s services, more details of which are shown in the Comprehensive Income and Expenditure Statement. This is different from the statutory amounts required to be charged to the General Fund Balance and the Housing Revenue Account for council tax setting and dwellings rent setting purposes.

	General Fund Balance £'000	HRA Balance £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied Account £'000	Other Reserves £'000	Total Usable Reserves £'000	Unusable Reserves £'000	Total Reserves £'000	Notes
<b>Balance at 31 March 2014</b>	<b>25,757</b>	<b>5,093</b>	<b>5,055</b>	<b>4,373</b>	<b>8,940</b>	<b>49,218</b>	<b>37,641</b>	<b>86,859</b>	
Surplus or (deficit) on provision of services	(12,301)	(20,552)	-	-	-	(32,853)	-	(32,853)	CIES
Other Comprehensive Income and Expenditure	(18,473)	(5,823)	4,293	(170)	-	(20,173)	(79,035)	(99,208)	CIES
<b>Total Comprehensive Income and Expenditure</b>	<b>(30,774)</b>	<b>(26,375)</b>	<b>4,293</b>	<b>(170)</b>	<b>-</b>	<b>(53,026)</b>	<b>(79,035)</b>	<b>(132,061)</b>	
Adjustments between accounting basis and funding basis under regulations	24,444	26,375	(3,570)	-	(198)	47,051	(47,051)	-	6
<b>Net Increase/Decrease before Transfers to/from Other Statutory Reserves</b>	<b>(6,330)</b>	<b>-</b>	<b>723</b>	<b>(170)</b>	<b>(198)</b>	<b>(5,975)</b>	<b>(126,086)</b>	<b>(132,061)</b>	
Transfers to/from Other Statutory Reserves	(494)	-	-	(334)	828	-	-	-	7
<b>Increase/Decrease in Year</b>	<b>(6,824)</b>	<b>-</b>	<b>723</b>	<b>(504)</b>	<b>630</b>	<b>(5,975)</b>	<b>(126,086)</b>	<b>(132,061)</b>	
<b>Balance at 31 March 2015</b>	<b>18,933</b>	<b>5,093</b>	<b>5,778</b>	<b>3,869</b>	<b>9,570</b>	<b>43,243</b>	<b>(88,445)</b>	<b>(45,202)</b>	

## Movement in Reserves Statement for the year ended 31 March 2014

	General Fund Balance £'000	HRA Balance £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied Account £'000	Other Reserves £'000	Total Usable Reserves £'000	Unusable Reserves £'000	Total Reserves £'000	Notes
<b>Balance at 31 March 2013</b>	<b>29,797</b>	<b>7,631</b>	<b>4,428</b>	<b>5,501</b>	<b>7,629</b>	<b>54,986</b>	<b>99,860</b>	<b>154,846</b>	
Surplus or (deficit) on provision of services	(30,632)	(32,985)	-	-	-	(63,617)	-	(63,617)	CIES
Other Comprehensive Income and Expenditure	699	(7,265)	7,199	(935)	-	(302)	(4,068)	(4,370)	CIES
<b>Total Comprehensive Income and Expenditure</b>	<b>(29,933)</b>	<b>(40,250)</b>	<b>7,199</b>	<b>(935)</b>	<b>-</b>	<b>(63,919)</b>	<b>(4,068)</b>	<b>(67,987)</b>	
Adjustments between accounting basis and funding basis under regulations	27,727	37,289	(6,765)	-	(100)	58,151	(58,151)	-	6
<b>Net Increase/Decrease before Transfers to/from Other Statutory Reserves</b>	<b>(2,206)</b>	<b>(2,961)</b>	<b>434</b>	<b>(935)</b>	<b>(100)</b>	<b>(5,768)</b>	<b>(62,219)</b>	<b>(67,987)</b>	
Transfers to/from Other Statutory Reserves	(1,834)	423	193	(193)	1,411	-	-	-	7
<b>Increase/Decrease in Year</b>	<b>(4,040)</b>	<b>(2,538)</b>	<b>627</b>	<b>(1,128)</b>	<b>1,311</b>	<b>(5,768)</b>	<b>(62,219)</b>	<b>(67,987)</b>	
<b>Balance at 31 March 2015</b>	<b>25,757</b>	<b>5,093</b>	<b>5,055</b>	<b>4,373</b>	<b>8,940</b>	<b>49,218</b>	<b>37,641</b>	<b>86,859</b>	

## COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT FOR THE YEAR ENDED 31 MARCH 2015

This Statement shows the economic cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

Gross Expenditure 2013/14 £'000	Gross Income 2013/14 £'000	Net Expenditure 2013/14 £'000		Gross Expenditure 2014/15 £'000	Gross Income 2014/15 £'000	Net Expenditure 2014/15 £'000	Notes
160,931	(5,146)	155,785	Education Services	161,865	(5,029)	156,836	
132,942	(93,697)	39,245	Housing Services	121,584	(96,508)	25,076	
20,559	(2,489)	18,070	Cultural and Related Services	20,716	(2,224)	18,492	
19,708	(3,855)	15,853	Environmental Services	21,137	(4,381)	16,756	
17,753	(1,178)	16,575	Roads & Transport Services	18,190	(1,179)	17,011	
24,829	(8,694)	16,135	Planning and Development Services	22,097	(9,872)	12,225	
123,202	(29,674)	93,528	Social Work Services	131,286	(30,495)	100,791	
17,428	(12,174)	5,254	Central Services to the Public	17,814	(12,609)	5,205	
3,068	-	3,068	Corporate & Democratic Core	2,799	-	2,799	
1,315	-	1,315	Non-Distributed Costs	1,768	-	1,768	
<b>521,735</b>	<b>(156,907)</b>	<b>364,828</b>	<b>Cost of Services</b>	<b>519,256</b>	<b>(162,297)</b>	<b>356,959</b>	
			<u>Other Operating Expenditure</u>				
19,909	-	19,909	(Gains) or Losses on disposal of Non-Current and Current Assets	-	(2,178)	(2,178)	
			<u>Financing and Investment Income and Expenditure</u>				
35,036	(35,300)	(264)	Surplus or deficit on trading undertakings	33,434	(33,624)	(190)	
22,893	-	22,893	Interest Payable and Similar Charges	23,333	-	23,333	
-	(594)	(594)	Interest & Investment Income	-	(523)	(523)	
34,646	(24,567)	10,079	Pensions interest cost & interest income on pensions assets	36,299	(25,320)	10,979	
<b>92,575</b>	<b>(60,461)</b>	<b>32,114</b>		<b>93,066</b>	<b>(59,467)</b>	<b>33,599</b>	
			<u>Taxation and Non-Specific Grant Income</u>				
-	(51,913)	(51,913)	Council Tax	-	(53,316)	(53,316)	
-	(205,804)	(205,804)	Government Grants	-	(205,188)	(205,188)	
-	(26,475)	(26,475)	Capital Grants, Contributions & Donations	-	(21,777)	(21,777)	42
-	(68,291)	(68,291)	Non-Domestic Rate redistribution	-	(74,307)	(74,307)	
-	(751)	(751)	Non-Domestic Rates – TiF	-	(939)	(939)	
<b>-</b>	<b>(353,234)</b>	<b>(353,234)</b>		<b>-</b>	<b>(355,527)</b>	<b>(355,527)</b>	
<b>634,219</b>	<b>(570,602)</b>	<b>63,617</b>	<b>(Surplus) or Deficit on Provision of Services</b>	<b>612,322</b>	<b>(579,469)</b>	<b>32,853</b>	
		(13,759)	Surplus or deficit on revaluation of non-current assets and current assets			(13,289)	
		18,129	Remeasurements of pension assets/liabilities			112,497	
		<b>4,370</b>	<b>Other Comprehensive Income and Expenditure</b>			<b>99,207</b>	
		<b>67,987</b>	<b>Total Comprehensive Income and Expenditure</b>			<b>132,061</b>	

<b>BALANCE SHEET AS AT 31 MARCH 2015</b>
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The Balance Sheet shows the value as at the Balance Sheet date of the asset and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. Reserves are reported in two categories. The first category of reserves is usable reserves, i.e. those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the capital receipts reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves is those that the Council is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the revaluation reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line “Adjustments between accounting basis and funding basis under regulations”.

2013/14 £'000		2014/15 £'000	Notes
	<b>Non-Current Assets</b>		
689,150	Property, Plant & Equipment	700,769	23
259	Heritage Assets	259	24
58	Intangible Assets	1,453	20
115	Assets Held for Sale	104	26
9,340	Long Term Investments	9,578	31
9,827	Long Term Debtors	9,848	35
<u>708,749</u>		<u>722,011</u>	
	<b>Current Assets</b>		
923	Inventories	891	36
25,199	Short Term Debtors	26,400	38
9,855	Cash and Cash Equivalents	14,336	
1,355	Assets Held for Sale	888	26
<u>37,332</u>		<u>42,515</u>	
	<b>Current Liabilities</b>		
(26,307)	Short Term Borrowing	(30,283)	32
(68,072)	Short Term Creditors	(63,240)	39
(5,613)	Provisions	(5,475)	34
<u>(99,992)</u>		<u>(98,998)</u>	
	<b>Long Term Liabilities</b>		
(178,258)	Long Term Borrowing	(204,229)	32
(253,264)	Defined Benefit Pension Scheme Liability	(381,288)	17
(124,793)	Other Long Term Liabilities	(120,439)	44
(2,915)	Capital Grants Received in Advance	(4,774)	42
<u>(559,230)</u>		<u>(710,730)</u>	
<u>86,859</u>	<b>Net Assets</b>	<u>(45,202)</u>	30
	<b>Usable Reserves</b>		
5,055	Capital Receipts Reserve	5,778	
4,373	Capital Grants Unapplied Account	3,869	
30,850	General Fund	24,026	9
8,940	Other Usable Reserves	9,570	
<u>49,218</u>		<u>43,243</u>	
	<b>Unusable Reserves</b>		
154,802	Capital Adjustment Account	144,970	8
(6,065)	Financial Instruments Adjustment Account	(5,736)	8
147,928	Revaluation Reserve	159,634	8
(253,264)	Pensions Reserve	(381,288)	8
(5,760)	Accumulated Absences Account	(6,025)	8
<u>37,641</u>		<u>(88,445)</u>	
<u>86,859</u>	<b>Total Reserves</b>	<u>(45,202)</u>	



Bryan Smail, CPFA MBA  
Chief Finance Officer

The unaudited accounts were issued on 22 June 2015.

## CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2015

The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the reporting period. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as: operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipients of services provided by the Council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Council.

2013/14 £'000		2014/15 £'000
63,617	Net (surplus) or deficit on the provision of services	32,853
(114,690)	Adjust net surplus or deficit on the provision of services for non-cash movements	(67,263)
26,475	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	21,777
(24,598)	<b>Net cash flows from operating activities</b>	(12,633)
	<b>Investing Activities</b>	
76,063	Purchase of property, plant & equipment, investment property and intangible assets	62,369
-	Other payments for investing activities	
(4,983)	Proceeds from the sale of property, plant & equipment, investment property and intangible assets	(4,293)
(28,870)	Other receipts and investing activities	(24,050)
42,210	<b>Net cash flows from investing activities</b>	34,026
	<b>Financing Activities</b>	
(122,126)	Cash receipts of short and long-term borrowing	(52,495)
4,987	Cash payments for the reduction of the outstanding liabilities relating to finance leases	4,073
99,798	Repayments of short and long-term borrowing	22,548
(17,341)	<b>Net cash flows from financing activities</b>	(25,874)
271	<b>Net (increase) or decrease in cash and cash equivalents</b>	(4,481)
(10,126)	Cash and cash equivalents at the beginning of the reporting period	(9,855)
	<b>Cash and cash equivalents at the end of the reporting period</b>	
(40)	Cash held by Officers	(40)
(862)	Bank Current Accounts	561
(8,953)	Short-term deposits	(14,857)
(9,855)		(14,336)

The cash flows for operating activities include interest paid of £23.333m (2013/14 £22.891m) and interest received of £0.523m (2013/14 £0.594m).

Adjust net surplus or deficit on the provision of services for non-cash movements:

(19,909)	Net Gain/(Loss)	2,178
(8)	Amortisation of Intangible Assets	(15)
(82,306)	Depreciation & Impairment of Fixed Assets	(60,075)
(12,182)	Net Charges for Retirement Benefits	(15,527)
7,094	Movement in Debtors	1,635
(7,438)	Movement in Creditors	4,572
59	Movement in Stock	(32)
(114,690)		(67,264)

Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities:

22,344	Capital Grants General Fund	18,853
4,131	Capital Grants HRA	2,924
26,475		21,777

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 1. GENERAL ACCOUNTING POLICIES

#### General Principals and Accounting Concepts

The Statement of Accounts summarises the Council's transactions for the 2014/15 financial year and its position at the year-end of 31 March 2015. The Council is required to prepare an annual Statement of Accounts by the Local Authority Accounts (Scotland) Regulations 1985. Section 12 of the Local Government in Scotland Act 2003 requires that the accounts are prepared in accordance with proper accounting practices. The Accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 (the Code) and the Service Reporting Code of Practice 2014/15 (SERCOP), supported by International Financial Reporting Standards (IFRS).

The Code of Practice on Local Authority Accounting is issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Local Authority (Scotland) Accounts Advisory Committee (LA(S) AAC).

The Accounts are designed to illustrate the financial performance in the year as well as the position of the Council as at 31 March 2015. Comparative figures for the previous financial year are also provided.

In accordance with IAS 8: Accounting Policies, the Council regularly reviews its accounting policies to ensure that they remain the most appropriate. The Code defines accounting policies as "the principles, bases, conventions, rules and practices applied by a Council that specify how the effects of transactions and other events are to be reflected in its financial statements through recognising, selecting measurement bases for, and presenting assets, liabilities, gains, losses and changes in reserves."

The accounting concepts of 'materiality', 'accruals', 'going concern' and 'primacy of legislative requirements' have been considered in the application of accounting policies. In this regard the materiality concept means that information is included where it is of such significance as to justify its inclusion. The accruals concept requires the non-cash effects of transactions to be included in the financial statements for the year in which they occur, not in the period in which payment is made or income received. The going concern concept assumes that the Council will not significantly curtail the scale of its operation. In cases where accounting principles and legislative requirements conflict, the latter will apply.

The accounts have been prepared on a going concern basis as, while the Balance Sheet shows net current liabilities, the Council has in place a treasury management policy which includes monitoring of borrowing and cash-flows to ensure it has sufficient funds to meet its current liabilities as they fall due.

Any departures from the above Codes of Practice are stated in the notes to the core financial statements. In addition, these accounts have been prepared under the historic cost convention, other than changes resulting from the revaluation of certain categories of non-current assets.

As noted in the management commentary by the Chief Finance Officer, Group Financial Statements have been prepared which reflect the Council's interest in the Central Scotland Valuation Joint Board, FCSL (Holdings) Ltd, Falkirk Community Stadium Limited, Falkirk Community Trust Limited and Common Good Funds.

#### Accrual Of Income And Expenditure

Transactions of the Council are recorded in the Accounts on the accruals basis in accordance with Financial Reporting Standard 18, 'Accounting Policies' (IAS 8). In other words, income and expenditure are matched to the service provided in the financial year, by including both estimated and actual amounts due to or by the Council as at 31 March where these are significant. This applies to both Revenue and Capital accruals. Debtor and Creditor balances represent sums due but unpaid at 31 March 2015.

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.

- Revenue from the provision of services is recognised when the Council can reliably measure the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including those rendered by employees) are recorded as expenditure when the services are received, rather than when payments are made.
- Interest payable on borrowings and receivable on investments is accounted for on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where there is evidence that debts are unlikely to be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

Government grants or other contributions are accounted for on an accruals basis and recognised in the accounting statements when the conditions for their receipt have been complied with and there is reasonable assurance that the grant or contribution will be received.

The cost of supplies and services are accrued and accounted for in the period during which they were consumed or received. Accrual has been made for all material sums unpaid at the year-end for goods or services received or works completed.

Interest on external borrowing is fully accrued in order that each year bears the cost of interest relating to its actual external borrowing.

#### **Acquisitions and Discontinued Operations**

The Council has not acquired or discontinued any operations (including those operations under machinery of government arrangements) during the financial year.

#### **Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors**

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Changes in accounting estimates are accounted for prospectively i.e. in the current and future years affected by the change.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

#### **Cash And Cash Equivalents**

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Balance Sheet and Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

#### **Charges To Revenue For Non-Current Assets**

Service revenue accounts, support services and the trading accounts are debited with the following amounts to record the real cost of holding non-current assets during the year:

- Depreciation attributable to the assets used by the relevant service
- Revaluation and impairment losses attributable to the clear consumption of economic benefits on tangible non-current assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off
- Amortisation of intangible non-current assets attributable to the service.

The Council is not required to raise council tax to cover depreciation, impairment losses, revaluation losses, or amortisations. However, it is required to make an annual contribution from general fund balances to reduce its overall borrowing requirement. Depreciation, impairment losses, revaluation losses, and amortisations are therefore substituted by a funding contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

### **Value Added Tax**

Income and expenditure excludes any amounts related to VAT, as all VAT collected is payable to Her Majesty's Revenue & Customs (HMRC) and all VAT paid is recoverable from HMRC.

### **Revenue Expenditure Funded from Capital Under Statute**

Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income & Expenditure Statement in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

### **Overheads and Support Services**

The costs of Central Support Services have been fully allocated to all Services and Trading Accounts in accordance with the CIPFA Service Reporting Code of Practice 2014/15 (SERCORP) but not to Common Good and Trust Funds. The main allocation bases are summarised below:-

<b>Cost</b>	<b>Allocation Base</b>
Professional Services (Finance, Legal etc)	Actual time spent by staff and direct allocation
Administrative Buildings	Area occupied
Information Services	Machine usage and time allocations
Payroll	Number of Payroll transactions
Creditors	Number of invoices paid
Sundry Debtors	Number of invoices issued
Human Resources	Number of Full Time Equivalent Employees and actual time spent by staff

### **Corporate and Democratic Core and Non-Distributed Costs**

As noted above, the costs of overheads and support services have been allocated to Services and Trading Accounts. The following cost categories are not included in these allocations:

- Corporate and Democratic Core – costs relating to the Council's status as a multi-functional, democratic organisation.
- Non-Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and any depreciation or impairment losses chargeable on Assets Held for Sale.

These two cost categories are defined in SERCOP and accounted for as separate headings in the Comprehensive Income & Expenditure Statement, as part of the Cost of Services.

- (i) The corporate and democratic core comprises all activities which local authorities engage in specifically because they are elected, multi-purpose authorities. Section 2 of SERCOP redefines corporate and democratic core activities into 'corporate management' (CM) and 'democratic representation and management' (DRM). CM includes all expenses incurred in providing the infrastructure that allows services to be provided. DRM includes all Councillor-related expenses including meetings of the Council and its Boards, officer support to Councillors, advice to voluntary bodies and activities undertaken by Councillors to represent local interests. The cost of these activities are thus over and above those which would be incurred by a series of independent, single purpose, nominated bodies managing the same services. In accordance with CIPFA Guidance, these costs have not been recharged to services but accumulated and charged to the General Fund and the Housing Revenue Account.
- (ii) Non-Distributed Costs include the cost of discretionary benefits awarded to employees retiring early. In accordance with CIPFA Guidance, these costs have not been recharged to services but accumulated and charged to the General Fund and Housing Revenue Account.

### **Accounting for the Costs of the Carbon Reduction Commitment Scheme**

The authority is required to participate in the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme. The scheme is currently in its introductory phase which will last until 31 March 2015. The authority is required to purchase and surrender allowances, currently retrospectively, on the basis of emissions i.e. carbon dioxide produced as energy is used. As carbon dioxide is emitted (i.e. as energy is used), a liability and an expense are recognised. The liability will be discharged by surrendering allowances. The liability is measured at the best estimate of the expenditure required to meet the obligation, normally at the current market price of the number of allowances required to meet the liability at the reporting date. The cost to the authority is recognised and reported in the costs of the authority's services and is apportioned to services on the basis of energy consumption.

### **Reserves**

Reserves are amounts set aside for specific purposes outwith the definition of provisions. They are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service revenue account in that year and included within the Net Cost of Services in the Comprehensive Income & Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure in that year.

Section 93 of the Local Government (Scotland) Act 1973 requires the Council to have a General Fund. Schedule 3 to the Local Government (Scotland) Act 1975 also allows local authorities to establish a Repairs and Renewals Fund, an Insurance Fund and a Capital Fund. Other reserves have also been established to meet the accounting requirements of the Code.

Certain reserves are kept to manage the accounting processes for non-current assets and financial instruments as well as retirement benefits and do not represent usable resources for the Council – these reserves are explained in the relevant policies below:



## Usable Reserves

### *Capital Receipts Reserve*

Capital Receipts received in the year are available to finance new capital expenditure or to finance the repayment of principal on existing loans.

### *Capital Grants Unapplied Account*

The Capital Grants Unapplied Account records grants and developers contributions which have been credited to the Comprehensive Income and Expenditure Statement but have still to be applied to fund capital expenditure. Once applied, the value will be transferred from the Capital Grants Unapplied Account to the Capital Adjustment Account.

### *General Fund*

The General Fund relates to the revenue reserves of the Council, elements of which are regarded as earmarked funds e.g. Devolved Schools, Spend to Save, Economic Development and Energy Efficiency.

### *Housing Revenue Account*

The Housing (Scotland) Act 1987 requires the Council to account separately for local authority housing provision and the related reserves.

## Other Usable Reserves

These comprise:

### *Insurance Fund*

Established as a provision against future claims and the cost of insurance premiums to meet any large claims. Council Services contribute to the fund which meets the costs in respect of property damage, public and employee liability and the vehicle fleet.

### *Repairs and Renewals Fund*

The contribution to this reserve mainly arises from the Waste Strategy programme and provision for property costs in Social Work and Development Services.

## Unusable Reserves

Certain reserves are kept to manage the accounting process for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the Council. These reserves are explained in Note 8.

## 2. ACCOUNTING STANDARDS THAT HAVE BEEN ISSUED BUT HAVE NOT BEEN ADOPTED

The Code requires the disclosure of information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. This applies to the adoption of the following new or amended standards within the 2014/15 Code:

- IFRS13 Fair Value Measurement (May 2011)
- IFRIC 21 Levels
- Annual Improvements to IFRS 2011-2013 Cycle

The Code requires implementation from 1 April 2015 and there is therefore no impact on the 2014/15 financial statements.

IFRS 13 provides a common definition of fair value as “the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date”. The main impact is likely to be on the valuation of Surplus Assets requiring to be measured at ‘highest and best use’.

IFRIC 21 examines the obligating event that gives rise to the recognition of a liability to pay a levy.

IFRS improvements are generally minor, principally providing clarification. Overall, these new or amended standards may have an impact on the group financial statements.

