AGENDA ITEM 3

DRAFT

FALKIRK COUNCIL

MINUTE of the MEETING of the AUDIT COMMITTEE held in the MUNICIPAL BUILDINGS, FALKIRK on MONDAY 22 JUNE 2015 at 9.30 a.m.

MEMBERS:	Councillor Tom Coleman Roseann Davidson (Convener) Councillor Rosie Murray Baillie Joan Paterson Depute Provost John Patrick Provost Pat Reid
OFFICERS:	Margaret Anderson, Director of Social Work 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 Ian Renton, HR Systems & Payroll Manager Amanda Templeman, Acting Depute Finance Officer Isabel Wright, Senior Auditor
ALSO ATTENDING:	David Meechan and Jim Rundell, Audit Scotland

AC15. APOLOGIES

An apology was intimated on behalf of Councillor Carleschi.

AC16. DECLARATIONS OF INTEREST

Provost Reid declared a non-financial interest in item AC22 in regard to the accounts of Falkirk Temperance Trust as a member of the Trust Board, and took no part in the discussion and decision making in regard to, the their accounts as part of this item.

AC17. MINUTE

Decision

The minute of the meeting held on 20 April 2015 was approved.

AC18. HEALTH AND SOCIAL CARE INTEGRATION – INTERNAL AUDIT AND ASSURANCE

The Committee considered a report by the Internal Audit Manager summarising the audit and assurance arrangements for health and social care integration.

Scottish Government guidance recommends that the Health Board and Local Authority Chief Finance Officers foster an assurance process based on an open book approach, with mutual trust and honest discussion and the sharing of assumptions and risks associated with the delegated services. The guidance also recommends that, in the transitional period leading to the establishment of the Integration Joint Board (IJB) in 2016, the Transitional Board and partner Audit Committees consider reports from Internal Audit on the adequacy of the assurance processes.

The first of these (which was appended to the report), was considered by the Transitional Board on 5 June 2015. It set out assurance considerations for the Board and proposed that the Internal Auditors of Falkirk Council and NHS Forth Valley work, jointly, to provide the Board with assurance on transition arrangements.

In response to a question on whether the IJB would appoint a Chief Internal Auditor, Gordon O'Connor confirmed that this would be a decision for the Board on its formation in 2016, but that joint arrangements could be established with the lead roles alternating between health and Council Internal Audit teams.

The Committee then sought further information on integration progress. The Chief Executive confirmed that the timescales were tight and the Transitional Board would endeavour to keep overheads as low as possible. She cited, for example, that the IJB Chief Finance Officer post would not be fulltime. Further, she confirmed that a temporary IJB Chief Officer would be appointed over the summer.

Decision

The Committee noted:-

(1) the recommendations set out in the 'Guidance for Integration Financial Assurance';

(2) the approach to seeking initial assurance set out at paragraph 2.4 and appendix 1 of the report;

(3) that the formal assurance and due diligence process will commence on the appointment of shadow Chief and Chief Finance Officers;

(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

(5) that the Internal Audit teams of Falkirk Council and NHS Forth Valley have worked well together and will support the joint delivery of Internal Audit services to the IJB.

AC19. INTERNAL AUDIT: ANNUAL ASSURANCE REPORT 2014/15

The Committee considered a report by the Internal Audit Manager on the Internal Audit programme for 2014/15.
The report summarised:-

- Internal Audit work completed in 2014/15, and the overall assurance on the Council's control framework based on that work;

- Internal Audit's performance against established key performance indicators; and
- an update on Internal Audit's compliance with the Public Sector Internal Audit Standards 2013.

The Committee discussed the combined review of Non Domestic Rates and Strategic Projects. Amanda Templeman confirmed that approx. £83m was levied in 2014/15 and that £68m was retained by the Council. The Committee, following a question, sought clarification on the process for monitoring the finances of Community Halls. Gary Greenhorn confirmed the current procedures, and advised that new procedures would be in place in August 2015. Gordon O'Connor confirmed that a review of community halls would be embedded in the 2015/16 Continuous Auditing workstream.

In response to a question on the limited assurance placed on the review of Business Gateway Contract Monitoring, Gordon O'Connor provided background and confirmed that new procedures were in place and that these would be followed up.

The Committee sought detail on those audits which were not taken forward as planned. Gordon O'Connor provided an overview.

Decision

The Committee noted:-

(1) that sufficient Internal Audit activity was undertaken to allow a balanced assurance to be provided;

(2) the Internal Audit provided substantial assurance on the Council's control framework for the year to 31 March 2015;

(3) that Audit Scotland will place formal reliance on the work of Internal Audit;

(4) the performance against Key Performance Indicators for the year to 31 March 2015 was as set out at paragraph 3.7; and

(5) that Quality Assurance and Improvement Programme outputs confirm no material non-conformance with the Public Sector Internal Audit Standards.

Depute Provost Patrick left the meeting following this item.

AC20. ANNUAL GOVERNANCE STATEMENT 2014/15

The Committee considered a report by the Chief Executive presenting the Annual Governance Statement for inclusion in the Council's 2014/15 Annual Accounts.

The report summarised:-

- the arrangements for reporting on the Council's governance framework for the year to 31 March 2015; and
- the six principles of good governance as defined in the 2007 CIPFA and SOLACE guidance 'Delivering Good Governance in Local Government'.

A draft Annual Assurance Statement was attached as an appendix.

Members then commented on the Statement, in particular the use of Freedom of Information Requests by elected members to receive information from Services and on the need for committee reports to be clear and concise.

In regard to engagement with stakeholders, members discussed the consultation undertaken on the 2015/16 budget. The Chief Executive, in response, confirmed that the 2016/17 budget consultation was currently being planned. She also confirmed that Council had requested a review of Standing Orders following the revision to the decision making structures in March 2015, and that this would be taken forward in accordance with Council's decision.

Decision

The Committee approved the draft Annual Governance Statement and noted:-

(1) the Council's compliance with requirements for an annual review of the effectiveness of the Council's system of internal control, and inclusion of an Annual Governance Statement in the Annual Accounts; and

(2) that the Annual Governance Statement will form part of the Council's 2014/15 Annual Accounts.

AC21. REVIEW OF SYSTEMS OF INTERNAL CONTROL

The Committee considered a report by the Chief Finance Officer presenting the findings of Audit Scotland's review of the Council's Systems of Internal Control

In accordance with Audit Scotland's Code of Audit Practice, the Council is required to demonstrate that the following measures are in place:-

- systems for recording and processing transactions on a sound basis for the preparation of financial statements and the effective management of assets and interests;

- systems of internal control for the purposes of providing the adequate means of preventing or detecting material misstatement, error, fraud, or corruption; and

- systems of compliance with established policies, procedures, laws, and regulations.

The audit concluded that the key controls within the Council's main financial systems were operating broadly satisfactorily.

The review also involved a follow up of the issues reported within the 2012/13 review. From the 12 issues and risks identified, 5 remained outstanding. These were, therefore, included in the 2013/14 action plan for monitoring purposes.

In regard to the 2014/15 Action Plan, members sought clarification on the process for dealing with outstanding debts and, in particular, the debt of £240k which had accumulated in relation to invoices outstanding for more than 6 years. Members also sought information on the management response relating to the procedures for dealing with invoices of less than £20. And, in regard to £32k overpayments to staff, the Chief Executive confirmed that arrangements were in place to ensure that these would be repaid.

Decision

The Committee noted the report and the proposed management actions.

AC22. FALKIRK COUNCIL ANNUAL ACCOUNTS 2014/15 AND FALKIRK TEMPERANCE TRUST ACCOUNTS 2014/15

The Committee considered a report by the by Chief Finance Officer presenting Falkirk Council's Annual Accounts 2014/15 together with Falkirk Temperance Trust's Accounts 2014/15.

Members of the Committee commented favourably on the revised and streamlined format of the Accounts. The Committee then discussed the anticipated report by the Commission on Local Tax Reforms and discussed the likely timescale for any consequent reforms. Members also discussed the potential impacts of the recently announced UK Government revisions to the Scottish Budget.

In accordance with his declaration of interest, Provost Reid left the meeting during discussion on the Temperance Trust Accounts

Decision

The Committee agreed to refer the Annual Accounts to Council for consideration.

Provost Reid rejoined the meeting following consideration of this item.

AC23. EXTERNAL AUDIT PROGRESS REPORT

The Executive considered Audit Scotland's Progress Report for 2014/2015.

The report summarised:-

- Audit Scotland's governance work which included reviews of Internal Controls and Governance, ICT and the National Fraud Initiative;
- the outcomes of national audit work, in particular a review of 'Developing Financial Reporting'; and
- progress against the 2014/15 audit plan.

Decision

The committee noted the report.

AGENDA ITEM 4

FALKIRK COUNCIL

Subject: **INTERNAL AUDIT PROGRESS REPORT**
Meeting: **AUDIT COMMITTEE**
Date: **21 September 2015**
Author: **INTERNAL AUDIT MANAGER**

1. INTRODUCTION

1.1 The purpose of this paper is to update Members on progress with completing the agreed 2015/16 Internal Audit Plan (the Plan), as presented to Audit Committee on 20 April 2015.

1.2 The paper also provides an update on the section's performance; Internal Audit Recommendations Outstanding; and the work of the Scottish Local Authorities Chief Internal Auditors' Group.

2. AUDIT PROGRESS

2.1 Progress with completing planned 2015/16 Internal Audit work is summarised in the table below:

Assignment Status	Number	%
Complete	6	29%
In Progress	6	29%
Not Started	9	42%
Total	**21**	**100%**

2.2 In terms of assignments complete this is comparable with previous years. The team's focus in the early part of the year has been on reviews of key financial controls, and I am pleased that work on Pensions Administration and Pension Fund Governance, Investment (non-Pension Fund), and Integra Supplier Data Management and Payments has been finalised and reported.

2.3 To date, there have been no significant changes to the Plan agreed by Committee in April.

2.4 A summary of current assignment status is set out at **Appendix 1** along with the assurance level provided (see **Appendix 2** for definitions). Key findings arising from completed assignments are set out at **Appendix 3**.

3. INTERNAL AUDIT PERFORMANCE

3.1 Performance against our established 5 Key Performance Indicators is as set out in the table overleaf:

Key Performance Indicator	2015/16 - to date	2014/15 (at same time last year)	2014/15 (whole year)
Complete **85%** of main audit programme	**29%**	26%	100%
Have **90%** of recommendations accepted	**100%**	100%	99%
Spend **75%** of time on direct audit work	**77%**	75%	78%
Issue **75%** of draft reports within 3 weeks of completion of fieldwork	**100%**	100%	96%
Complete (to issue of final report) **75%** of main audits within budget	**100%**	100%	87%

3.2 At present, we are on track to meet or exceed each of the 5 Indicators, and performance is comparable with the same time last year.

4. REPORTING OF RECOMMENDATIONS OUTSTANDING

4.1 Reporting on Internal Audit recommendations outstanding focusses on:

- recommendations where the Agreed Action Date has lapsed;
  and
- where no revised (and reasonable) Action Date has been agreed with managers;
  and
- where there is a clear and material link to one of the Council's seven agreed risk categories.

4.2 Based on this categorisation, a total of 13 recommendations remain outstanding. These relate to reviews of:

- Social Work Information System (1 Rec);
- Social Work Budgetary and Financial Control (1 Rec);
- Social Work Intermediary Accounts (2 Recs);
- JLES Ordering and Purchasing Arrangements (2 Recs);
- Social Work Deferred Payments Arrangements (5 Recs); and
- Site Key Control Testing: St Bernadette's Primary School (2 Recs).

4.3 Details relating to each of these recommendations are set out at **Appendix 4**.

4.4 All Internal Audit recommendations are now captured within, and monitored via, the Covalent performance management system. This allows Managers to take ownership of recommendations falling within their area of responsibility, and to update progress on a real-time basis. This revised approach is also intended to reduced the time required to monitor and follow up on recommendations, both within Internal Audit and Services.

5. SLACIAG ANNUAL REPORT

5.1 Falkirk Council continues to be a member of the Scottish Local Authorities Chief Internal Auditors' Group (and of it's Computer Audit Sub-Group). Over the course of the year, participation in these Groups has been helpful and value adding, particularly as it allows peer discussion on areas of emerging and significant risk such as Health and Social Care Integration and information / data security.

5.2 On an annual basis the Chair of the Group prepares a report summarising activity over the previous 12 months. For information, I have attached, at **Appendix 5**, a copy of the Annual Report for 2015/16, and I hope this gives Members some insight into the role and value of the Group.

6. RECOMMENDATIONS

6.1 Members are invited to note:

6.1.1 progress with completing planned 2015/16 Internal Audit work;

6.1.2 Internal Audit performance, as reported at paragraph 3.1;

6.1.3 the position in relation to Recommendations Outstanding; and

6.1.4 the contents of the 2015/16 SLACIAG Annual Report.

……..

Internal Audit Manager

Date: 11 September 2015

Appendix 1

INTERNAL AUDIT PLAN 2015/16 – PROGRESS AT 11 SEPTEMBER 2015

No.	Service/Status	Assignment	Level of Assurance
	Assignments Complete		
1.	Corporate and Housing	Pensions Administration and Pension Fund Governance	Substantial
2.	Corporate and Housing	Investment (non-Pension Fund)	Substantial
3.	Corporate and Housing	Integra Supplier Data Management and Payments	Substantial
4.	All Services	Corporate Purchasing and Contract Monitoring (Interim Report)	Substantial
5.	All Services	Continuous Auditing	Not Applicable
6.	Development	Employment and Training Unit	Substantial
	Assignments In Progress		
7.	Social Work – Adult Services	Health and Social Care Integration	TBC
8.	Children's	Reducing Bureaucracy in Schools	TBC
9.	Children's	SEEMIS Security and Management	TBC
10.	All Services	National Fraud Initiative	TBC
11.	Corporate and Housing	Corporate Fraud	TBC
12.	Corporate and Housing	Members' Training, Allowances, and Expenses	TBC
	Assignments Not Started		
13.	Corporate and Housing	Corporate Risk Management Arrangements	TBC
14.	All Services	Data and Information Security – Governance and Practice	TBC
15.	Corporate and Housing	Revenues IT Systems Security and Management	TBC
16.	Corporate and Housing	Mobile Device Security	TBC
17.	Corporate and Housing	LEADER Funding	TBC
18.	All Services	Financial Regulations – Review and Update	TBC
19.	West Lothian Council	Reciprocal Review	TBC
20.	Internal Audit	External Quality Assessment by South Ayrshire Council	TBC
21.	Falkirk Community Trust	Key Financial Controls, Cash Counts, and Follow Up of Previous Recommendations	TBC

Appendix 2

DEFINITION OF INTERNAL AUDIT ASSURANCE CATEGORIES

Level of Assurance	Definition
Substantial assurance	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.
Limited assurance	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.
No assurance	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.

ASSIGNMENTS COMPLETE – SUMMARY OF KEY FINDINGS 2015/16

No	Assignment Area and Service	Assurance and Key Findings
1.	Pensions Administration and Pension Fund Governance Corporate and Housing	**Substantial Assurance** This review focussed on Pension Fund governance, risk management, arrangements for actuarial valuation; guidance, training, roles, and responsibilities; and the testing of a sample of operational transactions. We found that operational controls around the calculation of new member contributions, for paying / receiving transfer values, and for making payments, were well managed and working effectively. Roles and responsibilities were clear. Fund governance arrangements have recently changed and are bedding in. We did note some scope for improving risk management arrangements, and for establishing a Register of Interests for Pension Committee and Board members. In overall terms, however, we found arrangements to be sound.
2.	Investment (non-Pension Fund) Corporate and Housing	**Substantial Assurance** We reviewed roles, responsibilities, policies, and practices; key controls around segregation, authorisation, and approval; procurement and contract management arrangements; and management information systems. Sound systems of control were in place, with clear roles and responsibilities and robust policies and procedures. Investment activity is restricted to approved counterparties, with restrictions on the monetary value and maturity of investments. Advice is sought from Treasury Advisers and activity and performance is reported to management and Members.
3.	Integra Supplier Data Management and Payments Corporate and Housing	**Substantial Assurance** This purpose of this review was to evaluate the controls around management of the Integra supplier database, and the process for making payments. Specifically, we reviewed controls over the on-line input and authorisation of supplier information; the overarching payment processing control framework; arrangements for invoice processing (within Creditors Section); BACS, payable order, and emergency payment processing; fraud control arrangements; and the adequacy of management information. We found that, in general, the framework of control was robust, proportionate, and working well. Staff were clear about their roles and responsibilities, with changes to the supplier database authorised and verified before being processed. There was adequate segregation of duties around the input and authorisation of payment details. We did, however, identify a number of areas where the framework of control could be enhanced. For example, guidance on emergency BACS payments could be improved, and there was some scope for further tightening system access privileges. We recommended that the accuracy of all changes to supplier bank account changes are checked and verified on a daily basis, and there were a number of housekeeping issues around authorisation limits and authorised signatory lists.

No	Assignment Area and Service	Assurance and Key Findings
4.	Corporate Purchasing and Contract Monitoring All Services	**Substantial Assurance (Interim Report)** 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. 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. To date, we have found there to be compliance with Financial Regulations and Contract Standing Orders when procuring goods and services.
5.	Continuous Auditing All Services	**Substantial Assurance** Work has focussed on Creditors duplicate payments. To date 5 duplicate payments, totalling £4,500 have been identified, with action ongoing to recover these amounts (either by credit note or refund).
6.	Employment and Training Unit Development Services	**Substantial Assurance** We reviewed the roles and responsibilities of those involved in the provision of training, placement, advice, and aftercare services, and policies and procedures to support this work. We also considered the sourcing of training provision, financial control arrangements, and the accuracy and timeliness of management information. We found that staff were clear on their operational roles and responsibilities, and were aware that the capacity of the Unit to deliver is based on the resources available, including budget, external funding, and staffing levels. Resources are closely monitored (including maintaining management information) to ensure the Unit operates effectively, however, staff spend a significant proportion of time involved in labour intensive, administrative processes. There is scope, therefore, to review processes in place in order to streamline delivery arrangements. This should include changes to the wages process and financial control arrangements.

INTERNAL AUDIT – RECOMMENDATIONS OUTSTANDING

No.	Target Imp Date	Service	Audit Name	Assurance Level	Recommendation Details	Responsible Officer	Agreed Management Action	Revised Imp Date	Latest Update Position
1.	**30 September 2009**	Adult Services	**Social Work Information System**	Limited	A System Security Statement should be prepared. This should include system architecture documentation. Audit log functionality should be reviewed.	Senior Information / IT Co-Ordinator	A System Security Statement, based on Annex 3 of the Internal Audit report, will be produced for SWIS. Audit log functionality will be reviewed.	**31 March 2015**	**Action Remaining Outstanding:** System Security Statement outstanding.
2.	**29 July 2011**	Adult Services	**Social Work - Budgetary and Financial Control Arrangements**	Limited	The planned review of Day Care provision should include identifying existing contracts (and the need to re-tender) and gaps where no contract exists.	Service Manager Older People / Service Manager Contracts and Commissioning	The Day Care review has produced an interim report. The report will be presented to the Acting Director of Social Work Services for approval. The recommendations will then be taken forward by the Service Manager.	**01 April 2015**	**Action Remaining Outstanding:** Wider review of Daycare provision being undertaken as Business Transformation workstream.
3.	**31 October 2013**	Adult Services	**Social Work Intermediary Accounts**	Limited	Criteria should be established to evidence Social Work's decision to apply for appointeeship.	Customer Services Manager / Service Manager – Assessment and Care Management	Procedures relating to criteria for appointeeships to be drafted in agreement with operational support staff and Community Care teams.	**31 December 2014**	**Action Remaining Outstanding:** Procedures to be incorporated into revised Community Care Financial Procedures document.
4.	**31 October 2013**	Adult Services	**Social Work Intermediary Accounts**	Limited	The issues in relation to Intermediary Account balances should be addressed.	Finance Admin Officer	Steps will be taken to remove redundant funds from 'live' accounts. Negative balances will be reviewed and further guidance sought in relation to these accounts.	**30 September 2014**	**Action Remaining Outstanding:** Complete transfer of redundant funds to one centrally managed account.

No.	Target Imp Date	Service	Audit Name	Assurance Level	Recommendation Details	Responsible Officer	Agreed Management Action	Revised Imp Date	Latest Update Position
5.	**30 April 2014**	Adult Services	**JLES Ordering and Purchasing Arrangements**	N/A	Prior to authorising invoices, the JLES Manager should carry out additional checks to confirm that the goods were required and have been received (for example, sample check that goods have been receipted on Measles, and are in the stores).	JLES Manager	JLES are currently transferring over to procurement of products etc via eSeries. This will enable this service to further develop internal processes and document a structured approach of sample checking and documenting results as requested in this report recommendation.	**30 April 2014**	**Action Remaining Outstanding:** Complete transfer to procurement of products via eSeries.
6.	**30 April 2014**	Adult Services	**JLES Ordering and Purchasing Arrangements**	N/A	Procedural instructions outlining the key steps to be followed when ordering, receipting goods, and certifying invoices should be developed. These should be made available to all relevant staff.	Administrative Assistant	JLES are currently transferring over to procurement of products etc via eSeries. This will enable this service to further develop internal processes and document a structured approach of sample checking and documenting results as requested in this report recommendation.	**30 April 2015**	**Action Remaining Outstanding:** Complete transfer to procurement of products via eSeries.
7.	**11 June 2014**	Adult Services	**Social Work Deferred Payment Arrangements**	N/A	The reporting and management information requirements relating to Deferred Payments should be clarified.	Team Leader, Community Advice Service	Template to be developed to collate information on Deferred Payments. Information to be submitted to the Community Care Finance Group on a quarterly basis. Group has representation from Finance Services and Community Care management. Quarterly reporting will include summary template of deferred payment position. Template will include information on financial assessments, number of successful DP applications.	**11 June 2014**	**Action Remaining Outstanding:** Development of Template as per Agreed Management Action.

No.	Target Imp Date	Service	Audit Name	Assurance Level	Recommendation Details	Responsible Officer	Agreed Management Action	Revised Imp Date	Latest Update Position
8.	**30 June 2014**	Adult Services	**Social Work Deferred Payment Arrangements**	N/A	Social Work and Finance should agree how the current Deferred Payment debt should be dealt with.	Chair, Charging Review Panel	Convene meeting with Chair of Sundry Debtors Panel, Chair of Charging Review Panel, Team Leader Community Advice Service, and Legal Services representation on both panels to agree and confirm interface between panels and action in relation to Deferred Payment debt.	**31 December 2014**	**Action Remaining Outstanding:** Social Work Bad Debt Recovery Policy to be developed.
9.	**31 July 2014**	Adult Services	**Social Work Deferred Payment Arrangements**	N/A	Social Work Management should ensure that the issues identified relating to the role of the Community Advice Service and Senior Clerical Assistants are addressed.	Senior Finance Officer	Senior Finance Clericals to meet to develop and agree procedure. Procedure will be agreed, written and distributed to all Senior Finance Clericals working within the Community Care Teams.	**31 July 2014**	**Action Remaining Outstanding:** Procedure to be agreed and rolled out.
10.	**31 July 2014**	Adult Services	**Social Work Deferred Payment Arrangements**	N/A	The final Deferred Payment calculation of total debt due should be approved by management prior to an invoice being raised.	Senior Finance Office / Accountancy Assistant	Currently Senior Finance Clerical on the death of the service user confirms all out-standing debt and sends memo to Finance who raise invoice. Copy of memo is sent to paralegal in relation to discharge of the Charging Order. A reference sheet will be developed to confirm that all relevant Services have been contacted to ensure all outstanding amounts due are included. Reference sheet and memo will be sent to Finance to raise the final invoice.	**31 July 2014**	**Action Remaining Outstanding:** Development of reference sheet as per Agreed Management Action.