### 3. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying these accounting policies the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

- there is a high degree of uncertainty about future levels of funding for local government. However, the Council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close facilities and reduce levels of service provision.
- The Code has adopted the International Public Sector Accounting Standards (IPSAS) definition of Investment Property as one that is used solely to earn rentals or for capital appreciation, or both. Property that is used to facilitate the delivery of services or production of goods as well as to earn rentals or for capital appreciation does not meet the definition of investment property under IPSAS 16 and is accounted for as Property, Plant and Equipment. The Council has examined its portfolio of property, in particular those which were classified as investment properties under the SORP and concluded that they do not meet the definition of an investment property as noted above. Instead, these properties are held for economic development purposes and have now been reclassified as Property, Plant and Equipment.
- The Council is deemed to control the services provided under the Private Finance Initiative agreements for the provision of school buildings, maintenance and other facilities (Class 98 and Falkirk Schools Gateway Ltd). The accounting policies for Private Finance Initiatives have been applied to these arrangements and the schools (valued at net book value of £208.2m at 31 March 2015) are recognised as Property, Plant and Equipment on the Council's Balance Sheet.
- The Council entered into a partnership agreement with Scottish Councils to invest in The Helix project. All costs were routed through the Council and funded by external contributions from such bodies as Scottish Canals and Big Lottery with the Council contributing £5.4m over the last 7 years (£0.2m in 2014/15). The partnership agreement allowed for the transfer of The Kelpies and canal elements of the project to Scottish Canals. The transfer of £0.8m has been accounted for as a disposal at nil receipt and as such is included as a "loss on disposal of non-current and current assets" in the Comprehensive Income and Expenditure Account.

### 4. ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

The statement of accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Council's Balance Sheet at 31 March 2015 for which there is a significant risk of material adjustment in the forthcoming financial years are as follows:

#### **Provisions**

The Council has made a provision of £4m for the settlement of claims for back pay arising from the Equal Pay initiative, based on the number of claims received and an average settlement amount. It is not certain that all valid claims have yet been received by the Council or that precedents set by other authorities in the settlement of claims will be applicable. An increase over the forthcoming year of 10% in either the total number of claims or the estimated average settlement would each have the effect of adding £0.4m to the provision needed.

### **Pensions Liability**

Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied. The effects on the net pensions liability of changes in individual assumptions can be measured. For instance, a 0.5% decrease in the real discount rate assumption would result in an increase in the pension liability of £112m, whilst a 1 year increase in life expectancy would add £32m to liabilities.

However, the assumptions interact in complex ways. During 2014/15, the Council's actuaries advised that the net pensions liability had increased by £128m since March 2014. This included an increase in assets of £87m but an increase in liabilities of £215m. Had there been a 0.5% increase in the assumptions governing both salary rates and pension increase rates, this would have resulted in an increase in liabilities of £43m and £66m respectively.

### **Arrears**

At 31 March 2015, the Council had a balance of sundry debtors of c£13.1m, council tax circa £11.5m and house rents of c£3.7m. Provision for doubtful debts amount to c£4m, £10.5m and £3m respectively. An increase of 10% in the value of these would amount to £0.4m, £1m and £0.3m respectively.

## **5. EVENTS AFTER THE BALANCE SHEET DATE**

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the balance sheet date and the date when the Statement of Accounts is authorised for issue. Two types of event can be identified:

- Those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events
- Those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

## 6. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS 2014/15

This note details the adjustments that are made to the total Comprehensive Income and Expenditure recognised by the Council in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure.

	<b>General Fund Balance £'000</b>	<b>HRA Balance £'000</b>	<b>Capital Receipts Reserve £'000</b>	<b>Capital Grants Unapplied Account £'000</b>	<b>Other Reserves £'000</b>	<b>Total Usable Reserves £'000</b>	<b>Unusable Reserves £'000</b>
Depreciation, impairment and downward revaluation of non-current assets	25,461	34,620	-	-	-	<b>60,081</b>	(60,081)
Amortisation of intangible assets	15	-	-	-	-	<b>15</b>	(15)
Statutory Repayment of Debt (Loans Fund Advances)	(9,886)	(3,077)	-	-	-	<b>(12,963)</b>	12,963
Capital expenditure charged to the General Fund Balance (CFCR)	(1,708)	(5,599)	-	-	-	<b>(7,307)</b>	7,307
Statutory Repayment of Debt (Finance Lease Liabilities)	-	(335)	-	-	-	<b>(335)</b>	335
Statutory Repayment of Debt (PFI)	(3,738)	-	-	-	-	<b>(3,738)</b>	3,738
Capital Receipts applied to fund Capital Expenditure	-	-	(3,570)	-	-	<b>(3,570)</b>	3,570
Use of the Repairs & Renewals Fund , DMR, Spend to Save to Finance new capital expenditure	(397)	-	-	-	(198)	<b>(595)</b>	595
Amount by which finance costs calculated in accordance with the Code are different from the amount of finance costs calculated in accordance with statutory requirements	(265)	(64)	-	-	-	<b>(329)</b>	329
Amount by which pension costs calculated in accordance with the Code (i.e. in accordance with IAS 19) are different from the contributions due under the pension scheme regulations	14,699	828	-	-	-	<b>15,527</b>	(15,527)
Net transfer to or from the Accumulated Absences account required by legislation	263	2	-	-	-	<b>265</b>	(265)
<b>Total Adjustments</b>	<b>24,444</b>	<b>26,375</b>	<b>(3,570)</b>	<b>-</b>	<b>(198)</b>	<b>47,051</b>	<b>(47,051)</b>

**Adjustments between accounting basis and funding basis under regulations 2013/14**

	<b>General Fund Balance £'000</b>	<b>HRA Balance £'000</b>	<b>Capital Receipts Reserve £'000</b>	<b>Capital Grants Unapplied Account £'000</b>	<b>Other Reserves £'000</b>	<b>Total Usable Reserves £'000</b>	<b>Unusable Reserves £'000</b>
Depreciation, impairment and downward revaluation of non-current assets	33,306	48,999	-	-	-	<b>82,305</b>	(82,305)
Amortisation of intangible assets	8	-	-	-	-	<b>8</b>	(8)
Statutory Repayment of Debt (Loans Fund Advances)	(10,201)	(9,345)	-	-	-	<b>(19,546)</b>	19,546
Capital expenditure charged to the General Fund Balance (CFCR)	(2,042)	(2,557)	-	-	-	<b>(4,599)</b>	4,599
Statutory Repayment of Debt (Finance Lease Liabilities)	-	(502)	-	-	-	<b>(502)</b>	502
Statutory Repayment of Debt (PFI)	(4,485)	-	-	-	-	<b>(4,485)</b>	4,485
Capital Receipts applied to fund Capital Expenditure	-	-	(6,765)	-	-	<b>(6,765)</b>	6,765
Use of the Repairs & Renewals Fund , DMR, Spend to Save to Finance new capital expenditure	(172)	-	-	-	(100)	<b>(272)</b>	272
Amount by which finance costs calculated in accordance with the Code are different from the amount of finance costs calculated in accordance with statutory requirements	(264)	(63)	-	-	-	<b>(327)</b>	327
Amount by which pension costs calculated in accordance with the Code (i.e. in accordance with IAS 19) are different from the contributions due under the pension scheme regulations	11,427	755	-	-	-	<b>12,182</b>	(12,182)
Net transfer to or from the Accumulated Absences Account required by legislation	150	2	-	-	-	<b>152</b>	(152)
<b>Total Adjustments</b>	<b>27,727</b>	<b>37,289</b>	<b>(6,765)</b>	<b>-</b>	<b>(100)</b>	<b>58,151</b>	<b>(58,151)</b>

**7. TRANSFERS TO/FROM OTHER STATUTORY RESERVES****(a) Transfers to/from Other Statutory Reserves 2014/15**

	<b>General Fund Balance £'000</b>	<b>HRA Balance £'000</b>	<b>Capital Receipts Reserve £'000</b>	<b>Capital Grants Unapplied Account £'000</b>	<b>Other Reserves £'000</b>
Insurance Fund	(257)	-	-	-	257
Repairs and Renewals Fund	(571)	-	-	-	571
Capital Receipts/Capital Grants	334	-	-	(334)	-
Revenue Grant Reserve	-	-	-	-	-
<b>Total Transfers 2014/15</b>	<b>(494)</b>	<b>-</b>	<b>-</b>	<b>(334)</b>	<b>828</b>

**(b) Transfers to/from Other Statutory Reserves 2013/14**

	<b>General Fund Balance £'000</b>	<b>HRA Balance £'000</b>	<b>Capital Receipts Reserve £'000</b>	<b>Capital Grants Unapplied Account £'000</b>	<b>Other Reserves £'000</b>
Insurance Fund	(216)	-	-	-	216
Repairs and Renewals Fund	(1,195)	-	-	-	1,195
Capital Receipts/Capital Grants	-	-	193	(193)	-
Revenue Grant Reserve	(423)	423	-	-	-
<b>Total Transfers 2013/14</b>	<b>(1,834)</b>	<b>423</b>	<b>193</b>	<b>(193)</b>	<b>1,411</b>

**8. UNUSABLE RESERVES**

<b>2013/14 £'000</b>	<b>Unusable Reserve</b>	<b>2014/15 £'000</b>
154,802	Capital Adjustment Account	<b>144,970</b>
147,928	Revaluation Reserve	<b>159,634</b>
(253,264)	Pension Reserve	<b>(381,288)</b>
(5,760)	Accumulated Absences Account	<b>(6,025)</b>
(6,065)	Financial Instruments Account	<b>(5,736)</b>
<b>37,641</b>	<b>Total Unusable Reserves</b>	<b>(88,445)</b>

**(a) Capital Adjustment Account**

The Capital Adjustment Account contains the difference between amounts provided for depreciation and amounts that require to be charged to revenue to repay the principal element of external loans. It also contains the amount of impairment charged to revenue to the extent that the revaluation reserve does not contain a revaluation gain relevant to a specific asset.

<b>2013/14 £'000</b>		<b>2014/15 £'000</b>
<b>197,511</b>	<b>Balance at 1 April</b>	<b>154,802</b>
27,410	Capital Grants Received	<b>22,281</b>
(26,075)	Net Book Value of Asset Disposals	<b>(1,829)</b>
39	Gain on Revaluation of Non-Current Assets	<b>6</b>
(82,305)	Depreciation/ impairment and downward revaluation of non-current assets	<b>(60,081)</b>
(8)	Authorisation of intangible assets	<b>(15)</b>
19,546	Statutory Repayment of Debt (Loans Fund Advances)	<b>12,963</b>
4,599	Capital expenditure charged to the General Fund Balance (CFCR)	<b>7,307</b>
502	Statutory Repayment of Debt (Finance Lease Liabilities)	<b>335</b>
4,485	Statutory Repayment of Debt (PFI)	<b>3,738</b>
6,765	Capital Receipts applied to fund Capital Expenditure	<b>3,570</b>
272	Use of the Repairs & Renewals Fund, DMR, Spend to Save to Finance new capital expenditure	<b>595</b>
2,061	Adjustment between CAA and Revaluation Reserve for depreciation that is related to the revaluation balance rather than Historic Cost	<b>1,298</b>
<b>154,802</b>	<b>Balance at 31 March</b>	<b>144,970</b>

**(b) Revaluation Reserve**

The Revaluation Reserve records the increase in value of non-current assets as a result of revaluation. These increases are offset by the depreciation charge incurred as a result of the revaluation of each asset. On disposal of an asset, the reserve is reduced by any balance it may hold in relation to that asset. Any downward revaluations will be processed through the revaluation reserve up to the value of any previous credits which may exist. The balance in the revaluation reserve represents an increase in the net worth of the Council. However, these gains would only be recognised if the assets were sold and a capital receipt generated.

<b>2013/14 £'000</b>		<b>2014/15 £'000</b>
<b>137,302</b>	<b>Balance at 1 April</b>	<b>147,928</b>
(1,033)	Net Book Value of Assets Disposals	<b>(286)</b>
13,720	Gain on Revaluation of Non-Current Assets	<b>13,290</b>
(2,061)	Adjustment between CAA and Revaluation Reserve for depreciation that is related to the revaluation balance rather than Historic Cost	<b>(1,298)</b>
<b>147,928</b>	<b>Balance at 31 March</b>	<b>159,634</b>

**(c) Pension Reserve**

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Council makes employer's contributions to pensions funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

<b>2013/14 £'000</b>		<b>2014/15 £'000</b>
<b>(222,953)</b>	<b>Balance at 1 April</b>	<b>(253,264)</b>
(18,129)	Remeasurements of Pension Assets/Liabilities	<b>(112,497)</b>
(12,182)	Amount by which pension costs calculated in accordance with the Code (i.e. in accordance with IAS 19) are different from the contribution due under the pension scheme regulations	<b>(15,527)</b>
<b>(253,264)</b>	<b>Balance at 31 March</b>	<b>(381,288)</b>

**(d) Accumulated Absences Account**

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

<b>2013/14 £'000</b>		<b>2014/15 £'000</b>
<b>(5,608)</b>	<b>Balance at 1 April</b>	<b>(5,760)</b>
(152)	Net transfer to or from earmarked reserves required by legislation	<b>(265)</b>
<b>(5,760)</b>	<b>Balance at 31 March</b>	<b>(6,025)</b>

**(e) Financial Instruments Adjustment Account**

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions. The Council uses the Account to manage premiums paid on the early redemption of loans. Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out of the General Fund Balance to the Account in the Movement in Reserves Statement. Over time, the expense is posted back to the General Fund Balance in accordance with statutory arrangements for spreading the burden on council tax. In the Council's case, this period is the unexpired term that was outstanding on the loans when they were redeemed. As a result, the balance on the Account at 31 March 2015 will be charged to the General Fund over the next 40 years.

<b>2013/14 £'000</b>		<b>2014/15 £'000</b>
<b>(6,392)</b>	<b>Balance at 1 April</b>	<b>(6,065)</b>
327	Amount by which finance costs calculated in accordance with the Code are different from the amount of finance costs calculated in accordance with statutory requirements	<b>329</b>
<b>(6,065)</b>	<b>Balance at 31 March</b>	<b>(5,736)</b>



## 9. ANALYSIS OF GENERAL FUND BALANCE

	General (1) £'000	Housing (1) £'000	Devolved Schools (2) £'000	Economic Development (3) £'000	Central Energy Efficiency Fund (4) £'000	Revenue Grant (5) £'000	Spend to Save (6) £'000	Total £'000
Balance at beginning of year	(12,309)	(5,093)	(5,657)	(1,406)	(439)	(2,349)	(3,597)	(30,850)
(Surplus)/Deficit for the year	6,824	-	-	-	-	-	-	6,824
Appropriation to General Fund	(2,901)	-	757	325	-	836	983	-
Appropriation from General Fund	17	-	-	-	(17)	-	-	-
<b>Balance at End of Year</b>	<b>(8,369)</b>	<b>(5,093)</b>	<b>(4,900)</b>	<b>(1,081)</b>	<b>(456)</b>	<b>(1,513)</b>	<b>(2,614)</b>	<b>(24,026)</b>

- (i) The budgeted use of general fund reserves in 2015/16 was £1.5m an additional £2.440m was applied to offset cost pressures, primarily within Social Work Services.
- (ii) Carry forward of unutilised budgets delegated to Headteachers under the Devolved Schools Management System.
- (iii) Funds arising from the strategic development of business parks.
- (iv) Funds to develop energy efficient initiatives in Council buildings.
- (v) Prior to 2013/14 unspent revenue grants were treated as short term creditors. From 2013/14 revenue grants are now fully recognised as income in the accounts with any unspent balances earmarked within the overall general fund balance.
- (vi) The Council agreed to earmark funds for spend to save initiatives aimed at reducing future budgeted expenditure.

## 10. EXCEPTIONAL ITEMS

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the Council's financial performance. There were no exceptional items in 2014/15.

## 11. (a) AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS 2014/15

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the Service Reporting Code of Practice. However, decisions about resource allocation are taken by the Council on the basis of budget reports analysed across Service areas. These reports are prepared on a different basis from the accounting policies used in the financial statements.

In particular:

- No charges are made in relation to capital expenditure (whereas depreciation, amortisations and impairment losses are charged to Services in the Comprehensive Income and Expenditure Statement).
- The cost of retirement benefits is based on cash flows (payment of employer's pensions contributions) rather than current service cost of benefits accrued in the year.
- Expenditure on support services is budgeted for centrally and is not charged to Services.

The income and expenditure of the Council's Services' recorded in the management reports for the year is as follows:

### Council Service Income and Expenditure 2014/15

	Education Services £'000	Social Work Services £'000	Development Services £'000	Corporate & N'Hood Services £'000	Misc Services £'000	Joint Boards/ Trust £'000	Trading Accounts £'000	HRA £'000	Other Costs £'000	Total £'000
Income	(16,989)	(37,587)	(26,002)	(27,926)	(47,576)	-	(33,608)	(57,137)	-	(246,825)
<b>Total Income</b>	<b>(16,989)</b>	<b>(37,587)</b>	<b>(26,002)</b>	<b>(27,926)</b>	<b>(47,576)</b>	<b>-</b>	<b>(33,608)</b>	<b>(57,137)</b>	<b>-</b>	<b>(246,825)</b>
Employee Expenses	102,168	42,544	20,551	19,543	4,990	-	13,370	5,914	1,124	210,204
Property Expenses	14,403	2,035	4,495	3,924	68	-	416	25,360	-	50,701
Transport Expenses	3,380	1,212	2,404	7,494	-	-	1,394	7	-	15,891
Supplies & Services	10,620	3,331	8,793	4,300	1,674	-	5,816	3,908	-	38,442
Third Party Expenses	32,592	69,742	11,722	1,134	4,279	14,336	10,865	2,084	-	146,754
Transfer Payments	644	3,863	-	-	42,722	-	-	3,799	-	51,028
Support Costs	13,813	7,459	5,795	3,013	6,785	-	760	16,033	(857)	52,801
Capital Charges	14,631	759	7,758	2,918	27	-	49	32	8,024	34,198
<b>Total Expenditure</b>	<b>192,251</b>	<b>130,945</b>	<b>61,518</b>	<b>42,326</b>	<b>60,545</b>	<b>14,336</b>	<b>32,670</b>	<b>57,137</b>	<b>8,291</b>	<b>600,019</b>
<b>Net Expenditure</b>	<b>175,262</b>	<b>93,358</b>	<b>35,516</b>	<b>14,400</b>	<b>12,969</b>	<b>14,336</b>	<b>(938)</b>	<b>-</b>	<b>8,291</b>	<b>353,194</b>

### Reconciliation of Service Income and Expenditure to Net Cost of Services in Comprehensive Income and Expenditure Statement

This reconciliation shows how the figures in the analysis of Service income and expenditure reconcile to the amounts included in the Comprehensive Income and Expenditure Statement.

	£'000
Net Expenditure in the Service Analysis	353,194
Net Expenditure of Services (Trading Accounts) not included in the Net Cost of Services	938
Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the analysis	1,152
Amounts reported to Management not included in the Comprehensive Income and Expenditure Statement	1,675
<b>Cost of Services in the Comprehensive Income and Expenditure Statement</b>	<b>356,959</b>

**Reconciliation to Subjective Analysis**

This reconciliation shows how the figures in the analysis of Service income and expenditure reconcile to a subjective analysis of the Surplus or Deficit on the Provision of Services included in the Comprehensive Income and Expenditure Statement

	<b>Service Analysis £'000</b>	<b>Amounts Reported Below Net Cost of Services £'000</b>	<b>Amounts included in CIES Not reported to Management £'000</b>	<b>Amounts reported to Management Not included in CIES £'000</b>	<b>Allocation of Recharges £'000</b>	<b>Allocation of Supp Service £'000</b>	<b>Net Cost of Services £'000</b>	<b>Corporate Amounts £'000</b>	<b>Total £'000</b>
Income	(246,825)	33,608	75	272	51,871	(1,298)	(162,297)	(82,899)	(245,196)
Interest and investment income	-	-	-	-	-	-	-	(523)	(523)
Government grants and contributions	-	-	-	-	-	-	-	(280,434)	(280,434)
Income from council tax	-	-	-	-	-	-	-	(53,316)	(53,316)
<b>Total Income</b>	<b>(246,825)</b>	<b>33,608</b>	<b>75</b>	<b>272</b>	<b>51,871</b>	<b>(1,298)</b>	<b>(162,297)</b>	<b>(417,172)</b>	<b>(579,469)</b>
Employee Expenses	210,236	(13,370)	3,013	-	(14,208)	15,181	200,852	14,154	215,006
Property Expenses	50,701	(416)	-	-	(1,520)	1,504	50,269	416	50,685
Transport Expenses	15,891	(1,394)	-	-	(5,984)	49	8,562	1,394	9,956
Supplies & Services	38,442	(5,816)	-	1,403	(2,294)	7,887	39,622	6,556	46,178
Third Party Expenses	146,754	(10,865)	(16,528)	-	(2,164)	564	117,761	10,865	128,626
Transfer Payments	47,229	-	-	-	(1,448)	-	45,781	-	45,781
Support Service recharges	40,567	(760)	703	-	(16,392)	(24,310)	(192)	-	(192)
Depreciation, amortisation and impairment	50,199	(49)	13,889	-	(7,861)	423	56,601	49	56,650
Interest Payments	-	-	-	-	-	-	-	59,632	59,632
<b>Total Expenditure</b>	<b>600,019</b>	<b>(32,670)</b>	<b>1,077</b>	<b>1,403</b>	<b>(51,871)</b>	<b>1,298</b>	<b>519,256</b>	<b>93,066</b>	<b>612,322</b>
<b>(Surplus) or Deficit on the Provision of Services</b>	<b>353,194</b>	<b>938</b>	<b>1,152</b>	<b>1,675</b>	<b>-</b>	<b>-</b>	<b>356,959</b>	<b>(324,106)</b>	<b>32,853</b>

**11.(b) AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS 2013/14****Council Service Income and Expenditure 2013/14**

	<b>Education Services £'000</b>	<b>Social Work Services £'000</b>	<b>Development Services £'000</b>	<b>Corporate &amp; N'Hood Services £'000</b>	<b>Misc Services £'000</b>	<b>Joint Boards/ Trust £'000</b>	<b>Trading Accounts £'000</b>	<b>HRA £'000</b>	<b>Other Costs £'000</b>	<b>Total £'000</b>
Income	(12,397)	(35,352)	(24,717)	(25,913)	(47,136)	-	(35,281)	(52,417)	-	<b>(233,213)</b>
<b>Total Income</b>	<b>(12,397)</b>	<b>(35,352)</b>	<b>(24,717)</b>	<b>(25,913)</b>	<b>(47,136)</b>	<b>-</b>	<b>(35,281)</b>	<b>(52,417)</b>	<b>-</b>	<b>(233,213)</b>
Employee Expenses	101,450	41,150	19,907	18,885	4,448	-	13,553	6,386	289	<b>206,068</b>
Property Expenses	13,290	2,018	4,305	2,514	208	-	462	24,722	-	<b>47,519</b>
Transport Expenses	3,249	1,277	2,805	7,333	-	-	1,573	13	-	<b>16,250</b>
Supplies & Services	8,782	3,331	9,210	3,927	2,039	-	6,127	3,501	-	<b>36,917</b>
Third Party Expenses	31,800	65,809	12,255	1,000	3,875	13,395	12,125	1,158	-	<b>141,417</b>
Transfer Payments	698	3,752	-	-	41,917	-	-	-	-	<b>46,367</b>
Support Costs	9,180	5,917	4,949	3,210	6,698	-	656	3,821	(782)	<b>33,649</b>
Capital Charges	19,764	843	9,930	3,076	15	-	64	15,354	(15,166)	<b>33,880</b>
<b>Total Expenditure</b>	<b>188,213</b>	<b>124,097</b>	<b>63,361</b>	<b>39,945</b>	<b>59,200</b>	<b>13,395</b>	<b>34,560</b>	<b>54,955</b>	<b>(15,659)</b>	<b>562,067</b>
<b>Net Expenditure</b>	<b>175,816</b>	<b>88,745</b>	<b>38,644</b>	<b>14,032</b>	<b>12,064</b>	<b>13,395</b>	<b>(721)</b>	<b>2,538</b>	<b>(15,659)</b>	<b>328,854</b>

**Reconciliation to Subjective Analysis 2013/14**

	<b>Service Analysis £'000</b>	<b>Amounts reported below Net Cost of Services £'000</b>	<b>Amounts included in CIES Not reported to Management £'000</b>	<b>Amounts reported to Management Not included in CIES £'000</b>	<b>Allocation of Recharges £'000</b>	<b>Allocation of Supp Service £'000</b>	<b>Net Cost of Services £'000</b>	<b>Corporate Amounts £'000</b>	<b>Total £'000</b>
Income	(233,213)	35,281	(938)	294	41,839	(170)	(156,907)	(86,342)	(243,249)
Interest and investment income	-	-	-	-	-	-	-	(594)	(594)
Government grants and contributions	-	-	-	-	-	-	-	(274,846)	(274,846)
Income from council tax	-	-	-	-	-	-	-	(51,913)	(51,913)
<b>Total Income</b>	<b>(233,213)</b>	<b>35,281</b>	<b>(938)</b>	<b>294</b>	<b>41,839</b>	<b>(170)</b>	<b>(156,907)</b>	<b>(413,695)</b>	<b>(570,602)</b>
Employee Expenses	206,068	(13,553)	1,059	-	(12,442)	14,875	196,007	14,071	210,078
Property Expenses	47,519	(462)	-	-	(1,487)	1,499	47,069	462	47,531
Transport Expenses	16,250	(1,573)	-	-	(6,306)	39	8,410	1,573	9,983
Supplies & Services	36,917	(6,127)	1,150	635	(2,343)	4,863	35,095	26,650	61,745
Third Party Expenses	141,417	(12,125)	(18,002)	-	(2,278)	280	109,292	12,125	121,417
Transfer Payments	46,367	-	-	-	(68)	-	46,299	-	46,299
Support Service recharges	33,649	(656)	1,482	-	(12,707)	(21,768)	-	-	-
Depreciation, amortisation and impairment	33,880	(64)	49,573	-	(4,208)	382	79,563	64	79,627
Interest Payments	-	-	-	-	-	-	-	57,539	57,539
<b>Total Expenditure</b>	<b>562,067</b>	<b>(34,560)</b>	<b>35,262</b>	<b>635</b>	<b>(41,839)</b>	<b>170</b>	<b>521,735</b>	<b>112,484</b>	<b>634,219</b>
<b>(Surplus) or Deficit on the Provision of Services</b>	<b>328,854</b>	<b>721</b>	<b>34,324</b>	<b>929</b>	<b>-</b>	<b>-</b>	<b>364,828</b>	<b>(301,211)</b>	<b>63,617</b>

**12. RELATED PARTY TRANSACTIONS**

The Council is required to disclose material transactions with related parties - that is bodies or individuals that have potential to control or influence the Council or to be controlled or influenced by the Council.

Material transactions with related parties, not disclosed elsewhere, were as follows:

The Scottish Government is a related party as it exerts significant influence through legislation and funding.

<b>Related Party</b>		<b>Receipts 2014/15 £'000</b>	<b>Payments 2014/15 £'000</b>
Falkirk and District Town Centre Management Ltd	Promotion of Town Centres	-	212
Falkirk Council Pension Fund	Charge for Support Services (Also see Note 17 – Defined Benefit Pension Schemes)	528	-
Falkirk Community Stadium Ltd	Repayment of expenses and Professional Fees	444	-
Family Centres	Funding provided per Service Level Agreement	-	659
Central Scotland Valuation Joint Board	Contribution to running costs Charge for Support Services	- 7	1,251 -
Falkirk Schools Gateway	Contribution to operating costs	-	3,905
Falkirk & District Women's Aid	Funding provided per Service Level Agreement	-	244
Forth Valley Enterprise	Revenue Grants	1,738	-
Falkirk Community Trust	Contribution to Community Trust Charge for Support Services	117	13,085 -
Fife & Forth Valley Community Justice Authority	Administration Charge	233	-

Amounts due to or from related parties were as follows:

<b>Amount 2013/14 Due From £'000</b>	<b>Amount 2013/14 Due to £'000</b>		<b>Amount 2014/15 Due From £'000</b>	<b>Amount 2014/15 Due To £'000</b>
7	-	Joint Boards	2	-
1,343	2	Falkirk Community Stadium Ltd	1,569	15
1,346	310	Falkirk Community Trust	1,863	88
-	32	Falkirk & District Women's Aid	-	-
-	-	Falkirk Towns Ltd	-	4
-	-	Fife & Forth Valley CJA	4	-
-	-	Falkirk Council Pension Fund	-	15

**13. EXTERNAL AUDIT FEE**

The agreed external audit fee for Falkirk Council for 2014/15 was £322,000 (£318,800 in 2013/14). A further £23,000 (£22,200 in 2013/14) is included as the agreed external audit fee for the Pension Fund Audit. These fees were for work undertaken in accordance with the Code of Audit Practice. No other services were provided by Audit Scotland.

#### 14. STATUTORY TRADING ACCOUNTS

Section 10 of the Local Government in Scotland Act 2003 requires that each Statutory Trading Account should at least break-even over a rolling 3 year period. The figures are based on International Financial Reporting Standards as specified in the Code of Practice for Local Authority Accounting. For the purposes of determining whether or not the Statutory Trading Account has met the financial objective, interest payable and receivable should be included.

Falkirk Council operates a Statutory Trading Account for Building Maintenance.

<b>Actual Year to 31/03/13 £'000</b>	<b>Actual Year to 31/03/14 £'000</b>	<b>BUILDING MAINTENANCE TRADING ACCOUNT</b>	<b>Actual Year to 31/03/15 £'000</b>	<b>3 Year Total £'000</b>
33,505	35,289	Turnover	33,613	102,407
33,076	35,024	Expenditure	33,423	101,523
429	265	Surplus per CIES	190	884
(83)	(63)	Interest	(73)	(219)
<b>346</b>	<b>202</b>	<b>Surplus for Financial Return Purposes</b>	<b>117</b>	<b>665</b>

The Building Maintenance Division is primarily responsible for providing a repairs and maintenance service for the Council's housing stock, which at 31 March 2015 amounted to 16,325 houses. The Division also includes a Joinery Manufacturing Unit which manufactures doors as part of the Council's Door Replacement Programme and is responsible for providing a repairs and maintenance service for the Council's operational and administrative buildings.

The interest figure shown above is included within Interest Payable and Receivable in the Comprehensive Income and Expenditure Account.

#### 15. AGENCY ARRANGEMENTS

The Council has an agreement with Scottish Water whereby it collects water and waste charges in conjunction with collection of Council Tax. The income received from this service in 2014/15 was £543,659 (£408,394 in 2013/14).

#### 16. MEMBERS REMUNERATION

Remuneration paid to Members in 2014/15 was:

<b>2013/14 £'000</b>		<b>2014/15 £'000</b>
621	Salaries	<b>627</b>
10	Allowances (Mileage)	10
2	Expenses	3
<b>633</b>		<b>640</b>

The annual return of Councillors' salaries and expenses for 2014/15 is available for any member of the public to view at all Council libraries and public offices during normal working hours and is also available on the Council's website at [www.falkirk.gov.uk](http://www.falkirk.gov.uk). Please follow the "Councillors" quick link on the Council's website.

## 17. DEFINED BENEFIT PENSION SCHEMES

As part of the terms and conditions of employment, the Council offers retirement benefits to its employees. Although these benefits will not actually be payable until employees retire, the Council has a commitment to make the payments that need to be disclosed at the time that employees earn their future pension entitlement.

The Council participates in two pension schemes, the rules of which are made under the terms of the Superannuation Act 1972

### **The Local Government Pension Scheme**

The scheme provides defined benefits for non-teaching employees and is administered locally by the Council. The scheme is funded which means that the Council and the scheme members pay contributions into a fund, calculated at a level that is intended to balance the pensions liabilities with investment assets. The contribution rate for the majority of employees is between 5.5% and 9.0% depending on the level of members' salary. Employer contributions are set every three years following a valuation of the Fund by an independent actuary.

The fund is used to pay pension and lump sum benefits to scheme members and their dependants. Contributions to the fund are made by active members and by participating employers. Income also flows into the fund through its investments which include equities, property and bonds.

The Council's participation in the Local Government Pension Scheme requires the funding of liabilities that may stretch out 60-70 years based on the working lives of active members and period during which pensions are in payment. During these periods there will be diverse economic cycles, varying levels of investment return and changes in mortality rates. All of these are factors which could impact on the Council's Cash flow position as they could require the actuary to set a revised employer contribution rate having undertaken the three yearly valuation of the pension fund.

Whilst there is always an element of uncertainty as to extent of any change in the contribution rate, the actuary is obliged to have regard to the Fund's Funding Strategy which is to take a prudent long term view of liabilities and maintain as constant an employer contribution rate as possible.

Around 35 employers currently participate in the Falkirk Council Pension Fund. This includes employers such as local authorities and non-governmental public bodies who have very secure financial credentials and also employers such as non-profit making charitable organisations who have less secure financial circumstances. If any Fund employer were to be wound up and unable to pay its share of any fund deficit, that liability would fall on the employers remaining in the Fund, including Falkirk Council.

The pension fund seeks to mitigate this risk by requiring all new entities to the Fund since the mid-1990's to nominate a guarantor to make good any deficit on wind up. Employers with less secure covenants admitted to the fund prior to the mid 1990's generally hold tangible assets which could be realised to meet any cessation debts. In any event, the employers who are most at risk of financial failure represent a very small proportion of the fund both in terms of member numbers and aggregate liabilities.

The Council is itself a guarantor of the pension liabilities of Thinkwhere Ltd (formerly Forth Valley GIS Ltd) and Haven Products Ltd. Both employers have closed the Scheme to new entrants in order that funding obligations are minimised.

Falkirk Council has delegated pension fund business to its Pensions Committee which comprises six elected members from Falkirk Council. During 2014/15, the work of the Pensions Committee has been supported by the Pensions Panel which represents Trade Unions, Pensioners and other Fund employers. Three members of the Panel have been co-opted to sit on the Committee.



### **The Teachers' Pension Scheme**

The scheme is administered by the Scottish Public Pensions Agency (SPPA) and provides defined benefits for teaching employees. The employee contribution rate ranges from 7.2% to 12.4% depending on the level of teachers' salary. The Council contributes towards the costs of the scheme by making contributions based on a percentage of members' pensionable salaries. Although the scheme is unfunded, the Government Actuary uses a notional fund as a basis for calculating the employers' contribution rate. Annual reports in respect of the STSS (Scottish Teachers' Superannuation Scheme) are available from:

[http://www.sppa.gov.uk/index.php?option=com\\_content&view=article&id=323&Itemid=840](http://www.sppa.gov.uk/index.php?option=com_content&view=article&id=323&Itemid=840)

As it is not possible for the Council to identify a share of the underlying liabilities attributable to its own employees, then for the purposes of this statement of accounts, it is accounted for on the same basis as defined contribution scheme.

In addition to both of the schemes above, the Council has powers to grant additional benefits under Discretionary Payments Regulations relating to teaching and non-teaching employees. On occasion, benefits under the regulations may be awarded by the Council where an employee leaves in the interests of the efficiency of the service or on the grounds of redundancy. These are unfunded schemes meaning that there are no investment assets built up to meet the pension liabilities. These benefits have been accounted for on a defined benefit basis.

The Local Government Pension Scheme and Teachers' Pension Scheme are being amended with effect from 1 April 2015 to meet the requirements of the Public Service Pensions Act 2013. Both schemes will move to a career average basis from the existing final salary basis. It is expected to be a number of years before savings are realised from the new arrangements as pre April 2015 benefits are continuing to be calculated on a final salary basis.

#### *Local Government Pension Scheme and Discretionary Benefits*

In accordance with the requirements of International Accounting Standard 19 "Employee Benefits" (IAS 19), the Council is required to disclose certain information concerning assets, liabilities, income and expenditure related to Pension Schemes for its employees.

The assets and liabilities of the Council's pension arrangements as at 31 March 2015 have been calculated by Hymans Robertson a firm of independent Consulting Actuaries.

Fund membership is made up of active members, deferred members and pensioner members.

Participating employers include Clackmannanshire, Falkirk and Stirling Councils, Falkirk Community Trust, Scottish Police Authority (ex Central Scotland Police members), Scottish Fire and Rescue Service (ex Central Scotland Fire and Rescue members), Central Scotland Valuation Joint Board, the Scottish Environment Protection Agency (SEPA), the Scottish Children's Reporter Administration (SCRA), Forth Valley College and a number of non-profit making charitable bodies in Central Scotland.

Regulation 31A(1) of the Local Government Pension Scheme (Administration) (Scotland) Regulations 2008 as amended requires that an Administering Authority must, in relation to each year starting from 1st April, 2010, prepare a pension fund annual report. Statutory guidance issued by the Scottish Government and contained in the Local Government Finance Circular No. 1/2011 requires that the annual report is to be published separately from the Council's accounts and is to be subject to a separate audit opinion.

The report must contain the following items:

- a report about the management and financial performance of the fund during the year
- a report explaining the Council's investment policy for the fund and reviewing the performance of the investments of the fund during the year
- a report of the arrangements made during the year for the administration of each of those funds
- a statement by the actuary who carried out the most recent valuation of the assets and liabilities of the fund of the level of funding disclosed by that valuation
- the current version of the governance compliance statement or details of where that statement can be obtained
- the fund account and net asset statement with supporting notes and disclosures prepared in accordance with proper practices
- an annual report dealing with
  - (i) the extent to which the administering Council and constituent employers have achieved any levels of performance set out in a pension administration strategy
  - (ii) such other matters arising from its pension administration strategy as it considers appropriate
- the current version of the Funding Strategy Statement or details of where that statement may be obtained
- the current version of the Statement of Investment Principles or details of where that statement may be obtained
- any other material which the administering Council considers appropriate

The annual report of the Falkirk Council Pension Fund in respect of year 2014/15 can be inspected at the offices of the Council or online at [www.falkirkpensionfund.org](http://www.falkirkpensionfund.org) by following the links to local government pension scheme.

The cost of retirement benefits in the Net Cost of Services is recognised when employees earn them, rather than when the benefits are eventually paid as pensions. The following information is in relation to the Comprehensive Income and Expenditure Statement.

**Comprehensive Income and Expenditure Statement**

<b>31/03/14</b>	<b>Year Ended:</b>	<b>31/03/15</b>
<b>£'000</b>		<b>£'000</b>
25,053	Current Service Cost	28,836
34,647	Interest Cost	36,299
(24,567)	Interest Income on Plan Assets	(25,320)
1,139	Past Service Costs/(Gains)	1,180
-	Losses/(Gains) on Curtailments and Settlements	-
<b>36,272</b>	<b>Total</b>	<b>40,995</b>

**Reconciliation of present value of defined benefit obligation**

<b>31/03/14</b>	<b>Year Ended:</b>	<b>31/03/15</b>
<b>£'000</b>		<b>£'000</b>
<b>765,966</b>	<b>Opening Defined Benefit Obligation</b>	<b>839,586</b>
25,053	Current Service Cost	28,836
34,647	Interest Cost	36,299
6,335	Contributions by Members	6,546
	Remeasurements	
-	- Change in demographic assumptions	(6,782)
31,007	- Change in financial assumption	96,840
(62)	- Other experience	78,052
1,139	Past Service Cost	1,180
(21,824)	Benefits paid	(23,379)
(2,675)	Unfunded Benefits Paid	(2,727)
<b>839,586</b>	<b>Closing Defined Benefit Obligation</b>	<b>1,054,451</b>

**Reconciliation of the movements in the fair value of plan assets**

<b>31/03/14</b>	<b>Year Ended:</b>	<b>31/03/15</b>
<b>£'000</b>		<b>£'000</b>
<b>543,013</b>	<b>Opening Fair Value of Plan Assets</b>	<b>586,322</b>
24,567	Interest Income on Plan Assets	25,320
	Remeasurements	
12,816	- Return on Plan Assets excluding the amount included in net interest	55,613
21,415	Contributions by Employer	22,741
6,335	Contributions by Members	6,546
2,675	Contributions in respect of unfunded benefits	2,727
(21,824)	Benefits Paid	(23,379)
(2,675)	Unfunded Benefits Paid	(2,727)
<b>586,322</b>	<b>Closing Fair Value of Plan Assets</b>	<b>673,163</b>

**Disclosure of Net Pensions Asset/Liability***Local Government Pension Schemes*

The underlying assets and liabilities for retirement benefits attributable to the Council at 31 March 2015 are as follows:

<b>31/03/14</b>		<b>31/03/15</b>
<b>£'000</b>		<b>£'000</b>
(253,264)	Net asset (liability)	(381,288)

The net liability above includes the sum of £48.8m for year ended 31 March 2015 (£48.8m for 31 March 2014) being unfunded liabilities related to the award of discretionary benefits.

There has been an increase in IAS19 liabilities of £128m as at 31 March 2015 compared with the liabilities as at 31 March 2014. This is mainly due to the triennial nature of the actuarial formal valuation of the fund. The position at 31 March 2014 was based on a roll forward from the 2011 valuation position whereas the position at 31 March 2015 has been based on the 2014 valuation. In addition, increased liabilities have resulted from falling real bond rates which were partially offset by strong asset returns.

In summary, the IAS19 balance sheet this year has deteriorated from last year with IAS19 liabilities increasing in monetary terms reflecting market conditions, however, this has been partially offset with better than expected asset returns over the year (13.4% against a target benchmark of 12.1%).

Actuaries have recognised the weighted average duration of the benefit obligation which takes account of the average time until payment of all expected future discounted cash flows based on membership and the financial and demographic assumptions and Falkirk has been allocated into a Medium category with a weighted average duration of between 17 and 23 years.

#### *Fair Value of Employer assets*

The assets held by the Pensions Fund are primarily a mixture of equities, bonds and property and an expected rate of return has been set equal to the discount rate of 3.2% (4.3% for year ended 31 March 2014).

<b>Quoted Prices in Active Markets 31/03/14 £'000</b>	<b>Prices not Quoted in Active Markets 31/03/14 £'000</b>	<b>Total 31/03/14 £'000</b>		<b>Quoted Prices in Active Markets 31/03/15 £'000</b>	<b>Prices not Quoted in Active Markets 31/03/15 £'000</b>	<b>Total 31/03/15 £'000</b>
			<b>Equity Securities</b>			
58,865	-	58,865	Consumer	65,147	-	65,147
34,689	-	34,689	Manufacturing	40,124	-	40,124
30,435	-	30,435	Energy and Utilities	26,533	-	26,533
48,956	-	48,956	Financial Institutions	49,179	-	49,179
38,357	-	38,357	Health & Care	34,929	-	34,929
17,625	-	17,625	Information Technology	27,168	-	27,168
15,030	-	15,030	Other	11,601	-	11,601
<b>243,957</b>	<b>-</b>	<b>243,957</b>		<b>254,681</b>	<b>-</b>	<b>254,681</b>
<b>-</b>	<b>31,168</b>	<b>31,168</b>	<b>Private Equity</b>	<b>-</b>	<b>38,984</b>	<b>38,984</b>
			<b>Real Estate</b>			
-	38,927	38,927	UK Property	-	48,390	48,390
-	3,033	3,033	Overseas Property	-	2,367	2,367
<b>-</b>	<b>41,960</b>	<b>41,960</b>		<b>-</b>	<b>50,757</b>	<b>50,757</b>
			<b>Investment Funds and Unit Trusts</b>			
130,094	-	130,094	Equities	144,743	-	144,743
49,772	-	49,772	Bonds	59,769	-	59,769
-	11,890	11,890	Infrastructure	-	16,936	16,936
60,025	-	60,025	Other	78,703	-	78,703
<b>239,891</b>	<b>11,890</b>	<b>251,781</b>		<b>283,215</b>	<b>16,936</b>	<b>300,151</b>
<b>-</b>	<b>-</b>	<b>-</b>	<b>Derivatives</b>	<b>28</b>	<b>-</b>	<b>28</b>
<b>17,456</b>	<b>-</b>	<b>17,456</b>	<b>Cash and Cash Equivalents</b>	<b>28,562</b>	<b>-</b>	<b>28,562</b>
<b>501,304</b>	<b>85,018</b>	<b>586,322</b>	<b>Total</b>	<b>566,486</b>	<b>106,677</b>	<b>673,163</b>

A substantial portion of employer assets are invested in global financial markets. Valuations can therefore be affected by the strength of local currency against sterling.

The main assumptions used in the calculations have been:

<b>31/03/14 % p.a.</b>	<b>Year Ended:</b>	<b>31/03/15 % p.a.</b>
2.8	Pension Increase Rate	2.4
5.1	Salary Increase Rate	3.8
4.3	Discount Rate	3.2

*Demographic assumptions – Mortality*

Life expectancy is based on “Club Vita” Analysis which is an extensive database of mortality information maintained by the Pension Fund Actuary, Hymans Robertson. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	<b>Males</b>	<b>Females</b>
Current Pensioners	22.1 years	23.8 years
Future Pensioners	24.3 years	26.3 years

Current Pensioners life expectancy is based on a member being age 65 as at the valuation of 31 March 2014. Future Pensioners are assumed to be age 45 as at the March, 2014 valuation.

*Commutation*

An allowance is included for future retirements to elect to take 50% of the maximum additional tax-free cash up to HMRC limits for pre-April 2009 service and 75% for post-April 2009 service.