No.	Target Imp Date	Service	Audit Name	Assurance Level	Recommendation Details	Responsible Officer	Agreed Management Action	Revised Imp Date	Latest Update Position
11.	**31 October 2014**	Adult Services	**Social Work Deferred Payment Arrangements**	N/A	A Deferred Payment Policy should be developed by Social Work. The Policy should clarify the areas identified in the report.	Service Manager / Team Leader Community Advice Service	A short life working group will be set up to develop the Deferred Payment Policy. The group will have representation from Finance Services, Senior Finance Clerical, Sundry Debtors Review Group, and Community Advice Service (Financial Assessment Team). Group will be chaired by Team leader, Community Advice Service.	**31 October 2014**	**Action Remaining Outstanding:** Development of Deferred Payment Policy.
12.	**30 June 2015**	Children's Services	**Site Key Control Testing – St Bernadette's Primary School**	Substantial	The issues relating to fire and intruder alarms and procedures should be addressed. (security systems log; inaccessible emergency lighting junction boxes; no notices displaying Fire Marshall and Evacuation Officer information).	Head Teacher / H&S Co-Ordinator / School Estates Co-Ordinator / Janitor	The school will take advice from the Health and Safety Co-Ordinator about setting up a log. Access will be provided to emergency lighting junction boxes so that they can be regularly tested. Notices identifying Fire Marshalls and Evacuation Officers will be added to the current plans and procedures.	N/A	**Action Remaining Outstanding:** Awaiting access to emergency lighting junction boxes so that these can be tested.
13.	**30 June 2015**	Children's Services	**Site Key Control Testing – St Bernadette's Primary School**	Substantial	The issues relating to income collection, handling, and administration should be addressed. (no spare capacity in safe; no logging of safe 'ins and outs'; no receipts issued for income received).	Head Teacher / Clerical Assistant / Resource Officer	The school will consider the options for the safe storage of all monies. A safe 'ins and outs' log will be introduced. Advice will be sought from the Resource Officer regarding the issuing of receipts.	N/A	**Action Remaining Outstanding:** The size of the safe (and required capacity) has still to be addressed.

SCOTTISH LOCAL AUTHORITIES
Chief Internal Auditors' Group

ANNUAL REPORT FROM THE CHAIR – 2014/2015

1. INTRODUCTION

1.1 Membership of the Scottish Local Authorities Chief Internal Auditors' Group (SLACIAG) is made up of the Heads of Internal Audit from each Scottish Local Authority and Strathclyde Partnership for Transport. The Group is a Special Interest Group of CIPFA Scotland, with operational arrangements, vision, and objectives set out in a formal Constitution.

1.2 The Group's vision is to be the voice of Internal Audit across Scottish Local Authorities and a driving force for best practice in respect of Local Authority Internal Audit, governance, and operations. In support of that vision the Group has four key objectives:

- to raise our profile with key stakeholders and to be recognised as the logical, respected, and essential source of opinion on governance, risk, and control within Scottish Local Government;
- to identify areas of Internal Audit work where a pan-Scotland or inter-Authority approach will bring benefits to our people, clients, and stakeholders; and
- to consider the development and training needs of our people.

1.3 The purpose of this Annual Report is to provide an update on the Group's activities and achievements over the course of 2014/15.

2. SLACIAG ACTIVITY AND ACHIEVEMENTS DURING 2014/15

2.1 SLACIAG met four times during 2014/15:

- 20 June 2014 – hosted by Perth and Kinross Council;
- 12 September 2014 – hosted by Fife Council;
- 28 November 2014 – hosted by Glasgow City Council; and
- 20 March 2015 – hosted by East Ayrshire Council.

2.2 All of the meetings were very well attended, re-affirming the value of the Group to members. This is particularly pleasing at a time of such significant change across Local Government generally, and Internal Audit in particular.

2.3 This is perhaps best illustrated by the variety of issues considered by the Group over the course of the year, and the calibre of speakers who attended and presented.

2.4 For example, our year kicked off in March with a highly insightful and thought provoking presentation from Colin Mair, Chief Executive of the Improvement Service. Colin helped set the context for the year by talking about the need for considered transformational change across Local Government, and Internal Audit's role in helping to facilitate that change. This became a recurring theme throughout the year, with the majority of Chief Internal Auditors having some role to play in their Council's change management and improvement programmes.

2.5 Practical examples of significant transformation came from George Black, then Chief Executive of Glasgow City Council, who spoke at our November meeting about his Authority's transformation journey, and from the various speakers over the course of the year who have helped the Group get to grips with the risks associated with Health and Social Care Integration.

2.6 For example, Claire Sweeney and Neil Cameron of Audit Scotland attended in November 2014 to talk about the evolving regulations and guidance, as well as some of the issues to be considered by Internal Audit both pre and post integration. This was built on at our March 2015 meeting when Laura Friel, Chief Executive of North Ayrshire Council, spoke very enthusiastically and positively about the integration work being undertaken, both at a local and a national level.

2.7 Another key theme considered by the Group during 2014/15 was the issue of corporate fraud, and the extent to which Internal Audit (particularly where there is shared responsibility across Internal Audit and Corporate fraud teams) can input into prevention and detection.

2.8 In fact, our meeting in September was largely given over to this topic. Brian Taylor, Senior Risk Manager at the Scottish Government, provided an update on national developments, and in particular on the various working groups set up to develop strategic and practical approaches to identifying and dealing with fraud. Brian Livingston, Executive Director of Finance and Resources at Fife Council, then spoke about his expectations in relation to Internal Audit's role.

2.9 The practicalities of setting up and operating a corporate fraud team were explained by Barry Moncur of East Dunbartonshire Council. Barry also spoke about his approach to identifying and investigating the area of highest fraud risk, using case studies to illustrate some of the positive outcomes he and his team had achieved.

2.10 The counter fraud theme carried over into our March 2015 meeting, where Owen Smith of Audit Scotland gave his perspective on the 2014/15 National Fraud Initiative exercise.

2.11 2014/15 was also a pivotal year in relation to the development of the SLACIAG approach to External Quality Assessment. The 2013 Public Sector Internal Audit Standards require that Internal Audit sections undergo periodic (at least 5 yearly) external assessment against the Standards. While this service can be purchased from various private sector providers, SLACIAG took the view that a peer review approach would be beneficial to member Authorities, both from a financial and developmental perspective.

2.12 A sub-group of volunteer members has undertaken significant work on the development of a peer review approach, and an initial pilot involving a sample of Councils has been successfully completed. Over the course of 2015/16 and subsequent years this approach will be rolled out to all Councils willing to participate, and a timetable for this has been agreed.

2.13 Members of SLACIAG have also benefited over the course of the year from a programme of high quality training, organised by Andi Priestman of Inverclyde Council. Topics included:

- IT for Non-IT Auditors;
- Value for Money Auditing;
- Fraud Investigation Skills; and
- Counter Fraud.

2.14 All of these were well received and offered very good value.

2.15 SLACIAG's commitment to providing training and development opportunities to its members will continue into 2015/16, with the bi-enniel conference, to be held in Dundee on 08 and 09 June 2015, a particular highlight. It is hoped that this will be an interactive event, and that it will drive the themes and topics to be explored further at future SLACIAG meetings.

2.16 As usual, the Group held its Annual General Meeting in March. At that meeting the Treasurer provided an update on the Group's finances, which remain buoyant. This will allow rates for attendance at the June conference to be held at a level which offers very good value.

3. COMPUTER AUDIT SUB-GROUP

3.1 The main aim of the Computer Audit Sub-Group (CASG), which is a permanent sub-group of SLACIAG, is to provide a forum to share and discuss computer audit practices and developments. This includes raising awareness of new standards, updates to legislation, and new and current topics of interest.

3.2 During 2014/15 CASG met three times:

- 24 April 2014 at East Renfrewshire Council;
- 22 August 2014 at Dundee City Council; and
- 25 November 2014 at Fife Council.

3.3 Meetings have included presentations and discussions on a range of topics with speakers from within and out-with the group. The purpose of these presentations is to keep the group updated and informed on computer audit developments, resources, and techniques.

3.4 In the past year, presentation topics have included:

- ICT and Information Management Costs / Areas of Savings;
- Internet Policy for children in care homes;
- ICT licensing;
- ICT Strategy and Governance;
- ICT and Information Management Audit Universe.
- The logic behind the Information Commissioner's Office taking regulatory action;
- Public Sector Network workstreams;
- ICT Asset Management;
- Disaster Recovery; and

3.5 CASG meetings continue to attract increasing numbers and cater for computer audit knowledge from novice through to professional level. During 2014/15, CASG meetings were attended by auditors from 24 of the Local Authorities as well as auditors from SPT and Scottish Water. Due to the increasing membership and the mixture of skills and experience available from its members the group will consider, in the upcoming year, any areas where ICT related training would be beneficial.

4. SUMMARY

4.1 The role of Internal Audit continues to evolve, with Health and Social Care Integration, continued pressure on budgets, and reducing headcount across all Councils amongst the key drivers of change.

4.2 The membership of SLACIAG also continues to change, with new members joining and an ever increasing emphasis on the involvement of members of Internal Audit teams as well as Chief Internal Auditors.

4.3 That said, the commitment of members both to SLACIAG, and the wider profession, remains unchanged, and this is reflected in the excellent attendance at, and contribution to, meetings of the Group over the course of 2014/15.

4.4 2015/16 will be another challenging year for Internal Audit in Local Government. I'm firmly of the belief, however, that, individually and collectively, SLACIAG will continue to be at the forefront of developments, and that our voice will continue to be heard as experts in matters of risk management, governance, and control.

4.5 Finally, I would like to take this opportunity to thank the Committee and all Group members for their support and contributions during 2014/15.

Jill Stacey (Chief Officer, Audit and Risk, Scottish Borders Council)
Chair of SLACIAG
18 May 2015

AGENDA ITEM 5

FALKIRK COUNCIL

Subject: **TEMPERANCE TRUST ANNUAL ACCOUNTS 2014/15**
Meeting: **AUDIT COMMITTEE**
Date: **21 September 2015**
Author: **DIRECTOR OF CORPORATE & HOUSING SERVICES**

1. INTRODUCTION

1.1 The purpose of the report is to review and recommend approval to the Trustees of the Temperance Trust Audited Accounts for the year to 31 March 2015.

2. 2014/15 ACCOUNTS

2.1 The Accounts of the Temperance Trust have now been audited and will be issued to Members under separate cover. The auditor's certificate is free from qualification. Copies of the accounts will be sent to interested parties, their availability advertised in the local press and will be posted on the Council's website.

3. RECOMMENDATION

3.1 That Members review and recommend approval to the Trustees of the Audited Annual Accounts of the Temperance Trust to 31 March 2015.

____

Director of Corporate & Housing Services
Date: 25 August 2015
Ref: AAT210915 – Falkirk Temperance Trust Accounts 2014/15
Contact Officer: Amanda Templeman

LIST OF BACKGROUND PAPERS

NIL

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 Court 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 21 September 2015.

Respective responsibilities of the trustees and auditor

The trustees are responsible for

- preparing financial statements in accordance with the 2006 Regulations
- making judgements and estimates that are reasonable and prudent
- keeping adequate accounting records which are up to date
- taking reasonable steps for the prevention and detection of fraud and other irregularities

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.

Conclusion

The charity made 4 grants to the total of £1,900 during 2014/15.

Deficit

The Trust returned a deficit due to a higher level of grant payments made. In principle bank interest earned in the year is used to fund grant payments in the same year. However, due to the limited number of grant applications in previous years this has not always been possible and Reserves have increased over time. A higher level of grant applications were received in 2014/2015 and it was therefore deemed to be reasonable to approve these and incur a deficit in the period.

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. The audit fee for 2013/14 was £300 and was paid by Falkirk Council.

Authorised for Issue

Approved and authorised for issue by the trustees on 21 September 2015 and signed on their behalf by

P Reid, Trustee
21 September 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 £
	Receipts	
1,956	Bank interest	**1,275**
1,956		**1,275**
	Payments	
50	Independent Examiner Fee	**50**
500	Grants	**1,900**
550		**1,950**
1,406	**Surplus/(Deficit) for Period**	**(675)**

Approved by the Trustees and signed on their behalf:

P Reid, Trustee
21 September 2015

B Smail, Treasurer
21 September 2015

FALKIRK TEMPERANCE TRUST

REGISTERED CHARITY NUMBER - SC001904

STATEMENT OF BALANCES

AS AT 31 MARCH 2015

2013/14 £		2014/2015 £
	Current Assets	
154,426	Bank of Scotland Guaranteed Fixed Deposit	**150,595**
5,969	Bank of Scotland Treasurer's Account	**9,125**
160,395		**159,720**
	Current Liabilities	
-		**-**
160,395	**Net Assets**	**159,720**
	Represented by:	
158,989	Surplus brought forward	**160,395**
1,406	Surplus/(deficit) for period	**(675)**
160,395	**Surplus carried forward**	**159,720**

Approved by the Trustees and signed on their behalf:

P Reid, Trustee
21 September 2015

B Smail, Treasurer
21 September 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 TEMPERANCE TRUST

REGISTERED CHARITY NUMBER - SC001904

INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEES OF FALKIRK TEMPERANCE TRUST AND THE ACCOUNTS COMMISSION FOR SCOTLAND

I certify that I have audited the financial statements of Falkirk Temperance Trust for the year ended 31 March 2015 under Part VII of the Local Government (Scotland) Act 1973 and section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005. The financial statements comprise the receipts and payments account, statement of balances and the related notes. The financial reporting framework that has been applied in their preparation is a receipts and payments basis.

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 125 of the Code of Audit Practice approved by the Accounts Commission for Scotland, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Respective responsibilities of the trustees and auditor

As explained more fully in the Annual Report, the trustees are responsible for the preparation of the financial statements which properly present the receipts and payments of the charity. My 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. Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts or disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the charity's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the trustees; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the annual report and accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the financial statements:

- properly present the receipts and payments of the charity for the year ended 31 March 2015 and its statement of balances at that date; and
- have been prepared in accordance with the requirements of the Charities and Trustee Investment (Scotland) Act 2005, and regulations 9(1), (2) and (3) of The Charities Accounts (Scotland) Regulations 2006.

Opinion on other prescribed matter

In my opinion the information given in the Trustees' Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I am required to report by exception

I am required by The Charity Accounts (Scotland) Regulations 2006 to report to you if, in my opinion:

- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit.

I have nothing to report in respect of these matters.

Fiona Mitchell-Knight FCA
Assistant Director, Audit Services
Audit Scotland
4th Floor, The Athenaeum Building
8 Nelson Mandela Place
Glasgow
G2 1BT

21 September 2015

Fiona Mitchell-Knight is eligible to act as an auditor in terms of Part VII of the Local Government (Scotland) Act 1973.

AGENDA ITEM 6

FALKIRK COUNCIL

Subject:	**ANNUAL ACCOUNTS 2014/15**
Meeting:	**AUDIT COMMITTEE**
Date:	**21 September 2015**
Author:	**DIRECTOR OF CORPORATE & HOUSING SERVICES**

1. INTRODUCTION

1.1 The purpose of the report is to review the Audited Accounts of the Council for the year to 31 March 2015.

2. 2014/15 ACCOUNTS

2.1 The Accounts of the Council have now been audited and will be issued to Members under separate cover. The auditor's certificate is free from qualification. Copies of the accounts will be sent to interested parties, their availability advertised in the local press and will be posted on the Council's website.

3. RECOMMENDATION

3.1 That Members review and approve the Audited Annual Accounts of the Council to 31 March 2015, prior to consideration by Council.

Director of Corporate & Housing Services
Date: 25 August 2015
Ref:AAT210915 – Annual Accounts 2014/15
Contact Officer: Amanda Templeman

LIST OF BACKGROUND PAPERS

NIL

Annual Report & Accounts

2014/2015

ANE FOR A

Falkirk Council

INDEX

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 Annual 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 – Central Scotland Valuation Joint Board, FCSL (Holdings) Ltd, and Falkirk Community Stadium Limited, Falkirk Community Trust Limited and Falkirk Community Trading Ltd, Common Good Funds and thinkWhere Ltd. 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.

2.2 The Council has 32 Councillors elected every five years to represent the interests of the local community. The management of Falkirk Council is led by the Chief Executive, Mary Pitcaithly. The operational structure from 1st August 2015 consists of three Services - Corporate & Housing, Development and Childrens Services. The Council has established three Arms' Length Organisations – Falkirk Community Trust, Falkirk Community Stadium Ltd and thinkWhere Ltd. More information on these organisations can be found at the following links:
www.falkirkcommunitytrust.org
www.thinkwhere.com
www.falkirkstadium.co.uk

Strategic Planning

2.3 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:

2.4 "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'."

2.5 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.

2.6 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.

2.7 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.

2.8 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.

2.9 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 31st 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;
- 3rd 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:

- % 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:

	Uncommitted Balance £'000	**Earmarked Funds £'000**	**Total General Fund £'000**
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
Balance c/fwd 31 March 2015	**8,369**	**15,657**	**24,026**

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 as shown in note 9 to the core financial statements. 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.

	Budget 2014/15 £'000	**Actual 2014/15 £'000**	**Variance £'000**
Education Services	174,819	175,262	443
Social Work Services	90,015	93,358	3,343
Development Services	35,595	35,524	(71)
Corporate & Neighbourhood Services	14,859	14,400	(459)
Miscellaneous Services	12,717	13,122	405
Central Support Services	23,204	22,348	(856)
Less: Central Support Recharges	(23,204)	(23,204)	-
Trading Accounts	(949)	(938)	11
Sub Total	**327,056**	**329,872**	**2,816**
Falkirk Community Trust	13,085	13,085	-
Valuation	1,251	1,251	-
Capital Funded from Current Revenue	500	500	-
Severance Payments	-	1,124	1,124
Transfers to/(from) Earmarked Funds	(703)	(688)	15
Transfers to/(from) Spend to Save	-	(430)	(430)
Capital Charges	(8,193)	(7,963)	230
Total Net Expenditure	**332,996**	**336,751**	**3,755**
Funding			
Revenue Support Grant	204,917	205,188	271
Non-Domestic Rates	74,307	74,307	-
Council Tax	52,272	53,316	1,044
Total Funding	**331,496**	**332,811**	**1,315**
(Surplus)/Deficit	**(1,500)**	**3,940**	**2,440**
Housing Revenue Account	-	-	
Transfer to Earmarked Funds – Housing Revenue Account	-	-	
Movement to be funded from General Fund	**1,500**	**3,940**	**2,440**

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 at paragraph 4.5 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 on 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 £0.19m consistent with budget.

Financial Indicators

4.12 The Chartered Institute of Public Finance and Accountancy (CIPFA) Directors of Finance Section recommends that certain "financial ratios" are included in the Management Commentary to assist the reader to assess the performance of the Council over the financial year and of the affordability of its ongoing commitments. In addition, 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. To help assess performance, a suite of indictors has been developed. A selection of key performance indicators from both of these sources has been included in the table below.

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 For 2014/15, a budget of £31.6m was identified for general fund capital investment. The Council incurred capital expenditure of £26.4m. The majority of the underspend (£3.1m) was for projects which have been rescheduled to future years for a variety of reasons, for example, pending external funding or operational decision which require to be made. A budget of £36.5m was set for investment in Council Housing with a year end outturn of £35.1m. 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 falling 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.

4.16 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. An actuarial loss on pension liabilities of £168m offset by a return on plan assets of £56m has been reported in the Comprehensive Income and Expenditure Statement. There is no impact on the General Fund balance. Scottish Government regulations require the General Fund balance to be charged with the amount payable by the Council to the pension fund in the year, not the amount calculated according to accounting standards.

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 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
21 September 2015

Councillor Craig Martin
Leader of Falkirk Council
21 September 2015

Mary Pitcaithly
Chief Executive of Falkirk Council
21 September 2015

STATEMENT OF RESPONSIBILITIES FOR THE ANNUAL 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 21 September 2015.

Councillor Craig Martin
Leader of the Council
21 September 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 prevention 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
21 September 2015

ANNUAL GOVERNANCE STATEMENT 2014/15

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 [1]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.

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 (substantively) for 2016/17. This provides the Authority with financial stability, and a solid platform on which to further develop medium and longer term financial plans based on that agreed short 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 a streamlined capital bid process) helped ensure that a full and comprehensive report was presented to Members for consideration and agreement in line with the required statutory deadline.

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

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 a recently revised Committee and scrutiny structure. 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, 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 Childrens' Service, with responsibility for education and young persons' social work services.

20. While this represents a major shift in the Council's organisational structure (with further restructuring of Services being considered by Members), it has been necessary to undertake this alongside the shift in responsibility for adult social care 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 will operate 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 in April 2016. Full membership of the Joint Board should be achieved by November 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 more detailed 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.

27. In addition, during 2014/15, Audit Scotland carried out a targeted Best Value review of the Council's governance and performance management arrangements. The findings, and any required improvements, arising from this review will be considered by Officers and Members over the course of 2015/16.

System of Internal Financial Control

28. 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.

29. 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.

30. 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.

31. 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.

32. 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.

33. 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.

34. 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.

35. 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.

36. 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.

37. 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.

38. 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

39. 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 agenda;
- work will continue to develop arrangements for the joint delivery of adult health and social care services; and
- the findings arising from Audit Scotland's targeted Best Value review will be considered, with improvements actions taken as appropriate.

Conclusion

40. 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
21 September 2015

……………………………………………...

Mary Pitcaithly
Chief Executive of Falkirk Council
21 September 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 (excluding tables 2.1 and 6.6) 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) Regulations 2007, as amended 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 12th 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	Number of Employees		Chief Officials		Teachers		SJC Employees	
Bands	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	-	-	-	-
Total	**106**	**163**	**21**	**19**	**76**	**88**	**9**	**56**

Note these figures do not include employees of Falkirk Community Trust (2 Chief Officials and 4 SJC employees).