*Projected pension expense for the year to 31 March 2016*

The following table sets out the estimation of the pension cost for 2015/16, based on the assumptions as at 31 March 2015 (the start of the period).

**Analysis of projected amount to be charged to operating profit for the year to 31 March 2016**

<b>Year Ended:</b>	<b>£'000</b>
Projected Current Service Cost	32,906
Interest on Obligation	33,916
Interest Income on Plan Assets	(21,595)
Past Service Cost	-
<b>Total</b>	<b>45,227</b>

The estimated Employer’s contributions for the year to 31 March 2016 will be approximately £22.6m.

The pension fund’s approach to meeting its liabilities is set out in its Funding Strategy Statement. The funding policy is to achieve a funding level of 100% of liabilities. Where, as at present, the fund is in a deficit position, the strategy is to require employers to make deficit contributions over periods of up to 20 years, but also maintain contribution levels at as stable a rate as possible.

In order to achieve the desired stability, Falkirk Council’s contribution rate has been determined as part of a pooled group, including Clackmannanshire and Stirling Councils.

*Teachers’ Pension Scheme*

During the year, the Council paid £8.895m (£8.699m in 2013/14) to the Scottish Government in respect of teachers’ pension costs and this represents 14.9% of teachers’ pensionable pay.

The Council is also required to meet the costs of benefits arising from compensatory added years, as well as the costs arising from the early release of benefits in the Teachers Pension Scheme. In 2014/15, these amounted to £1.119 million, representing 1.9% of pensionable pay (£1.122 million, representing 1.9% of pensionable pay in 2013/14).

With regard to the Teachers’ Pension Scheme, there were no contributions outstanding at the year end.

## 18. EMPLOYEE BENEFITS

### Benefits Payable During Employment

Short-term employee benefits are defined as “falling due wholly within 12 months after the end of the period in which the employees render the related service”. Some examples are salaries, wages, paid annual leave, paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees. These are recognised as an expense for each Service in the year in which employees render service to the Council. An accrual is made against Services for the cost of holiday entitlements earned by employees but not taken before the year-end and which employees can carry forward into the next financial year. The accrual is made at the remuneration rates applicable in the following financial year and is reversed out of the General Fund Balance through the Movement in Reserves Statement so that the holiday benefits are charged to revenue in the year in which the holiday absence occurs.

### Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the Non-Distributed Costs line in the Comprehensive Income & Expenditure Statement when the Council is demonstrably committed to either terminating the employment of an officer or group of officers or making an offer to encourage voluntary redundancy.

Where the termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund or pensioners and any such amounts payable but unpaid at the year-end.

### Post Employment Benefits

The Council participates in two separate pension schemes that meet the needs of employees in different services:

- (a) The Teachers' Pension Scheme, administered by the Scottish Public Pensions Agency.
- (b) The Local Government Pension Scheme, administered by Falkirk Council.

Both schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees work for the Council. In addition, from time to time, the Council may award discretionary benefits to employees who are retiring.

#### (a) Teachers

The Teachers' Pension Scheme is an unfunded scheme where the employer contribution rate is 14.9% of pensionable pay and this rate will continue until 1 September 2015 at which time it will increase to 17.2%. The Scottish Government has set this rate on the basis of a notional fund. The most recent actuarial valuation of the Teachers' Pension Scheme took place on 31 March 2012. Falkirk's level of participation in the scheme is 2.5% based on the proportion of employer contributions paid in 2013/14.

The arrangements for the teachers' scheme mean that the liabilities for employee benefits cannot be identified specifically to the Council. The pension costs are therefore accounted for as if the scheme were a defined contributions scheme – no liability for future payment of benefits is recognised in the Balance Sheet and the Education Services line in the Comprehensive Income & Expenditure Statement is charged with the employer's contributions payable to Teachers' Pensions in the year.

As a result, the Council does not comply with the Code to recognise the full expected cost of providing for all pensions and related benefits on a systematic and rational basis over the period the Council derives benefit from its employees' service.

## **(b) Other Employees**

Other employees are eligible to join the Local Government Pension Scheme through the Pension Fund administered by the Council. The Scheme is accounted for as a defined benefits scheme.

The Scheme is a funded arrangement with the employer's contribution rate being set on a three yearly basis by an independent actuary. The rate is set to ensure that the Pension Fund remains solvent and with a view to meeting 100% of its overall liabilities in the long term. Full details of the most recent actuarial valuation can be found on the Fund website [www.falkirkpensionfund.org](http://www.falkirkpensionfund.org).

The liabilities of the Local Government Pension Scheme attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method (i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of future earnings for current employees).

Liabilities are discounted to their value at current prices, using a discount rate of 3.2% (based on the indicative rate of return on high quality corporate bonds) which recognises the weighted average duration of the benefit obligation.

The assets attributable to the Council are included in the Balance Sheet at their fair value and these are separated into those that have a quoted market price in an active market and those that do not.

- Quoted securities – current market bid price
- Unquoted securities – independent valuation
- Unitised securities – current market bid price
- Property – independent valuation

The change in the net pensions liability is analysed into several components:

- Current service cost - the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income & Expenditure Statement to the services for which the employees worked
- Past service cost - the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus/Deficit on the Provision of Services in the Comprehensive Income & Expenditure Statement as part of Non-Distributed Costs
- Interest cost - the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to the Finance and Investment Income and Expenditure line in the Comprehensive Income & Expenditure Statement
- Interest Income on assets – a component of the return on plan assets which is determined by multiplying the fair value of the plan assets by the discount rate – credited to the Finance and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- Remeasurements comprising
  - Actuarial gains and losses – changes in the present value of the defined benefit obligation because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve
  - Return on plan assets excluding amounts included in net interest i.e. the difference between the return on plan assets and the interest income on assets
- Contributions paid to the Local Government Pension Scheme – cash paid as employer's contributions to the pension fund in settlement of liabilities not accounted for as an expense
- Estimated benefits paid – an estimate of the pension and lump sum benefits payable from the Local Government Pension and other discretionary arrangements

Statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the Pension Fund or directly to the pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the Pension Fund or pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

### **Discretionary Benefits**

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

### **More Information**

More information about pension costs is disclosed in Note 17 of the core financial statements.

## **19. LEASES**

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

### **(a) The Council as Lessee**

#### *Finance Leases*

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged to expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- A charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability and
- A finance charge - debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income & Expenditure Statement

Property, plant and equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the Council at the end of the lease period).

The Council is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.



The Council has paid for the replacement of windows in its housing stock by way of a finance lease. The assets acquired under these leases are included in the Council Dwellings Valuation within Property, Plant and Equipment in the Balance Sheet. It is impossible to place a separate value on these leases as the valuation of Council Dwellings provided by the District Valuer is an all inclusive figure.

The Council is committed to making minimum payments under these leases comprising settlement of the long-term liability for the interest in the property acquired by the Council and finance costs that will be payable by the Council in future years while the liability remains outstanding. The minimum lease payments are made up of the following amounts:

<b>31 March 2014 £'000</b>		<b>31 March 2015 £'000</b>
	Finance lease liabilities (net present value of minimum lease payments):	
335	• Current	165
165	• Non-Current	-
6	Finance costs payable in future years	-
<b>506</b>	<b>Total</b>	<b>165</b>

The minimum lease payments will be payable over the following periods:

<b>Minimum Lease Payment 31 March 2014 £'000</b>	<b>Finance Lease Liabilities 31 March 2014 £'000</b>		<b>Minimum Lease Payment 31 March 2015 £'000</b>	<b>Finance Lease Liabilities 31 March 2015 £'000</b>
341	335	Not later than one year	165	165
165	165	Later than one year and not later than 5 years	-	-
-	-	Later than five years	-	-
<b>506</b>	<b>500</b>	<b>Total</b>	<b>165</b>	<b>165</b>

There are no contingent rentals on these leases.

#### *Operating Leases*

Rentals paid under operating leases are charged to the Comprehensive Income & Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Where material, charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

The Council has acquired several properties by entering into operating leases.

The future minimum lease payments due under non-cancellable leases in future years are:

<b>31 March 2014 £'000</b>		<b>31 March 2015 £'000</b>
1,873	Not later than one year	1,611
4,581	Later than one year and not later than 5 years	2,825
2,154	Later than five years	1,594
<b>8,608</b>	<b>Total</b>	<b>6,030</b>

The total of future minimum sub-lease payments expected to be received as at 31 March 2015 is £1.176m (£1.479m as at 31 March 2014).

The expenditure charged to Council Services in the Comprehensive Income and Expenditure Statement during the year in relation to these was:

<b>31 March 2014</b> <b>£'000</b>		<b>31 March 2015</b> <b>£'000</b>
1,969	Minimum lease payments	1,866
34	Contingent rents	-
(536)	(sub-lease payments receivable)	(538)
<b>1,467</b>	<b>Total</b>	<b>1,328</b>

**(b) The Council as Lessor**

*Finance Leases*

Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income & Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Council's net investment in the lease, is credited to the same line in the Comprehensive Income & Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a Debtor in the Balance Sheet.

Lease rentals receivable are apportioned between:

- A capital receipt for the disposal of the asset – applied to write down the Debtor (together with any premiums received), and
- Finance income - credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income & Expenditure Statement

The gain credited to the Comprehensive Income & Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and will be required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, the amount relating to the disposal (initial debtor) value is credited to the Capital Receipts Reserve immediately (and not via the Deferred Capital Receipts Reserve). When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the Debtor.

The written-off value of disposals is not a charge against council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

The Council leases out Northfield Quarry to Tillicoultry Quarries Ltd on a finance lease with a remaining term of 14 years.

The Council has a gross investment in the lease, made up of the minimum lease payments expected to be received over the remaining term. There is no residual value anticipated for the property when the lease comes to an end. The minimum lease payments comprise settlement of the long-term debtor for the interest in the property acquired by the lessee and finance income that will be earned by the Council in future years whilst the debtor remains outstanding. The gross investment is made up of the following amounts:

<b>31 March 2014 £'000</b>		<b>31 March 2015 £'000</b>
	Finance lease debtor (net present value of minimum lease payments);	
39	• Current	42
920	• Non-Current	878
555	Unearned finance income	488
-	Unguaranteed residual value of property	-
<b>1,514</b>	<b>Gross investment in the lease</b>	<b>1,408</b>

The gross investment in the lease and the minimum lease payments will be received over the following periods:

<b>Gross Investment in the Lease 31 March 2014 £'000</b>	<b>Minimum Lease Payment 31 March 2014 £'000</b>		<b>Gross Investment in the Lease 31 March 2015 £'000</b>	<b>Minimum Lease Payment 31 March 2015 £'000</b>
105	39	Not later than one year	106	42
422	187	Later than one year and not later than 5 years	422	202
985	732	Later than five years	880	676
<b>1,512</b>	<b>958</b>	<b>Total</b>	<b>1,408</b>	<b>920</b>

#### *Operating Leases*

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income & Expenditure Statement. Where material, credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

The Council leases out land and buildings to provide suitable affordable accommodation for local businesses in the interests of economic development.

The future minimum lease payments receivable under non-cancellable leases in future years are:

<b>31 March 2014 £'000</b>		<b>31 March 2015 £'000</b>
3,840	Not later than one year	3,945
8,362	Later than one year and not later than five years	8,227
28,220	Later than five years	28,367
<b>40,422</b>	<b>Total</b>	<b>40,539</b>

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews.

## 20. INTANGIBLE ASSETS

Expenditure on assets that do not have physical substance but are identifiable and controlled by the Council (e.g. software licences) is capitalised when it will bring benefits to the Council for more than one financial year. These intangible assets have been initially valued at cost and are then amortised on a straight line basis to the Comprehensive Income and Expenditure Statement over the economic life of the investment from the year after the year of purchase.

Intangible assets are not revalued, as the fair value of the assets held by the Council cannot be determined by reference to an active market. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the Comprehensive Income & Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income & Expenditure Statement

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses as well as disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and the Capital Receipts Reserve.

The Council accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant and Equipment. The intangible assets include both purchased licenses and software.

All software is given a finite useful life, based on assessments of the period that the software is expected to be of use to the Council. The useful lives assigned to the major software suites used by the Council are:

	<b>Internally Generated Assets</b>	<b>Other Assets</b>
5 years	-	Server Consolidation Software
5 years	-	Software Licenses

The carrying amount of intangible assets is amortised on a straight-line basis. The amortisation of £0.015m was charged to revenue in 2014/15.

The movement on Intangible Asset balances during the year is as follows:

<b>Other Assets 2013/14 £'000</b>		<b>Other Assets 2014/15 £'000</b>
557	Balance at start of year:	588
(522)	• Gross carrying amounts	(530)
35	• Accumulated amortisation	
	<b>Net carrying amount at start of year</b>	<b>58</b>
	Additions:	
-	• Internal development	
31	• Purchases	1,410
(8)	Amortisation for the period	(15)
58	<b>Net carrying amount at end of year</b>	<b>1,453</b>
	Comprising:	
588	• Gross carrying amounts	1,998
(530)	• Accumulated amortisation	(545)
58		<b>1,453</b>

There is one item of capitalised software that is individually material to the financial statements:

<b>Carrying Amount</b>		<b>Carrying Amount</b>	
<b>31 March 2014 £'000</b>		<b>31 March 2015 £000</b>	<b>Remaining Amortisation Period</b>
-	Citrix Software Licenses	1,079	5 years

There are no changes in accounting estimates for Intangible Assets. All Intangible Assets have a finite useful life.

## 21. IMPAIRMENT LOSSES

The Council's PFI schools were revalued as at 1 April 2014 together with one asset held on the Common Good Account. In addition, impairment for non-enhancing capital expenditure was accounted for in 2014/15. The overall net impairment was £24.4m, of which (£13.3m) was credited to the Revaluation Reserve as a revaluation gain and £37.7m impairment losses written out to the Provision of Services in the Comprehensive Income and Expenditure Statement.

## 22. CAPITALISATION OF BORROWING COSTS

The Council was did not capitalise any borrowing costs in 2014/15 (£2.342m in 2013/14).

## 23. PROPERTY, PLANT AND EQUIPMENT

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

### Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (ie repairs and maintenance) is charged as an expense when it is incurred.

### Measurement

Assets are initially measured at cost, comprising:

- The purchase price
- Any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management
- The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Council). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Council.

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-Specific Grant Income line of the Comprehensive Income & Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income & Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

Assets are then carried in the Balance Sheet using the following measurement bases:

- Infrastructure, community assets and assets under construction – historical cost
- Dwellings – fair value, determined using the basis of existing use value for social housing (EUV-SH)
- All other assets – fair value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV, except where there is no market based evidence of fair value).

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value.

Where non-property assets have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value.

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

Where decreases in value are identified, they are accounted for by:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the excess value is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

### **Impairment**

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

- Where there is a balance of revaluation gains for the asset in the revaluation reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- Where there is no balance in the revaluation reserve, or an insufficient balance, the excess value is written down against the relevant service line(s) in the Comprehensive Income & Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income & Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

### **Depreciation**

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).

Depreciation is calculated on the following bases:

- Other buildings – straight-line allocation over the useful life of the property as estimated by the valuer
- Vehicles, plant, furniture and equipment - straight-line allocation over the useful life of the asset
- Infrastructure – straight-line allocation over 30 years

Where an item of Property, Plant and Equipment asset has a valuation in excess of £1.0m and has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

### **Disposals and Non-current Assets Held for Sale**

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as Held for Sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for disposal are categorised as capital receipts. All receipts are credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserves from the General Fund Balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.



<b>(a) PROPERTY, PLANT &amp; EQUIPMENT MOVEMENTS IN 2014/15</b>								
	<b>Council Dwellings £'000</b>	<b>Other Land and Buildings £'000</b>	<b>Vehicles, Plant and Equipment £'000</b>	<b>Infra-Structure £'000</b>	<b>Community Assets £'000</b>	<b>Assets under Construction £'000</b>	<b>Surplus Assets £'000</b>	<b>Total £'000</b>
Cost or Valuation as at 1 April 2014	187,859	767,022	26,462	126,959	4,084	13,538	26,409	<b>1,152,333</b>
Additions	35,062	5,854	4,868	7,843	683	5,729	3	<b>60,042</b>
Revaluations:-								
• Recognised in Revaluation Reserve	-	15,778	-	-	-	-	-	<b>15,778</b>
• Recognised in Provision of Services	-	6	-	-	-	-	-	<b>6</b>
De-recognition:-								
• Disposals	(296)	(909)	(2,329)	(811)	-	-	-	<b>(4,345)</b>
Assets reclassified to/from Held for Sale	-	(177)	-	-	-	-	-	<b>(177)</b>
Other Movements in Cost or Valuation	-	129	-	2,418	10,749	(13,296)	-	<b>-</b>
<b>As at 31 March 2015</b>	<b>222,625</b>	<b>787,703</b>	<b>29,001</b>	<b>136,409</b>	<b>15,516</b>	<b>5,971</b>	<b>26,412</b>	<b>1,223,637</b>
<u>Accumulated Depreciation and Impairment</u>								
As at 1 April 2014	133,418	256,716	16,310	33,402	2,464	1,151	19,722	<b>463,183</b>
Depreciation:								
• Charge for Year	-	15,291	3,003	3,986	66	-	-	<b>22,346</b>
Impairment:								
• Written Out to Revaluation Reserve	-	2,535	-	-	-	-	3	<b>2,538</b>
• Written Out to Provision of Services	34,240	2,924	-	-	560	-	-	<b>37,724</b>
De-recognition:-								
• Disposals	-	(721)	(2,202)	-	-	-	-	<b>(2,923)</b>
<b>As at 31 March 2015</b>	<b>167,658</b>	<b>276,745</b>	<b>17,111</b>	<b>37,388</b>	<b>3,090</b>	<b>1,151</b>	<b>19,725</b>	<b>522,868</b>
Net Book Value								
31 March 2014	54,441	510,306	10,152	93,557	1,620	12,387	6,687	<b>689,150</b>
31 March 2015	54,967	510,958	11,890	99,021	12,426	4,820	6,687	<b>700,769</b>

**Note**

The net book value of Council Dwelling at 31 March 2015 and 31 March 2014, includes the valuation of windows within the housing stock which were acquired by a finance lease (see note 19a).

<b>(b) PROPERTY, PLANT &amp; EQUIPMENT MOVEMENTS IN 2013/14</b>								
	<b>Council Dwellings £'000</b>	<b>Other Land and Buildings £'000</b>	<b>Vehicles, Plant and Equipment £'000</b>	<b>Infra-Structure £'000</b>	<b>Community Assets £'000</b>	<b>Assets under Construction £'000</b>	<b>Surplus Assets £'000</b>	<b>Total £'000</b>
Cost or Valuation as at 1 April 2013	139,449	736,928	23,949	114,401	3,203	26,970	28,879	<b>1,073,779</b>
Additions	46,518	3,845	2,779	5,848	881	17,864	-	<b>77,735</b>
Revaluations:-								
• Recognised in Revaluation Reserve	-	24,844	-	-	-	-	11	<b>24,855</b>
• Recognised in Provision of Services	-	1,620	25	-	-	-	72	<b>1,717</b>
De-recognition:-								
• Disposals	(323)	(771)	(289)	(23,539)	-	-	(2,275)	<b>(27,197)</b>
Assets reclassified to/from Held for Sale	-	(446)	-	-	-	-	(278)	<b>(724)</b>
Other Movements in Cost or Valuation	2,215	1,002	(2)	30,249	-	(31,296)	-	<b>2,168</b>
<b>As at 31 March 2014</b>	<b>187,859</b>	<b>767,022</b>	<b>26,462</b>	<b>126,959</b>	<b>4,084</b>	<b>13,538</b>	<b>26,409</b>	<b>1,152,333</b>
<u>Accumulated Depreciation and Impairment</u>								
As at 1 April 2013	85,028	221,139	13,789	27,287	1,517	-	19,512	<b>368,272</b>
Depreciation:								
• Charge for Year	-	14,816	2,707	3,649	66	-	-	<b>21,238</b>
Impairment:								
• Written Out to Revaluation Reserve	-	11,373	-	-	112	-	210	<b>11,695</b>
• Written Out to Provision of Services	48,390	10,139	-	2,466	769	1,151	-	<b>62,915</b>
De-recognition:-								
• Disposals	-	(751)	(186)	-	-	-	-	<b>(937)</b>
<b>As at 31 March 2014</b>	<b>133,418</b>	<b>256,716</b>	<b>16,310</b>	<b>33,402</b>	<b>2,464</b>	<b>1,151</b>	<b>19,722</b>	<b>463,183</b>
Net Book Value								
31 March 2013	54,421	515,789	10,160	87,114	1,686	26,970	9,367	<b>705,507</b>
31 March 2014	54,441	510,306	10,152	93,557	1,620	12,387	6,687	<b>689,150</b>

#### **Note**

The net book value of Council Dwelling at 31 March 2014 and 31 March 2013, includes the valuation of windows within the housing stock which were acquired by a finance lease (see note 19a).

## **24. HERITAGE ASSETS**

Heritage Assets are defined as assets which have historical, artistic, scientific, technological or environmental qualities and are held and maintained principally for their contribution to knowledge and culture. It is a distinct asset class which is reported separately from Property, Plant and Equipment and Intangible Assets.

### **Recognition**

Heritage Assets are recognised where cost or valuation information is available. Where the cost or value is not available, and the cost of obtaining the information is disproportionate in terms of the benefit derived, the Code does not require that the assets are recognised on the Balance Sheet.

### **Measurement**

The Code following the requirements of FRS30, has relaxed its valuation approach for Heritage Assets and it specifies that:

- valuations may be made by any method that is appropriate and relevant; this may include, for example, insurance valuations.
- valuations need not be carried out by external valuers, and neither is there a requirement for valuations to be verified by external valuers
- a full valuation every 5 years is not required; there is no prescribed minimum period between valuations

Assets are either measured at valuation or at cost if valuation information is not available. Where valuation is available this is based on insurance valuation. Any increases in valuation are matched by credits to the Revaluation Reserve to recognise unrealised gains. Any decrease in value is accounted for by writing down the gain against the balance on the Revaluation Reserve for that asset, or where there is no balance on the Revaluation Reserve, writing down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

### **Impairment**

Heritage Assets are reviewed periodically where there is evidence of physical deterioration or breakage. Where impairment losses are identified, they are accounted for, by writing down the loss against the balance on the Revaluation Reserve for that asset, or where there is no balance on the Revaluation Reserve, writing down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

### **Depreciation**

The Council does not consider it appropriate to charge depreciation in respect of Heritage Assets due to the undetermined levels and high residual values.

Falkirk Council holds 6 different categories of Heritage Assets which are as follows:

- Museums Collection (e.g. archaeological items, natural history items)
- Archives Collection (e.g. records of local authorities, businesses etc)
- Art Collection
- Libraries Local History Collection (data dating back to 1817)
- War Memorials and Town Clocks held at various locations throughout the authority area
- Civic Regalia including the Provost's chain

With the exception of Civic Regalia and one recently added item of art, the Council does not consider that reliable cost or valuation information can be obtained and consequently there is limited recognition of Heritage Assets on the Balance Sheet.

#### Movement on Heritage Assets

2013/14 £'000		2014/15 £'000
211	Cost or Valuation as at 1 April 2014	259
-	Additions	-
	Revaluations:-	
-	• Recognised in Revaluation Reserve	-
-	• Recognised in Provision of Services	-
	De-recognition:-	
-	• Disposals	-
-	Assets reclassified to/from Held for Sale	-
48	Other Movements in Cost or Valuation	-
<b>259</b>	<b>As at 31 March 2015</b>	<b>259</b>
	<u>Accumulated Depreciation and Impairment</u>	
-	As at 1 April 2014	-
	Depreciation:	
-	• Charge for Year	-
	Impairment:	
-	• Written Out to Revaluation Reserve	-
-	• Written Out to Provision of Services	-
	De-recognition:-	
-	• Disposals	-
-	As at 31 March 2015	-
<b>259</b>	<b>Net Book Value at 31 March 2015</b>	<b>259</b>

The total net book value of Heritage Assets at 31 March 2015 is £0.259m, of which £0.211m relates to Civic Regalia and £0.048m relates to a sculpture forming part of the Stenhousemuir Town Regeneration project.

A five year summary of transactions relating to Heritage Assets has not been provided as it is not practical to do so.

## 25. OTHER CAPITAL NOTES

The following depreciation methods have been used for Property, Plant and Equipment:

Council Dwellings - There has been no depreciation charged on Council Dwellings. The District Valuer has confirmed that as the housing assets are continually being maintained, the assumption is that the value of the units should not be reducing, and accordingly the residual value of the housing stock, given the major capital investment in the stock over the life of the assets, does not require to be depreciated.

Land and Buildings – Land is not depreciated. Buildings are depreciated on a straight line basis over the estimated life of the asset.

Vehicles, Plant and Equipment - these are depreciated on a straight line basis over the estimated life of the asset.

Infrastructure Assets - these are depreciated on a straight line basis over the estimated life of the asset.

Community Assets - these are depreciated on a straight line basis over the estimated life of the asset.

Non-Operational - these are depreciated on a straight line basis over the estimated life of the asset.

Assets Under Construction - these are not depreciated.

Surplus Assets – these all relate to land and are therefore not depreciated.

Assets owned by the Council include:				
<b>2013/14</b>			<b>2014/15</b>	
16,169	Council Dwellings		16,325	30 years
33	Other Land & Buildings	Surface Car Parks	33	n/a years
10		Depots	10	10-20 years
2		Strategic Business Parks	2	11-26 years
10		Nursery Schools/Day Nurseries	10	15-50 years
50		Primary Schools	50	15-47 years
8		Secondary Schools	8	35-37 years
4		Special Schools	4	18-38 years
6		Homes for the Elderly	6	23-38 years
11		Sports Centres	11	9-39 years
8		Libraries	8	9-47 years
3		Museums	3	14-94 years
3		Town Halls	3	14-24 years
34		Community Halls/Social Halls	34	9-34 years
1		Crematorium	1	19 years
<b>183</b>			<b>183</b>	
83	Community Assets		85	
711	Non-Operational Properties		709	21-35 years

### Valuation Disclosure

All of the Council's land and buildings are subject to a rolling programme of revaluation. This effectively means that each Service has to be revalued at least once within a five year period, always as at 1 April of the year. The revaluations are performed externally by the District Valuer or internally by the Council's own Property Services Surveyors.

The Housing Stock was re-valued as at 1 April 2010 by the District Valuer of the Scotland South East Valuation Office, using the 'Existing Use Value' (Social Housing) method.

The Council's Property portfolio of retail and industrial units have been valued on the basis of Existing Use Value. This valuation was carried out as at 1 April 2010 by the Council's own Property Services Surveyor and thereafter ratified by the District Valuer of the Scotland South East Valuation Office.

Land and Buildings owned by Social Work have been valued as at 1 April 2011 and were valued on the basis of open market value for existing use.

Land and Buildings owned by Corporate and Neighbourhood Services have been valued as at 1 April 2012 and were valued on the basis of open market value for existing use, or where this could not be assessed, because there was no market for the subject asset, depreciated replacement cost. Plant and Machinery within buildings is included in the valuation of those buildings.

Land and Buildings owned by Education Services have been valued as at 1 April 2013 and were valued on the basis of depreciated replacement cost (DRC) or where this wasn't available, existing use value.

PFI Schools have been valued as at 1 April 2014 and were valued on the basis of depreciated replacement cost (DRC)

Common Good Asset (Kilns House) has been valued as at 1 April 2014 on the basis of existing use value.

Surplus Assets have been valued on the basis of open market value.

Assets Under Construction have been valued at cost.

Vehicles, Plant and Equipment are valued at cost.

Infrastructure and Community Assets have been valued on the basis of historical cost.

The sources of information and assumptions made in producing the various valuations are set out in a valuation certificate and report.

The Council has taken into account any material changes in the value of fixed assets.

### **Capital Commitments**

As at 31 March 2015 the Council has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2014/15 and future years budgeted to cost £7.7m. Similar commitments at 31 March 2014 were £15m. The major commitments are:-

Denny Town Centre Regeneration	£4.4m
St Joseph's Primary School Extension	£1.3m
Antonine Primary School Extension	£0.6m
New Build Housing	£0.8m
Helix	£0.1m
IT Microsoft Licenses	£0.2m
Various Projects	£0.3m

### **Effects of Changes in Estimates**

The Council has not made any material changes to its accounting estimates for Property, Plant and Equipment.

**26. ASSETS HELD FOR SALE**

<b>Current 2013/14 £'000</b>	<b>Non-Current 2013/14 £'000</b>		<b>Current 2014/15 £'000</b>	<b>Non-Current 2014/15 £'000</b>
684	179	<b>Balance at start of year</b>	1,355	115
269	455	Assets newly classified as held for sale:	177	-
		Revaluation losses:		
-	-	Recognised in Revaluation Reserve	(1)	
-	-	Recognised in Provision of Services		(11)
		Revaluation gains:		
720	11	Recognised in Revaluation Reserve	49	-
(463)	(385)	Assets sold	(692)	-
145	(145)	Transfers from/to non-current/current	-	-
<b>1,355</b>	<b>115</b>	<b>Balance outstanding at year-end</b>	<b>888</b>	<b>104</b>

**27. CAPITAL EXPENDITURE AND CAPITAL FINANCING**

The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance leases and PFI/PPP contracts), together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be financed. The CFR is analysed in the second part of this note.

<b>2013/14 £'000</b>		<b>2014/15 £'000</b>
378,702	Opening Capital Financing Requirement	397,445
	<u>Capital Investment</u>	
77,735	Property, Plant and Equipment	60,042
31	Intangible Assets	1,410
329	Revenue Expenditure Funded from Capital under Statute	232
2,342	National Housing Trust Initiative	-
-	Long Term Investment - thinkWhere	238
	<u>Sources of finance</u>	
(4,550)	Capital receipts	(3,570)
(27,738)	Government grants and other contributions	(22,513)
	Sums set aside from revenue:	
(4,872)	Direct revenue contributions	(7,664)
(24,534)	MRP/loans fund principal	(17,048)
<b>397,445</b>	<b>Closing Capital Financing Requirement</b>	<b>408,572</b>
	<u>Explanation of movements in year</u>	
23,731	Increase in underlying need to borrow (unsupported by government financial assistance)	15,200
(503)	Assets acquired under finance leases	(335)
(4,485)	Assets acquired under PFI/PPP contracts	(3,738)
<b>18,743</b>	<b>Increase/(decrease) in Capital Financing Requirement</b>	<b>11,127</b>

## 28. PRIVATE FINANCE INITIATIVE (PFI) AND SIMILAR CONTRACTS

PFI contracts are agreements to receive services, where the responsibility for making available the assets needed to provide the services passes to the PFI contractor. If the Council is deemed to control the services that are provided under its PFI schemes and if ownership of the assets will pass to the Council at the end of the contracts for no additional charge, the Council should carry the assets used under the contracts on its Balance Sheet, as part of Property, Plant and Equipment.

Under the revised accounting arrangements for PFI that were introduced for 2009/10 by the 2009 SORP, the criteria for asset recognition moved from risk and reward to issues about the control of service provision as well as control over the residual value of the asset. An exercise was carried out which concluded that the two PFI schemes operated by Falkirk Council would result in the assets being recognised on the Balance Sheet.

The two PFI Schemes operated by Falkirk Council are:-

- Class 98, for the provision of 5 schools with payments due from August 2000 and terminating in July 2026
- Falkirk Schools Gateway Ltd for the provision of 4 schools with payments due from January 2009 and terminating in March 2040

The Code requires that when these assets are recognised an equal and opposite entry is made to credit a finance lease liability. The asset is depreciated in line with normal Council policy and the finance lease liability is written down annually by the apportioned element of the PFI unitary charge.

The amounts payable to the PFI operators each year are analysed into five elements:

- Fair value of the services received during the year – debited to the relevant service in the Comprehensive Income & Expenditure Statement
- Finance cost – an interest charge on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income & Expenditure Statement
- Contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income & Expenditure Statement
- Payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease)
- Lifecycle replacement costs – proportion of the amount payable is posted to the Balance Sheet as a prepayment and then recognised as additions to Property, Plant and Equipment when the relevant works are eventually carried out.

As the above scenario would result in a reduction in the total sum charged to the Comprehensive Income and Expenditure Account as compared to previous accounting arrangements, statutory intervention has been agreed with the Scottish Government (Finance Circular 4/2010) the intention of which is as far as possible, to put local authorities in a neutral finance position as compared to the previous accounting treatment of PFI arrangements. Two statutory charges have therefore been created: -

- Statutory Charge for the Repayment of Debt (for the element of the Unitary Payment designated for the repayment of the finance lease liability).
- Capital Expenditure Charged to General Fund (for the element of the Unitary Payment designated for lifecycle replacement costs).

The inclusion of these two Statutory Charges within the Movement in Reserves Statement should ensure that there is no effect on the General Fund Balance.



**(a) Movement in Assets**

	<b>Class 98 £'000</b>	<b>Falkirk Schools Gateway Ltd £'000</b>	<b>2014/15 £'000</b>
Balance as at 1 April 2014	92,243	108,057	200,300
Net Additions during year	4	-	4
Revaluation	10,529	3,732	14,261
Depreciation	(3,355)	(2,970)	(6,325)
<b>Net Book Value 31 March 2015</b>	<b>99,421</b>	<b>108,819</b>	<b>208,240</b>

**(b) Movement in Liabilities**

	<b>Class 98 £'000</b>	<b>Falkirk Schools Gateway Ltd £000</b>	<b>2014/15 £'000</b>
Balance as at 1 April 2014	43,976	82,873	126,849
Additions during year	-	-	-
Repaid during year	(1,560)	(2,082)	(3,642)
<b>Balance as at 31 March 2015</b>	<b>42,416</b>	<b>80,791</b>	<b>123,207</b>
of which			
Current	2,164	1,928	4,092
Long Term	40,252	78,863	119,115
<b>Total</b>	<b>42,416</b>	<b>80,791</b>	<b>123,207</b>

**(c) Estimated Future Unitary Payment Obligations**

	<b>Service Charges £'000</b>	<b>Interest £'000</b>	<b>Finance Lease Repayment £'000</b>	<b>2014/15 £'000</b>
Basic Annual Payments – Class 98				
Within one year	4,376	6,771	2,164	13,311
In the second to fifth years inclusive	15,565	25,870	12,653	54,088
In the sixth to tenth years inclusive	17,731	25,610	25,364	68,705
In the eleventh to fifteenth years inclusive	812	1,571	2,235	4,618
<b>Total</b>	<b>38,484</b>	<b>59,822</b>	<b>42,416</b>	<b>140,722</b>

The figures shown above for the Basic Annual Payment assume an indexation rate of 0% on a fixed part of the Basic Annual Payment with the balance indexed at 3% per annum as per the operator's financial model.

	<b>Service Charges £'000</b>	<b>Interest £'000</b>	<b>Finance Lease Repayment £'000</b>	<b>2014/15 £'000</b>
Basic Annual Payments – Falkirk Schools Gateway Ltd				
Within one year	4,341	6,305	1,928	12,574
In the second to fifth years inclusive	17,425	26,247	9,845	53,517
In the sixth to tenth years inclusive	28,815	33,229	12,732	74,776
In the eleventh to fifteenth years inclusive	36,695	33,777	14,130	84,602
In the sixteenth to twentieth years inclusive	45,420	33,830	16,469	95,719
In the twenty first to twenty fifth years inclusive	30,601	36,848	25,687	93,136
<b>Total</b>	<b>163,297</b>	<b>170,236</b>	<b>80,791</b>	<b>414,324</b>

The figures shown above for the Basic Annual Payment assume an indexation rate of 2.67% as per the operator's financial model.

## 29. CONTINGENT ASSETS AND LIABILITIES

### (a) Contingent Assets

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

- (i) In terms of a contract for the sale of land, a clawback provision was included in relation to the treatment of any savings on the assumed remediation costs for the land in question. Following a dispute the matter was assessed through third party determination at £0.930m. To date, some £0.326m has been received. Following an application by the purchaser for judicial review of the third party determination, the outcome of the determination was subsequently upheld by the Court. Legal procedures are now being finalised in respect of settlement arrangements for the balance of £0.604m due by means of transfer of land and property assets by the company to the Council for subsequent disposal, together with a further cash payment to a maximum of £0.300m (the latter dependent on proceeds of successful sale of a development site elsewhere by the company). There accordingly remains the potential for the Council to receive further sums subject to the outcome of the subsequent asset disposals and recovery of additional cash sum.

### (b) Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably. Contingent liabilities are not recognised in the Balance Sheet but disclosed in the Notes to the Core Financial Statements. Where such liabilities are reduced through contributions or recoveries from other parties the net liability is shown. Details of such liabilities are shown in Note 20.

- (ii) Falkirk Schools Project – Falkirk Council has entered into a Public Private Partnership with Class 98 Ltd to provide five schools. In terms of the Project Agreement, the Council is liable for outstanding senior debt following termination of a Class 98 Ltd event of default. At 31 March 2015, this totalled £39m (£43m as at March 2014).
- (iii) Note 34 includes provision of £4.027m in respect of potential expenditure arising from outstanding equal pay claims. A legal judgement (Bainbridge) on pay protection means the Council could be at risk in respect of further potential equal pay obligations. However, this is dependent on case law development and cannot be quantified at this time.
- (iv) Falkirk Community Trust is a member of the Falkirk Pension Fund, a Local Government Pension Scheme, which is a defined benefit scheme and provides benefits based on final pensionable pay. As part of the Admission Agreement to the Scheme both Falkirk Community Trust and Falkirk Council agreed that assets of the Pension Fund in respect of Trust employees and former employees shall, at all times, be notionally allocated to Falkirk Council and the liabilities of the Pension Fund shall, at all times, be the responsibility of Falkirk Council and not Falkirk Community Trust. At this stage, it has not been possible to quantify this potential liability as no separate valuation was undertaken.
- (v) Prior to local government reorganisation in 1996 the extant councils, Central Regional Council and Falkirk District Council, entered into a solvent run-off arrangement with their insurer, MMI, with the aim of having sufficient assets to meet outstanding insurance claims. This essentially means that liabilities, as they arise, can be met from available resources. The outcome of current litigation has created a financial liability for Falkirk Council as successor Council. Accordingly a provision of £0.360m was created which is based on a 30% levy. The MMI Scheme is now being administered by Ernst & Young. At present they have determined a 15% levy. However, it is likely that this will increase and could even go beyond the 30% provision. Our Insurance Advisers have recommended a provision of 30% for the time being. During the course of 2014/15, there was no requirement to draw down from this provision and the balance remains at £0.137m.

- (vi) The Council has received eight insurance claims relating to crematoria practices. These claims are still subject to consideration and cannot be quantified at this time.

### 30. NET ASSETS

An analysis of Net Assets shown in the Balance Sheet is given below:

2013/14 £'000		2014/15 £'000
109,815	General Fund	(2,017)
(22,956)	Housing Revenue Account	(43,185)
<b>86,859</b>	<b>Total</b>	<b>(45,202)</b>

### 31. LONG-TERM INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

In March 2003, the Council in conjunction with Falkirk Football and Athletic Club Ltd (FFAC), established a joint venture called Falkirk Community Stadium Limited (FCSL) to develop and operate a stadium facility at Westfield, Falkirk. The Council and FFAC invested £3.110m and £2.868m respectively from the proceeds of property disposals at Brockville and Hope Street, Falkirk. These sums were used to purchase Interest Free Secured Loan Stock 2178. The Council held 25% of the ordinary shares in the company, although this holding equated to 49% of the economic value. In addition, the Council advanced the Company loans of £2.000m on 31 March 2003, £2.795m on 22 December 2004 and £0.300m on 31 August 2005, which were repayable over 25 years for the provision of community leisure facilities within the new Community Stadium.

FCSL was reconstructed on 28<sup>th</sup> May 2009 through a solvent liquidation pursuant to Section 110 of The Insolvency Act 1986. In effect, the assets and liabilities of the company have been split between FFAC and the Council. The loans advanced by the Council and the Long Term Investment have been replaced by Property, Plant & Equipment of £3.850m and a Long Term Investment of £9.340m. The assets comprise Ground Leases of £0.250m and Development Sites of £3.600m per the 2009 valuation. thinkWhere was a company established by Falkirk, Stirling and Clackmannanshire Councils in 2007 to deliver geographical information services. In November 2014 the Council agreed an investment of £0.5m in the company, payable over three years, the investment in 2014/15 equated to £0.238m.

### 32. LOANS OUTSTANDING

These loans were raised to finance the capital expenditure of the Council. The source of these loans as at 31 March 2015 was as follows:-

2013/14 £'000	Borrowing Repayable on Demand or Within 12 Months	2014/15 £'000
22,026	Temporary Borrowing	26,026
-	Other Loans	-
<b>22,026</b>		<b>26,026</b>
2,477	Accrued Interest	2,762
<b>24,503</b>	<b>Total</b>	<b>28,788</b>
	<b>Long Term Borrowing</b>	
150,630	Public Works Loan Board	176,630
26,000	Market Bonds	26,000
<b>176,630</b>		<b>202,630</b>
1,628	Accrued Interest	1,599
<b>178,258</b>	<b>Total</b>	<b>204,229</b>

Short Term Borrowing per the Consolidated Balance Sheet is £30,283. This figure includes borrowing per above £28,788 and £1,495 in respect of Third Party balances which are invested in the Loans Fund as at 31 March 2015.

**33. INSURANCE FUND**

An updated independent actuarial valuation of the Insurance Fund was undertaken in March 2013. This has established that there are sufficient funds to meet its outstanding liabilities in respect of Property, Liability and Motor Insurance claims. There is no material risk which remains unfunded. The balance of the Fund as at 31 March 2015 is £4.826m (£4.568m as at 31 March 2014).

**34. PROVISIONS**

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential and a reliable estimate can be made of the obligation. Provisions are charged as an expense to the appropriate service revenue account in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation, based on the best estimate of the likely settlement. When payments are eventually made, they are charged to the provision set up in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year and appropriate adjustments made to the level of provision. The provisions are included in the financial statements in accordance with IAS37.

<b>Provisions</b>	<b>Kinneil Kerse £'000</b>	<b>Equal Pay Claims £'000</b>	<b>Insurance Claims £'000</b>	<b>Total £'000</b>
Balance as at 1 April 2014	1,311	4,165	137	5,613
Additional provisions made during year	-	-	-	-
Amounts used during year	-	(138)	-	(138)
<b>Balance as at 31 March 2015</b>	<b>1,311</b>	<b>4,027</b>	<b>137</b>	<b>5,475</b>

**Kinneil Kerse**

A provision exists for the restoration costs associated with the restoration of Kinneil Kerse landfill site. Planning approval has now been granted and work will commence during 2015/16. The current provision is still considered to be accurate, with no amendment required.

**Equal Pay Claims**

At the year end, there were a significant number of equal pay claims being considered in conjunction with the Council's legal advisers and the actual cost of these claims is unknown at this time.

**Insurance Claims**

Prior to local government reorganisation in 1996 the extant councils, Central Regional Council and Falkirk District Council, entered into a solvent run-off arrangement with their insurer, MMI, with the aim of having sufficient assets to meet outstanding insurance claims. This essentially means that liabilities, as they arise, can be met from available resources. The outcome of current litigation has created a financial liability for Falkirk Council as successor Council. Accordingly a provision has been created which is based on a 30% levy. There was no draw down from the Provision in 2014/15.

**35. LONG-TERM DEBTORS**

<b>Balance 01/04/14 £'000</b>		<b>Advanced 2014/15 £'000</b>	<b>Repaid 2014/15 £'000</b>	<b>Balance 31/03/15 £'000</b>
958	Northfield Quarry	-	(39)	919
-	Owner Occupiers	107	-	107
5	Loan Arrears	1	-	6
20	Housing Loans	-	(11)	9
21	Car Loans	-	(15)	6
2,342 (1)	National Housing Trust Initiative	89	(89)	2,342
5,246 (2)	Scottish Fire Service	-	(251)	4,995
1,235	Falkirk Community Stadium Ltd.	229	-	1,464
<b>9,827</b>	<b>Total</b>	<b>426</b>	<b>(405)</b>	<b>9,848</b>

- (1) The Council applied to the Scottish Government for consent to borrow to lend to Carrongrove NHT 2011 LLP, for the purchase of housing units forming part of the National Housing Trust (NHT) Initiative. The principal sum of this loan is to be repaid on the sale of housing units.
- (2) The outstanding debt in respect of the Scottish Fire Service is shown on the Council's balance sheet as a long term debtor. The balance will be written down over the life of the loans on payment of an annual account raised to Scottish Fire Service.

**36. INVENTORIES**

All inventories have been valued in accordance with International Accounting Standard 2 "Inventories" (IAS 2) as follows:

- Lower of cost and net realisable value (nrv)
- At average cost - For stocks held on the Profess and Open Contractor systems, which have been designed to value stocks at average cost. The difference between the average cost and valuation at the lower of cost and net realisable value is not considered material.

The value of stocks as at 31 March 2015 is shown below:

	<b>2014/15 Opening Stock £'000</b>	<b>Purchases / Additions £'000</b>	<b>Stock Write Downs £'000</b>	<b>Recognition as an expense £'000</b>	<b>Closing Stock £'000</b>
Stocks	899	6,892	(70)	(6,830)	891
Work in Progress	24	-	-	(24)	-
<b>Total Stocks &amp; Work in Progress</b>	<b>923</b>	<b>6,892</b>	<b>(70)</b>	<b>(6,854)</b>	<b>891</b>

**37. CONSTRUCTION CONTRACTS**

Work in progress under construction contracts is accounted for using the percentage of completion method. Contract revenue is matched with contract costs incurred in reaching the state of completion at the Balance Sheet date.