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 Salary, Fees and Allowances £	2013/14 Salary, Fees and Allowances £
David Alexander	Convener, Community Justice Authority	19,667	19,472
James Blackwood	Portfolio Holder, Public Protection	22,242	20,553
William Buchanan	Convener, Planning	22,242	22,021
Dennis Goldie	Portfolio Holder, Economic Development	22,242	22,021
Gerald Goldie	Portfolio Holder, Housing	22,242	22,021
Charles MacDonald	Convener, Joint Valuation Board	20,702	20,497
Adrian Mahoney	Portfolio Holder, Culture, Leisure & Tourism	22,242	22,021
Craig Martin	Leader of the Council	33,123	32,795
Craig R Martin	Portfolio Holder, Environment	22,242	22,021
John McLuckie	Convener, Appeals	22,242	22,021
Cecil Meiklejohn	Leader of the Opposition	18,646	18,462
Rosemary Murray	Convener, Joint Consultative	18,646	18,324
Malcolm Nicol	Portfolio Holder, Resources	22,242	22,021
Alan Nimmo	Portfolio Holder, Education	22,242	22,021
Joan Paterson	Depute Leader of the Council	22,242	18,052
John Patrick	Depute Provost	22,242	22,021
Patrick Reid	Provost	23,179	23,179
Total		**378,625**	**369,523**

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	-
Total		**710,158**	**9,204**	**719,362**	**742,014**

* 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
Total		**40,559**	**-**	**40,559**	**40,699**

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
Total		**91,041**	**-**	**91,041**	**91,041**

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 £19,800 and up to £24,200	7.25%	
On earnings above £20,500 and up to £25,000		7.25%
On earnings above £24,200 and up to £33,200	8.50%	
On earnings above £25,000 and up to £34,400		8.50%
On earnings above £33,200 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 £
David Alexander	4,032	7,000	15,000	-	1,000
James Blackwood	4,560	3,000	2,000	1,000	-
Dennis Goldie	4,560	1,000	-	-	-
Gerald Goldie	4,560	11,000	25,000	1,000	1,000
Adrian Mahoney	4,560	11,000	-	1,000	-
Craig R Martin	4,560	3,000	2,000	1,000	1,000
John McLuckie	4,560	3,000	2,000	1,000	1,000
Cecil Meiklejohn	3,822	2,000	-	1,000	-
Rosemary Murray	3,822	1,000	-	-	-
Malcolm Nicol	4,560	3,000	2,000	-	-
Alan Nimmo	4,560	2,000	-	1,000	-
Joan Paterson	4,560	1,000	-	-	-
Total	**52,716**	**48,000**	**48,000**	**7,000**	**4,000**

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 the Council no longer makes contributions 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
Total		**166,071**	**374,000**	**885,000**	**23,000**	**24,000**

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	-	-	-	-
Number of Packages	**59**	**1,317,521**	**70**	**1,892,208**

Exit Packages agreed with former employees of Falkirk Community Stadium Ltd

There 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	-	-	-	-
Number of Packages	**2**	**10,918**	**-**	**-**

Councillor Craig Martin
Leader of Falkirk Council
21 September 2015

Mary Pitcaithly
Chief Executive
21 September 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
Balance at 31 March 2014	**25,757**	**5,093**	**5,055**	**4,373**	**8,940**	**49,218**	**37,641**	**86,859**	
Surplus or (deficit) on provision of services	(13,132)	(20,552)	-	-	-	(33,684)	-	**(33,684)**	CIES
Other Comprehensive Income and Expenditure	(7)	-	-	-	-	(7)	(99,201)	**(99,208)**	CIES
Total Comprehensive Income and Expenditure	**(13,139)**	**(20,552)**	**-**	**-**	**-**	**(33,691)**	**(99,201)**	**(132,892)**	
Adjustments between accounting basis and funding basis under regulations	25,996	23,476	723	-	(198)	49,997	(49,997)	-	6
Net Increase/Decrease before Transfers to/from Other Statutory Reserves	**12,857**	**2,924**	**723**	**-**	**(198)**	**16,306**	**(149,198)**	**(132,892)**	
Transfers to/from Other Statutory Reserves	(19,681)	(2,924)	-	(504)	828	(22,281)	22,281	-	7
Increase/Decrease in Year	**(6,824)**	**-**	**723**	**(504)**	**630**	**(5,975)**	**(126,917)**	**(132,892)**	
Balance at 31 March 2015	**18,933**	**5,093**	**5,778**	**3,869**	**9,570**	**43,243**	**(89,276)**	**(46,033)**	

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
Balance at 31 March 2013	**29,797**	**7,631**	**4,428**	**5,501**	**7,629**	**54,986**	**99,860**	**154,846**	
Surplus or (deficit) on provision of services	(30,632)	(32,985)	-	-	-	(63,617)	-	**(63,617)**	CIES
Other Comprehensive Income and Expenditure	-	-	-	-	-	-	(4,370)	**(4,370)**	CIES
Total Comprehensive Income and Expenditure	**(30,632)**	**(32,985)**	**-**	**-**	**-**	**(63,617)**	**(4,370)**	**(67,987)**	
Adjustments between accounting basis and funding basis under regulations	50,770	34,155	434	-	(100)	85,259	(85,259)	-	6
Net Increase/Decrease before Transfers to/from Other Statutory Reserves	**20,138**	**1,170**	**434**	**-**	**(100)**	**21,642**	**(89,629)**	**(67,987)**	
Transfers to/from Other Statutory Reserves	(24,178)	(3,708)	193	(1,128)	1,411	**(27,410)**	27,410	-	7
Increase/Decrease in Year	**(4,040)**	**(2,538)**	**627**	**(1,128)**	**1,311**	**(5,768)**	**(62,219)**	**(67,987)**	
Balance at 31 March 2014	**25,757**	**5,093**	**5,055**	**4,373**	**8,940**	**49,218**	**37,641**	**86,859**	

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	21,968	(4,381)	17,587	
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	
521,735	**(156,907)**	**364,828**	**Cost of Services**	**520,087**	**(162,297)**	**357,790**	
			<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	
92,575	**(60,461)**	**32,114**		**93,066**	**(59,467)**	**33,599**	
			<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)	
-	**(353,234)**	**(353,234)**		**-**	**(355,527)**	**(355,527)**	
634,219	**(570,602)**	**63,617**	**(Surplus) or Deficit on Provision of Services**	**613,153**	**(579,469)**	**33,684**	
		(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	
		4,370	**Other Comprehensive Income and Expenditure**			**99,208**	
		67,987	**Total Comprehensive Income and Expenditure**			**132,892**	

BALANCE SHEET AS AT 31 MARCH 2015

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
	Non-Current Assets		
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	31,43
9,827	Long Term Debtors	9,848	35
708,749		722,011	
	Current Assets		
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
37,332		42,515	
	Current Liabilities		
(26,307)	Short Term Borrowing	(30,283)	32
(68,072)	Short Term Creditors	(63,240)	39
(5,613)	Provisions	(6,306)	34
(99,992)		(99,829)	
	Long Term Liabilities		
(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
(559,230)		(710,730)	
86,859	**Net Assets**	**(46,033)**	30
	Usable Reserves		
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	
49,218		43,243	
	Unusable Reserves		
154,802	Capital Adjustment Account	144,139	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
37,641		(89,276)	
86,859	**Total Reserves**	**(46,033)**	

Bryan Smail, CPFA MBA
Chief Finance Officer

The unaudited accounts were issued on 22 June 2015 and the audited accounts were authorised for issue on 21 September 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	33,684
(114,690)	Adjust net surplus or deficit on the provision of services for non-cash movements	(68,094)
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)	**Net cash flows from operating activities**	(12,633)
	Investing Activities	
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	**Net cash flows from investing activities**	34,026
	Financing Activities	
(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)	**Net cash flows from financing activities**	(25,874)
271	**Net (increase) or decrease in cash and cash equivalents**	(4,481)
(10,126)	Cash and cash equivalents at the beginning of the reporting period	(9,855)
	Cash and cash equivalents at the end of the reporting period	
(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 £22.893m) 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	(60,906)
(12,182)	Net Charges for Retirement Benefits	(15,527)
7,094	Movement in Debtors	1,635
(7,438)	Movement in Creditors	4,573
59	Movement in Stock	(32)
(114,690)		(68,094)

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 Principles and Accounting Concepts

The Annual 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 Annual Accounts by the Local Authority Accounts (Scotland) Regulations 2014. 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:-

Cost	**Allocation Base**
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 now in its second phase which runs from 1 April 2014 until March 2019. 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 ISSUED BUT NOT YET 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 2015/16 Code:

- IFRS13 Fair Value Measurement (May 2011)
- IFRIC 21 Levies
- 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 Annual 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 Annual 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 Annual 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 Annual Accounts is adjusted to reflect such events

- Those that are indicative of conditions that arose after the reporting period – the Annual 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 Annual 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.

	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
Depreciation, impairment and downward revaluation of non-current assets	26,292	34,620	-	-	-	**60,912**	(60,912)
Amortisation of intangible assets	15	-	-	-	-	**15**	(15)
Statutory Repayment of Debt (Loans Fund Advances)	(9,886)	(3,077)	-	-	-	**(12,963)**	12,963
Capital expenditure charged to the General Fund Balance (CFCR)	(1,708)	(5,599)	-	-	-	**(7,307)**	7,307
Statutory Repayment of Debt (Finance Lease Liabilities)	-	(335)	-	-	-	**(335)**	335
Statutory Repayment of Debt (PFI)	(3,738)	-	-	-	-	**(3,738)**	3,738
Capital Receipts applied to fund Capital Expenditure	-	-	(3,570)	-	-	**(3,570)**	3,570
Use of the Repairs & Renewals Fund , DMR, Spend to Save to Finance new capital expenditure	(397)	-	-	-	(198)	**(595)**	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)	-	-	-	**(329)**	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	-	-	-	**15,527**	(15,527)
Net transfer to or from the Accumulated Absences account required by legislation	263	2	-	-	-	**265**	(265)
Net (Gain)/Loss on Sale of Assets	721	(2,899)	-	-	-	**(2,178)**	-
Capital Receipts Received	-	-	4,293	-	-	**4,293**	
Net Book Value of Asset Disposals	-	-	-	-	-	-	(2,115)
Total Adjustments	**25,996**	**23,476**	**723**	**-**	**(198)**	**49,997**	**(49,997)**

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

	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
Depreciation, impairment and downward revaluation of non-current assets	33,306	48,999	-	-	-	**82,305**	(82,305)
Amortisation of intangible assets	8	-	-	-	-	**8**	(8)
Statutory Repayment of Debt (Loans Fund Advances)	(10,201)	(9,345)	-	-	-	**(19,546)**	19,546
Capital expenditure charged to the General Fund Balance (CFCR)	(2,042)	(2,557)	-	-	-	**(4,599)**	4,599
Statutory Repayment of Debt (Finance Lease Liabilities)	-	(502)	-	-	-	**(502)**	502
Statutory Repayment of Debt (PFI)	(4,485)	-	-	-	-	**(4,485)**	4,485
Capital Receipts applied to fund Capital Expenditure	-	-	(6,765)	-	-	**(6,765)**	6,765
Use of the Repairs & Renewals Fund , DMR, Spend to Save to Finance new capital expenditure	(172)	-	-	-	(100)	**(272)**	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)	-	-	-	**(327)**	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	-	-	-	**12,182**	(12,182)
Net transfer to or from the Accumulated Absences Account required by legislation	150	2	-	-	-	**152**	(152)
Net (Gain)/Loss on Sale of Assets	23,043	(3,134)	-	-	-	**19,909**	-
Capital Receipts Received	-	-	7,199	-	-	**7,199**	-
Net Book Value of Asset Disposals	-	-	-	-	-	-	(27,108)
Total Adjustments	**50,770**	**34,155**	**434**	**-**	**(100)**	**85,259**	**(85,259)**

7. TRANSFERS TO/FROM OTHER STATUTORY RESERVES

(a) Transfers to/from Other Statutory Reserves 2014/15

	General Fund Balance £'000	HRA Balance £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied Account £'000	Other Reserves £'000
Insurance Fund	(257)	-	-	-	257
Repairs and Renewals Fund	(571)	-	-	-	571
Capital Receipts/Capital Grants	(18,853)	(2,924)	-	(504)	-
Revenue Grant Reserve	-	-	-	-	-
Total Transfers 2014/15	**(19,681)**	**(2,924)**	**-**	**(504)**	**828**

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

	General Fund Balance £'000	HRA Balance £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied Account £'000	Other Reserves £'000
Insurance Fund	(216)	-	-	-	216
Repairs and Renewals Fund	(1,195)	-	-	-	1,195
Capital Receipts/Capital Grants	(22,344)	(4,131)	193	(1,128)	-
Revenue Grant Reserve	(423)	423	-	-	-
Total Transfers 2013/14	**(24,178)**	**(3,708)**	**193**	**(1,128)**	**1,411**

8. UNUSABLE RESERVES

2013/14 £'000	Unusable Reserve	2014/15 £'000
154,802	Capital Adjustment Account	**144,139**
147,928	Revaluation Reserve	**159,634**
(253,264)	Pension Reserve	**(381,288)**
(5,760)	Accumulated Absences Account	**(6,025)**
(6,065)	Financial Instruments Account	**(5,736)**
37,641	**Total Unusable Reserves**	**(89,276)**

(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.

2013/14 £'000		**2014/15 £'000**
197,511	**Balance at 1 April**	**154,802**
27,410	Capital Grants Received	**22,281**
(26,075)	Net Book Value of Asset Disposals	**(1,829)**
39	Gain on Revaluation of Non-Current Assets	**6**
(82,305)	Depreciation/ impairment and downward revaluation of non-current assets	**(60,912)**
(8)	Authorisation of intangible assets	**(15)**
19,546	Statutory Repayment of Debt (Loans Fund Advances)	**12,963**
4,599	Capital expenditure charged to the General Fund Balance (CFCR)	**7,307**
502	Statutory Repayment of Debt (Finance Lease Liabilities)	**335**
4,485	Statutory Repayment of Debt (PFI)	**3,738**
6,765	Capital Receipts applied to fund Capital Expenditure	**3,570**
272	Use of the Repairs & Renewals Fund, DMR, Spend to Save to Finance new capital expenditure	**595**
2,061	Adjustment between CAA and Revaluation Reserve for depreciation that is related to the revaluation balance rather than Historic Cost	**1,298**
154,802	**Balance at 31 March**	**144,139**

(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.

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

(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.

2013/14 £'000		**2014/15 £'000**
(222,953)	**Balance at 1 April**	**(253,264)**
(18,129)	Remeasurements of Pension Assets/Liabilities	**(112,497)**
(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	**(15,527)**
(253,264)	**Balance at 31 March**	**(381,288)**

(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.

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

(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.

2013/14 £'000		**2014/15 £'000**
(6,392)	**Balance at 1 April**	**(6,065)**
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	**329**
(6,065)	**Balance at 31 March**	**(5,736)**

9. ANALYSIS OF GENERAL FUND BALANCE

	General (i) £'000	Housing (i) £'000	Devolved Schools (ii) £'000	Economic Development (iii) £'000	Central Energy Efficiency Fund (iv) £'000	Revenue Grant (v) £'000	Spend to Save (vi) £'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	6,450	-	-	-	-	-	-	6,450
Appropriation to R&R Fund	373	-	-	-	-	-	-	373
Appropriation (to)/from General Fund	(2,883)	-	757	324	(17)	836	983	-
Net Movement	**3,940**	**-**	**757**	**324**	**(17)**	**836**	**983**	**6,823**
Balance at End of Year	**(8,369)**	**(5,093)**	**(4,900)**	**(1,082)**	**(456)**	**(1,513)**	**(2,614)**	**(24,027)**

(i) The budgeted use of general fund reserves in 2014/15 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)	(36,028)	(26,002)	(27,926)	(47,576)	-	(33,608)	(57,137)	-	**(245,266)**
Total Income	**(16,989)**	**(36,028)**	**(26,002)**	**(27,926)**	**(47,576)**	**-**	**(33,608)**	**(57,137)**	**-**	**(245,266)**
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	4,755	68	-	416	25,360	-	**51,532**
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	5,900	5,795	3,013	6,785	-	760	16,033	(857)	**51,242**
Capital Charges	14,631	759	7,758	2,918	27	-	49	32	8,024	**34,198**
Total Expenditure	**192,251**	**129,386**	**61,518**	**43,157**	**60,545**	**14,336**	**32,670**	**57,137**	**8,291**	**599,291**
Net Expenditure	**175,262**	**93,358**	**35,516**	**15,231**	**12,969**	**14,336**	**(938)**	**-**	**8,291**	**354,025**

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	354,025
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
Cost of Services in the Comprehensive Income and Expenditure Statement	**357,790**

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

	Service Analysis	Amounts Reported Below Net Cost of Services	Amounts included in CIES Not reported to Management	Amounts reported to Management Not included in CIES	Allocation of Recharges	Allocation of Supp Service	Net Cost of Services	Corporate Amounts	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Income	(245,266)	33,608	75	272	51,871	(2,857)	**(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)**
Total Income	**(245,266)**	**33,608**	**75**	**272**	**51,871**	**(2,857)**	**(162,297)**	**(417,172)**	**(579,469)**
Employee Expenses	210,204	(13,370)	3,013	-	(14,208)	15,181	**200,820**	14,154	**214,974**
Property Expenses	51,532	(416)	-	-	(1,520)	1,504	**51,100**	416	**51,516**
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)	19,929	**51,664**	6,556	**58,220**
Third Party Expenses	146,754	(10,865)	(16,528)	-	(2,164)	564	**117,761**	10,865	**128,626**
Transfer Payments	51,028	-	-	-	(1,448)	-	**49,580**	-	**49,580**
Support Service recharges	51,242	(760)	703	-	(16,392)	(34,793)	-	-	-
Depreciation, amortisation and impairment	34,198	(49)	13,889	-	(7,861)	423	**40,600**	49	**40,649**
Interest Payments	-	-	-	-	-	-	-	59,632	**59,632**
Total Expenditure	**599,291**	**(32,670)**	**1,077**	**1,403**	**(51,871)**	**2,857**	**520,087**	**93,066**	**613,153**
(Surplus) or Deficit on the Provision of Services	**354,025**	**938**	**1,152**	**1,675**	**-**	**-**	**357,790**	**(324,106)**	**33,684**

11.(b) AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS 2013/14

Council Service Income and Expenditure 2013/14

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

Reconciliation to Subjective Analysis 2013/14

	Service Analysis £'000	Amounts reported below Net Cost of Services £'000	Amounts included in CIES Not reported to Management £'000	Amounts reported to Management Not included in CIES £'000	Allocation of Recharges £'000	Allocation of Supp Service £'000	Net Cost of Services £'000	Corporate Amounts £'000	Total £'000
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)**
Total Income	**(233,213)**	**35,281**	**(938)**	**294**	**41,839**	**(170)**	**(156,907)**	**(413,695)**	**(570,602)**
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**
Total Expenditure	**562,067**	**(34,560)**	**35,262**	**635**	**(41,839)**	**170**	**521,735**	**112,484**	**634,219**
(Surplus) or Deficit on the Provision of Services	**328,854**	**721**	**34,324**	**929**	**-**	**-**	**364,828**	**(301,211)**	**63,617**

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.

Related Party		**Receipts 2014/15 £'000**	**Payments 2014/15 £'000**
Falkirk Towns Ltd	Promotion of Town Centres	-	500
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
Falkirk Community Trust	Contribution to Community Trust Charge for Support Services	 117	13,085 -
Fife & Forth Valley Community Justice Authority	Administration Charge	233	-
thinkWhere Ltd	Contribution to operating costs	-	217

Amounts due to or from related parties were as follows:

Amount 2013/14 Due From £'000	**Amount 2013/14 Due to £'000**		**Amount 2014/15 Due From £'000**	**Amount 2014/15 Due To £'000**
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 £321,990 (£318,800 in 2013/14). A further £23,010 (£22,200 in 2013/14) is included as the agreed external audit fee for the Pension Fund Audit. Audit Scotland charged £200 for the audit of the Temperance Trust. In 2013/14 this figure was £300 which was met by the Council. 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.

Actual Year to 31/03/13 £'000	**Actual Year to 31/03/14 £'000**	**BUILDING MAINTENANCE TRADING ACCOUNT**	**Actual Year to 31/03/15 £'000**	**3 Year Total £'000**
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)
346	**202**	**Surplus for Financial Return Purposes**	**117**	**665**

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:

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

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. 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

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 Annual 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 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

31/03/14	Year Ended:	31/03/15
£'000		£'000
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	-
36,272	**Total**	**40,995**

Reconciliation of present value of defined benefit obligation

31/03/14	Year Ended:	31/03/15
£'000		£'000
765,966	**Opening Defined Benefit Obligation**	**839,586**
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)
839,586	**Closing Defined Benefit Obligation**	**1,054,451**

Reconciliation of the movements in the fair value of plan assets

31/03/14	Year Ended:	31/03/15
£'000		£'000
543,013	**Opening Fair Value of Plan Assets**	**586,322**
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)
586,322	**Closing Fair Value of Plan Assets**	**673,163**

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:

31/03/14		31/03/15
£'000		£'000
(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).

Quoted Prices in Active Markets 31/03/14 £'000	**Prices not Quoted in Active Markets 31/03/14 £'000**	**Total 31/03/14 £'000**		**Quoted Prices in Active Markets 31/03/15 £'000**	**Prices not Quoted in Active Markets 31/03/15 £'000**	**Total 31/03/15 £'000**
			Equity Securities			
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
243,957	**-**	**243,957**		**254,681**	**-**	**254,681**
-	**31,168**	**31,168**	**Private Equity**	**-**	**38,984**	**38,984**
			Real Estate			
-	38,927	38,927	UK Property	-	48,390	48,390
-	3,033	3,033	Overseas Property	-	2,367	2,367
-	**41,960**	**41,960**		**-**	**50,757**	**50,757**
			Investment Funds and Unit Trusts			
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
239,891	**11,890**	**251,781**		**283,215**	**16,936**	**300,151**
-	**-**	**-**	**Derivatives**	**28**	**-**	**28**
17,456	**-**	**17,456**	**Cash and Cash Equivalents**	**28,562**	**-**	**28,562**
501,304	**85,018**	**586,322**	**Total**	**566,486**	**106,677**	**673,163**

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:

31/03/14 % p.a	**Year Ended:**	**31/03/15 % p.a.**
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:

	Males	**Females**
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

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

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.

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:

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

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

Minimum Lease Payment 31 March 2014 £'000	**Finance Lease Liabilities 31 March 2014 £'000**		**Minimum Lease Payment 31 March 2015 £'000**	**Finance Lease Liabilities 31 March 2015 £'000**
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	-	-
506	**500**	**Total**	**165**	**165**

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. All 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:

31 March 2014 £'000		**31 March 2015 £'000**
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
8,608	**Total**	**6,030**

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:

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

(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:

31 March 2014 £'000		**31 March 2015 £'000**
	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	-
1,514	**Gross investment in the lease**	**1,408**

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

Gross Investment in the Lease 31 March 2014 £'000	**Minimum Lease Payment 31 March 2014 £'000**		**Gross Investment in the Lease 31 March 2015 £'000**	**Minimum Lease Payment 31 March 2015 £'000**
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
1,512	**958**	**Total**	**1,408**	**920**

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. 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:

31 March 2014 £'000		**31 March 2015 £'000**
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
40,422	**Total**	**40,539**

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:

	Internally Generated Assets	**Other Assets**
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:

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

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

Carrying Amount		**Carrying Amount**	
31 March 2014 £'000		**31 March 2015 £000**	**Remaining Amortisation Period**
-	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.

In the past the Council has set a de minimus level for capital expenditure. However, we have found that there are issues with this on an operational level where a large volume of smaller invoice values are part of a large capital project. Consequently, we have introduced controls to ensure that revenue expenditure which could have been in excess of the predetermined de minimus level, does not find its way into the capital programme costs of the Council. The controls in place include the processing of the majority of capital invoices within the Capital section, thereby ensuring the criteria for recognition is confirmed at the outset. In addition a monthly analysis of all capital expenditure transactions is carried out to ensure that where invoices have been processed in the Services, these meet the criteria for recognition as capital expenditure. Any errors identified are transferred from capital to revenue.

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 (Social Housing Discounted Cash Flow
- 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.

(a) PROPERTY, PLANT & EQUIPMENT MOVEMENTS IN 2014/15	Council Dwellings £'000	Other Land and Buildings £'000	Vehicles, Plant and Equipment £'000	Infra-Structure £'000	Community Assets £'000	Assets under Construction £'000	Surplus Assets £'000	Total £'000
Cost or Valuation as at 1 April 2014	102,831	602,283	26,432	121,669	3,161	13,538	7,925	**877,839**
Additions	35,062	5,854	4,868	7,843	683	5,729	3	**60,042**
Revaluations:-								
• Recognised in Revaluation Reserve	-	15,778	-	-	-	-	-	**15,778**
• Recognised in Provision of Services	-	6	-	-	-	-	-	**6**
De-recognition:-								
• Disposals	(296)	(909)	(2,329)	(811)	-	-	-	**(4,345)**
Assets reclassified to/from Held for Sale	-	(177)	-	-	-	-	-	**(177)**
Other Movements in Cost or Valuation	-	960	-	2,418	10,749	(13,296)	-	**831**
As at 31 March 2015	**137,597**	**623,795**	**28,971**	**131,119**	**14,593**	**5,971**	**7,928**	**949,974**
Accumulated Depreciation								
As at 1 April 2014	48,390	91,977	16,280	28,112	1,541	1,151	1,238	**188,689**
Depreciation:								
• Charge for Year	-	15,291	3,003	3,986	66	-	-	**22,346**
Impairment:								
• Written Out to Revaluation Reserve	-	2,535	-	-	-	-	3	**2,538**
• Written Out to Provision of Services	34,240	3,755	-	-	560	-	-	**38,555**
De-recognition:-								
• Disposals	-	(721)	(2,202)	-	-	-	-	**(2,923)**
As at 31 March 2015	**82,630**	**112,837**	**17,081**	**32,098**	**2,167**	**1,151**	**1,241**	**249,205**
Net Book Value								
31 March 2014	54,441	510,306	10,152	93,557	1,620	12,387	6,687	**689,150**
31 March 2015	54,967	510,958	11,890	99,021	12,426	4,820	6,687	**700,769**

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) PROPERTY, PLANT & EQUIPMENT MOVEMENTS IN 2013/14	**Council Dwellings £'000**	**Other Land and Buildings £'000**	**Vehicles, Plant and Equipment £'000**	**Infra-Structure £'000**	**Community Assets £'000**	**Assets under Construction £'000**	**Surplus Assets £'000**	**Total £'000**
Cost or Valuation as at 1 April 2013	139,449	736,928	23,949	114,401	3,203	26,970	28,879	**1,073,779**
Cost or Valuation as at 1 April 2013 (restated)	54,421	572,189	23,919	109,111	2,280	26,970	10,395	**799,285**
Additions	46,518	3,845	2,779	5,848	881	17,864	-	**77,735**
Revaluations:-								
• Recognised in Revaluation Reserve	-	24,844	-	-	-	-	11	**24,855**
• Recognised in Provision of Services	-	1,620	25	-	-	-	72	**1,717**
De-recognition:-								
• Disposals	(323)	(771)	(289)	(23,539)	-	-	(2,275)	**(27,197)**
Assets reclassified to/from Held for Sale	-	(446)	-	-	-	-	(278)	**(724)**
Other Movements in Cost or Valuation	2,215	1,002	(2)	30,249	-	(31,296)	-	**2,168**
As at 31 March 2014 (restated)	**102,831**	**602,283**	**26,432**	**121,669**	**3,161**	**13,538**	**7,925**	**877,839**
<u>Accumulated Depreciation</u>								
As at 1 April 2013	85,028	221,139	13,789	27,287	1,517	-	19,512	**368,272**
As at 1 April 2013 (restated)	-	56,400	13,759	21,997	594	-	1,028	**93,778**
Depreciation:								
• Charge for Year	-	14,816	2,707	3,649	66	-	-	**21,238**
Impairment:								
• Written Out to Revaluation Reserve	-	11,373	-	-	112	-	210	**11,695**
• Written Out to Provision of Services	48,390	10,139	-	2,466	769	1,151	-	**62,915**
De-recognition:-								
• Disposals	-	(751)	(186)	-	-	-	-	**(937)**
As at 31 March 2014 (restated)	**48,390**	**91,977**	**16,280**	**28,112**	**1,541**	**1,151**	**1,238**	**188,689**
Net Book Value								
31 March 2013	54,421	515,789	10,160	87,114	1,686	26,970	9,367	**705,507**
31 March 2014	54,441	510,306	10,152	93,557	1,620	12,387	6,687	**689,150**

<u>Note</u>

(1) 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).