As at 31 March 2015, the Council's Building Maintenance Division had several construction contracts in progress. The income derived from the value of work completed at 31 March 2015 was established using a stage of completion methodology based on architects certificates obtained at the year end. There were no sums due as at 31 March 2015.

**38. DEBTORS**

<b>2013/14 £'000</b>		<b>2014/15 £'000</b>
3,424	Central government bodies	3,583
838	Other local authorities	193
1,201	NHS Bodies	1,250
70	Public corporations and trading funds	320
34,503	Other entities and individuals	37,489
1,386	Falkirk Community Trust	1,102
<b>41,422</b>		<b>43,937</b>
(16,223)	Provision for Bad Debts	(17,537)
<b>25,199</b>	<b>Total Debtors</b>	<b>26,400</b>

**39. CREDITORS**

<b>2013/14 £'000</b>		<b>2014/15 £'000</b>
15,637	Central government bodies	11,601
194	Other local authorities	162
112	NHS Bodies	160
51,823	Other entities and individuals	51,229
306	Falkirk Community Trust	88
<b>68,072</b>	<b>Total Creditors</b>	<b>63,240</b>

**40. TRUST & THIRD PARTY FUNDS**

The Council administers and acts as trustees, where applicable, to a number of Third Party Funds none of which are registered as a Charity under the Charities and Trustee Investment (Scotland) Act 2005. Whilst each fund has specific objectives and conditions, most were gifted into the trust of the Council to provide assistance to the poor and needy and to pay for the maintenance and upkeep of lairs. The Council acts as the sole trustee for all funds except two.

The purposes of the largest General Trust Funds held by Falkirk Council are:

**Funds for which the Council Acts as Sole Trustee**

- Provost's Fund for Necessitous Poor (£54,909) - to provide donations to residents of the former Burgh of Falkirk at the sole discretion of the Provost.
- Shank's Bequest (£26,805) - to provide donations to the needy of Denny.
- Grangemouth Childrens' Day Committee (£22,883) - to provide a donation to the annual cost of the Grangemouth Childrens' Day.
- Candyend Trust (£69,980) - to provide donations to specific organisations assisting the elderly in the Muiravonside area.
- Alexander Douglas King Bequest (£30,931) – bequest for the promotion and advancement of education of art at Bo'ness Academy.
- McNair Bequest (£70,671) – new bequest for the benefit of Bo'ness Academy.

**Funds for which the Council is not Sole Trustee**

- Scottish Veterans' Garden City Association (SVGCA) (£64,832) - to manage the Association's housing in the Falkirk Council area. The Council's main role is to manage the properties including collection of rental and undertake repairs on behalf of the Association.
- Odenwald Trust (£27,121) - to foster twinning exchanges between the Council and the Odenwald region in Germany. The Fund is managed by the three successor Councils of Central Regional Council who previously administered it. Each of the Councils from Stirling, Falkirk and Clackmannanshire have appointed one Trustee along with one appointed from the Odenwald Association.

**Temperance Trust**

The Temperance Trust is a registered charity (SC001904) administered by Falkirk Council. There are two trustees of the Trust – Provost Pat Reid and Cllr Craig Martin. Temperance Trust funds are available to assist mainly organisations operating within Falkirk dealing with alcohol abuse and other forms of substance addiction. As at the 31st March 2015 the Trust had available funds of £159,720.

<b>2013/14 £'000</b>	<b>Income and Expenditure Account</b>	<b>2014/15 £'000</b>
	<b>Income</b>	
(8)	Investment Income	(11)
	<b>Expenditure</b>	
3	Awards and Other Expenses	8
<b>(5)</b>	<b>(Surplus)/Deficit for the Year</b>	<b>(3)</b>
	<b>Balance Sheet</b>	
	<b>Fixed Assets</b>	
166	External Investments	164
441	Internal Investments	447
<b>607</b>	<b>Net Assets</b>	<b>611</b>
(602)	Fund Balance at 1 April 2014	(607)
(5)	(Surplus)/Deficit for Year	(3)
<b>(607)</b>	<b>Fund Balance at 31 March 2015</b>	<b>(610)</b>

**41. GOVERNMENT GRANTS AND CONTRIBUTIONS**

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- the Council will comply with the conditions attached to the payments, and
- the grants or contributions will be received

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants/contributions) or Taxation and Non-Specific Grant Income (non-ring-fenced revenue grants and all capital grants) in the Comprehensive Income & Expenditure Statement.

Where capital grants are credited to the Comprehensive Income & Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Account. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

## 42. GRANT INCOME

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement during the year.

<b>2013/14 £'000</b>	<b>Credited to Services</b>	<b>2014/15 £'000</b>
3,544	Criminal Justice	3,551
406	Council Tax DWP Subsidy	184
41,167	Housing DWP Subsidy	41,231
477	Education Maintenance Allowances	434
329	Improvement Repair Grant	231
523	Home Insulation Scheme	1,602
2,204	Other Grants	2,077
<b>48,650</b>	<b>Total</b>	<b>49,310</b>

<b>2013/14 £'000</b>	<b>Credited to Taxation and Non-Specific Grant Income</b>	<b>2014/15 £'000</b>
9,236	Scottish Government – General Capital Grant	15,051
164	Scottish Government – Specific Capital Grants	240
4,067	Scottish Government – Other Grants	3,055
8,948	Lottery Funding – Helix	1,586
64	Other Grants	610
564	Developers Contributions	(241)
3,432	Other Contributions	1,476
<b>26,475</b>	<b>Total</b>	<b>21,777</b>

### Capital Grants Received in Advance

The Council has received a number of grants, contributions and donations that have yet to be recognised as income as they have conditions attached to them which require the monies to be returned to the giver. The balances at the year end are as follows:

<b>2013/14 £'000</b>	<b>Capital Grants Received in Advance</b>	<b>2014/15 £'000</b>
299	Scottish Government	299
2,377	Developers Contributions	3,076
239	Other Contributions	1,399
<b>2,915</b>	<b>Total</b>	<b>4,774</b>



### 43. FINANCIAL INSTRUMENTS

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability of another. The term ‘financial instrument’ covers both financial liabilities and financial assets.

#### Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, at the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as a part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

#### Financial Assets

Financial assets are classified into two types:

- Loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market
- Available for sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments.

## Loans and Receivables

Loans and receivables are recognised on the Balance Sheet when the Council becomes a party to the contractual provision of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset at the effective rate of interest for the instrument. For most of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

Any gains and losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

## Available for Sale Assets

Available for sale assets are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset at the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (eg dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Council.

Assets are maintained in the Balance Sheet at fair value. Values are based on the following principles:

- instruments with quoted market prices – the market price
- other instruments with fixed and determinable payments – discounted cash flow analysis
- equity shares with no quoted market prices – independent appraisal of company valuations

Changes in fair value are balanced by an entry in the Available for Sale Reserve and the gain/loss is recognised in the Surplus or Deficit on Revaluation of Available for Sale Financial Assets. The exception is where impairment losses have been incurred – these are debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any net gain or loss for the asset accumulated in the Available for Sale Reserve.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made (fixed or determinable payments) or fair value falls below cost, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. If the asset has fixed or determinable payments, the impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Otherwise, the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation).

Any gains and losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any accumulated gains or losses previously recognised in the Available for Sale Reserve.

Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

There has been no transfer of financial assets for the year ended 31 March 2015.

43.(a) **Financial Instruments Adjustment Account**

<b>2013/14 £'000</b>	<b>Financial Instruments Adjustment Account</b>	<b>2014/15 £'000</b>
4,739 (307)	De-recognition of Premiums from Debt Restructuring Annual Amortisation	4,431 (307)
<b>4,432</b> (267) 7	De-recognition of Discounts from Debt Restructuring Annual Amortisation	<b>4,124</b> (260) 7
<b>(260)</b> 1,921 (27)	Re-measurement of Market LOBO's Annual Amortisation	<b>(253)</b> 1,893 (28)
<b>1,894</b>		<b>1,865</b>
<b>6,066</b>	<b>Total</b>	<b>5,736</b>

**Disclosure of Financial Assets and Liabilities from 1 April 2014**43.(b)(i) **Financial Instruments Balances**

The borrowings and investments disclosed in the Balance Sheet are made up of the following categories of financial instruments:-

<b>Long Term 31/03/14 £'000</b>	<b>Current 31/03/14 £'000</b>		<b>Long-Term 31/03/15 £'000</b>	<b>Current 31/03/15 £'000</b>
176,630	22,026	Financial liabilities (principal amount)	202,630	26,026
178,258	24,503	Financial liabilities at amortised cost	204,229	28,788
-	10,063	Loans and receivables (principal amount)	-	15,174
-	10,064	Loans and receivables at amortised cost	-	15,178
9,340		Unquoted investments at cost	9,578	

The Council does not have any soft loans.

43.(b)(ii) **Financial Instruments Gains/Losses**

The gains and losses recognised in the Comprehensive Income and Expenditure Statement in relation to financial instruments are made up as follows:

	<b>Financial Liabilities</b>	<b>Financial Assets</b>	
	Liabilities Measured at Amortised Cost <b>£'000</b>	Loans and Receivables <b>£'000</b>	<b>Total £'000</b>
Interest Expense	(10,613)	-	(10,613)
Interest Income	-	523	523
<b>Net gain/(loss) for the year</b>	<b>(10,613)</b>	<b>523</b>	<b>(10,090)</b>

43.(b)(iii) **Fair value of Assets and Liabilities carried at Amortised Cost**

Financial liabilities and financial assets represented by loans and receivables are carried on the Balance Sheet at amortised cost (in long term assets/liabilities with accrued interest in current assets/liabilities). Their fair value can be assessed by calculating the present value of the cash flows that take place over the remaining life of the instruments, using the following assumptions:

- For loans from the PWLB and other loans payable, premature repayment rates from the PWLB have been applied to provide the fair value under PWLB debt redemption procedures;
- For loans receivable, prevailing benchmark market rates have been used to provide the fair value;
- No early repayment or impairment is recognised;
- Where an instrument has a maturity of less than 12 months or is a trade or other receivable, the fair value is taken to be the principal outstanding or the billed amount;
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair values calculated are as follows:

<b>Carrying Amount 31/03/14</b>	<b>Fair Value 31/03/14</b>		<b>Carrying Amount 31/03/15</b>	<b>Fair Value 31/03/15</b>
<b>£'000</b>	<b>£'000</b>		<b>£'000</b>	<b>£'000</b>
150,630	208,029	PWLB Debt	176,630	276,803
26,000	27,895	Non-PWLB Debt	26,000	33,877
22,000	22,058	Temporary Loans	26,000	26,071
<b>198,630</b>	<b>257,982</b>	<b>Total Debt</b>	<b>228,630</b>	<b>336,751</b>
5,323	5,323	Trade Creditors	5,769	5,769
<b>203,953</b>	<b>263,305</b>	<b>Total Financial Liabilities</b>	<b>234,399</b>	<b>342,520</b>

The fair value is greater than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the rates available for similar loans in the market at the Balance Sheet date.

The fair value is greater than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the rates available for similar loans in the market at the Balance Sheet date.

<b>Carrying Amount 31/03/14</b>	<b>Fair Value 31/03/14</b>		<b>Carrying Amount 31/03/15</b>	<b>Fair Value 31/03/15</b>
<b>£'000</b>	<b>£'000</b>		<b>£'000</b>	<b>£'000</b>
10,063	10,064	Money Market Deposits < 1 year	15,174	15,178
9,340	9,340	Long-Term Investments	9,578	9,578
9,138	9,138	Trade Debtors	11,081	11,081
-	-	Loans and Receivables	-	-
<b>28,541</b>	<b>28,542</b>	<b>Total Loans and Receivables</b>	<b>35,833</b>	<b>35,837</b>

43.(c)(i) **Nature and Extent of Risk Arising from Financial Instruments**

**Key Risks**

The Council's activities expose it to a variety of financial risks. The key risks are:

- Credit risk – the possibility that other parties might fail to pay amounts due to the Council;
- Liquidity risk – the possibility that the Council might not have funds available to meet its commitments to make payments;
- Re-financing risk – the possibility that the Council might be requiring to renew a financial instrument on maturity at disadvantageous interest rates or terms;
- Market risk – the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates movements.

**Overall Procedures for Managing Risk**

The Council's overall risk management procedures focus on the unpredictability of financial markets, and implementing restrictions to minimise these risks. The procedures for risk management are set out through a legal framework in the Local Government (Scotland) Act 2003 and the associated regulations. These require the Council to comply with the CIPFA Prudential Code, the CIPFA Treasury Management in the Public Services Code of Practice and Investment Regulations issued through the Act. Overall, these procedures require the Council to manage risk in the following ways:

- by formally adopting the requirements of the CIPFA Treasury Management Code of Practice;
- by the adoption of a Treasury Policy Statement and treasury management clauses within its Financial Regulations;
- by approving annually in advance prudential (incorporating treasury) indicators for the following three years limiting:
  - The Council's overall borrowing;
  - Its maximum and minimum exposures to fixed and variable rates;
  - Its maximum and minimum exposures to the maturity structure of its debt;
  - Its maximum annual exposures to investments maturing beyond a year.
- by approving a Treasury Management Strategy for the forthcoming year setting out its criteria for both borrowing and investing and selecting investment counterparties in compliance with the Government Regulations.

Risk Management is carried out by Treasury Management staff, under policies approved by the Council in the annual Treasury Management Strategy. The Council maintains written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk, and the investment of surplus cash through Treasury Management Practices (TMPs). These TMPs are a requirement of the Code of Practice and are reviewed periodically.

43.(c)(ii) **Credit Risk**

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers. This risk is minimised through compliance with the Annual Treasury Management Strategy which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria in accordance with Fitch and equivalent rating agencies. The Annual Treasury Management Strategy also imposes maximum amounts and time limits in respect of each financial institution. Deposits are not made with banks and financial institutions unless they meet the minimum requirements of the investment criteria outlined above.

The Council's maximum exposure to credit risk in relation to its investments in banks and building societies cannot be assessed generally as the risk of an institution failing to make interest payments or repay principal sums will be specific to each individual institution. A risk of irrecoverability applies to all of the Council's deposits but there was no evidence at 31 March 2015 that this was likely to crystallise.

No breaches of the Council's counterparty criteria occurred during the reporting period and the Council does not expect any losses from non-performance by any of its counterparties in relation to deposits.

The Council does not generally allow credit for its trade debtors, such that £5.2m of the £11m balance is past its due date for payment. The past due amount can be analysed by age as follows:

	<b>£'000</b>
Less than 31 days	728
31 – 60 days	222
61 – 90 days	264
More than 90 days	3,968
<b>Total</b>	<b>5,182</b>

The Council initiates a deferred charge on property in circumstances where clients, requiring the assistance of Social Work Services, are unable to meet their immediate financial liabilities. The total collateral at 31 March 2015 was £0.7m.

#### 43.(c)(iii) **Liquidity Risk**

The Council manages its liquidity position through the risk management procedures above (the setting and approval of prudential indicators and the approval of the treasury and investment strategy reports), as well as through cash flow management procedures required by the Code of Practice.

The Council has ready access to borrowings from the Money Markets to cover any day to day cash flow need, and whilst the PWLB provides access to longer term funds, it also acts as a lender of last resort to councils (although it will not provide funding to a council whose actions are unlawful). The Council is also required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

#### 43.(c)(iv) **Re-financing and Maturity Risk**

The approved treasury indicator limits for the maturity structure of debt are the key parameters used to address this risk. The Council approved treasury and investment strategies address the main risks and the central treasury team address the operational risks within the approved parameters. This includes:

- monitoring the maturity profile of financial liabilities and amending the profile through either new borrowing or the rescheduling of the existing debt; and
- monitoring the maturity profile of investments to ensure sufficient liquidity is available for the Council's day to day cash flow needs.

The maturity analysis of financial liabilities is as follows:

31/03/14			Approved Maximum Limits	31/03/15
£'000		%	£'000	£'000
22,026	Less than one year	25	57,164	26,026
-	Between one and two years	25	57,164	-
1,000	Between two and five years	50	114,328	3,464
31,893	Between five and ten years	75	171,492	31,099
143,737	More than ten years	75	171,492	168,067
<b>198,656</b>	<b>Total</b>			<b>228,656</b>

#### 43.(c)(v) **Market Risk**

**Interest rate risk** - The Council is exposed to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council, depending on how variable and fixed interest rates move across differing financial instrument periods. For instance, a rise in variable and fixed interest rates would have the following effects:

- borrowings at variable rates – the interest expense charged to the Comprehensive Income and Expenditure Statement will rise;
- borrowings at fixed rates – the fair value of the borrowing will fall (no impact on revenue balances);
- investments at variable rates – the interest income credited to the Comprehensive Income and Expenditure Statement will rise; and
- investments at fixed rates – the fair value of the assets will fall (no impact on revenue balances).

Borrowings are not carried at fair value on the Balance Sheet, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services and affect the General Fund Balance, subject to influences from Government Grants. Movements in the fair value of fixed rate investments will be reflected in the Comprehensive Income and Expenditure Statement, unless the investments have been designated as fair value through the Comprehensive Income and Expenditure Statement.

The Council has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws on the Council's prudential and treasury indicators and its expected treasury operations, including an expectation of interest rate movements. From this Strategy a treasury indicator is set which provides maximum limits for fixed and variable interest rate exposure. The central treasury team will monitor market and forecast interest rates within the year to adjust exposures appropriately.

If all interest rates had been 1% higher with all other variables held constant, the financial effect would be:

	<b>£'000</b>
Increase in interest payable on variable rate borrowings	260
Increase in interest receivable on variable rate investments	(151)
<b>Impact on Other Comprehensive Income and Expenditure</b>	<b>109</b>
Share of overall impact debited to the HRA	40
<b>Increase in fair value of fixed rate borrowings liabilities (no impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure)</b>	<b>63,251</b>

The approximate impact of a 1% fall in interest rates would be as above but with the movements being reversed.

Other areas of market risk are price risk and foreign exchange risk. The Council has no exposure to these risks through its treasury activities. The Council does not invest in equity shares (so called "available for sale" Assets) and consequently is not exposed to gains or losses arising from movements in the prices of shares. The Council does not lend or borrow in foreign currencies and has no exposure to gains or losses arising from movements in exchange rates.

#### 44. OTHER LONG TERM LIABILITIES

<b>2013/14 £'000</b>		<b>2014/15 £'000</b>
124,628	PFI Finance Lease Liabilities	120,439
165	HRA Window Leasing Finance Lease Liability	-
<b>124,793</b>	<b>Total</b>	<b>120,439</b>



## HOUSING REVENUE ACCOUNT INCOME AND EXPENDITURE STATEMENT

This account reflects the statutory requirement to account separately for Council Housing and it shows the major elements of housing revenue expenditure and capital financing costs and how these are met by rents, housing support grant and other income.

2013/14 £'000		2014/15 £'000
(45,704)	Dwelling Rents	(47,542)
(1,686)	Non-Dwelling Rents	(1,685)
(674)	Hostels	(656)
(458)	Housing Support Grant	-
(710)	Other Income	(873)
<b>(49,232)</b>	<b>Total Income</b>	<b>(50,756)</b>
22,229	Repairs and Maintenance	23,115
13,283	Supervision and Management	13,433
48,999	Depreciation and Impairment of Non-Current Assets	34,620
953	Other Expenditure	733
461	Increase/(Decrease) in Bad Debts Provision	492
<b>85,925</b>	<b>Total Expenditure</b>	<b>72,393</b>
36,693	Net Expenditure of HRA Services as included in the Comprehensive Income and Expenditure Statement	21,637
252	HRA Services Share of Corporate and Democratic Core	276
36,945	Net Expenditure of HRA Services	21,913
	<b>HRA Share of Operating Income and Expenditure included in the Comprehensive Income and Expenditure Statement:</b>	
(3,135)	(Gain)/Loss on Sale of HRA Non-Current Assets	(2,899)
2,888	Interest Payable and similar charges	4,036
(95)	Interest and Investment Income	(72)
512	Pensions Interest Cost and Expected Return on Pension Assets	498
(4,131)	Recognised Capital Grant Income	(2,924)
<b>32,984</b>	<b>(Surplus)/Deficit for the Year</b>	<b>20,552</b>

### Movement on the Housing Revenue Account Statement

2013/14 £'000		2014/15 £'000
(7,631)	Balance on the HRA at the end of the previous year	(5,093)
32,984	(Surplus) or Deficit for the year on HRA Income and Expenditure Statement	20,552
(30,023)	Adjustments between Accounting Basis and Funding Basis under Statute	(20,552)
2,961	Net (Increase) or Decrease before transfers to or from Reserves	-
(423)	Transfers (to) or from Reserves	-
2,538	(Increase) or Decrease in Year on the HRA	-
<b>(5,093)</b>	<b>Balance on the HRA at the end of the Current Year</b>	<b>(5,093)</b>

<b>HOUSING REVENUE ACCOUNT DISCLOSURES</b>
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**(a) Adjustments between Accounting Basis and Funding Basis under Statute:-**

2013/14 £'000		2014/15 £'000
3,135	Gain or (loss) on sale of HRA non-current assets	2,899
2,557	Capital expenditure charged to the HRA	5,599
502	Statutory Repayment of Debt (Finance Lease Liabilities)	335
(48,999)	Depreciation and Impairment	(34,620)
9,345	Statutory Repayment of Debt (Loans Fund Advances)	3,077
(755)	HRA share of contributions to or from the Pensions Reserve	(828)
(2)	Accumulated Absences Account	(2)
63	Difference between any other item of income and expenditure determined in accordance with the Code and determined in accordance with statutory HRA requirements	64
4,131	Recognised Capital Grant Income	2,924
<b>(30,023)</b>	<b>Total</b>	<b>(20,552)</b>

**b) Housing Stock**

The Council Housing Stock at 31 March 2015 was 16,325 properties in the following categories:-

2013/14 Number		2014/15 Number
2,655	One bedroom and under	2,671
8,487	Two bedrooms	8,601
4,560	Three bedrooms	4,556
461	Four bedrooms	483
6	Five bedrooms and larger	14
<b>16,169</b>	<b>Total</b>	<b>16,325</b>
£55.41	<b>Average Weekly rent (52 week basis)</b>	£57.46

**c) Rent Arrears**

Rent Arrears at 31 March 2015 were £3,652,014 (£3,028,676 in 2013/14).

**d) Bad Debt Provision**

A impairment of £3.015m has been provided in the Balance Sheet for irrecoverable rents, an increase of £0.492m from the provision in 2013/14.

**e) Losses on Void Properties**

2013/14 £'000		2014/15 £'000
638	Dwelling Rents	886
126	Non-Dwelling Rents	148
<b>764</b>	<b>Total</b>	<b>1,034</b>

<b>COUNCIL TAX INCOME ACCOUNT</b>
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This account shows all the income raised from Council Tax. Owners or tenants of domestic properties (with some exceptions) are liable for a banded charge depending on the value of each property. There is a scheme under which those on low incomes are entitled to Council Tax Reduction.

2013/14 £'000	2013/14 £'000		2014/15 £'000	2014/15 £'000
		<b>Expenditure</b>		
	1,669	Exemptions		1,766
	6,396	Discounts		6,422
8,637		Council Tax Benefit/Reduction	8,191	
-	8,637	Less: Government Subsidy	-	8,191
	67	Relief (Persons with a Disability)		68
	255	Prior Year Adjustments		31
	1,152	Provisions Against Bad and Doubtful Debts		1,011
	<b>18,176</b>	<b>Total Expenditure</b>		<b>17,489</b>
		<b>Income</b>		
	70,089	Gross Council Tax Levied		70,805
	<b>70,089</b>	<b>Total Income</b>		<b>70,805</b>
	<b>51,913</b>	<b>Surplus for Year</b>		<b>53,316</b>
		<b>Appropriated as follows</b>		
	<b>51,913</b>	<b>General Fund</b>		<b>53,316</b>

Council Tax Benefit has been changed to Council Tax Reduction for 2014/15, this means that the Subsidy rules no longer apply. Funding is from Scottish Government via the Revenue Support Grant.

## COUNCIL TAX ACCOUNT DISCLOSURES

### (a) Background

Falkirk Council's net expenditure, after deducting income from fees and charges, grants, the non-domestic rates pool and excluding expenditure chargeable against other sources of funding, is met from Council Tax.

Council Tax is payable on any dwelling which is not an exempt dwelling (prescribed by an Order made by Scottish Ministers). The amount of Council Tax payable depends on the valuation band of a dwelling as entered in the Council Tax Valuation List by the Assessor. Discounts and exemptions as specified in legislation can be applied to the gross charge.

By law, Falkirk Council is required to bill and collect water and waste water charges on behalf of Scottish Water. These charges are payable by those persons living in or liable for domestic premises having a public water or waste water connection. These charges are determined by Scottish Water and do not relate to the finances of Falkirk Council.

### (b) Calculation of the Council Tax Base (Per 2013/14 Budget)

	Band A *	Band A	Band B	Band C	Band D	Band E	Band F	Band G	Band H	Total
No. of Dwellings	-	22,225	19,280	6,490	8,426	8,309	4,988	2,349	61	<b>72,128</b>
Exempt Dwellings	-	806	431	145	151	96	31	21	1	<b>1,682</b>
Chargeable Dwellings	-	21,419	18,849	6,345	8,275	8,213	4,957	2,328	60	<b>70,446</b>
Disabled Reduction	-	88	104	54	62	77	36	13	-	<b>434</b>
Adjusted Chargeable Dwellings	88	21,435	18,799	6,353	8,290	8,172	4,934	2,315	60	<b>70,446</b>
Discounts (25%)	35	12,554	6,968	2,538	2,404	1,662	682	250	11	<b>27,104</b>
Discounts (due to being second homes)	-	201	142	74	63	41	15	10	3	<b>549</b>
Discount (long term empty properties)	-	236	130	55	41	45	15	11	3	<b>536</b>
Discount (occupied by disregarded adults)	-	9	6	-	3	2	2	-	-	<b>22</b>
Not entitled to discount	53	8,435	11,553	3,686	5,779	6,422	4,220	2,044	43	<b>42,235</b>
Effective Dwellings	79	18,074	16,918	5,654	7,636	7,713	4,748	2,242	54	<b>63,118</b>
Ratio to Band D	5/9	6/9	7/9	8/9	9/9	11/9	13/9	15/9	18/9	
No. of Band D Equivalents	44	12,049	13,158	5,026	7,636	9,427	6,858	3,737	108	<b>58,043</b>
Add: Estimated Growth in tax base										246
Less: Dwellings for which collection of Council Tax is considered to be doubtful – *% collection										1,282
Less: Impact of Council Tax Reduction Scheme										8,191
<b>Budgeted Council Tax Base</b>										<b>48,816</b>

**c) The Council Tax Charge**

The actual Council Tax is levied according to the Base Band 'D' charge and weighted in accordance with ratios detailed above. The charges set for each Band for 2014/15 are as follows:

Band	£ per Dwelling
A*	594.44
A	713.33
B	832.22
C	951.11
D	1,070.00
E	1,307.78
F	1,545.56
G	1,783.33
H	2,140.00

\* Band 'A' with Disabled Persons Relief

<b>NON-DOMESTIC RATES ACCOUNT</b>
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Non-Domestic Rates are a tax levied by local authorities on the occupiers of commercial, industrial and other non-domestic properties within their area, as distinct from a charge for their use of services. The rates charge for each property is determined by the rateable value placed upon it by the Assessor, multiplied by the National Rate Poundage which is set by Scottish Ministers. The Rate Poundage was set at 47.1 pence. The small business bonus scheme provides relief ranging from 25% to 100% for properties with rateable values of £18,000 and less. The cost of the small business bonus scheme was met from a supplement of 1.1 pence on properties with rateable values in excess of £35,000. Although councils bill and collect the sums due, these are paid into the National Non-Domestic Rate Pool and allocated back to councils by the Scottish Government.

2013/14 £'000		2014/15 £000
	<b>Income</b>	
82,224	Rate Levied (Net of Small Property Relief)	83,564
82,224	<b>Total Income</b>	83,564
	<b>Expenditure</b>	
-	Small Business Relief (Excludes Small Property Relief)	-
3,846	Small Business Bonus Scheme	4,072
1,430	Rating (Disabled Persons) Relief	1,459
3,262	Mandatory Relief	3,061
237	Discretionary Relief	475
97	Sports Club Relief	106
2,935	Voids and Empty Periods	4,290
525	Write-Off of Uncollectable Debts	966
84	TIF Appeals	3
-	Other Adjustments	-
-	Interest on Overpaid Rates	-
12,416	<b>Total Expenditure</b>	14,432
69,808	Net Non-Domestic Rate Income	69,132
(5,999)	Adjustments to previous years National Non Domestic Rates	(991)
63,809	<b>Total Non-Domestic Rate Income (before Authority Retention)</b>	68,141
751	Non-Domestic Rate Income Retained by Authority (TiF)	855
-	Non-Domestic Rate Income Retained by Authority (BRIS)	-
63,058	<b>Contribution to Non-Domestic Rate Pool</b>	67,286
68,291	Distribution from Non-Domestic Rate Pool	74,307
68,291	<b>Income Credited to the Comprehensive Income and Expenditure Statement</b>	74,307

The Business Rate Incentivisation Scheme (BRIS) permits the local authorities to retain half of the NDR Income which exceeds the income target set by the Scottish Government. The BRIS income target as set out in the Scottish Government Local Government Finance Circular is based on audited contributable amounts. The determinant of whether a council has achieved the BRIS target will therefore be based on the audited 'Contributable Amount' figure reported in the Non-Domestic Rates Income Return for 2014/15, which will not be completed until January/February 2016. However, there has been no target finalised for 2014/15 the figures detailed below are based on the target for 2013/14.

	£'000
<b>BRIS target</b>	<b>68,200</b>
<b>Contributable amount</b>	<b>68,141</b>
<b>Excess over target</b>	-
<b>50% retained</b>	-

<b>NON-DOMESTIC RATES ACCOUNT DISCLOSURES</b>
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**(a) Analysis of Rateable Values as at 1 April, 2014**

	<u>No. of Premises</u>	<u>Rateable Value</u> <u>£'000</u>	<u>%</u>
Shops	1,334	39,813	23.1
Hotels and Public Houses	128	4,480	2.6
Offices	921	13,575	7.8
Industrial – Factories, Warehouses, Stores and Workshops	1,264	40,781	23.5
Sports, Leisure, Cultural, Entertainment, Caravans, Holiday Sites	185	4,523	2.6
Garages and Petrol Stations	75	2,255	1.3
Education and Training	86	11,676	6.7
Public Service Subjects	168	7,211	4.2
Quarries and Mines	17	2,161	1.2
Petrochemical	15	27,948	16.1
Religious	154	1,180	0.7
Health/Medical and Care Facilities	151	10,253	5.9
Utilities	19	6,582	3.8
Communications, Advertising and Other	229	901	0.5
<b>Total</b>	<b>4,746</b>	<b>173,339</b>	<b>100.0</b>

**(b) National Non-Domestic Rates Pool**

The contribution to Non-Domestic Rate Pool represents the rates collected by the Council and paid over to the Government. The income credited to the Comprehensive Income and Expenditure Statement represents the sum received from the Government from the National Rates Pool, distributed through the Local Government Finance Settlement.

<b>COMMON GOOD FUNDS</b>
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Common Good Funds were inherited from the former burgh authorities of Bo'ness, Denny, Grangemouth and Falkirk in 1975 and are used solely for the benefit of the residents of these areas. Kilns House is part of the former Falkirk Town Council and was revalued at 1 April 2008.

2013/14 £'000		Former Bo'ness Town Council 2014/15 £'000	Former Denny Town Council 2014/15 £'000	Former Grangemouth Town Council 2014/15 £'000	Former Falkirk Town Council 2014/15 £'000	Total £'000
	<b><u>Income and Expenditure Account</u></b>					
	<b>Income</b>					
(21)	Rents Received	(1)	-	-	(21)	(22)
(5)	Interest	-	-	-	(4)	(4)
(26)	<b>Total Income</b>	<b>(1)</b>	<b>-</b>	<b>-</b>	<b>(25)</b>	<b>(26)</b>
	<b>Expenditure</b>					
9	Depreciation	-	-	-	15	15
13	Other	-	-	-	10	10
22	<b>Total Expenditure</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>25</b>	<b>25</b>
(4)	<b>(Surplus)/Deficit for Year</b>	<b>(1)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1)</b>
	<b><u>Balance Sheet</u></b>					
188	Fixed Assets	-	-	-	189	189
902	Investments	55	6	25	827	913
(6)	Creditors	-	-	-	-	-
1,084	<b>Net Assets</b>	<b>55</b>	<b>6</b>	<b>25</b>	<b>1,016</b>	<b>1,102</b>
	<b>Financed by:-</b>					
188	Asset Revaluation Reserve	-	-	-	189	189
896	Revenue Reserve	55	6	25	827	913
1,084		55	6	25	1,016	1,102



Bryan Smail, CPFA MBA  
Chief Finance Officer  
22 June 2015



<b>GROUP MOVEMENT IN RESERVES STATEMENT FOR THE YEAR ENDED 31 MARCH 2015</b>
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The Group Movement in Reserves Statement shows the movement in the year on the different reserves held by the Council, together with the movements in the Council's share of those entities in which it has a financial interest.

	Falkirk Council Usable Reserves £'000	Usable Reserves of Group Entities £'000	Total Group Usable Reserves £'000	Falkirk Council Unusable Reserves £'000	Unusable Reserves of Group Entities £'000	Total Group Unusable Reserves £'000	Total Group Reserves £'000
<b>Balance at 31 March 2014</b>	<b>49,218</b>	<b>(2,592)</b>	<b>46,626</b>	<b>37,641</b>	<b>1,360</b>	<b>39,001</b>	<b>85,627</b>
Surplus or (deficit) on provision of services (accounting basis)	(32,853)	90	(32,763)	-	-	-	(32,763)
Other Comprehensive Income and Expenditure	(20,173)	-	(20,173)	(79,035)	(1,114)	(80,149)	(100,322)
<b>Total Comprehensive Income and Expenditure</b>	<b>(53,026)</b>	<b>90</b>	<b>(52,936)</b>	<b>(79,035)</b>	<b>(1,114)</b>	<b>(80,149)</b>	<b>(133,085)</b>
Adjustments between Group accounts and Authority accounts	-	-	-	-	-	-	-
<b>Net Increase/Decrease before Transfers</b>	<b>(53,026)</b>	<b>90</b>	<b>(52,936)</b>	<b>(79,035)</b>	<b>(1,114)</b>	<b>(80,149)</b>	<b>(133,085)</b>
Adjustments between accounting basis and funding basis under regulations	47,051	187	47,238	(47,051)	(187)	(47,238)	-
<b>Net Increase/Decrease before Transfers to Other Statutory Reserves</b>	<b>(5,975)</b>	<b>277</b>	<b>(5,698)</b>	<b>(126,086)</b>	<b>(1,301)</b>	<b>(127,387)</b>	<b>(133,085)</b>
Transfers to/from Other Statutory Reserves	-	-	-	-	-	-	-
<b>Increase/Decrease in Year</b>	<b>(5,975)</b>	<b>277</b>	<b>(5,698)</b>	<b>(126,086)</b>	<b>(1,301)</b>	<b>(127,387)</b>	<b>(133,085)</b>
<b>Balance at 31 March 2015</b>	<b>43,243</b>	<b>(2,315)</b>	<b>40,928</b>	<b>(88,445)</b>	<b>59</b>	<b>(88,386)</b>	<b>(47,458)</b>

**Movement in Reserves Statement for the year ended 31 March 2014**

<b>Balance at 31 March 2013</b>	<b>54,986</b>	<b>(2,734)</b>	<b>52,252</b>	<b>99,860</b>	<b>(348,463)</b>	<b>(248,603)</b>	<b>(196,351)</b>
Surplus or (deficit) on provision of services	(63,617)	(26)	(63,643)	-	350,151	350,151	286,508
Other Comprehensive Income and Expenditure	(302)	-	(302)	(4,068)	(160)	(4,228)	(4,530)
<b>Total Comprehensive Income and Expenditure</b>	<b>(63,919)</b>	<b>(26)</b>	<b>(63,945)</b>	<b>(4,068)</b>	<b>349,991</b>	<b>345,923</b>	<b>281,978</b>
Adjustments between accounting basis and funding basis under regulations	58,151	168	58,319	(58,151)	(168)	(58,319)	-
<b>Net Increase/Decrease before Transfers to Other Statutory Reserves</b>	<b>(5,768)</b>	<b>142</b>	<b>(5,626)</b>	<b>(62,219)</b>	<b>349,823</b>	<b>287,604</b>	<b>281,978</b>
Transfers to/from Other Statutory Reserves	-	-	-	-	-	-	-
<b>Increase/Decrease in Year</b>	<b>(5,768)</b>	<b>142</b>	<b>(5,626)</b>	<b>(62,219)</b>	<b>349,823</b>	<b>287,604</b>	<b>281,978</b>
<b>Balance at 31 March 2014</b>	<b>49,218</b>	<b>(2,592)</b>	<b>46,626</b>	<b>37,641</b>	<b>1,360</b>	<b>39,001</b>	<b>85,627</b>

<b>GROUP COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT</b>
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The Group Comprehensive Income and Expenditure Statement combines the Income and Expenditure figures of the Council with the Council's share of the operating results of those entities in which it has a financial interest.

Gross Expenditure 2013/14 £'000	Gross Income 2013/14 £'000	Net Expenditure 2013/14 £'000		Gross Expenditure 2014/15 £'000	Gross Income 2014/15 £'000	Net Expenditure 2014/15 £'000
160,886	(5,146)	155,740	Education Services	161,845	(5,029)	156,816
132,942	(93,697)	39,245	Housing Services	121,584	(96,508)	25,076
22,686	(4,528)	18,158	Cultural and Related Services	24,535	(6,341)	18,194
19,705	(3,855)	15,850	Environmental Services	21,134	(4,381)	16,753
17,749	(1,170)	16,579	Roads & Transport Services	18,185	(1,169)	17,016
24,811	(8,694)	16,117	Planning and Development Services	22,038	(9,872)	12,166
123,199	(29,674)	93,525	Social Work	131,281	(30,495)	100,786
17,405	(12,178)	5,227	Central Services to the Public	17,811	(12,613)	5,198
3,068	-	3,068	Corporate & Democratic Core	2,799	-	2,799
1,315	-	1,315	Non-Distributed Costs	1,768	-	1,768
<b>523,766</b>	<b>(158,942)</b>	<b>364,824</b>	<b>Cost of Services</b>	<b>522,980</b>	<b>(166,408)</b>	<b>356,572</b>
19,909	-	19,909	Other Operating Expenditure	-	(2,178)	(2,178)
92,593	(60,476)	32,117	Financing and Investment Income and Expenditure	93,084	(59,484)	33,600
-	(353,234)	(353,234)	Taxation and Non-Specific Grant Income	-	(355,527)	(355,527)
<b>636,268</b>	<b>(572,652)</b>	<b>63,616</b>	<b>(Surplus) or Deficit on Provision of Services</b>	<b>616,064</b>	<b>(583,597)</b>	<b>32,467</b>
		27	Share of the Surplus or Deficit on Provision of Services by Associates			296
		<b>63,643</b>	<b>Group Surplus or Deficit</b>			<b>32,763</b>
		(13,759)	Surplus or deficit on revaluation of non-current assets			(13,289)
		18,129	Remeasurements of pension assets/liabilities			112,497
		(349,991)	Share of Other Comprehensive Income & Expenditure of Associates			1,114
		<b>(345,621)</b>	<b>Other Comprehensive Income and Expenditure</b>			<b>100,322</b>
		<b>(281,978)</b>	<b>Total Comprehensive Income and Expenditure</b>			<b>133,085</b>

<b>GROUP BALANCE SHEET</b>
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The Group Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities of the Group and combines the Council's assets and liabilities with its share of the assets and liabilities of those entities in which it has a financial interest.

2013/14 £'000		2014/15 £'000
	<b>Non-Current Assets</b>	
696,401	Property, Plant & Equipment	707,715
188	Investment Property	189
259	Heritage Assets	259
58	Intangible Assets	1,453
115	Assets Held for Sale	104
3,106	Long Term Investments	3,344
-	Investments in Associates and Joint Ventures	-
8,818	Long Term Debtors	8,839
<b>708,945</b>		<b>721,903</b>
	<b>Current Assets</b>	
945	Inventories	912
24,187	Short Term Debtors	24,697
11,905	Cash and Cash Equivalents	18,059
1,355	Assets Held for Sale	888
<b>38,392</b>		<b>44,556</b>
	<b>Current Liabilities</b>	
-	Bank Overdraft	-
(25,405)	Short Term Borrowing	(29,370)
(68,819)	Short Term Creditors	(64,269)
(5,613)	Provisions	(5,475)
<b>(99,837)</b>		<b>(99,114)</b>
	<b>Long Term Liabilities</b>	
-	Provisions	-
(178,796)	Long Term Borrowing	(204,785)
(253,264)	Defined Benefit Pension Scheme Liability	(381,288)
(124,793)	Other Long Term Liabilities	(120,439)
(2,915)	Capital Grants Received in Advance	(4,774)
(2,105)	Liabilities in Associates	(3,517)
<b>(561,873)</b>		<b>(714,803)</b>
<b>85,627</b>	<b>Net Assets</b>	<b>(47,458)</b>
	<b>Usable Reserves</b>	
49,218	Falkirk Council Usable Reserves	43,243
(2,592)	Usable Reserves of Other Group Entities	(2,315)
<b>46,626</b>		<b>40,928</b>
	<b>Unusable Reserves</b>	
37,641	Falkirk Council Unusable Reserves	(88,445)
1,360	Unusable Reserves of Other Group Entities	59
<b>39,001</b>		<b>(88,386)</b>
<b>85,627</b>	<b>Total Reserves</b>	<b>(47,458)</b>



Bryan Smail, CPFA MBA  
Chief Finance Officer  
22 June 2015

<b>GROUP CASH FLOW STATEMENT</b> <b>FOR THE YEAR ENDED 31 MARCH 2015</b>
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The Group Cash Flow Statement shows the change in the year of cash and cash equivalents of the Council and those entities in which it has a financial interest.

<b>2013/14</b>		<b>2014/15</b>
<b>£'000</b>		<b>£'000</b>
63,61743	Net (surplus) or deficit on the provision of services	32,763
(115,268)	Adjust net surplus or deficit on the provision of services for non-cash movements	(68,846)
	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	21,777
26,475		21,777
<b>(25,150)</b>	<b>Net cash flows from operating activities</b>	<b>(14,306)</b>
	<b>Investing Activities</b>	
76,063	Purchase of property, plant & equipment, investment property and intangible assets	62,369
(4,983)	Proceeds from the sale of property, plant & equipment, investment property and intangible assets	(4,293)
(28,870)	Other receipts and investing activities	(24,050)
42,210	<b>Net cash flows from investing activities</b>	34,026
	<b>Financing Activities</b>	
(122,126)	Cash receipts of short and long-term borrowing	(52,495)
4,987	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	4,073
99,798	Repayments of short and long-term borrowing	22,548
(17,341)	<b>Net cash flows from financing activities</b>	(25,874)
(281)	<b>Net (increase) or decrease in cash and cash equivalents</b>	(6,154)
(11,624)	Cash and cash equivalents at the beginning of the reporting period	(11,905)
	<b>Cash and cash equivalents at the end of the reporting period</b>	
(40)	Cash held by Officers	(40)
(2,912)	Bank current accounts	(3,162)
(8,953)	Short-term deposits	(14,857)
(11,905)		(18,059)

## NOTES TO THE GROUP ACCOUNTS

### 1. GROUP ACCOUNTING POLICIES

The group accounting policies are those specified for the single entity financial statements. The accounting policies of all group members are materially the same as those of the single entity.

#### **Disclosure of Interest in Other Entities**

The Council has adopted the recommendations of Chapter 9 of the Code, which requires local authorities to consider their interest in all types of entity to incorporate into Group Accounts.

A full set of Group Accounts, in addition to the Council's Accounts has been prepared which incorporates material balances from identified bodies.

#### **Nature of Combination**

The Council has accounted for its interest in its Associates by the merger method of accounting.

With regard to the Joint Board, the Council's interest reflects the requisition share paid by the Council. Goodwill has not arisen as no consideration was paid for such interests.

The Council has accounted for its interest in its Subsidiaries using the acquisition method of accounting. In all instances, the consideration paid by the Council equalled the fair value of the assets and liabilities acquired and, therefore, no goodwill arose on acquisition. Falkirk Community Trust Ltd has been consolidated as a subsidiary under SIC12 (Special Purpose Entities).

All intra-group transactions have been eliminated from the Group Accounts as part of the consolidation process.

### 2. FINANCIAL IMPACT OF CONSOLIDATION

By including the Subsidiary and Associate bodies (details of which are shown in Notes 4 and 5 below), the effect on the Group Balance Sheet is a reduction in both Reserves and Net Assets of £2.256m. This represents the Council's share of the net liabilities in those entities.