(2) The restatement of the "Cost or Valuation as at 1 April 2013", "Accumulated Depreciation as at 1 April 2013 and restated values as at 31 March 2014, , both relate to a historical presentation of these figures, but have no impact on the NBV and hence the balance sheet.

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	-
259	**As at 31 March 2015**	**259**
	Accumulated Depreciation and Impairment	
-	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	-
259	**Net Book Value at 31 March 2015**	**259**

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:				
2013/14			**2014/15**	
16,169	Council Dwellings		16,325	n/a years
33	Other Land & Buildings	Surface Car Parks	33	n/a years
10		Depots	10	10-25 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	14-100 years
3		Town Halls	3	14-24 years
34		Community Halls/Social Halls	34	9-34 years
1		Crematorium	1	19 years
183			**183**	
83	Community Assets		85	
683	Vehicle, Plant & Equipment		749	3-15 years
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 – Discounted Cash Flow) 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

Current 2013/14 £'000	Non-Current 2013/14 £'000		Current 2014/15 £'000	Non-Current 2014/15 £'000
684	179	**Balance at start of year**	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	-	-
1,355	**115**	**Balance outstanding at year-end**	**888**	**104**

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.

2013/14 £'000		2014/15 £'000
378,702	Opening Capital Financing Requirement	397,445
	Capital Investment	
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
	Sources of finance	
(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)
397,445	**Closing Capital Financing Requirement**	**408,572**
	Explanation of movements in year	
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)
18,743	**Increase/(decrease) in Capital Financing Requirement**	**11,127**

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

	Class 98 £'000	Falkirk Schools Gateway Ltd £'000	2014/15 £'000
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)
Net Book Value 31 March 2015	**99,421**	**108,819**	**208,240**

(b) Movement in Liabilities

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

(c) Estimated Future Unitary Payment Obligations

Basic Annual Payments – Class 98	Service Charges £'000	Interest £'000	Finance Lease Repayment £'000	2014/15 £'000
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
Total	**38,484**	**59,822**	**42,416**	**140,722**

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.

Basic Annual Payments – Falkirk Schools Gateway Ltd	Service Charges £'000	Interest £'000	Finance Lease Repayment £'000	2014/15 £'000
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
Total	**163,297**	**170,236**	**80,791**	**414,324**

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. Where liabilities are reduced through contributions or recoveries from other parties the net liability is shown.

(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.

(vii) A recent EU ruling has highlighted that the Council may have some liability in respect of additional Holiday Pay entitlement. The extent of this liability cannot be assessed at this stage.

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)
86,859	**Total**	**(45,202)**

31. LONG-TERM INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

The Council has two long term investments as follows:

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 28th 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 long term 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	-
22,026		**26,026**
2,477	Accrued Interest	2,762
24,503	**Total**	**28,788**
	Long Term Borrowing	
150,630	Public Works Loan Board	176,630
26,000	Market Bonds	26,000
176,630		**202,630**
1,628	Accrued Interest	1,599
178,258	**Total**	**204,229**

Short Term Borrowing per the 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.

Provisions	**Kinneil Kerse £'000**	**Equal Pay Claims £'000**	**Insurance Claims £'000**	**Total £'000**
Balance as at 1 April 2014	1,311	4,165	137	5,613
Additional provisions made during year	831	-	-	831
Amounts used during year	-	(138)	-	(138)
Balance as at 31 March 2015	**2,142**	**4,027**	**137**	**6,306**

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 provision has been increased to take account of aftercare costs.

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

Balance 01/04/14 £'000		Advanced 2014/15 £'000	Repaid 2014/15 £'000	Balance 31/03/15 £'000
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
9,827	**Total**	**426**	**(405)**	**9,848**

(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

Consumable Stocks are valued at lower of cost and net realisable value except in the case of Building Maintenance and Development Services Stocks where average cost is used.

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

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

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

2013/14 £'000		2014/15 £'000
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
41,422		**43,937**
(16,223)	Provision for Bad Debts	(17,537)
25,199	**Total Debtors**	**26,400**

39. CREDITORS

2013/14 £'000		2014/15 £'000
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
68,072	**Total Creditors**	**63,240**

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.

The funds do not represent assets of the Council and are not included in the Council's Balance Sheet. The financial position of all funds are as follows:-

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

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.

2013/14 £'000	Credited to Services	2014/15 £'000
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
48,650	**Total**	**49,310**

2013/14 £'000	Credited to Taxation and Non-Specific Grant Income	2014/15 £'000
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
26,475	**Total**	**21,777**

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:

2013/14 £'000	Capital Grants Received in Advance	2014/15 £'000
299	Scottish Government	299
2,377	Developers Contributions	3,007
239	Other Contributions	1,468
2,915	**Total**	**4,774**

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

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

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:-

Long Term 31/03/14 £'000	Current 31/03/14 £'000		Long-Term 31/03/15 £'000	Current 31/03/15 £'000
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:

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

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:

Carrying Amount 31/03/14	**Fair Value 31/03/14**		**Carrying Amount 31/03/15**	**Fair Value 31/03/15**
£'000	**£'000**		**£'000**	**£'000**
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
198,630	**257,982**	**Total Debt**	**228,630**	**336,751**
5,323	5,323	Trade Creditors	5,769	5,769
203,953	**263,305**	**Total Financial Liabilities**	**234,399**	**342,520**

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.

Carrying Amount 31/03/14	**Fair Value 31/03/14**		**Carrying Amount 31/03/15**	**Fair Value 31/03/15**
£'000	**£'000**		**£'000**	**£'000**
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
9,827	9,827	Loans and Receivables	9,848	9,848
38,368	**38,369**	**Total Loans and Receivables**	**45,681**	**45,685**

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:

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

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
198,656	**Total**			**228,656**

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:

	£'000
Increase in interest payable on variable rate borrowings	-
Increase in interest receivable on variable rate investments	(151)
Impact on Other Comprehensive Income and Expenditure	**(151)**
Share of overall impact debited to the HRA	(55)
Decrease 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)	**(40,654)**

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

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

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)
(49,232)	**Total Income**	**(50,756)**
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
85,925	**Total Expenditure**	**72,393**
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**
	HRA Share of Operating Income and Expenditure included in the Comprehensive Income and Expenditure Statement:	
(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)
32,984	**(Surplus)/Deficit for the Year**	**20,552**

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	-
(5,093)	**Balance on the HRA at the end of the Current Year**	**(5,093)**

HOUSING REVENUE ACCOUNT DISCLOSURES

(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
(30,023)	**Total**	**(20,552)**

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
16,169	**Total**	**16,325**
£55.41	**Average Weekly rent (52 week basis)**	£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
764	**Total**	**1,034**

COUNCIL TAX INCOME ACCOUNT

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
		Expenditure		
	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
	18,176	**Total Expenditure**		**17,489**
		Income		
	70,089	Gross Council Tax Levied		70,805
	70,089	**Total Income**		**70,805**
	51,913	**Surplus for Year**		**53,316**
		Appropriated as follows		
	51,913	**General Fund**		**53,316**

Council Tax Benefit has been changed to Council Tax Reduction from 2013/14. 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	**72,128**
Exempt Dwellings	-	806	431	145	151	96	31	21	1	**1,682**
Chargeable Dwellings	-	21,419	18,849	6,345	8,275	8,213	4,957	2,328	60	**70,446**
Disabled Reduction	-	88	104	54	62	77	36	13	-	**434**
Adjusted Chargeable Dwellings	88	21,435	18,799	6,353	8,290	8,172	4,934	2,315	60	**70,446**
Discounts (25%)	35	12,554	6,968	2,538	2,404	1,662	682	250	11	**27,104**
Discounts (due to being second homes)	-	201	142	74	63	41	15	10	3	**549**
Discount (long term empty properties)	-	236	130	55	41	45	15	11	3	**536**
Discount (occupied by disregarded adults)	-	9	6	-	3	2	2	-	-	**22**
Not entitled to discount	53	8,435	11,553	3,686	5,779	6,422	4,220	2,044	43	**42,235**
Effective Dwellings	79	18,074	16,918	5,654	7,636	7,713	4,748	2,242	54	**63,118**
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	**58,043**
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
Budgeted Council Tax Base										**48,816**

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

NON-DOMESTIC RATES ACCOUNT

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**
	Income	
82,224	Rate Levied (Net of Small Property Relief)	83,564
82,224	**Total Income**	83,564
	Expenditure	
-	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	(80)
-	Other Adjustments	-
-	Interest on Overpaid Rates	-
12,416	**Total Expenditure**	14,349
69,808	Net Non-Domestic Rate Income	69,215
(5,999)	Adjustments to previous years National Non Domestic Rates	(991)
63,809	**Total Non-Domestic Rate Income (before Authority Retention)**	68,224
(751)	Non-Domestic Rate Income Retained by Authority (TiF)	(938)
-	Non-Domestic Rate Income Retained by Authority (BRIS)	-
63,058	**Contribution to Non-Domestic Rate Pool**	67,286
68,291	Distribution from Non-Domestic Rate Pool	74,307
68,291	**Income Credited to the Comprehensive Income and Expenditure Statement**	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
BRIS target	**68,200**
Contributable amount	**67,286**
Excess over target	**-**
50% retained	**-**

NON-DOMESTIC RATES ACCOUNT DISCLOSURES

(a) Analysis of Rateable Values as at 1 April, 2014

	No. of Premises	Rateable Value £'000	%
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
Total	**4,746**	**173,339**	**100.0**

(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.

COMMON GOOD FUNDS

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 2014.

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
	Income and Expenditure Account					
	Income					
(21)	Rents Received	(1)	-	-	(21)	(22)
(5)	Interest	-	-	-	(4)	(4)
(26)	**Total Income**	**(1)**	**-**	**-**	**(25)**	**(26)**
	Expenditure					
9	Depreciation	-	-	-	15	15
13	Other	-	-	-	10	10
22	**Total Expenditure**	**-**	**-**	**-**	**25**	**25**
(4)	**(Surplus)/Deficit for Year**	**(1)**	**-**	**-**	**-**	**(1)**
	Balance Sheet					
188	Fixed Assets	-	-	-	189	189
902	Investments	55	6	25	827	913
(6)	Creditors	-	-	-	-	-
1,084	**Net Assets**	**55**	**6**	**25**	**1,016**	**1,102**
	Financed by:-					
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
21 September 2015

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

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
Balance at 31 March 2014	**49,218**	**(2,592)**	**46,626**	**37,641**	**1,360**	**39,001**	**85,627**
Surplus or (deficit) on provision of services (accounting basis)	(33,684)	90	**(33,594)**	-	-	-	**(33,594)**
Other Comprehensive Income and Expenditure	(7)	-	**(7)**	(99,201)	(1,114)	**(100,315)**	**(100,322)**
Total Comprehensive Income and Expenditure	**(33,691)**	**90**	**(33,601)**	**(99,201)**	**(1,114)**	**(100,315)**	**(133,916)**
Adjustments between Group accounts and Authority accounts	-	-	-	-	-	-	-
Net Increase/Decrease before Transfers	**(33,691)**	**90**	**(33,601)**	**(99,201)**	**(1,114)**	**(100,315)**	**(133,916)**
Adjustments between accounting basis and funding basis under regulations	49,997	187	**50,184**	(49,997)	(187)	**(50,184)**	-
Net Increase/Decrease before Transfers to Other Statutory Reserves	**16,306**	**277**	**16,583**	**(149,198)**	**(1,301)**	**(150,499)**	**(133,916)**
Transfers to/from Other Statutory Reserves	(22,281)	-	**(22,281)**	22,281	-	**22,281**	-
Increase/Decrease in Year	**(5,975)**	**277**	**(5,698)**	**(126,917)**	**(1,301)**	**(128,218)**	**(133,916)**
Balance at 31 March 2015	**43,243**	**(2,315)**	**40,928**	**(89,276)**	**59**	**(89,217)**	**(48,289)**

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

Balance at 31 March 2013	**54,986**	**(2,734)**	**52,252**	**99,860**	**(348,463)**	**(248,603)**	**(196,351)**
Surplus or (deficit) on provision of services	(63,617)	(26)	**(63,643)**	-	350,151	**350,151**	**286,508**
Other Comprehensive Income and Expenditure	-	-	**-**	(4,370)	(160)	**(4,530)**	**(4,530)**
Total Comprehensive Income and Expenditure	**(63,617)**	**(26)**	**(63,643)**	**(4,370)**	**349,991**	**345,621**	**281,978**
Adjustments between accounting basis and funding basis under regulations	85,259	168	**85,427**	(85,259)	(168)	**(85,427)**	-
Net Increase/Decrease before Transfers to Other Statutory Reserves	**21,642**	**142**	**21,784**	**(89,629)**	**349,823**	**260,194**	**281,978**
Transfers to/from Other Statutory Reserves	(27,410)	-	**(27,410)**	27,410	-	**27,410**	-
Increase/Decrease in Year	**(5,768)**	**142**	**(5,626)**	**(62,219)**	**349,823**	**287,604**	**281,978**
Balance at 31 March 2014	**49,218**	**(2,592)**	**46,626**	**37,641**	**1,360**	**39,001**	**85,627**

GROUP COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

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	21,965	(4,381)	17,584
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
523,766	**(158,942)**	**364,824**	**Cost of Services**	**523,811**	**(166,408)**	**357,403**
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)
636,268	**(572,652)**	**63,616**	**(Surplus) or Deficit on Provision of Services**	**616,895**	**(583,597)**	**33,298**
		27	Share of the Surplus or Deficit on Provision of Services by Associates			296
		63,643	**Group Surplus or Deficit**			**33,594**
		(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
		(345,621)	**Other Comprehensive Income and Expenditure**			**100,322**
		(281,978)	**Total Comprehensive Income and Expenditure**			**133,916**

GROUP BALANCE SHEET

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
	Non-Current Assets	
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
8,818	Long Term Debtors	8,839
708,945		**721,903**
	Current Assets	
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
38,392		**44,556**
	Current Liabilities	
-	Bank Overdraft	-
(25,405)	Short Term Borrowing	(29,370)
(68,819)	Short Term Creditors	(64,269)
(5,613)	Provisions	(6,306)
(99,837)		**(99,945)**
	Long Term Liabilities	
-	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)
(561,873)		**(714,803)**
85,627	**Net Assets**	**(48,289)**
	Usable Reserves	
49,218	Falkirk Council Usable Reserves	43,243
(2,592)	Usable Reserves of Other Group Entities	(2,315)
46,626		**40,928**
	Unusable Reserves	
37,641	Falkirk Council Unusable Reserves	(89,276)
1,360	Unusable Reserves of Other Group Entities	59
39,001		**(89,217)**
85,627	**Total Reserves**	**(48,289)**

Bryan Smail, CPFA MBA
Chief Finance Officer

The unaudited accounts were issued on 22 June 2015 and the audited accounts were authorised for issue on 21 September 2015.

GROUP CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 MARCH 2015

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.

2013/14 £'000		2014/15 £'000
63,643	Net (surplus) or deficit on the provision of services	33,594
(115,268)	Adjust net surplus or deficit on the provision of services for non-cash movements	(69,677)
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
(25,150)	**Net cash flows from operating activities**	**(14,306)**
	Investing Activities	
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	**Net cash flows from investing activities**	**34,026**
	Financing Activities	
(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)	**Net cash flows from financing activities**	**(25,874)**
(281)	**Net (increase) or decrease in cash and cash equivalents**	**(6,154)**
(11,624)	Cash and cash equivalents at the beginning of the reporting period	(11,905)
	Cash and cash equivalents at the end of the reporting period	
(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 it's Associates by the equity method of accounting.

With regard to Central Scotland Valuation 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 (£0.222m 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 notes 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 and prior year figures have not been restated on the basis of the adjustments being immaterial.

4. GROUP INCOME AND EXPENDITURE OF ASSOCIATES

Share of the Surplus or Deficit on Provision of Services by Associates

2013/14 £'000		**2014/15 £'000**
27	Central Scotland Valuation Joint Board	(8)
-	thinkWhere Ltd.	304
27	**Total**	**296**

Share of Other Comprehensive Income & Expenditure of Associates

2013/14 £'000		**2014/15 £'000**
76,860	Central Scotland Joint Fire & Rescue Board	-
273,291	Central Scotland Joint Police Board	-
(151)	Central Scotland Valuation Joint Board	(1,141)
(9)	Common Good Funds	2
-	thinkWhere Ltd.	25
349,991	**Total**	**(1,114)**

5. GROUP ENTITIES RESERVES

2013/14 Total		Falkirk Community Stadium Ltd	Falkirk Community Trust Ltd	Central Scotland Valuation Joint Board	thinkWhere Ltd	Common Good Funds	2014/15 Total
£'000		**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
	Usable Reserves						
(2,592)	Revenue Account Surplus	(4,865)	1,438	503	(304)	913	**(2,315)**
(2,592)	**Total**	**(4,865)**	**1,438**	**503**	**(304)**	**913**	**(2,315)**
	Unusable Reserves						
(11)	Accumulated Absences Account	-	-	(10)	-	-	**(10)**
(2,497)	Pensions Reserve	-	-	(3,767)	-		**(3,767)**
3,423	Share Capital	3,423	-	-	-	-	**3,423**
229	Revaluation Reserve	-	163	-	-	-	**163**
216	Capital Adjustment Account	-	-	36	25	189	**250**
1,360	**Total**	**3,423**	**163**	**(3,741)**	**25**	**189**	**59**

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.

AGENDA ITEM 7 (a)

FALKIRK COUNCIL

Subject: **ANNUAL REPORT ON 2014/15 AUDIT**
Meeting: **AUDIT COMMITTEE**
Date: **21 September 2015**
Author: **DIRECTOR OF CORPORATE & HOUSING SERVICES**

1. INTRODUCTION

1.1 Members will be aware that the appointed auditors, Audit Scotland, are required to produce a number of reports as part of their annual audit. The International Standard on Auditing 260 (ISA 260) "Communication of audit matters to those charged with governance" requires auditors to communicate matters relating to the audit of the financial statements to those charged with governance of a body, in sufficient time to enable action. In addition, an annual report on matters of significance that have arisen out of the audit process is required. In 2014/15 Audit Scotland have for the first time combined these two reports into one Annual Report on the 2014/15 Audit. This is attached as Appendix 1. Appendix 1 also includes an action plan with management responses.

1.2 The purpose of this report is to provide an overview of the report and highlight any significant items for Members.

2. 2014/15 AUDIT OF THE FINANCIAL STATEMENTS

2.1 The unaudited accounts were considered by the Audit Committee on 22 June 2014 and passed to Audit Scotland following that meeting. Members will recall from the presentation by Audit Scotland on the revised Accounting Regulations 2014 that the audited accounts must be approved by an appropriate committee of the Council before being signed by the Leader of the Council and the Chief Executive. Once signed, they can formally be issued. Per the Regulations this must happen no later than 30 September 2015. The proposed date for issue this year is 21 September 2015.

The Auditor's certificate is free from qualification. Copies of the accounts will be sent to interested parties following approval, their availability advertised in the local press and they will be posted on the Council's website.

2.2 The accounts have been adjusted for minor presentational and typographical changes. Pages 11 to 14 of the report set out the main findings from the audit of the financial statements. Two items have not been amended, one of which is a technical accrual for the Carbon Reduction Scheme and the other relates to the council tax provision. These item do not have an impact on the out-turn for 2014/15 and are immaterial to the accounts as a whole. I proposed that no adjustment is made to the accounts, a view supported by the External Auditor.

2.3 The External Auditor states that no material weaknesses were identified in the accounting and internal control systems.

2.4 The Auditor's certificate for the Temperance Trust accounts is also free from qualification.

3. FINANCIAL MANAGEMENT AND SUSTAINABILITY

3.1 The Report highlights the Council's financial position, including the 2014/15 overspend, the reduction in uncommitted reserves and the need to make significant savings going forward. The Report highlights the challenges that the Council faces and makes the following key points:

- Voluntary severance costs were not built into the budget and we should consider this moving forward (recommendation 1 of the action plan);
- Resources within Finance have been reducing over the years;
- Reserves have been used to fund overspends in the last two years and this is unsustainable (recommendation 2 of the action plan). The Report recognises that the approved budgets for 2015/16 and 2016/17 do not include the use of uncommitted reserves;
- Significant savings are required over the next three years and there remains a risk that these savings may not be delivered (recommendation 3 of the action plan);
- Going forward the Audit Committee should receive regular updates on risk.

4. GOVERNANCE AND TRANSPARENCY

4.1 This section of the Report draws on the many findings of the Best Value audit report which will be presented to Council separately. The Report highlights that the revised governance arrangements appear to be working with all Members engaged in Scrutiny Committees and Executive meetings.

4.2 The Report confirms that systems of internal control are operating effectively and that reliance has been placed on the work undertaken by Internal Audit. The Report also concludes that adequate arrangements are in place for the prevention and detection of fraud.

4.3 The Report raises an issue regarding the National Fraud Initiative and in particularly the Blue Badge Scheme. However, the Council do not regard this as a priority area for data matching work at this time (recommendation 4 of the action plan).

4.4 The Report recognises the progress that has been made in respect of Health & Social Care Integration but notes the time pressure that the Council and its partner in Health are under, particularly when taking the complexity of the project into account (recommendation 5 of the action plan).

4.5 The Report notes that the Council has a good awareness of Welfare Reform and its impact on the community. The Report also concludes that Members have been well briefed on this subject.

5. BEST VALUE

5.1 The Best Value report for Falkirk Council was published in August 2015 and will be taken to Council separately. The audit identified a number of areas for improvement, some of which have been referred to already in this report. A number of the recommendations relate to the scale and pace of change at the Council and its approach to scrutiny, performance management and performance reporting. Once Council has considered the report, an action plan will be prepared to take the recommendations forward (recommendation 6 of action plan).

6. ACTION PLAN

6.1 As previously highlighted, included in the Audit Scotland report are six agreed recommendations. Progress on implementing the agreed actions will be reported to the Audit Committee in due course.

7. CONCLUSION

7.1 The audit of the Council's accounts for 2014/15 will be formally concluded following the approval of the accounts. The action plan arising from the audit process has been agreed and will be monitored to ensure completion within the agreed timescales.

8. RECOMMENDATION

8.1 Members are invited to note the Annual Report on the 2014/15 Audit

Director of Corporate & Housing Services

Date: 10 September 2015

Contact Officer: Bryan Smail/Amanda Templeman

<u>LIST OF BACKGROUND PAPERS</u>

Nil

AUDIT SCOTLAND

Falkirk Council

Proposed Annual Audit Report to Members and the Controller of Audit

September 2015

The Accounts Commission is a statutory body which appoints external auditors to Scottish local government bodies. (www.audit-scotland.gov.uk/about/ac)

Audit Scotland is a statutory body which provides audit services to the Accounts Commission and the Auditor General. (www.audit-scotland.gov.uk)

The Accounts Commission has appointed Fiona Mitchell Knight as the external auditor of Falkirk Council for the period 2011/12 to 2015/16.