### 3. COMBINING ENTITIES

For the purpose of consolidation and incorporation within the Group Accounts, the Council has two Subsidiaries (Falkirk Community Stadium Ltd and Falkirk Community Trust Ltd) and two Associates (Central Scotland Valuation Joint Board and thinkWhere Ltd).

Falkirk Council administers the Common Good Funds for the four former Town Councils of Bo'ness, Grangemouth, Falkirk and Denny. These funds can only be used for a limited range of purposes. They are not assets of the Council and are not included in the Council's Balance Sheet, however, they have been included in the Group Account Statements and consolidated in full.

The accounting period end for all entities is 31 March 2015. Copies of the most recent audited accounts of the group entities are available from the Chief Finance Officer, Falkirk Council.

#### **Subsidiaries**

##### *FCSL (Holdings) Ltd and Falkirk Community Stadium Ltd (FCSL)*

The Council owns 100% of the share capital of FCSL (Holdings) Ltd, which in turn owns all of the share capital of Falkirk Community Stadium Ltd. The principal activity of both companies is the operation of a stadium at Westfield, Falkirk which provides a sports area, stadium and conference facilities. The Stadium is a partnership between Falkirk Football Club and Falkirk Council who set up the Falkirk Community Stadium Ltd which provided the funds to construct and run the Stadium. Falkirk Community Stadium Ltd. has a board of 3 directors who are employees of Falkirk Council. Falkirk Council has a secured loan of £6.233m to the Stadium, secured by a floating charge and standard security over the company's interest in the ground lease in favour of Falkirk Council.

The Stadium deficit of £0.279m (£0.224m in 2013/14) has been fully consolidated in the Group. The financial results for FCSL (Holdings) Ltd are included in the figures shown for Falkirk Community Stadium Ltd in note 4 and note 5.

*Falkirk Community Trust Ltd and Falkirk Community Trading Ltd*

Falkirk Community Trust Ltd was established by Falkirk Council on 1 July 2011 to take responsibility for the management and operation of a range of community sport, recreation, arts, heritage and library services. The company has charitable status and the Scottish Charity Number is SC042403. A wholly owned subsidiary, Falkirk Community Trading Ltd has been established to govern those activities which are not recognised as charitable. Falkirk Community Trust's Board consists of twelve directors. Six independent directors are drawn from local business, sport, culture, environmental and learning sectors. Five directors are nominated elected

Members of Falkirk Council. There is one Employee Director nominated by Trust staff. Falkirk Community Trading Limited has a board of 3 directors drawn from the Trust's Board and Executive Management. The Board agreed it would maintain an unrestricted reserve to meet unexpected events and this equates to 2% of the Service Payment received from Falkirk Council and the total budgeted expenditure.

Falkirk Council paid the Trust £13.085m (£12.139m in 2013/14) for service provision in 2014/15. The Trust returned a surplus of £0.649m (£0.210m in 2013/14) which has been fully consolidated into the Group. The financial results for Falkirk Community Trading Ltd are included in the figures shown for Falkirk Community Trust Ltd in note 4 and note 5.

**Associates**

*Central Scotland Valuation Joint Board*

This Board is jointly administered by the Councils of Clackmannanshire, Falkirk and Stirling and appoints an Assessor for the valuation area who also acts as Electoral Registration Officer. Falkirk Council is requisitioned for 49.2% of expenditure, based on adjusted population.

*thinkWhere Ltd*

The principal activity of the company is the provision of corporate Geographical Information Services, in principle to Falkirk, Stirling and Clackmannanshire Councils. Control is split equally over the three Councils. The 2014/15 group accounts are the first period of inclusion.

**4. GROUP INCOME AND EXPENDITURE OF ASSOCIATES**

**Share of the Surplus or Deficit on Provision of Services by Associates**

<b>2013/14 £'000</b>		<b>2014/15 £'000</b>
27	Central Scotland Valuation Joint Board	(8)
-	thinkWhere Ltd.	304
<b>27</b>	<b>Total</b>	<b>296</b>

**Share of Other Comprehensive Income & Expenditure of Associates**

<b>2013/14 £'000</b>		<b>2014/15 £'000</b>
76,860	Central Scotland Joint Fire & Rescue Board	-
273,291	Central Scotland Joint Police Board	-
(151)	Central Scotland Valuation Joint Board	(1,141)
-	Falkirk Community Stadium Ltd.	-
(9)	Common Good Funds	2
-	Falkirk Community Trust Ltd.	-
-	thinkWhere Ltd.	25
<b>349,991</b>	<b>Total</b>	<b>(1,114)</b>

**5. GROUP ENTITIES RESERVES**

<b>2013/14 Total £'000</b>		<b>Falkirk Community Stadium Ltd £'000</b>	<b>Falkirk Community Trust Ltd £'000</b>	<b>Central Scotland Valuation Joint Board £'000</b>	<b>thinkWhere Ltd £'000</b>	<b>Common Good Funds £'000</b>	<b>2014/15 Total £'000</b>
	<b>Usable Reserves</b>						
(2,592)	Revenue Account Surplus	(4,865)	1,438	(304)	503	913	<b>(2,315)</b>
<b>(2,592)</b>	<b>Total</b>	<b>(4,865)</b>	<b>1,438</b>	<b>(304)</b>	<b>503</b>	<b>913</b>	<b>(2,315)</b>
	<b>Unusable Reserves</b>						
(11)	Accumulated Absences Account	-	-	(10)	-	-	<b>(10)</b>
(2,497)	Pensions Reserve	-	-	(3,767)	-	-	<b>(3,767)</b>
3,423	Share Capital	3,423	-	-	-	-	<b>3,423</b>
229	Revaluation Reserve	-	163	-	-	-	<b>163</b>
216	Capital Adjustment Account	-	-	36	25	189	<b>250</b>
<b>1,360</b>	<b>Total</b>	<b>3,423</b>	<b>163</b>	<b>(3,741)</b>	<b>25</b>	<b>189</b>	<b>59</b>

**6. NON-CONSOLIDATION INTERESTS IN OTHER ENTITIES**

The Council has a relationship with the following entities which have been set up for specific purposes but have not been consolidated into the Group.

- Trust Funds - Although administered by Falkirk Council, these have been excluded under the quantitative assessment of materiality.
- The Hub Initiative - This was established to aid the delivery of capital investment projects across Scotland. Equity and working capital is split amongst the private sector (60%), the 17 public sector bodies (30%) and the Scottish Futures Trust (10%). Falkirk Council has no particular control or influence and, therefore, their interest is immaterial.

## GLOSSARY OF TERMS

While much of the terminology used in this report is intended to be self-explanatory, the following additional definitions and interpretation of terms may be of assistance.

- 1. Accumulated Absences Account**  
The account holds the monetary value of annual leave accrued but untaken by employees as at the balance sheet date. The majority of the balance in this account will be in respect of teachers' annual leave as their leave is fixed and the majority of it falls in July and August each year.
- 2. Administration**  
This includes printing, stationery, advertising, postages, telephone costs and central/departmental support allocations for administration.
- 3. Associate**  
This is an entity other than a subsidiary or joint venture in which the reporting Council has a participating interest and over whose operating and financial policies the Council is able to exercise significant influence.
- 4. Available For Sale Financial Instruments Reserve**  
This fund is a store of gains on the revaluation of investments not yet realised through sales. This reserve is a technical accounting presentation and is not available for distribution.
- 5. Capital Adjustment Account**  
The Capital Adjustment Account is the store of capital resources set aside to meet past expenditure. This account is a technical accounting presentation and is not available for distribution.
- 6. Capital Charges**  
A charge to service revenue accounts to reflect the cost of fixed assets used in the provision of services.
- 7. Capital Expenditure**  
This is expenditure incurred in creating, acquiring or improving assets where the expenditure is normally financed by borrowing with repayment over a period of years, or by utilising the income from the sale of existing assets.
- 8. Capital Financed from Current Revenue**  
This heading covers the costs of creating, acquiring or improving assets where the expenditure is charged directly to the Revenue Account.
- 9. Capital Grants Unapplied Account**  
The Capital Grants Unapplied Account records grants and developers contributions which have been credited to the Comprehensive Income and Expenditure Statement but have still to be applied to fund capital expenditure. Once applied, the value will be transferred from the Capital Grants Unapplied Account to the Capital Adjustment Account.
- 10. Capital Receipts Reserve**  
This represents the capital receipts that are available to finance capital expenditure in future years, after setting aside the statutory amounts for the repayment of external loans.
- 11. Corporate & Democratic Core**  
This includes the costs of policy making and all other Councillor based activities together with costs which relate to the general running of the Council. The Service Reporting Code of Practice stipulates that such costs are to be excluded from the "total cost" relating to service activity.
- 12. Employee Costs**  
This includes salaries, wages, overtime, bonus, enhancements, employer's pension and national insurance contributions, travelling and subsistence expenses in addition to other employee allowances.



- 13. Entity**  
A body corporate, partnership, trust, unincorporated association, or statutory body that is delivering a service, or carrying on a trade or business, with or without a view to profit. It should have a separate legal persona and is legally required to prepare its own single-entity accounts.
- 14. Financial Instruments Adjustment Account**  
This is a balancing account to allow for differences in statutory requirements and proper accounting practices for borrowing and lending. This account is a technical accounting presentation and is not available for distribution.
- 15. Financing Costs**  
This includes the costs of financing the sums borrowed by the Council to cover the capital repayment of loans, interest charges and debt management expenses, as well as external repayments for operational leases.
- 16. Fixed or Non-Current Assets**  
These are created by capital expenditure incurred by the Council. They include property, vehicles, plant, machinery, roads, computer equipment, etc.
- 17. Generally Accepted Accounting Practice in the UK (UK GAAP)**  
This is the overall body of regulation that established how company and local authority accounts had to be prepared in the United Kingdom (prior to the transition to International Financial Reporting Standards).
- 18. Gross Expenditure**  
This includes all expenditure attributable to the service and activity including employee costs, expenditure relating to premises and transport, supplies and services, third party payments, support services and capital charges.
- 19. Gross Income**  
This includes the charges to individuals and organisations for the direct use of the Council's services.
- 20. Joint Venture**  
This is an entity in which the Council has an interest on a long-term basis and is jointly controlled by the Council and one or more entities under a contractual or other binding agreement.
- 21. Non-Distributable Costs**  
These costs cannot be allocated to specific services and are, therefore, excluded from the total cost relating to service activity in accordance with the Service Reporting Code of Practice. Charges for added pension years and early retirement are examples of these costs.
- 22. Payments to Other Bodies**  
This includes grants to individuals and organisations, bursaries as well as payments to other local authorities, Health Boards, Joint Boards and organisations providing services that complement or supplement the work of the Council.
- 23. Pension Reserve**  
This represents the difference between accounting for pension costs in line with UK Accounting Standards, and the funding of pension costs from taxation in line with statutory requirements, and is equal to the change in the pension liability (i.e. the commitment to provide retirement benefits).
- 24. Property Costs**  
This includes rents, rates, insurance, repairs and maintenance, upkeep of grounds, heating, lighting, furnishings and fittings.
- 25. Revaluation Reserve**  
This fund is a store of gains on the revaluation of fixed assets not yet realised through sales. This reserve is a technical accounting presentation and is not available for distribution.
- 26. Specific Government Grant**  
This includes grants received from Central Government in respect of a specific purpose or service (e.g. housing benefit, education, community regeneration, or community services).
- 27. Supplies & Services**  
This includes food, materials, books, uniforms, protective clothing, the purchase of equipment, the purchase of tools, the maintenance of equipment or tools, and various services that are conducted by external contractors.

**28. Transfer Payments**

This includes the cost of payments to individuals for which no goods or services are received in return by the local authority e.g. Housing Benefit.

**29. Transport Costs**

This includes the costs of operating vehicles and plant such as fuel, repairs, maintenance, tyres, licences, insurance and the procurement of transport for school children.

**30. Various Other Costs**

This relates to items of expenditure that do not fall into any of the other categories.

**FALKIRK TEMPERANCE TRUST**

**REGISTERED CHARITY NUMBER - SC001904**

**ANNUAL REPORT & ACCOUNTS**

**for the year ended 31 March 2015**

# **FALKIRK TEMPERANCE TRUST**

**REGISTERED CHARITY NUMBER - SC001904**

## **ANNUAL REPORT FOR THE YEAR ENDED 31 MARCH 2015**

Falkirk Temperance Trust is a registered charity, **Scottish Charity Number SC001904**.

### **Principal contact address**

Chief Finance Officer  
Falkirk Council  
Municipal Buildings  
FALKIRK  
FK1 5RS

### **Governing document**

Falkirk Temperance Trust originates from 1919 as part of an estate of a Falkirk gentleman. Its original purpose was to help people refrain from alcohol. A revision to the Trust was approved by the Council of Session on 1 February 1991. This allowed the Trust to not only help assist organisations and people in dealing with alcohol abuse but also other forms of drug addiction.

### **Charitable purposes**

The Trustees hold the trust fund and apply the income to assist mainly organisations operating within Falkirk dealing with alcohol abuse and other forms of substance addiction.

### **Recruitment and appointment of Trustees**

The trust is administered by Falkirk Council, with the Chief Finance Officer appointed as Treasurer. Following the elections held in May 2007, Provost Pat Reid and Councillor John Patrick were appointed as Trustees, representing wards in the former Falkirk Burgh area. Councillor Craig R Martin replaced Councillor Patrick from 18 May 2012. Provost Reid and Councillor Martin remain Trustees at 31 March 2014.

### **Respective responsibilities of the trustees and auditor**

The trustees are responsible for the preparation of the financial statements which properly present the receipts and payments of the charity. The auditor's responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Accounts Commission for Scotland.

### **Activities and achievements**

There were a number of grant applications made to the Trust in the financial year and 4 grant payments were made which came to £1,900 in total. Each of these payments were made to individuals recovering from drug and alcohol addictions and payments were made via their Social Workers in order to control the spend of the grant. The grants were used to purchase some very much needed furniture and furnishings for the family home.

### **Reserves**

The assets of the Trust are currently held by the Bank of Scotland and two accounts are in operation. The Treasurer's Account is used for the daily operations of the Trust and retains a working balance. A Guaranteed Fixed Deposit Account, which offers a higher interest rate, is used for the larger balance. This has a 6 month repayment period, whereby, the interest rate offered for the next period is reviewed. There are no restrictions on the use of funds held in either of these accounts.

### **Public benefit statement**

The Trustees have complied with their duty to have due regard to the guidance on public benefit published by the Office of the Scottish Charity Regulator in exercising their powers or duties.

**Audit Arrangements**

In response to section 106 of the Local Government (Scotland) Act 1973 and the provisions of the Charities Accounts (Scotland) Regulation 2006, it was agreed that from 2013/14, each Local Authority auditor should cover the registered charities for which the Authority is sole trustee. The appointed auditor of Falkirk Council is Audit Scotland. The audit fee for 2014/15 was £200. The fee was not paid in year and will be accounted for in 2015/16 because the accounts are compiled on a receipts and payments basis.

**Conclusion**

The charity made 4 grants to the total of £1,900 during 2014/15.

P Reid, Trustee  
xx 2015

# **FALKIRK TEMPERANCE TRUST**

**REGISTERED CHARITY NUMBER - SC001904**

## **RECEIPTS & PAYMENTS ACCOUNT**

**FOR THE PERIOD 1 APRIL 2014 TO 31 MARCH 2015**

2013/2014 £		2014/2015 £
	<b><u>Receipts</u></b>	
1,956	Bank interest	1,275
<hr/> 1,956		<hr/> 1,275
	<b><u>Payments</u></b>	
50	Independent Examiner Fee	50
500	Grants	1,900
<hr/> 550		<hr/> 1,950
<hr/> 1,406	<b>Surplus/(Deficit) for Period</b>	<hr/> <b>(675)</b>

Approved by the Trustees and signed on their behalf:

P Reid, Trustee  
xx 2015

B Smail, Treasurer  
xx 2015

# **FALKIRK TEMPERANCE TRUST**

**REGISTERED CHARITY NUMBER - SC001904**

## **STATEMENT OF BALANCES**

**AS AT 31 MARCH 2015**

2013/14 £		2014/2015 £
	<b><u>Current Assets</u></b>	
154,426	Bank of Scotland Guaranteed Fixed Deposit	150,595
5,969	Bank of Scotland Treasurer's Account	9,125
<hr/> 160,395		<hr/> 159,720
	<b><u>Current Liabilities</u></b>	
<hr/> -		<hr/> -
<hr/> 160,395	<b>Net Assets</b>	<hr/> 159,720
	<b><u>Represented by:</u></b>	
158,989	Surplus brought forward	160,395
1,406	Surplus/(deficit) for period	(675)
<hr/> 160,395	<b>Surplus carried forward</b>	<hr/> 159,720

Approved by the Trustees and signed on their behalf:

P Reid, Trustee  
xx 2015

B Smail, Treasurer  
xx 2015

## **FALKIRK TEMPERANCE TRUST**

**REGISTERED CHARITY NUMBER - SC001904**

### **NOTES TO THE ACCOUNTS**

**1. Basis of Accounting**

These accounts have been prepared on the Receipts and Payments basis in accordance with the Charities & Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006 (as amended).

**2. Fund Accounting**

Unrestricted funds are those that may be used at the discretion of the Trustees in furtherance of the objectives of the Charity.

**3. Taxation**

The Charity is not liable to income or capital gains tax on its charitable activities.

**4. Trustee Remuneration, Expenses and Related Party Transactions**

No remuneration or expenses were paid to the Charity Trustees or persons connected to a Trustee during the year (2013/14: Nil).

**5. Administration Fee**

No fee was charged by the Council and therefore no costs were incurred by the Charity for the administration of the funds on behalf of the Trustees.



# Falkirk Council

## External Audit Progress Report



Prepared for Falkirk Council Audit Committee

June 2015

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

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# Annual Audit Plan 2014/15

1. Our Annual Audit Plan (AAP) 2014/15 provides a summary of planned outputs for the year and the timescales for delivery. Appendix 1, accompanying this update, provides a summary of progress against the Annual Audit Plan. To date we are on schedule to deliver all outputs by the planned dates.

## Governance work

2. **Review of internal audit.** In terms of *International Standard on Auditing 610 (Using the work of internal auditor)* we have placed formal reliance on aspects of internal audit's work to meet our financial statement responsibilities. In particular, we have relied on aspects of the work carried out by internal audit in the following areas:
  - Non Domestic Rates
  - Council house buy backs
  - Payroll (overtime and allowance administration)
  - Trade receivables (reliance on prior year work)
3. Relying on internal audit work avoids duplication of effort and allows us to focus on other areas of risk. We also met with the Internal Audit Manager on a regular basis throughout the year to discuss audit issues and share information and intelligence.
4. **Internal controls and governance work:** We have concluded our testing on the key internal controls systems. We concluded that internal controls are operating satisfactorily although we did identify some areas where improvements could be made.
5. **ICT audit.** We have carried out a high level review of the ICT function including the council's compliance with security measures set out in the Public Services Network (PSN) Code of Connection. We are pleased to note that the Cabinet Office issued the council with a PSN compliance certificate for the period 27 January 2015 to 27 January 2016.
6. **National Fraud Initiative (NFI).** NFI is a computerised biennial data matching exercise that compares and matches information about individuals held by various public bodies on their financial systems to identify potential fraud or error. Presently, we are assessing the arrangements put in place by the council for reviewing and investigating data matches. There

are continuing problems with Blue Badge matches. Our conclusions will be reported through the medium of our Annual Audit Report.

# Performance

## National Performance Studies

7. Audit Scotland's Performance Audit and Best Value Group undertake a programme of studies on behalf of the Auditor General and Accounts Commission. One report has been published since the last progress report to the Audit Committee in April 2015.
8. **Update on developing financial reporting (March 2015).** This report is primarily aimed at the Scottish Government but it also contains a number of general points that are relevant to the wider public sector. In particular, the report emphasises the importance of comprehensive, transparent, reliable and timely financial reporting. It is crucial to show that public money is used properly and effectively. Also, financial information should be presented in a way that is clear, easy to follow and understandable.
9. The Auditor General for Scotland also emphasised the importance of good financial reporting and was quoted as saying 'Scotland's public finances are on the cusp of significant change, at a time when services are facing considerable pressure from falling budgets and increasing demand. A transparent financial reporting framework to support these changes is more important than ever to safeguard public confidence and ensure accountability'.
10. The report noted that the Public Finance and Accountability (Scotland) Act 2000 requires public bodies that allocate money and provide services to produce annual accounts. In general, Scottish public sector bodies demonstrate good practice in the way they prepare their accounts.
11. The aforementioned legislation also gives ministers the power to prepare consolidated accounts for any financial year for the 'Scottish Administration together with such bodies and office holders...as they may designate'. The report says that consolidated accounts for the whole of the Scottish public sector would help provide an overall picture of the financial position. In the absence of easily accessible, aggregate information in one place on what the public sector owns (assets) and owes (liabilities) overall, it is difficult for the Scottish Parliament, taxpayers and others to get a full picture and understanding about where the money is spent and the longer-term implications for public finances.

# Financial statements

12. **Financial statements audit 2014/15.** We formally commence the financial statements audit on 22 June 2015 with the aim of substantially completing the audit by the end of August 2015. By this time we will be in a position to issue a proposed audit opinion.
13. We have also been liaising with finance staff to improve and streamline the contents of the financial statements so that they are more readily understood by the readers of the accounts.
14. In order to complete the audit efficiently and effectively we have already commenced testing in a number of areas including the following:
  - verification of assets
  - year end bank reconciliations
  - substantive checking of payroll costs
  - substantive checking of trade payables
  - review of arrears levels and debtors' reconciliations.
15. Also, as part of our more streamlined reporting arrangements, we will no longer be issuing a separate ISA 260 Report (i.e. report to those charged with governance). Instead, we produce a combined Annual Audit Report and ISA 260 Report. This should be available for consideration and review by Audit Committee members no later than 21 September 2015. This earlier reporting will provide members with the opportunity to consider the audit report while the financial statement's audit is still current.
16. The timescale for completing and reporting on the financial statements audit is relatively short. Consequently, we will be relying on the Chief Finance Officer and his team to provide a comprehensive working papers package in support of the financial statements.

# Appendix 1

## Progress against Annual Audit Plan 2014/15

<b>Planned outputs</b>	<b>Target delivery date</b>	<b>Actual delivery date</b>
<b>Review of adequacy of internal audit</b>	31 December 2014	16 December 2014
<b>Draft Local Scrutiny Plan</b>	13 February 2015	13 February 2015
<b>Annual Audit Plan</b>	31 March 2015	3 February 2015
<b>Internal controls management letter</b>	30 June 2015	12 June 2015
<b>Combined ISA 260 and Annual Audit Report</b>	By 30 September 2015	
<b>Audit opinion on the financial statements</b>	By 30 September 2015	

**Note:** We will perform the audit of Falkirk Temperance Trust in parallel with the audit of the council's financial statements and issue a separate audit opinion by 30 September 2015.