This report has been prepared for the use of Falkirk Council and no responsibility to any member or officer in their individual capacity or any third party is accepted.

This report will be published on our website after it has been considered by the council. The information in this report may be used for the Accounts Commission's annual overview report on local authority audits published on its website and presented to the Local Government and Regeneration Committee of the Scottish Parliament.

Key contacts

Fiona Mitchell-Knight, Assistant Director

fmitchell-knight@audit-scotland.gov.uk

Jim Rundell, Senior Audit Manager

jrundell@audit-scotland.gov.uk

David Meechan, Senior Auditor

dmeechan@audit-scotland.gov.uk

Lisa Duthie, Senior Auditor (from June 2015)

lduthie@audit-scotland.gov.uk

Audit Scotland
4th floor (South Suite)
8 Nelson Mandela Place
Glasgow
G2 1BT

Telephone: 0131 625 1500

Website: www.audit-scotland.gov.uk

Contents

Key messages

Audit of financial statements	• Unqualified auditor's report on the 2014/15 financial statements. • Unqualified auditor's report on the Falkirk Temperance Trust administered by the council.
Financial management and sustainability	• The council has reported significant overspends in the last two financial years, particularly on social work services. Management of annual budgets needs to improve. • The council reported an overall deficit of £3.9 million in its running costs for 2014/15 and utilised General Fund reserves to meet this shortfall. The council recognises that the use of reserves on this scale to support revenue costs is neither appropriate nor sustainable. It is also inconsistent with the council's reserves strategy. • The council has to make savings of £46 million over the next three years, of which some £15.2 million relating to 2017/18 have yet to be agreed. The Accounts Commission has significant concerns that the council's approach to this challenge is inadequate and that there is a need for more ambitious and financially sustainable plans going forward.
Governance and transparency	• After an unacceptable and protracted period of ineffective scrutiny in the council, members are participating in revised governance arrangements. The council needs to demonstrate that scrutiny is now effective. • Adequate systems of internal control were in place during 2014/15. • The council has an effective internal audit function and sound anti-fraud arrangements. • Much still needs to be done for health and social care integration from 1 April 2016. The Order establishing the Falkirk Integration Joint Board has been laid before parliament and will come into force on 3 October 2015.

Best Value	• In August, the Accounts Commission reported its findings on a Best Value audit on the council. Due to its concern on a number of issues the Commission requires a progress update by the end of 2016. • Falkirk generally delivers a good standard of council services, particularly in education. However, the Accounts Commission has significant concerns that the council is not well equipped to maintain or improve services in the future. • The council's Business Transformation Project needs to be more strategic and to make more of an impact. Stronger leadership is needed for this to happen. • Falkirk Council has a range of tools for managing its performance but needs to use them in a more systematic way to make improvements happen.
Outlook	• Councils face rising demands for services and continued funding pressures alongside managing major reforms in welfare and health and social care. Effective arrangements for Best Value will be essential for efficient use of available resources, and strong governance and leadership will be needed to achieve continuous improvement. The Accounts Commission says that 'the council has a great deal to do to provide assurances that it can deal with the financial challenges ahead.'

Introduction

1. This report is a summary of our findings arising from the 2014/15 audit of Falkirk Council. It reflects on the Best Value audit report published in August 2015 and considered by the Accounts Commission. The report is divided into sections which reflect our public sector audit model.

2. The management of Falkirk Council is responsible for:
   - preparing financial statements which give a true and fair view
   - implementing appropriate internal control systems
   - putting in place proper arrangements for the conduct of its affairs
   - ensuring that the financial position is soundly based.

3. Our responsibility, as the external auditor of Falkirk Council, is to undertake our audit in accordance with International Standards on Auditing, the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011 and the ethical standards issued by the Auditing Practices Board.

4. An audit of financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor's responsibility to form and express an opinion on the financial statements; this does not relieve management of their responsibility for the preparation of financial statements which give a true and fair view.

5. A number of reports, both local and national, have been issued by Audit Scotland during the course of the year. These reports, summarised at **appendices II and III**, include recommendations for improvements.

6. **Appendix IV** is an action plan setting out our recommendations to address the high level risks we have identified during the course of the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "Management action/response". We recognise that not all risks can be eliminated or even minimised. What is important is that Falkirk Council understands its risks and has arrangements in place to manage these risks. The council and corporate management team should ensure that they are satisfied with proposed action and have a mechanism in place to assess progress and monitor outcomes.

7. We have included in this report only those matters that have come to our attention as a result of our normal audit procedures; consequently, our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

8. The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.

Audit of the 2014/15 financial statements

Audit opinion	• We have completed our audit and issued an unqualified independent auditor's report. • The valuation of council houses complies with current guidance but it understates their value and is to be brought in line with other councils in 2015/16.
Going concern	• The financial statements of the council, its group and the associated charitable trust have been prepared on the going concern basis. We are unaware of any events or conditions that may cast significant doubt on the council, its group and associated charitable trust's ability to continue as a going concern.
Other information	• We review and report on other information published with the financial statements, including the management commentary, annual governance statement and the remuneration report. We have nothing to report in respect of these statements.
Charitable trust	• We have completed our audit of the 2014/15 financial statements of the Falkirk Temperance Trust administered by Falkirk Council and issued an unqualified independent auditor's report.
Group accounts	• Falkirk Council has accounted for the financial results of two subsidiaries, two associates and the common good funds in its group accounts for 2014/15. The overall effect of consolidating these balances on the group balance sheet is to reduce total reserves and net assets by £2.256 million.
Whole of government accounts	• The council submitted a consolidation pack for audit by the deadline. This is currently being audited and the certified return will be submitted to the Scottish Government.

Submission of financial statements for audit

9. We received the unaudited financial statements on 22 June 2015, in accordance with the agreed timetable. The working papers were of a good standard and council staff provided good support to the audit team which assisted the delivery of the audit on time.

10. The council has taken steps to declutter the financial statements in 2014/15 and we acknowledge that there have been a number of improvements. However, officers should consider modernising the format of the financial statements to improve the experience for the reader.

Overview of the scope of the audit of the financial statements

11. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in our Annual Audit Plan presented to the Audit Committee on 20 April 2015.

12. As part of the requirement to provide full and fair disclosure of matters relating to our independence, we can confirm that we have not undertaken non-audit related services. The 2014/15 agreed fee for the audit was set out in the Annual Audit Plan and, as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.

13. The concept of audit risk is of central importance to our audit approach. During the planning stage of our audit we identified a number of key audit risks which involved the highest level of judgement and impact on the financial statements and consequently had the greatest effect on the audit strategy, resources and effort. We set out in our Annual Audit Plan the audit work we proposed to undertake to secure appropriate levels of assurance. **Appendix I** sets out the significant audit risks identified during the course of the audit and how we addressed each risk in arriving at our opinion on the financial statements.

14. Our audit involved obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.

Materiality

15. Materiality can be defined as the maximum amount by which auditors believe the financial statements could be misstated and still not be expected to affect the decisions of users of financial statements. A misstatement or omission, which would not normally be regarded as material by amount, may be important for other reasons (for example, an item contrary to law).

16. We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting our audit programme. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.

17. We summarised our approach to materiality in our Annual Audit Plan. Based on our knowledge and understanding of the council we set our planning materiality for 2014/15 at £6.6 million (1% of gross expenditure). Performance materiality was calculated at £3 million, to reduce to an acceptable level the probability of uncorrected and undetected audit differences exceeding planning materiality level.

18. On receipt of the financial statements and following completion of audit testing we reviewed our materiality levels and concluded that materiality for 2014/15 should be amended to £6.123 million (1% of gross expenditure). All misstatements over £61,000 are to be reported. Performance materiality remained consistent with the planning level at £3 million.

Evaluation of misstatements

19. All misstatements identified during the audit, which exceeded our threshold of £61,000, have either been amended in the financial statements or recorded as an unadjusted error.

20. A number of presentational and monetary adjustments were identified within the financial statements during the course of our audit. These were discussed with relevant officers who agreed to amend the unaudited financial statements in most instances. The effect of the monetary adjustment is to reduce net assets on the balance sheet by £0.831 million. This adjustment relates to an increase in the provision for the aftercare costs of an inactive landfill site (Kinneil Kerse). As this adjustment is capital in nature there is no impact on the council's funding position.

21. Unadjusted errors, if corrected, in the financial statements would have the cumulative effect of reducing the council's net assets by £0.315 million. The net impact on the council's funding position would also be a reduction of £0.315 million. The largest error identified is in the accounting for carbon reduction commitments, as described in the table below. The council has decided not to make these adjustments. This is not material in respect of our audit.

Management Commentary

22. *The Local Authority Accounts (Scotland) Regulations 2014* introduced the requirement for local authority annual accounts to include a management commentary. Local Government Finance Circular 3/2015 Management Commentary (the circular) from the Scottish Government provides guidance on its preparation. We reviewed the management commentary presented for audit and concluded that overall the council has complied with the guidance. However, we did identify some issues that we would like to bring to your attention:

- The guidance requires the management commentary to provide a balanced picture. Section 4 (Performance) of the management commentary focusses on significant achievements of the council without specific reference to areas for improvement. It is our view that more balance is needed in this section.
- Section 5 – Future Plans refers to the council's business transformation agenda and the expectation that the projects identified will make a significant contribution towards dealing

with the financial pressures. As outlined at section 65 to 67 of this report, the recent Audit Scotland Best Value audit of the council concluded that much of the current activity in the transformation project is small in scale and the pace of change has been slow.

The Local Authority Accounts (Scotland) Regulations 2014

23. Section 10 (1) (b) of the above regulations states that a local authority or a committee of that authority whose remit includes audit or governance functions must aim to approve the annual accounts for signature no later than 30 September immediately following the financial year to which the accounts date.

24. The Audit Committee will approve the accounts for signing at its meeting on 21 September 2015. Thereafter, the accounts will be submitted to the full council for the attention of all members.

Significant findings from the audit

25. International Standard on Auditing 260 requires us to communicate to you significant findings from the audit, including:

- The auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures.
- Significant difficulties encountered during the audit.
- Significant matters arising from the audit that were discussed, or subject to correspondence with management.
- Written representations requested by the auditor.
- Other matters, which in the auditor's professional judgement are significant to the oversight of the financial reporting process.

26. During the course of the audit we identified the following significant issues that, in our view, require to be communicated to you.

Significant findings from the audit

Issue	Resolution
Equal pay claims: The Equal Pay Act 1970 makes it unlawful for employers to discriminate between men and women in terms of their pay and conditions where they are doing the same or similar work, work rated as equivalent, or work of equal value. Employees who consider that they have been discriminated against in terms of pay and are dissatisfied with the council's proposed resolution or compensation can elect to have a case heard before an employment tribunal. Falkirk Council has received a significant number of claims for compensation. Whilst there have been recent developments in case law, as in previous years, the ultimate cost to the council remains uncertain and it is likely that the issue will take some time to resolve. The Council recognises a provision in respect of equal pay in the 2014/15 financial statements and discloses a contingent liability. A report to council on 24 August 2015 provided a revised estimate of the equal pay liability. This information was not available at the time of preparing the accounts and we are satisfied that the provision is not materially misstated in terms of our audit of the financial statements.	Management continue to monitor the equal pay provision to take account of developments.
Council dwellings valuation: The council has used a discounted cash flow approach to the valuation of its council dwellings since 1 April 2010, which understates their value. The LASAAC Mandatory Guidance on the Valuation Methodology for Council Dwellings (the LASAAC Guidance), October 2010, states that '*Scottish local government organisations that are not already using a beacon approach methodology to value their council dwellings shall adopt the beacon approach methodology at their next full formal valuation of their council dwellings*'. LASAAC recognised that enforcing immediate adoption would disrupt revaluation cycles and incur additional costs and in recognition of this concluded that '*those Scottish local authorities affected should be required to move to the beacon approach methodology at their next full revaluation point, and in any event no later than 2015/16'*. Officers are in the process of establishing a valuation using the beacon approach methodology for inclusion in the 2015/16 financial statements.	The council's approach to council house valuation will be brought into line with the LASAAC Guidance in 2015/16.

Issue	Resolution
Non-depreciation of council house dwellings: As in previous years, the council has not charged depreciation on its council house dwellings. The discounted cash flow method of valuation adopted by the District Valuer results in a very low valuation of council dwellings, approximately £3,000 per dwelling. The Code of Practice on Local Authority Accounting in the UK 2015/16 section 4.1.2.39 states that '*the only other ground for not charging depreciation is when the residual value of an asset is equal to or greater than the asset's carrying amount'*. It is on this basis that the council does not charge depreciation on its council dwellings. All depreciation charges are reversed out through statutory adjustments between the accounting and funding basis and therefore would not impact upon the housing revenue account fund balance.	The council will charge depreciation on its council house dwellings from 2015/16 when the new approach to valuation is applied.
International Accounting Standard (IAS) 19 pension liability: The pension liability represents the difference between the expected future payments to be made to former employees of the council and their spouse in the form of pension payments and the underlying value of pension fund assets to meet this cost. The calculation of the liability is assessed by professional actuaries each year and is an estimated figure. There has been a further increase in the net pension liability from £253.264 million at 31 March 2014 to £381.288 million at 31 March 2015. This is largely due to falling bond yields being only partially offset by better than expected investment performance. The falling bond yields leads to a lower discount rate (i.e. the net price of inflation) which leads to a higher value being placed on liabilities. Also, the 2014/15 IAS19 figures are based on a roll forward from the March 2014 fund valuation (the 2013/14 figures were based on the March 2011 fund valuation). Changes in the assumptions used (e.g. life expectancy) have also contributed to the increase in the liability. Although the liability will continue to vary, this information is necessary for the council to ensure the pension fund remains affordable and adequately funded.	The 2014 triennial valuation of the Falkirk Council Pension Fund carried out by Hymans Robertson LLP provides assurance that the pension fund remains adequately funded. The council's financial statements have been prepared on the basis of these assumptions.

Issue	Resolution
Accounting for Carbon Reduction Commitment (CRC): The Code requires that where authorities purchase CRC allowances in a forecast sale (i.e. prospectively in April) for the purpose of settling current or future years' CRC responsibilities, the allowances should be classified as intangible assets. Current year CRC responsibilities should be charged as an expense at 31 March and a liability created for the surrender of the allowances to the CRC Registry. When the allowances are surrendered to the CRC Registry in October after the reporting period (e.g. October 2015), the intangible asset and the liability will be reduced by the allowances surrendered. The council has accounted for the associated expenses correctly but has not created an intangible asset and corresponding liability. The impact of the error on the balance sheet is that intangible assets and current liabilities are understated by £0.592 million. The overall impact on the balance sheet position is nil.	The council has decided not to adjust the accounts for this error on the basis that the amount is not material. CRC allowances will be accounted for correctly in 2015/16.
Note 23 (property, plant & equipment) disclosures: The cost/valuation and the accumulated depreciation/impairment figures for property, plant & equipment as at 1 April 2013 and 1 April 2014 have been amended to change the presentation of accumulated impairment in Note 23 to the accounts. The amendment has been made to ensure that going forward the gross values agree to the asset register. There is no impact on the net book value of the assets and therefore, no impact on the figures disclosed in the core financial statements.	Note 23 to the accounts has been revised to agree with the asset register.
Housing Revenue Account (HRA) income: The unaudited financial statements included a transfer of £0.461 million from the general fund to the HRA. The council no longer receives ring-fenced funding for hostels from the Scottish Government and so equivalent funds have been transferred to the HRA to match the expenditure in the year relating to hostels. In accordance with Schedule 15 of the Housing (Scotland) Act 1987 a transfer of funds from the general fund to the housing revenue account in this way requires approval from Scottish Ministers. Officers have requested retrospective approval for the transfer of these funds.	Retrospective approval for the transfer of funds is expected to be received soon.

Issue	Resolution
Council tax bad debt provision: An error in the council tax spreadsheet used to calculate the bad debt provision has resulted in the bad debt provision being understated by £0.315 million. Despite this error, we are still of the view that the bad debt provision in the accounts is sufficient. The error identified is not material to our audit.	Officers have acknowledged the error but are of the opinion that the bad debt provision remains adequate and do not intend to amend the accounts.

Future accounting and auditing developments

Revisions to the Code of Practice

27. The financial statements of the council are prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) which interprets and adapts International Financial Reporting Standards (IFRS) to the local authority context. The following paragraphs set out the most significant changes to accounting requirements introduced by the Code in the coming years.

28. **(IFRS) 13 Fair value measurement:** Although the measurement requirements for operational property, plant and equipment will not change, enhanced valuation disclosures will be required. In addition, the 2015/16 Code requires surplus assets to be measured at fair value in accordance with IFRS. The council will need to make the necessary preparations to ensure that new requirements are addressed for the 2015/16 financial statements.

29. **Transport infrastructure assets:** The council's highway assets are currently carried within infrastructure assets in the balance sheet at depreciated historic cost. The 2016/17 Code will require highways to be measured, for the first time, on a depreciated replacement cost basis. This is a major change in the valuation basis for highways and will require the availability of complete and accurate management information on highway assets.

30. We are liaising with management on a regular basis to ensure that they are well prepared to meet the new Code requirements going forward.

Health and Social Care Integration

31. From 1 April 2016 Integrated Joint Boards (IJBs) will be accountable for the provision of health and social care. IJBs will be required to produce financial statements in compliance with the Code of Practice on Local Authority Accounting in the UK. The council auditors are to audit the IJB financial statements.

Financial management and sustainability

Net expenditure budget £332.996m

- **Actual net expenditure £337.181m**
- **Overspend against budget £4.185m**

Planned capital expenditure £68.136m

- **Actual capital spend £61.451m**
- **Capital budget underspend £6.685m**

Usable reserves

- **Total usable reserves £43.243m**
- **Reduction in usable reserves £5.975m**

Uncommitted general fund reserves

- **Uncommitted general fund reserves £8.369m**
- **Reduction in uncommitted general fund reserves £3.940m**

Financial management

32. In this section we comment on the council's financial outcomes and assess the council's financial management arrangements.

33. The council sets an annual budget to meet its service and other commitments for the forthcoming financial year. The setting of the annual budget impacts directly on residents as it determines council tax and other fees and charges. Regular monitoring of expenditure and income against agreed budgets is central to effective financial management.

Financial outcomes

34. In 2014/15, the council reported a total overspend of £2.870 million against its general fund revenue budget for the year. This is made up of an overspend against net expenditure of £4.185 million offset by higher than anticipated revenue support grant and council tax income of £1.315 million. After adjusting for a transfer of £0.430 million from the spend to save reserve the overspend is reduced to £2.440 milion. The council is facing significant demand pressures from services at the same time as reduced funding.

35. The most significant overspend occurred in social work services where the net expenditure position was £3.343 million (3.7%) over budget at the year end. This has been largely attributed to the uncertain demand for care services including children's residential schools, children's residential care, foster care, adult 24 hour care and adult care purchasing.

36. A notable overspend of £0.443 million (or 0.3%) was also reported in education services, although the financial position did improve significantly in the final quarter of 2014/15 from the forecast overspend of £0.883 million (or 0.5%). The main reason for the overspend was the increase in provision of residential school places, which has also been reflected in social work services.

37. The council also incurred costs of £1.124 million relating to voluntary severance packages in the year that were not included in the budget. Officers have advised that the costs at the time of setting the budget were unknown and that reserves were available to fund the packages. We would expect an estimate of all anticipated costs for the year to form part of the approved budget in line with good financial management practices.

Recommendation 1

38. The overspend has been financed from the general fund reserve resulting in a net transfer of £3.940 million from the general fund in the year. This is significantly higher than the £1.500 million set out in the original budget. The general fund balance remains within the parameters set out by the council's reserves strategy. However, the strategy states that reserves should not be used to fund recurring annual expenditure.

39. The council is required by legislation to maintain a separate housing revenue account (HRA) and to ensure that rents are set to at least cover the costs of its social housing provision. Rent levels are therefore a direct consequence of the budget set for the year. HRA

expenditure has been in line with budget and the balance on the HRA reserve of £5.093 million will be maintained.

Financial management arrangements

40. As auditors, we need to consider whether councils have established adequate financial management arrangements. We do this by considering a number of factors, including whether:

- the proper officer has sufficient status within the council to be able to deliver good financial management
- financial regulations are comprehensive, current and promoted within the council
- reports monitoring performance against budgets are accurate and provided regularly to budget holders
- monitoring reports do not just contain financial data but are linked to information about performance
- members provide a good level of challenge and question budget holders on significant variances.

41. We assessed the role and status of the proper officer against CIPFA's "Statement on the role of the Chief Financial Officer in Local Government" and concluded that the council complies with the statement's five principles. The council has revised its management structure and we noted that the Chief Finance Officer no longer reports directly to the Chief Executive, but to the Director of Corporate & Housing Services.

42. The Chief Finance Officer will, however, continue as a member of the corporate management team. It is important that the Chief Finance Officer continues to retain a high profile within the organisation in his capacity as section 95 officer. This is particularly important given the position of financial constraint that the council faces.

43. There has been a lack of succession planning for other key finance positions, including Depute Chief Finance Officer. Also, there has been a steady reduction in numbers of experienced finance staff through normal and early retirement. As a result, corporate and service finance staff capacity to support council activities has reduced over the three years to 2014/15.

44. It is acknowledged that finance services require to share the burden of generating savings along with other council services. However, these changes are taking place at a time when council service managers are even more reliant on accurate and timely financial information in order to achieve necessary savings targets.

45. We reviewed the council's financial regulations, which were revised in June 2013 and can be found on the council's website. These will be subject to a comprehensive review in 2015/16 to ensure they are up to date and reflect recent restructuring within the council.

46. Financial monitoring reports (both revenue and capital) are submitted to the Executive and Full Council on a quarterly basis. Reports provide a picture of the overall budget position at service level and include high level explanations for large variances. There is evidence that these routine reports are supplemented with further

information if necessary. A special financial monitoring report[1] was presented to members in September 2014 to highlight the significant overspend within social work services. This provided further detail on the financial position of the service and the action being taken to tackle the problem. Revised governance arrangements were implemented in May 2015 following a 2 year period of ineffective scrutiny. All members are now attending the Executive and Scrutiny Committees. Members need to ensure that budget monitoring reports receive sufficient scrutiny and challenge as part of these new arrangements. We will continue to monitor revised arrangements through attendance at committee meetings and the Best Value follow-up audit.

Conclusion on financial management

47. Whilst adequate financial management arrangements are in place, the council has incurred significant overspends in the last two financial years and this has led to a notable drop in the level of reserves held by the council.

48. The council needs to maintain budget discipline going forward and ensure that budgets reflect service priorities. This will be particularly challenging for social work services due to the demand led nature of its activities.

[1] *Financial Position – Social Work Services,* Report to Falkirk Council Executive, 30 September 2014

Financial sustainability

49. The council delivers a broad range of services, both statutory and discretionary, to its communities. Financial sustainability means that the council has the capacity to meet the current and future needs of its communities.

50. In assessing financial sustainability we are concerned with whether:
    - there is an adequate level of reserves
    - spending is being balanced with income in the short term
    - long term financial pressures are understood and planned for
    - investment in services and assets is effective.

51. Effective long-term financial planning, asset management and workforce planning are crucial to sustainability.

Reserves

52. The overall level of usable reserves held by the council decreased from £49.218 million in 2013/14 to £43.243 million in 2014/15; a decline of £5.975 million as illustrated in Exhibit 1 overleaf.

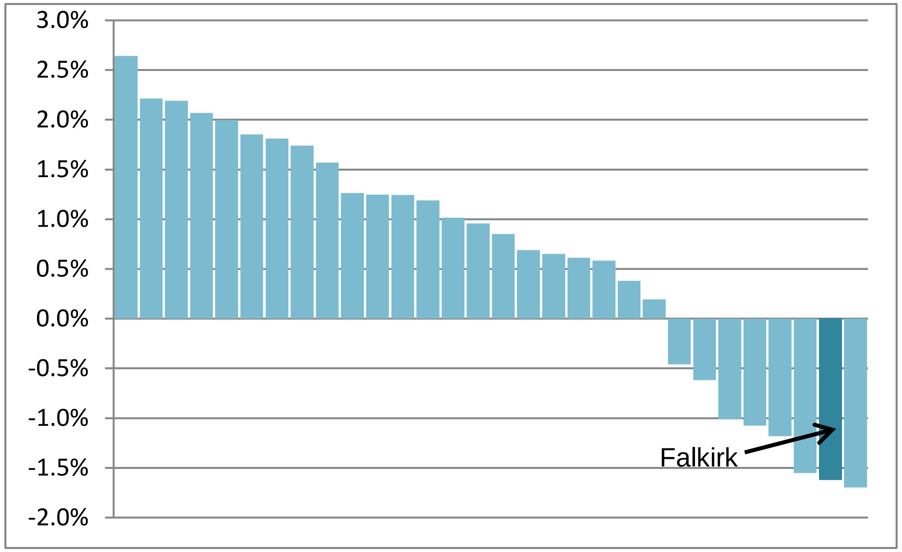
53. The General Fund balance includes £8.369 million of uncommitted general fund reserves. Planned commitments from the general fund balance amounted to £15.657 million and include devolved schools management, economic development, unspent revenue grants, energy efficiency and spend to save initiatives.

Exhibit 1: Analysis of usable reserves

Description	31 March 2014 £ million	31 March 2015 £ million
General fund	25.757	18.933
Housing revenue reserve	5.093	5.093
Capital grants unapplied	4.373	3.869
Capital receipts reserve	5.055	5.778
Insurance fund	4.568	4.826
Repair and renewal fund	4.371	4.744
Total usable reserves	**49.218**	**43.243**

Source: Falkirk Council 2014/15 financial statements

Exhibit 2: Revenue reserves - usable - movement as a proportion of net revenue stream and dwelling rents



Source: Scottish councils' unaudited accounts 2014/15

54. From an analysis of Scottish councils' (excluding Orkney and Shetland) unaudited 2014/15 accounts, only 8 out of 30 councils reported a reduction in usable reserves in the year.

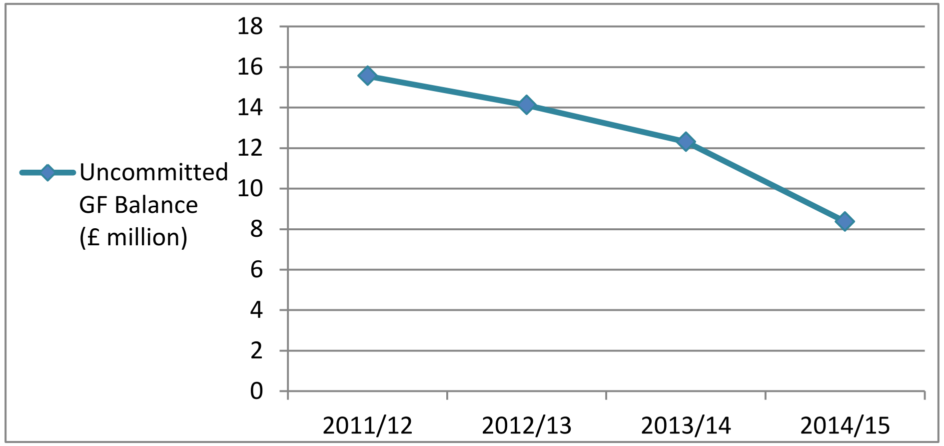
55. Exhibit 2 opposite shows the movement in usable reserves relative to the size of the council. This indicates that Falkirk Council has experienced the second largest reduction in its usable reserves in the year.

56. The general fund reserve has no restrictions on its use. The principal purpose of holding a general fund reserve is to provide a contingency fund to meet unexpected events and as a working balance to help cushion the impact of uneven cash flows.

57. The council reviewed its reserves strategy during the year and concluded that the existing framework is fit for purpose, although it was agreed that this will be kept under review. The existing strategy reflects the CIPFA best practice guidance of holding unallocated general fund reserves equal to 2% to 4% of revenue expenditure.

58. The balance on the council's uncommitted general fund has been steadily depleting over the last 4 years as outlined in Exhibit 3 below. The balance at 31 March 2015 was £8.369m or 2.5% of revenue expenditure. The current balance is within the council's reserves strategy range of £6.6 million to £10 million.

Exhibit 3: Analysis of uncommitted general fund balance over the last 4 years



Source: Falkirk Council audited accounts 2011/12 to 2014/15

59. Reserves have been utilised to fund annual recurring expenditure. The use of funds in this way is not sustainable and is contrary to the council's stated reserves strategy. The council has recognised this and both the 2015/16 and 2016/17 budgets do not assume any use of the uncommitted general fund.

Recommendation 2

Accounting deficit

60. The Comprehensive Income and Expenditure Statement for the year reported a deficit of £32.853 million. The deficit is largely attributable to the depreciation and impairment charges for the year and the IAS19 pension costs. After applying the statutory adjustments between the accounting and funding basis to reflect the true amount to be charged to the taxpayer, the council reported a deficit, or reduction in the general fund balance, of £6.824 million. This was offset by transfers from earmarked reserves of £2.884 million to give the overall reduction in the uncommitted general fund balance of £3.940 million.

Financial planning

61. The council approved its 2015/16 budget in February 2015. The 2015/16 revenue budget was set at £335.230 million and assumes savings of £12.4 million.

62. As at 31 July 2015 the council was reporting a projected overspend of £2.6 million in social work services (children's and adult services) for the 15/16 financial year[2]. The report highlights children's residential care as a particular challenge and outlines action being taken to reduce the use of external provision by developing local care and educational alternatives. This indicates that the problems within the social work budget have still not been fully addressed.

See also Recommendation 1

[2] *Financial Position 2015/16*, Report to Falkirk Council Executive, 18 August 2015

63. Looking to the medium term, the council has set indicative budgets for 2016/17 and 2017/18 and in doing so has identified a funding gap of £46 million over the next three years to 2017/18. Savings of £12.4 million and £18.4 million have been identified to balance the budget in 2015/16 and 2016/17 respectively. However, savings of £15.2 million still remain to be agreed for the financial year 2017/18.

64. There is a risk that the council will be unable to identify and deliver the necessary savings to bridge the funding gap. The Accounts Commission, in its recent Best Value audit report for the council, also raised concerns about the council's ability to produce clear and detailed plans for how it will make these savings.

Recommendation 3

Council specific transformational programme /efficiency strategy

65. The Best Value audit reviewed the council's business transformation project. This was set up in September 2013 with the intention to *'be a different organisation in the future and provide a framework for how council services can be delivered more effectively and efficiently'*.

66. The report concluded that much of the council's current activity in its transformation project is small in scale and that the pace of change has been slow. The report also highlighted that eighteen months on, the council had still to identify clearly the anticipated savings for many of the individual transformation projects. Where potential savings have been identified, these are at a lower level than the council needs to make over a short period.

67. The Accounts Commission says that the council needs to be more ambitious in its plans and increase the pace and scale of change. Also, senior managers need to provide more effective leadership and work with councillors to ensure they develop plans that will lead to the significant changes required[3].

Capital programme 2014/15

68. The council approved its general services capital programme for 2014/15 in February 2014. Actual spend on the general services capital programme amounted to £26.389 million. Some of the more significant general services capital projects included the expansion and refurbishment of schools, improvements in roads infrastructure, the vehicle replacement programme, the Helix and the Tax Incremental Finance (TIF) Project.

69. The council has reported an underspend of £5.214 million (or 16.5%) against the general services revised capital budget of £31.603 million. Of this amount, £1.982 million has been classified as slippage, with the remainder being re-profiled to future years[4]. The most significant area of slippage occurred in education services under the expansion for early years where a number of factors delayed the project, including changes in the location and size of the facilities.

[3] *Falkirk Council Best Value Audit 2014/15*, Audit Scotland, August 2015
[4] *Capital Programmes Outturn 2014/15*, Report to Falkirk Council, 18 August 2015

70. The council approved its housing capital programme for 2014/15 in February 2014. Actual spend on the housing capital programme amounted to £35.062 million, which was £1.471 million (or 4.2%) less than the approved budget. The most significant areas of expenditure included elemental improvements (e.g. external fabric, kitchens/bathrooms, electrical upgrading), upgrade/replacement of heating systems to improve energy efficiency, new build housing, and council house buy backs. The capital slippage relates to new build housing where there was some delay due to utility connections and bad weather, although this is not expected to have an impact on the planned completion date.

71. The council has a capital planning and review working group that meets every 6-8 weeks to monitor progress against the capital programme. All services are represented on the group and officers have advised that there are clear expectations that deviations from budget should be communicated at the earliest possible date so that action can be taken to minimise slippage against the overall capital budget. Officers should work together to maximise this facility and reduce slippage in future years.

Asset Management

72. The council's existing Corporate Asset Management Strategy covers the period 2011 to 2014. This is supported by other documents such as the Property Asset Management Plan. Officers have advised that these documents are currently being rolled forward and updated as appropriate, with a revised strategy expected to be in place by April 2016.

73. A Corporate Asset Management Group is responsible for leading the implementation of the Corporate Asset Management Strategy. Each of the six asset classes (property, open space, roads infrastructure, housing, fleet and ICT) identified by the Corporate Asset Management Strategy has a lead officer sitting on the group to drive work in that area.

74. As part of the normal audit process we will continue to monitor developments to ensure that the council's asset management strategy and supporting documents are brought up to date.

Workforce Management

75. Effective workforce management is essential to ensure that the council maximises the effectiveness of its employees. A workforce strategy is key to setting out how the council will ensure it has appropriately skilled people in place to deliver its services. The council's existing workforce strategy covers 2011 to 2014 and we have been informed that a new strategy will not be developed until later in 2015 so that it can be aligned with the budget strategy.

76. The council's approved savings for 2015/16 and 2016/17 include reducing the council's workforce by 429 full time equivalents, 5.8% of its total workforce. If this cannot be achieved through voluntary means then other actions may need to be taken.

77. The Best Value audit found that these savings proposals were not fully informed by the council's business transformation programme or other improvement activity, such as service reviews and self-assessments, to consider the costs and benefits of the proposals

and alternative options[5]. Audit Scotland have previously highlighted that councils need to ensure that staff reductions are considered within the context of comprehensive workforce strategies and plans that minimise any adverse impact on services[6].

Risk Management

78. In our annual audit plan we highlighted risk management as an area of risk for our wider dimension audit of the council. In particular we noted that the Audit Committee had not received an update on risk management arrangements since September 2013 and it is within the committee's remit to provide independent assurance on the adequacy of the risk management framework and associated control environment within the council.

79. The existing Corporate Risk Management Policy and Framework was approved in November 2014. It has since been subject to routine annual review by management and the revised document was presented to the Audit Committee in April 2015. The Audit Committee is due to receive further updates on risk management at its meeting on 21 September 2015.

80. It is good practice for the Audit Committee to receive regular updates on risk management to demonstrate that the arrangements, as set out in the policy and framework, are operating effectively and remain fit for purpose. We will monitor developments in this area through the annual shared risk assessment process.

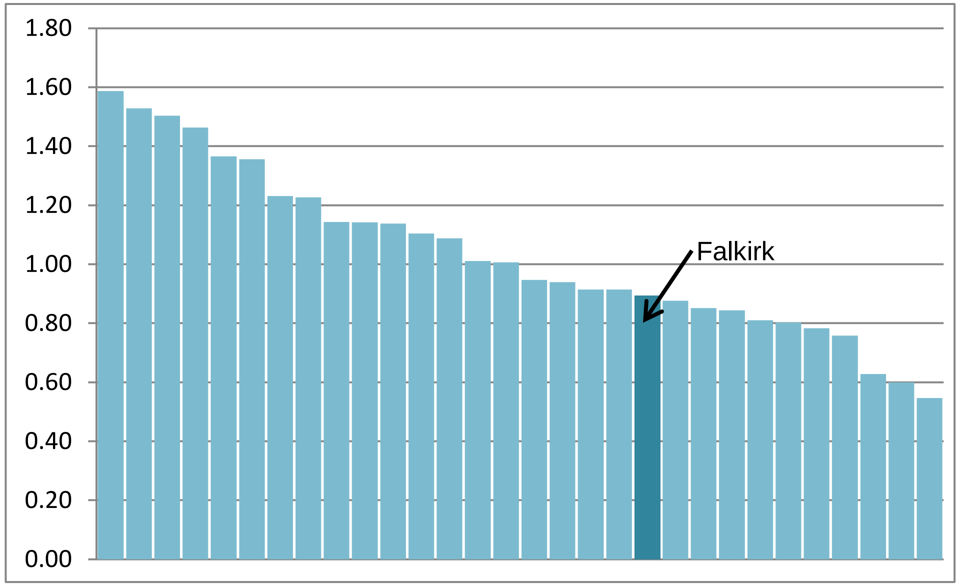
Treasury Management

81. At 31 March 2015 long term borrowing stood at £202.6 million, an increase of £26 million on the 2014 borrowing level of £176.6 million. During the same period, short term borrowing increased from £22 million to £26 million. The council's actual borrowing requirement for the year was £37 million. However, a decision was taken to borrow £52 million in line with the approved 2014/15 Treasury Management Strategy. Management felt it was prudent to take advantage of favourable interest rates whilst available. Interest payable and similar charges rose by £0.440 million in 2014/15 to £23.333 million.

82. Analysing long term borrowing as a proportion of net revenue stream gives an indication of the relative indebtedness of the council. Exhibit 4 overleaf shows long term borrowing as at 31 March 2015 as a proportion of net revenue stream plus dwelling rents for all mainland councils in Scotland. This indicates that Falkirk Council's borrowing levels are on the lower side of the median compared with other Scottish councils.

[5] *Falkirk Council Best Value Audit 2014/15*, Audit Scotland, August 2015
[6] *An overview of local government in Scotland 2015*, Accounts Commission, March 2015.

Exhibit 4: Net external debt as a proportion of net revenue stream plus dwelling rents



Source: Scottish councils' unaudited accounts 2014/15

Pension liability

83. The council's balance sheet position has fallen from an £86.859 million net asset position at 31 March 2014 to a £45.202m net liability position at 31 March 2015. This is predominantly due to the net pension liability which has increased by £128.024m (or 50.5%) in the year from £253.264m in 2013/14 to £381.288m in 2014/15. This is also reflected in the balance sheet for the group. The net pension liability represents the difference between the expected future payments to be made to former employees of the council and their spouse in the form of pension payments and the underlying value of pension fund assets to meet this cost. The calculation of the liability is estimated by professional actuaries each year.

84. The 2014/15 IAS19 figures are based on a roll forward from the March 2014 fund valuation (the 2013/14 figures were based on the March 2011 fund valuation). This has led to a considerable movement between the years due to changes in assumptions. In addition, the actuaries have reported that falling real bond yields have led to a significant rise in the deficit. This has been partially offset by a better than expected return on assets.

Conclusion on financial sustainability

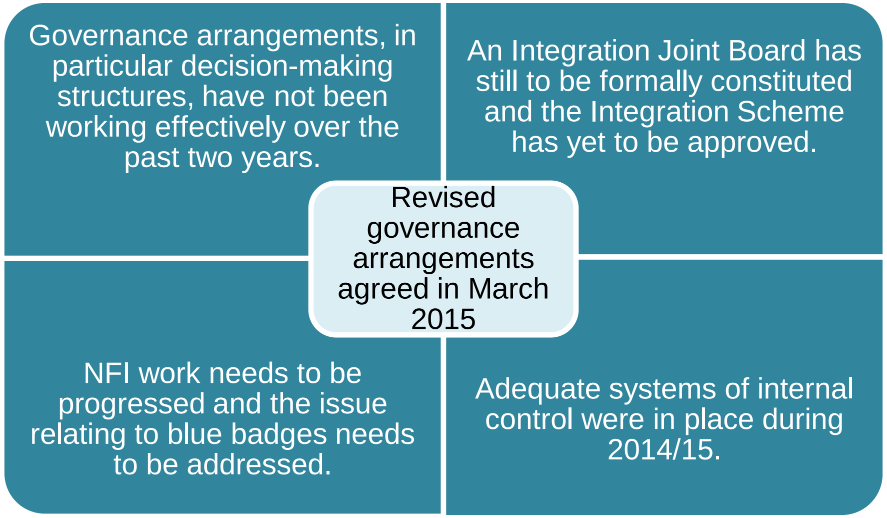
85. In the last two years the council has had to draw on reserves to fund expenditure. The council recognises this is not sustainable and the approved budgets for 2015/16 and 2016/17 do not assume any use of the uncommitted general fund reserve.

Outlook

86. The Scottish Government's 2016-17 budget proposals will not be produced until after the UK government's spending review in late November. The Scottish government is anticipating a reduction in the block grant available to fund devolved services which will only exacerbate the financial challenges facing Scottish councils.

87. The Account's Commission has reported that Falkirk council has a great deal to do to provide assurance that it can address the financial challenges ahead. A continuing reliance on small-scale savings reduction and service charge increases is not sufficient.

Governance and transparency



88. Members and management of the council are responsible for establishing arrangements to ensure that its business is conducted in accordance with the law and proper standards, that public money is safeguarded and for monitoring the adequacy and effectiveness of these arrangements.

89. The Best Value audit report (August 2015) concluded that the council's governance arrangements were not working effectively over the past two years. Revised governance arrangements are in place and the council needs to demonstrate that scrutiny is now effective.

90. Citizens should be able to hold the council to account about the services it provides. Transparency means that citizens have access to understandable, relevant and timely information about how the council is taking decisions and how it is using its resources. Overall we concluded that the council demonstrates a number of good practices in terms of openness and transparency, although there is scope for improvement.

Corporate governance

91. The council's governance and accountability arrangements were a key area of the Best Value audit report. The Accounts Commission expressed concerns at the lack of proper scrutiny over the past two years.

92. The report highlighted that the council had introduced an Executive structure in May 2013 with the aim of supporting more effective working. The administration and opposition councillors generally agreed with the new structure. However, not all councillors participated in the new structures due to concerns about some of the underpinning arrangements such as representation on new committees and panels. The problem was exacerbated by difficult working relationships and political tensions between councillors. As a result the new governance arrangements did not work effectively. The Accounts Commission also concluded that councillors and senior officers could have done more to resolve the situation.

93. Revised governance arrangements were agreed in March 2015. The main change is the creation of an Internal and External Scrutiny

Committee, which are chaired by a member from the largest opposition party rather than by a member of the administration. Current evidence indicates that all members are now engaged in the Scrutiny Committees and Executive meetings, although it is still too early to say how effective the new arrangements will be.

94. The council's scheme of delegation and standing orders were revised in May 2015 to reflect changes in the council's governance arrangements. We will continue to monitor the effectiveness of the council's governance arrangements as part of our annual audit process and through the Best Value follow-up audit due to be completed by the end of 2016.

Internal control

95. As part of our audit we reviewed the high level controls in a number of systems fundamental to the preparation of the financial statements. Our objective was to obtain evidence to support our opinion on the council's financial statements.

96. We reported our findings to the Audit Committee in June 2015. Our overall conclusion was that key controls within the council's main financial systems were adequate and no significant weaknesses were identified. We also made a number of recommendations to improve the systems of control and an action plan has been agreed with management to address our findings.

Internal audit

97. Internal audit provides members and management of the council with independent assurance on risk management, internal control and corporate governance processes. We are required by international auditing standards to make an assessment of internal audit to determine the extent to which we can place reliance on its work. To avoid duplication we place reliance on internal audit work where possible.

98. Our review of internal audit concluded that the internal audit function operates in accordance with Public Sector Internal Audit Standards (PSIAS) and has appropriate documentation standards and reporting procedures in place. Moreover, internal audit were able to deliver on their 2014/15 planned work despite carrying a vacancy.

99. We were able to place reliance on aspects of the work of internal audit including non-domestic rates, council house buy backs, payroll (overtime and allowances) and the continuous auditing of selected high value transactions.

100. In terms of our wider code responsibilities we considered the work of internal audit in a number of areas including procurement, statutory performance indicators and strategic projects (TIF). We also said we would consider work on health and social care integration. This work is in progress and we will review it upon completion.

ICT audit

101. ICT is a key area of control because it underpins all the systems used by the council. As part of our audit planning process we carried out a high level review of the council's ICT arrangements. These included the council's technology strategy, data security and protection and business continuity management. A summary of our key findings can be found below:

- Falkirk Council has received a Public Services Network Compliance Certificate for the year up to 27 January 2016. The council's application was supported by an independent IT health check of the PSN infrastructure. The outcome of this work was reported by Pen Test Partners in October 2014. Although full accreditation has been granted, the review did identify a number of areas for improvement for the council to consider going forward.
- Management have still to develop detailed plans to provide a secure ICT environment with partners to support the delivery of integrated health and social care services. A number of projects and initiatives are being progressed in preparation for health and social care integration. Relevant groups within Forth Valley Health Board and Falkirk Council have established key links through the Forth Valley Data Sharing Partnership, and have made progress on data sharing protocols. The Health and Social Care Data Integration and Intelligence Project (HSCDIIP) has been set up to combine health and social care data, in order to aid planning of services for both. Further information on health and social care integration can be found at section 117 to 125 of this report.

Arrangements for the prevention and detection of fraud

102. The council has a number of arrangements for preventing and detecting fraud including an anti-fraud and corruption strategy, a hotline for reporting suspected housing benefits and council tax frauds and a whistleblowing policy. The latter is going to be updated in the coming year.

103. On the whole, we concluded that the management has put in place adequate arrangements for the prevention and detection of fraud.

National Fraud Initiative in Scotland

104. The National Fraud Initiative (NFI) in Scotland is a biennial counter-fraud exercise led by Audit Scotland and overseen by the Cabinet Office for the UK as a whole. It uses computerised techniques to compare information about individuals held by different public bodies and on different financial systems that might suggest the existence of fraud or error. The 2014/15 NFI exercise commenced in October 2014 with outcomes due to be reported in June 2016.

105. Auditors are required to assess the arrangements that bodies put in place in relation to NFI. We know from our knowledge of the council that the Internal Audit Manager oversees NFI activity and provides support and advice to staff investigating matches. He also ensures

that NFI is given a high profile within the council by providing progress reports on NFI activity to the Audit Committee.

106. Currently, the NFI database shows that for the 1,270 recommended matches in Falkirk Council; only 119 (9%) have been processed with the remainder either in progress or yet to be reviewed. The council tax single persons discount exercise has been prioritised over processing benefits matches but a full time investigator has now started investigating these. There have been no fraud cases identified to date.

107. Last year we reported problems in investigating blue badge matches. The Accounts Commission have flagged this as an area for improvement across Scotland. In the current year we noted that no data on blue badges was submitted by the council. Officers explained this was due to difficulties extracting the data from the Scottish Government's Blue Badge Information System. Other councils are not reporting similar problems and have submitted the data for matching and investigation.

Recommendation 4

108. We concluded that, subject to the comments on blue badges, the council gives sufficient profile to NFI but progress in investigating matches could be improved.

Arrangements for maintaining standards of conduct and the prevention and detection of corruption

109. The arrangements for the prevention and detection of corruption in Falkirk Council are satisfactory and we are not aware of any specific issues that we need to record in this report.

Transparency

110. The council is able to demonstrate that it operates in an open and transparent manner in a number of ways. Members of the public can attend council and committee meetings including the Scrutiny and Audit Committees. The public also have access to council and committee papers on the internet. Additionally, the audited financial statements are accessible on the council's website.

111. Other developments have seen the council increase its openness and transparency in how it consults on its budget proposals. For example, in November 2014 a budget options paper was presented to the full Council and this was followed by consultation with the public through its website and focus groups using the council's citizen's panel.

112. The Best Value audit report noted that scrutiny of service performance is not conducted in public. The council's Performance Panel is responsible for scrutinising performance but its meetings are held in private. Also, the performance reports received by the Performance Panel are not publicly available. The Best Value team

could not see a reason for the Performance Panel not conducting its business in public.

113. Overall, we concluded that the council meets good practice principles in a number of aspects of openness and transparency although there is scope for improvement.

Freedom of Information (FOI) requests

114. The council's website provides information on how to submit a FOI request. In 2014/15, the council received 1,229 such requests and responded to 1,139 (92.7%) of these within the statutory timescale. A total of 105 refusal notices were also issued, resulting in 16 requests for review. There were no appeals submitted to the Scottish Information Commissioner in respect of Falkirk Council.

115. Overall, we concluded that the council is meeting its responsibilities in terms of Freedom of Information requests and we are not aware of any concerns that require to be brought to the attention of members.

Integration of health and social care

116. The Public Bodies (Joint Working) (Scotland) Act received royal assent on 1 April 2014. The Act provides the framework for the integration of health and social care services in Scotland. It is one of the most significant public sector reforms of recent years and is to be implemented by 1 April 2016.

117. The council and NHS Forth Valley (the partnership) agreed to adopt the 'body corporate' model for the provision of integrated health and social care within the Falkirk area. This will result in the delegation of functions to a new legal entity – Integration Joint Board (IJB) – which will be accountable for overseeing the provision of these functions.

118. A Transitional Board has been established to oversee integration arrangements within the Falkirk area until such time as an IJB is formally constituted. Core voting members have been appointed to the IJB and they form the membership of the Transitional Board. Chair arrangements have also been agreed.

119. The partnership submitted its draft integration scheme to the Scottish Government by the required date (31 March 2015) for review and approval. The scheme was returned to the partnership with comments for consideration. A revised scheme was then returned to the Scottish Government in June 2015. The order establishing the Falkirk IJB has been laid before the Scottish Parliament and will come into force on 3 October 2015.

120. The IJB's Chief Officer has a key role to play in terms of project management and ensuring the development of a strategic plan by the required date of 31 March 2016. No Chief Officer was appointed to the Falkirk partnership following a recruitment process earlier in the year. Instead, an Interim Chief Officer was appointed on 20 July 2015 for a fixed period of one year. The Falkirk partnership also agreed to appoint a part-time Chief Finance Officer for a fixed period

of one year but the recruitment process was unsuccessful and a new recruitment round is planned for the autumn.

121. A number of working groups are progressing aspects of the integration scheme including budgets, workforce and organisational development. Firm dates for the publication of the Falkirk IJB's financial and strategic plans have yet to be agreed although early February 2016 looks the most likely date.

122. Before the transfer of council funds to the IJB, due diligence is to be carried out to sign off the amounts to be transferred. The council's plans for this are outlined in the integration scheme. Management have advised that work is well underway in this area. The council and the health board have exchanged information for review on scope and budgets. This is a high risk area for the council given challenges in budgeting for social work services reported elsewhere in this report. Falkirk Council, the Audit Committee and the IJB can expect update reports on the due diligence process.

123. In July 2015, the Care Inspectorate and Healthcare Improvement Scotland published a report on their inspection of adult services in the Falkirk Partnership. The report raised concerns about progress with integration, which it described as slower than other partnerships.

124. In conclusion, while progress has been made on health and social care integration there still remains a risk that integration arrangements may not be fully developed or in place by the statutory date. This is particularly concerning given the short timescale remaining until implementation and the complexity of the task in hand.

Recommendation 5

Welfare Reform

125. Members are provided with regular updates on the welfare reform changes and the support being provided to minimise the impact on the local community. An overview of the most recent update report has been provided below:

- Falkirk Council has entered into a Delivery Partnership Agreement with the Department of Works and Pensions (DWP) to provide support to individuals affected by Universal Credit.
- Work is ongoing with partner organisations and the DWP to devise a training plan for staff.
- The Universal Credit waiting period is such that the individual will not receive their first payment until 1 month and 14 days after the application date. Officers are anticipating a surge in applications for Scottish Welfare Fund Crisis Grants and a strain on rent collection as a result.

126. We have concluded that the council has a good awareness of welfare reform and its impact on the local community. Members also receive comprehensive information on ongoing developments.

Housing and council tax benefits performance audit

127. The latest DWP statistics on average speed of processing benefits claims in Scotland for 2014/15 shows that the council has made good progress in this area.

128. Audit Scotland carried out a risk assessment of the council's benefits system in 2014 following which an action plan for improvement was agreed with management. The main areas for improvement were identified as:

- ensuring there are sufficient resources to continue to improve service performance and cope with the additional burdens arising from the government's welfare reform agenda
- addressing the reasons for the decline in overpayment recovery
- the need to publicise successful prosecutions to act as a deterrent and raise the profile of the Compliance and Investigation Team.

129. Audit Scotland's specialist benefits team will review progress against the action plan in December 2015.

Local scrutiny plan

130. The 2014/15 Local Scrutiny Plan (LSP) initiated the Best Value audit work referred to throughout this report. The 2015/16 Local Scrutiny Plan (LSP) prepared by the Local Area Network of scrutiny partners for the council was submitted to Falkirk Council in March 2015. The following scrutiny activity led by Audit Scotland was planned:

- **Community Planning Partnership (CPP) audit follow-up**: Falkirk is one of eight areas where the CPP was subject to audit. Audit Scotland plan to undertake some follow-up work in the near future to assess progress against the improvement agenda for the CPP.
- **Housing benefit performance audit**: as noted in section 130, Audit Scotland plans to review progress against the action plan agreed following the 2014 housing and council tax benefits risk assessment.

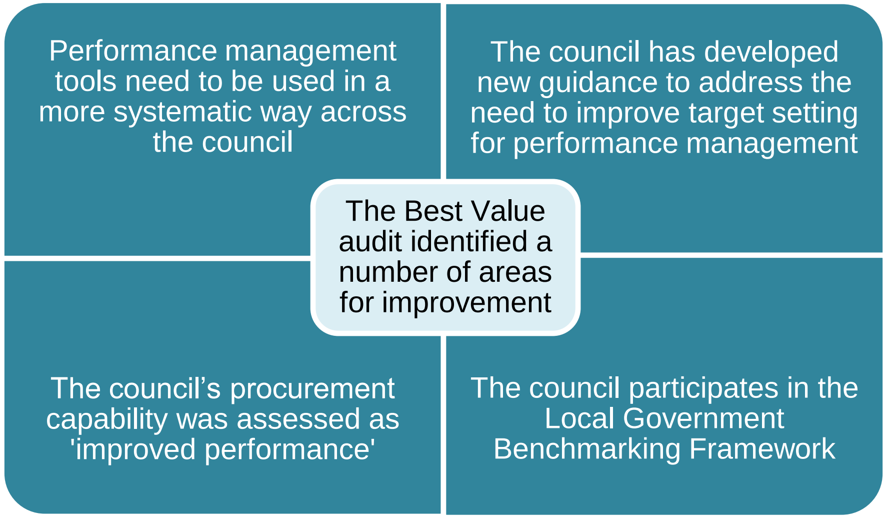
Outlook

131. The council will need to review the effectiveness of its new governance arrangements and structures to ensure they meet the challenges of future financial constraints.

132. The council has undertaken a full scale review of its service structure to reflect the impact of health and social care integration. A new Children's Service has been created and the council has moved from a 4 department to a 3 department structure from August 2015. We will continue to monitor developments in this area as part of the annual audit process.

133. Good governance will be particularly important where council resources and service delivery are devolved to third party organisations. This is of immediate priority for the council with regard to the IJB.

Best Value



134. The Local Government in Scotland Act 2003 created a statutory duty of Best Value for all councils, and the Accounts Commission for Scotland is responsible for reporting to the public on the extent to which individual local authorities meet this duty. Staff from Audit Scotland carry out the audit work on Best Value and the Controller of Audit provides audit reports to the Commission.

135. The council should have systems and processes to ensure that it can demonstrate that it is delivering Best Value by assessing and reporting on the economy, efficiency, effectiveness and equality in service provision.

Best Value audit

136. A targeted audit of Best Value at the council was carried out in November/December 2014. The aim of the audit was to assess if the council's governance arrangements are working effectively, and supporting strategic decision-making and scrutiny of service delivery. It also considered whether the council's performance management arrangements support the planning, delivery and improvement of services in the context of reducing resources and growing demand.

137. The report, published in August concludes that Falkirk generally delivers a good standard of council services, particularly in education. However, the Accounts Commission has significant concerns that the council is not well equipped to maintain or improve services in the future. It says that the council needs to make a step-change in its pace of improvement. The council's business transformation project needs to be more strategic and make a greater impact. Stronger leadership is needed for this to happen.

138. The audit identified a number of areas for improvement, some of which are referred to in this report. These relate to the scale and pace of change at the council and its approach to scrutiny, performance management and performance reporting[7]. The council is to consider the findings of the Best Value audit at a meeting on

[7] *Falkirk Council Best Value Audit 2014/15*, Audit Scotland, August 2015

7 October 2015. It will then develop an improvement plan to respond to the findings.

Recommendation 6

Procurement

139. In 2009 the Scottish Government introduced an annual evidence-based assessment, the procurement capability assessment (PCA), to monitor public bodies' adoption of good purchasing practice and as a basis for sharing best practice.

140. The council achieved an overall PCA score of 70 or ‘improved performance’ in December 2014, an increase of 10 points on the previous year. These results support the council’s procurement vision for continuous improvement as it strives to achieve ‘superior performance’ PCA status.

141. A Corporate Procurement Strategy 2014-17 was approved in April 2014. This sets out the procurement vision for the council and identifies core themes and 6 areas for development to help achieve this vision. This includes structures and systems, sustainability and small & medium sized enterprises (SMEs) and, skills and savings. A Procurement Board has been set up to monitor progress against the strategy. Overall, there is a clear commitment to further improve procurement activities within the council.

Following the Public Pound

142. The council has a statutory obligation to comply with the Code of Guidance on Funding External Bodies and Following the Public Pound alongside their wider statutory duty to ensure best value. This means that councils should have appropriate arrangements in place to approve, monitor and hold third parties to account for public funding provided to them.

143. Falkirk Council’s External Scrutiny Committee is responsible for considering Following the Public Pound reports and in particular, performance reports from the council’s largest arms-length external organisation (ALEO), Falkirk Community Trust Ltd. A reporting schedule detailing the timing of reports to the External Scrutiny Committee for each funded body is available on the council’s intranet.

144. In May 2014, we issued a letter to the Chief Executive of the council outlining the findings from our targeted follow-up audit of *Arm's-length external organisations: Are you getting it right?*[8] We highlighted that it is good practice for regular financial and performance reports on ALEOs to be presented to the council for scrutiny so that follow-up actions can be initiated where performance standards are not being met. We also indicated that opposition members should take up positions on the board of Falkirk Community Trust Ltd at the next opportunity.

145. The council has yet to fully address our recommendations. The weaknesses identified were not significant and we will continue to monitor progress as part of our annual audit process.

[8] *Arm’s-length external organisations: Are you getting it right?* Audit Scotland, June 2011

Performance management

146. The council has developed clear links between its own strategic priorities, as outlined in its Corporate Plan 2012-17, and the priorities set out in the Falkirk Community Planning Partnership Single Outcome Agreement (SOA). The corporate and SOA priorities then follow through into the service performance plans for 2014-17. Service performance is reported regularly to the council's Performance Panel.

147. As part of the Best Value audit[9], the council's performance management arrangements were assessed, in particular, how the existing arrangements support the planning and delivery of services with reduced resources.

148. The Best Value audit report acknowledged that the council has a range of tools for how it performs such as a programme of service reviews and a self-assessment tool based on the Public Sector Improvement Framework. The report concluded that the council needs to do more to make sure it uses its performance management arrangements in a more systematic way. Performance monitoring and management should drive improvement and support the transformation of service delivery. The report also says that Members' decision making needs better support from the council's performance management system.

[9] *Falkirk Council Best Value Audit 2014/15*, Audit Scotland, August 2015

Overview of performance targets in 2014/15

149. As reported in previous years, the council still has work to do to improve target setting. The Best Value audit report [10] identified the following areas for improvement:

- In some instances there was no baseline figure provided in order to assess whether the services had improved or otherwise, the use of trend arrows was inconsistent and often confusing and there was a lack of contextual information to help interpret the data.
- Some performance indicators were not SMART, did not have a clear target, and used the wording 'reduce', 'maintain' or 'increase' without stating how much reduction or increase was required.[11]
- Errors in some of the traffic light reporting, with indicators showing 'green' when performance was actually poor or not meeting its target.

150. The council's corporate Best Value Working Group (BVWG) has recently reviewed the performance measures that are in place across the council and developed new guidance designed to improve target setting for performance improvement.[12] It is too early to conclude on the impact that the guidance has had on the

[10] *Falkirk Council Best Value Audit 2014/15*, Audit Scotland, August 2015
[11] Specific, Measurable, Achievable, Relevant, Timely
[12] Performance Framework Guidance, Falkirk Council, July 2015.

council's performance reporting, however, we will continue to monitor progress in this area.

151. At the time of reporting the council's 2014/15 annual performance statements were not available. Therefore, we were unable to comment on overall performance for the year. Performance information should be published on the council's website in a timely manner to ensure that the performance information available to the public is relevant.

Statutory performance indicators (SPIs)

152. The Accounts Commission places great emphasis on councils' responsibility for public performance reporting. The Commission does not prescribe how councils should report but expects councils to provide citizens with fair, balanced and engaging performance information reporting.

153. For 2014/15 three (SPIs) were prescribed:

- SPI 1: covering a range of information relating to areas of corporate management such as employees, assets and equalities and diversity
- SPI 2: covering a range of information relating to service performance
- SPI 3: relates to the reporting of performance information as required by the Local Government Benchmarking Framework.

154. An evaluation of all Scottish councils' approaches to public performance reporting was carried out by Audit Scotland's Performance Audit and Best Value group during 2014/15 and reported to the Accounts Commission in June 2015. An individual assessment for Falkirk Council was issued to the Leader, Chief Executive and Chair of the Audit Committee in July 2015.

155. In terms of compliance with SPI 1 and SPI 2 and more specifically, the eighteen themes within them, Falkirk Council was one of the poorer performing councils. The assessment concluded that there was scope for improvement in 8 out of the 18 corporate management and service performance themes.

156. Audit Scotland's Director of Performance Audit and Best Value submitted a report on *Statutory Performance Information 2013/14: An Evaluation of Council's Responses to the 2012 Direction (June 2015)* to the Accounts Commission in June 2015*.* It highlighted a number of examples of good practice in public performance reporting across Scottish local authorities. The council should consider examples of good practice as it seeks to improve its approach to public performance reporting. We will continue to monitor progress in this area through the annual audit and shared risk assessment process.

157. In 2015, Audit Scotland found that all Scottish councils, including Falkirk, reported on performance information as required by the Local Government Benchmarking Framework.

National performance audit reports

158. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for

Scotland. During 2014/15, a number of reports were issued which are of interest to the council. These are outlined in appendix III.

159. In light of our previous recommendation the council has introduced a process for responding to Audit Scotland's national performance reports. This was presented to the Audit Committee in April 2015. The Audit Committee will receive an annual update showing how national performance reports have been reviewed, which committee considered them and any actions to be taken locally by service directors in response to national findings.

160. The above process should ensure that all national reports and their impact on the council are appropriately considered by both officers and members.

Equalities

161. The Equality Act 2010 introduced a new public sector 'general duty' which encourages equality to be mainstreamed into public bodies' core work. The Act requires that by no later than 30 April 2015 and every two years thereafter, public bodies must publish a report on the progress made to achieve the equality outcomes it has set.

162. At its meeting on 28 April 2015 the Executive of the council considered the Equality Mainstreaming and Equality Outcomes update report is readily accessible on the council's website.

163. We reviewed the aforementioned report and concluded that the council has met its statutory duty and has addressed the following key areas:

- publish information on progress made in mainstreaming equality within the council
- report on progress towards achieving quality outcomes published in 2013
- publish annual employee information and details of the progress made in gathering and using information to better meet the duty
- publish gender pay gap information.

164. The report also includes an action plan outlining the areas for improvement over the next two year period. We concluded that the council is taking positive steps to ensure that equality is embedded throughout the organisation.

Outlook

165. Falkirk like other councils faces the key challenges of reducing budgets, an aging population and a growing demand for services. The council recognises that it will have to prioritise services, and spending commitments, to make the best use of available resources as well as challenge existing ways of doing things.

166. The Accounts Commission's Best Value report said that council needs to be more ambitious in its plans and demonstrate an increased pace of change and improvement. The Commission requires a report on progress from the Controller of Audit by the end of 2016. It is important, therefore, that the council is able to demonstrate that action has been taken to address the improvement areas identified by the Best Value audit.

The audit of Falkirk Temperance Trust

167. The preparation and audit of financial statements of registered charities is regulated by the Charities and Trustee Investment (Scotland) Act 2005 and The Charities Accounts (Scotland) Regulations 2006. The 2006 regulations require charities to prepare annual accounts, and require an accompanying auditor's report where any legislation requires an audit.

168. The Local Government (Scotland) Act 1973 specifies the accounting and audit requirements for any trust fund where a local authority, or some members of the authority, are the sole trustees (i.e. only members of the authority are trustees).

169. Therefore, as a consequence of the interaction of Local Government (Scotland) Act 1973 with the charities legislation, a full and separate audit and auditor's report is required for each registered charity where members of Falkirk Council are sole trustees, irrespective of the size of the charity.

170. Our duties as auditors of the charitable trust administered by Falkirk Council are to:

- express an opinion on whether the charity's financial statements properly present the trusts financial position and are properly prepared in accordance with charities legislation
- read the trustees' annual report and express an opinion as to whether it is consistent with the financial statements
- report on other matters by exception to the trustees and to the Office of the Scottish Charity Regulator (OSCR).

171. We have given an unqualified opinion on these matters with respect to the 2014/15 financial statements of the Falkirk Temperance Trust.

Appendix I – Significant audit risks

The table below sets out the financial statement audit risks we identified during the course of the audit and how we addressed each risk in arriving at our opinion on the financial statements.

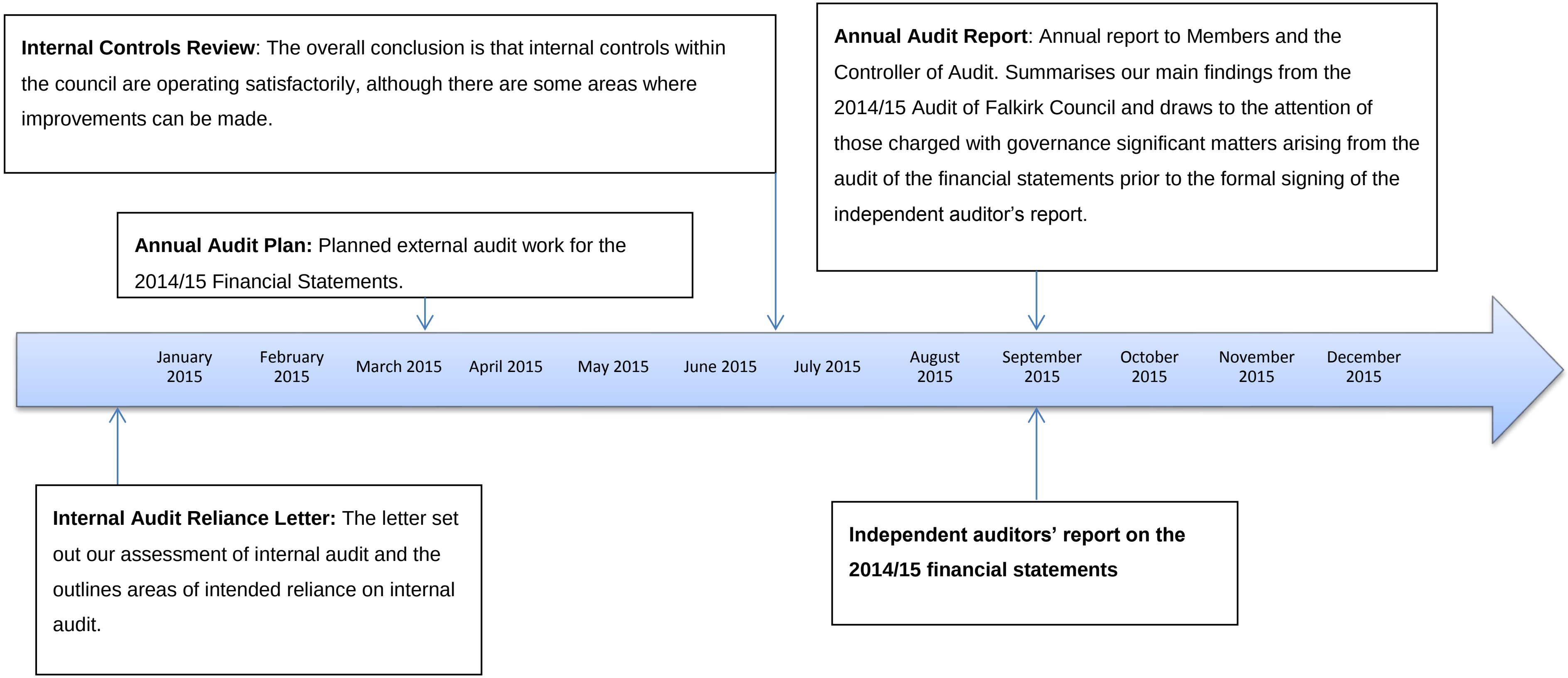
Audit Risk	Assurance procedure	Results and conclusions
Risk of material misstatement		
Income: Auditing standards (ISA 240 *The auditor's responsibility to consider fraud in an audit of financial statements*) requires auditors to presume a risk of fraud where income streams are significant. Falkirk Council receives a significant amount of funding from the Scottish Government; however some £296m is received from other sources, including service income from fees and charges. The complexity of income means there is an inherent risk that income could be materially misstated. It is our opinion that the council has mitigating controls in place to reduce this risk although risk can never be fully eliminated.	• Controls testing of the accounts receivable system and transaction testing covered service income areas. • Detailed testing of revenue transactions focused on areas considered to be of higher risk. • Tested of significant grants received. • Focused testing on local taxation systems.	We carried out the assurance procedures as planned and did not identify any significant errors. On this basis, we concluded that income is free from material misstatement.

Audit Risk	Assurance procedure	Results and conclusions
Management override of controls: ISA 240 recognises that management are in a unique position and have the ability to manipulate accounting records, and prepare fraudulent financial statements, by overriding controls that would otherwise appear to be operating effectively. ISA 240 requires that this risk be recognised in audit plans.	• Testing on the appropriateness of journal entries and other adjustments recorded in the financial ledger and financial statements. • Reviewed the accounting estimates for bias. • Evaluated significant transactions that are outside the normal course of business • Focused testing of the regularity and cut-off assertions during the financial statements audit.	We carried out the assurance procedures as planned and did not identify any instances of management override of controls.
Accounting for non-current assets: Errors made in 2013/14 in relation to asset revaluation and componentisation resulted in material audit adjustments to Reserves/CIES amounting to £4 million. Management agreed to investigate the causes of these errors and take corrective action. There is still the potential for errors to occur and this represents a significant risk of material misstatement (RoMM).	• Early substantive testing of significant non-current asset areas. • Ongoing liaison with finance officers to discuss technical/Logotech issues.	We carried out the assurance procedures as planned and did not identify any errors in relation to asset revaluation and componentisation.

Audit Risk	Assurance procedure	Results and conclusions
Accounting for Exit packages: In recent years there have been errors in the allocation of exit package costs to the correct year of account. There is the risk of similar errors occurring in 2014/15 and, whilst there is no possibility of any breach of accounts materiality, the correct disclosure of these transactions has to be considered material by nature.	• Early substantive testing of supporting evidence for exit packages disclosures.	We carried out substantive testing of exit packages during the financial statements audit and concluded that exit packages have been disclosed in the correct accounting year.
Equal pay: The council has made a provision for equal pay; however, there is still the potential for this to be misstated as the legal position develops. We will monitor the situation throughout the year and review the equal pay provision as part of the 2014/15 financial statements audit process.	• Monitored legal developments nationally and assessed potential financial impact on the council. • Reviewed the calculations and assumptions supporting provision.	The council has included a provision in the 2014/15 accounts and a contingent liability has been disclosed. The actual cost to the council remains unknown, however, based on the information available we concluded that the provision is fairly stated.
Preparation of accounts: The substantive position of Depute Chief Finance Officer is still to be filled, and presently is being covered on an acting-up basis. The finance team will also be losing a number of experienced staff through retirement. This loss of intellectual capital represents a risk to the accurate and timely completion of the unaudited financial statements.	• Ongoing liaison with finance officers to discuss technical issues and overall progress.	The position of the Depute Chief Finance Officer is still being covered by a job share on an acting-up basis. Despite our concerns, the council were able to provide the unaudited accounts and a comprehensive working papers package in good time.

Appendix II

Summary of Falkirk Council local audit reports 2014/15



Appendix III

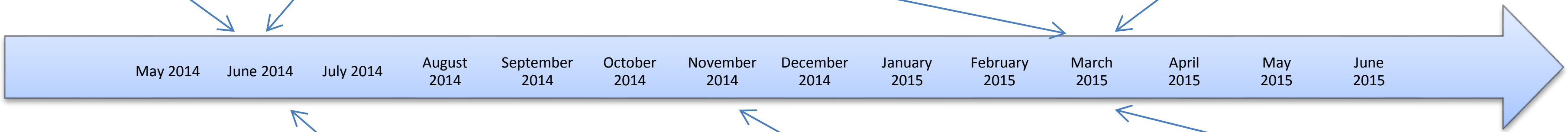
Summary of Audit Scotland national reports 2014/15

School education - Educational attainment is improving overall in Scotland, but there is a need to close the gap between the lowest and highest performing pupils.

Self-directed support - New legislation means councils will have to transform the way they deliver social care, offering people choice and control over the support they need.

Borrowing and treasury management in councils - Councils are meeting professional requirements but need to do more to set out the longer term implications of borrowing and other debt on their finances.

Update on developing financial reporting - Following the Smith Commission the framework for Scotland's public finances is undergoing fundamental change. The Scottish Parliament will have enhanced financial powers from April 2015. The report emphasises the importance of comprehensive, transparent and reliable financial reporting for accountability and decision-making. The report also notes that while the audited accounts of public bodies across Scotland provide a sound base for financial reporting and scrutiny, there is no single complete picture of the devolved public sector's finances.



Scotland's public finances - a follow up: Progress in meeting the challenges – Leaders and managers must produce balanced budgets and hold people in their organisations to account for how the money is used and what is achieved. Councillors have an important role in ensuring that approved budgets are used to best effect. To do this they need good-quality and timely financial information. They need to take a longer-term view on: options available for services; services standards and affordability; and, the sustainability of financial plans.

Community planning: Turning ambitions into action – Many Community Planning Partnerships are still not clear about what they are expected to achieve. Local data should be used to help set relevant, targeted priorities for improvement that will address inequalities within specific communities.

An overview of local government in Scotland – A high level, independent view on the progress councils are making in managing their finances and achieving Best Value.

Appendix IV

Action plan

No. Page/ para	Issue/risk/recommendation	Management action/response	Responsible officer	Target date
1 **17/37** **21/62**	**Budgeting** The overspend against the approved budget in the year was largely attributable to spending in social work services and the omission of voluntary severance costs from the budget. Early financial position reports have forecast a significant overspend in social work services in 2015/16. **Risk** The budget submitted to members for approval does not accurately reflect the council's expenditure for the year. **Recommendation** The budget should include all anticipated costs and be reviewed to take account of areas of recurring overspend.	The overspend in Social Work was not anticipated at the time of the 2014/15 budget. The 2015/16 budget included £2 million to deal with budget pressures and members were fully aware of the pressures within Social Work through regular reports. Voluntary severance (VS) is not the council's first or only approach to reducing staff numbers. Staff numbers should be managed by a combination of : • Vacancy management • Not filling temporary posts when they terminate • Redeploying staff • VS as a last resort. As a result, it is difficult to predict VS costs at the start of the year. However, this is closely monitored throughout the year and reported to Members as appropriate. The means of funding any VS has also been reported to Members i.e. use of reserves and capital receipts to fund statutory elements of any compensatory lump sum. As numbers crystallise the budget will be updated.	Chief Finance Officer	February 2016

No. Page/ para	Issue/risk/recommendation	Management action/response	Responsible officer	Target date
2 **21/59**	**Financial Management** The council has been utilising reserves over the last 2 years to offset overspends against the revenue budget. **Risk** The council depletes its reserves and is unable to maintain a sufficient contingency fund to respond to unexpected events or help cushion the impact of uneven cash flows. **Recommendation** In line with the council's reserves strategy, reserves should not be used to fund recurring annual expenditure.	Reserves necessarily need to be used where there is an aggregate overspend. The approved budget for 2015/16 and 2016/17 does not include the use of reserves to fund recurring annual expenditure. No further action proposed.	N/a	N/a

No. Page/ para	Issue/risk/recommendation	Management action/response	Responsible officer	Target date
3 **22/64**	**Financial Sustainability** The delivery of savings over the next 3 years will continue to remain challenging, with £15.2 million of savings in 2017/18 still to be agreed. **Risk** The council is unable to achieve the necessary savings. **Recommendation** The council should identify the savings required and develop detailed plans to show how these will be delivered.	Work is well underway to produce a balanced budget for 2017/18, including the development of detailed plans. It is anticipated savings options will be presented to Members in October 2015	Chief Finance Officer	February 2016

No. Page/ para	Issue/risk/recommendation	Management action/response	Responsible officer	Target date
4 **29/ 107**	**National Fraud Initiative** The council has not submitted data for blue badges as part of the 2014/15 NFI exercise. **Risk** There is a risk of fraudulent misuse of blue badges across the council area. This could have a detrimental impact on the availability of disabled parking spaces for genuine blue badge holders. **Recommendation** The council should ensure that blue badge data is submitted and matches are adequately investigated.	Blue Badge data is held centrally, in a national database, by the Scottish Government. Given the difficulties encountered in attempting to remotely download the required data, it would be helpful if, for future NFI exercise, one national submission of Blue Badge data could be made. Robust checking on eligibility for blue badges in undertaken as part of the three yearly renewal process. Consideration will, however, be given to the potential for additional checking of blue badge usage, but this will be sensitive and proportionate to the risk as it applies to Falkirk.	Internal Audit Manager	2016

No. Page/ para	Issue/risk/recommendation	Management action/response	Responsible officer	Target date
5 **31/ 124**	**Health and Social Care Integration** The integration of health and social care services in Scotland requires to be implemented from 1 April 2016. **Risk** There is a risk that the council and the local health board will not be fully prepared for the integration of health and social care from 1 April 2016. This could adversely impact on the effectiveness of service delivery. **Recommendation** The council, with its health partner, needs to ensure that plans are progressed in order for the statutory deadline to be met.	There are a range of workstreams geared to ensure that the revised arrangements can be implemented from 1 April 2016. Periodic staus reports are submitted to Members and the Transitional Board.	Chief Executive	March 2016

No. Page/ para	Issue/risk/recommendation	Management action/response	Responsible officer	Target date
6 **34/ 138**	**Best Value Audit 2014/15** The audit identified a number of areas for improvement. These relate to the scale and pace of change at the council and its approach to scrutiny, performance management and performance reporting. **Risk** The council fails to make adequate progress against the improvement agenda in time for the Best Value follow-up audit in 2016. **Recommendation** The council should develop an action plan based to take forward the improvements and monitor progress.	Our report to council in October 2015 will include an action plan.	Director of Corporate and Housing	October 2015

Address:
4th Floor, South Suite
The Athenaeum Building
8 Nelson Mandela Place
Glasgow
G2 1BT

Telephone:
0131 625 1500

Email:
info@audit-scotland.gov.uk

Website:
www.audit-scotland.gov.uk

AUDIT SCOTLAND

The Audit Committee
Falkirk Council

21 September 2015

AGENDA ITEM 7(c)

Falkirk Council and Falkirk Temperance Trust Annual Audit Report

1. International Standard on Auditing (UK and Ireland) 260 (ISA 260) requires auditors to report specific matters arising from the audit of the financial statements to those charged with governance of a body in sufficient time to enable appropriate action. We are drawing to your attention matters for your consideration before the financial statements are approved and certified. We also present for your consideration our draft annual report on the 2014/15 audit which identifies significant findings from the financial statements audit. The section headed 'significant findings' in the attached annual audit report sets out the issues identified. This report will be issued in final form after the financial statements have been certified.

2. Our work on the financial statements is now substantially complete. Subject to the satisfactory conclusion of any outstanding matters and receipt of a revised set of financial statements for final review, we anticipate being able to issue an unqualified auditor's report on 21 September 2015 for both Falkirk Council and Falkirk Temperance Trust (the proposed reports are attached at Appendix A and Appendix B). There are no anticipated modifications to the audit report.

3. In presenting this report to the audit committee we seek confirmation from those charged with governance of any instances of any actual, suspected or alleged fraud; any subsequent events that have occurred since the date of the financial statements; or material non-compliance with laws and regulations affecting the entity that should be brought to our attention.

4. As part of the completion of our audit we seek written assurances from the Chief Finance Officer on aspects of the financial statements and judgements and estimates made. A draft letter of representation under ISA580 is attached at Appendix C. This should be signed and returned by the Chief Finance Officer with the signed financial statements prior to the independent auditor's opinion being certified.

Outstanding matters

5. We have still to complete our checks on the final version of the financial statements before we issue our audit opinion. Any issues that emerge from these final checks will be raised and discussed with the Chief Finance Officer. We would expect these to be resolved satisfactorily but will highlight any further significant findings to the Audit Committee.

6. Also, we have still to see evidence that the Scottish Government has given retrospective approval for the transfer of funds between the General Fund and the Housing Revenue Account.

APPENDIX A: Proposed Independent Auditor's Report (Falkirk Council)

Independent auditor's report to the members of Falkirk Council and the Accounts Commission for Scotland

I certify that I have audited the financial statements of Falkirk Council and its group for the year ended 31 March 2015 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the group and authority-only Movement in Reserves Statements, Comprehensive Income and Expenditure Statements, Balance Sheets and Cash Flow Statements, the authority-only Housing Revenue Account Income and Expenditure Statement, the Council Tax Income Account, the Non-Domestic Rates Account, the Common Good Funds and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 (the 2014/15 Code).

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 125 of the Code of Audit Practice approved by the Accounts Commission for Scotland, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Respective responsibilities of the Chief Finance Officer and auditor

As explained more fully in the Statement of Responsibilities for the Annual Accounts, the Chief Finance Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My 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. Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the circumstances of the authority and its group and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Finance Officer; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the Annual Report and Accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion:

- give a true and fair view in accordance with applicable law and the 2014/15 Code of the state of the affairs of the group and of the local authority as at 31 March 2015 and of the income and expenditure of the group and the authority for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2014/15 Code; and

- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

Opinion on other prescribed matters

In my opinion:

- the part of the Annual Remuneration Report to be audited has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014; and
- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I am required to report by exception

I am required to report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements and the part of the Annual Remuneration Report to be audited are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit; or
- the Annual Governance Statement has not been prepared in accordance with Delivering Good Governance in Local Government; or
- there has been a failure to achieve a prescribed financial objective.

I have nothing to report in respect of these matters.

Fiona Mitchell-Knight FCA
Assistant Director
Audit Scotland
4th Floor South Suite
The Athenaeum Building
8 Nelson Mandela Place
GLASGOW
G2 1BT

21 September 2015

Appendix B: Proposed Independent Auditor's Report (Falkirk Temperance Trust)

Independent auditor's report to the trustees of Falkirk Temperance Trust and the Accounts Commission for Scotland

I certify that I have audited the financial statements of Falkirk Temperance Trust for the year ended 31 March 2015 under Part VII of the Local Government (Scotland) Act 1973 and section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005. The financial statements comprise the receipts and payments account, statement of balances and the related notes. The financial reporting framework that has been applied in their preparation is a receipts and payments basis.

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 125 of the Code of Audit Practice approved by the Accounts Commission for Scotland, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Respective responsibilities of the trustees and auditor

As explained more fully in the Annual Report, the trustees are responsible for the preparation of the financial statements which properly present the receipts and payments of the charity. My 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. Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts or disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the charity's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the trustees; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the annual report and accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the financial statements:

- properly present the receipts and payments of the charity for the year ended 31 March 2015 and its statement of balances at that date; and
- have been prepared in accordance with the requirements of the Charities and Trustee Investment (Scotland) Act 2005, and regulations 9 (1), (2) and (3) of The Charities Accounts (Scotland) Regulations 2006.

Opinion on other prescribed matter

In my opinion the information given in the Trustees' Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I am required to report by exception

I am required by The Charity Accounts (Scotland) Regulations 2006 to report to you if, in my opinion:

- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit.

I have nothing to report in respect of these matters.

Fiona Mitchell-Knight FCA
Assistant Director, Audit Services
Audit Scotland
4th Floor Suite
The Athenaeum Building
8 Nelson Mandela Place
Glasgow
G2 1BT

21 September 2015

Fiona Mitchell-Knight is eligible to act as an auditor in terms of Part VII of the Local Government (Scotland) Act 1973.

Appendix C: ISA 580 - Letter of Representation

<signed copy to be provided on headed paper>

Fiona Mitchell-Knight
Assistant Director, Audit Services
Audit Scotland
4th Floor, South Suite
The Athenaeum Building
8 Nelson Mandela Building
Glasgow
G2 1BT

21 September 2015

Dear Fiona

Falkirk Council
Annual Accounts 2014/15

1. This representation letter is provided in connection with your audit of the financial statements of Falkirk Council and its group for the year ended 31 March 2015 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view of the financial position of Falkirk Council and its group as at 31 March 2015 and its income and expenditure for the year then ended.

2. I confirm to the best of my knowledge and belief, and having made appropriate enquiries of the Corporate Management Team and the Council, the following representations given to you in connection with your audit of Falkirk Council for the year ended 31 March 2015.

General

3. I acknowledge my responsibility and that of Falkirk Council for the financial statements. All the accounting records requested have been made available to you for the purposes of your audit. All material agreements and transactions undertaken by Falkirk Council have been properly reflected in the financial statements. All other records and information have been made available to you, including minutes of all council and other meetings.

4. The information given in the annual report to the financial statements, including the management commentary and remuneration report, presents a balanced picture of Falkirk Council and is consistent with the financial statements.

5. I confirm that the effects of uncorrected misstatements are immaterial, individually and in aggregate, to the financial statements as a whole. I am not aware of any uncorrected misstatements other than those identified in the auditor's report to those charged with governance (ISA260).

Financial Reporting Framework

6. The financial statements have been prepared in accordance with Code of Practice on Local Authority Accounting in the United Kingdom 2014/15, and in accordance with the requirements of Local Government (Scotland) Act 1973 including all relevant presentation and disclosure requirements.

7. Disclosure has been made in the financial statements of all matters necessary for them to show a true and fair view of the transactions and state of affairs of Falkirk Council and its group for the year ended 31 March 2015.

Accounting Policies & Estimates

8. All material accounting policies adopted are as shown in the Statement of Accounting Policies or within the notes included in the financial statements. The continuing appropriateness of these policies has been reviewed since the introduction of IAS 8 and on a regular basis thereafter, and takes account of the requirements set out in the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

9. The significant assumptions used in making accounting estimates are reasonable and properly reflected in the financial statements. There are no changes in estimation techniques which should be disclosed due to their having a material impact on the accounting disclosures.

Going Concern

10. The Chief Officers have assessed the ability of the council and its group to carry on as a going concern, as identified in the Statement of Accounting Policies, and have disclosed, in the financial statements, any material uncertainties that have arisen as a result.

Related Party Transactions

11. All transactions with related parties have been disclosed in the financial statements. I have made available to you all the relevant information concerning such transactions, and I am not aware of any other matters that require disclosure in order to comply with the requirements of IAS24, as interpreted by the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

Remuneration Report

12. The remuneration report has been prepared in accordance with the requirements and includes all eligible remuneration for the disclosed council officers and elected members.

13. All exit packages agreed in 2014/15 and included in the accounts were notified to Falkirk Council Pension Fund to enable complete information to be provided to the actuaries for the IAS19 disclosures.

Events Subsequent to the Date of the Statement of Financial Position

14. There have been no material events since the date of the balance sheet which necessitate revision of the figures in the financial statements or notes thereto including contingent assets and liabilities.

15. Since the date of the balance sheet no events or transactions have occurred which, though properly excluded from the financial statements, are of such importance that they should be brought to your notice.

Corporate Governance

16. I acknowledge, as the officer with responsibility for the corporate governance arrangements that I have disclosed to the auditor all deficiencies in internal control of which I am aware.

17. The corporate governance arrangements have been reviewed and the disclosures I have made are in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15. There have been no changes in the corporate governance arrangements or issues identified, since the 31 March 2015, which require disclosure.

Fraud

18. I have considered the risk that the financial statements may be materially misstated as a result of fraud. I have disclosed to the auditor any allegations of fraud or suspected fraud affecting the financial statements. There have been no irregularities involving management or employees who have a significant role in internal control or that could have a material effect on the financial statements.

Assets

19. The assets shown in the Balance Sheet at 31 March 2015 were owned by Falkirk Council, other than assets which have been purchased under lease. Assets are free from any lien, encumbrance or charge except as disclosed in the financial statements.

Heritage Assets

20. With the exception of civic regalia assets heritage assets have not been subject to a valuation because it is considered that reliable cost or valuation information cannot be obtained or that the cost of obtaining such information would be disproportionate to the benefits to the users of the Council's financial statements

Liabilities

21. All liabilities have been provided for in the books of account, including the liabilities for all purchases to which title has passed prior to 31 March 2015.

Employee Benefit Accrual

22. The employee benefit accrual has been calculated by extrapolating actual costs from a sample of staff. In my opinion the sample selected is representative of the council as a whole.

Carrying Value of Assets and Liabilities

23. The assets and liabilities have been recognised, measured, presented and disclosed in accordance with Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

24. Council house dwellings will be valued using the Beacon Approach methodology from 2015/16. This will result in a significant increase in the value of council house dwellings on the balance sheet.

Provisions

25. Provisions have been made in the financial statements for all material liabilities which have resulted or may be expected to result, by legal action or otherwise, from events which had

occurred by 31 March 2015 and of which Falkirk Council could reasonably be expected to be aware. The amount recognised as a provision is the best estimate of the expenditure likely to be required to settle the present obligation at 31 March 2015.

Falkirk Temperance Trust

26. I acknowledge my responsibility and that of Falkirk Council (as the administering authority) for the financial statements. All accounting records and trust documents have been made available to you for the purpose of the audit. All material agreements and transactions undertaken by the trust have been properly reflected in the financial statements.

27. I confirm that the Falkirk Temperance Trust presented for audit is the only trust that requires an audit, where the sole trustee is Falkirk Council.

28. The financial statements of the Trust properly present the receipts and payments of the charity for the year ended 31 March 2015 and its statement of balances at that date. They have also been prepared in accordance with the requirements of the Charities and Trustee Investment (Scotland) Act 2005, and regulations 9(1), (2) and (3) of The Charities Accounts (Scotland) Regulations 2006.

29. The Annual Report and Accounts have been prepared on a receipts and payments basis as per applicable regulations and the founding documents of the Trust.

30. The cash fund and investments shown in the statement of balances at 31 March 2015 were owned by the registered charitable trust. Assets are free from any lien, encumbrance or charge, except as disclosed in the financial statements. There are no plans or intentions that are likely to affect the carrying value of the assets within the financial statements.

31. There have been no material events since the date of the balance sheet which necessitate revision of the figures in the financial statements or notes thereto including contingent assets and liabilities.

32. I confirm there are no issues or deficiencies in internal control that require to be disclosed.

33. There are no known liabilities or claims against the Trust that would impact the income and expenditure contained within the financial statements.

34. I have considered the risk that the financial statements may be materially misstated as a result of fraud. I have disclosed to the auditor any allegations of fraud or suspected fraud affecting the financial statements. There have been no irregularities involving management or employees who have a significant role in internal control or that could have a material effect on the financial statements.

Yours sincerely

Bryan Smail
Chief Finance Officer

AGENDA ITEM 8

FALKIRK COUNCIL

Subject: **CORPORATE RISK MANAGEMENT (CRM) WORK-PLAN UPDATE**
Meeting: **AUDIT COMMITTEE**
Date: **21 SEPTEMBER 2015**
Author: **DIRECTOR OF DEVELOPMENT SERVICES**

1. INTRODUCTION

1.1 Members will recall that the Corporate Risk Management (CRM) Policy & Framework was reviewed and agreed earlier in 2015, and that a 6 monthly update is to be provided to the Audit Committee and Executive.

1.2 An update on the CRM work-plan is provided in Appendix 1 and is summarised below. This was considered by CMT in August 2015, and the actions were agreed.

1.3 The CRM Work-Plan was implemented in 2013 to monitor progress in embedding CRM arrangements. This included monitoring progress with previous Local Area Network (LAN) and Internal Audit actions and, as requested by Audit Scotland, measuring the effectiveness (or maturity) of CRM arrangements against CIPFA's best practice model.

2. SUMMARY OF PROGRESS AND OUTSTANDING ACTIONS

2.1 Stage 1: Developing the CRM Framework

2.1.1. The following progress has been made:

a) A revised CRM Policy and Framework was agreed by CRMG, CMT and Audit Committee;
b) E-learning and project / partnership risk guidance and training was developed in 2014. Service Unit Managers have still to complete the CRM e-learning course;
c) The Corporate Risk Register (CRR) was agreed by CRMG and submitted to CMT; and
d) Project risk training was delivered and partnership risk arrangements are being improved.

2.1.2. The following actions will now be progressed:

a) Ensure that the CRM e-learning module is implemented within each Service and monitored via APDS;
b) Ensure that the CRM Policy & Framework is reviewed annually;
c) Ensure that the CRR is agreed and submitted to the Audit Committee, as soon as possible; and
d) Ensure that CRM training is monitored by CRMG and Service Management Teams, and is effective.

2.2 Stage 2: Reporting and Reviewing Risks

2.2.1. The following progress has been made:

a) A summary of risks has been presented to Members but they also need to agree the Corporate Risk Register (covered by a separate report);
b) Service Management Teams, except Governance, have completed a review of their risks. These will however, be updated to reflect the new structure. Children's Services and the Health & Social Care Partnership are to assess their risks;
c) The majority of Management Teams have submitted Service Risk Updates to CRMG;
d) A template for Service Risk Updates to CRMG has been agreed but will now be reviewed to reflect Service risk profiles and provide a broader assurance;
e) A review of Corporate Working Groups (CWGs) has been completed and provides improved awareness of their role and a basis for improved risk reporting and assurance; and
f) Children's Services, the Health & Social Care Partnership (HSCP) and the Community Planning Partnership (CPP) are to review their service risk management arrangements during 2015, including developing risk registers.

2.2.2. Actions:

a) Ensure that an update is provided to Members on a 6-monthly basis;
b) Ensure that CRM reports are submitted to CMT and Audit Committee at least 6 monthly;
c) Ensure that all Services, Partnership, Projects and CWGs complete a review of their risks, and that updates are included within 6-monthly Service Risk Updates to CRMG;
d) Ensure that Service Risk Updates better reflect risk profiles and provide comprehensive assurance. For example, include more details of partnership, people protection, change and information risks; lessons learnt from incidents; and approach to managing these risks; and
e) Ensure that risks are included within Service Plans and Performance Panel reports.

2.3 Stage 3: Embedding Key Risk Themes

2.3.1. The following progress has been made in 2014-15:

a) CRMG receive regular reports on asset, HR and some governance risks, including improved reporting on lessons learnt and serious organised crime. There is an intention to improve reporting and scrutiny of information management, change and partnership risks;
b) Corporate Business Continuity Management (BCM) arrangements have been improved but some actions are outstanding, including developing a Corporate Business Continuity Plan (BCP); and
c) CRMG continue to receive comprehensive assurance on health and safety and insurance, including reports on absence, accidents, claims and lessons learnt. Premises management (PM) continues to be an area where there have been gaps in assurance in relation to implementation of the arrangements at an operational level. Improvements were agreed in 2014 and these will be monitored to ensure implementation of the corporate approach and ownership of actions.

2.3.2. Actions:

a) CRMG agendas and reporting will be amended to reflect the full range of Corporate risk categories;
b) CMT should ensure that risk is embedded within strategic reviews – including Health & Social Care integration, Community Planning Partnership, transformational change and budgeting / service plan reviews;
c) CMT to consider and approve the Corporate BCM Policy and Plan, as soon as possible;
d) Once the Corporate BCM Policy has been agreed by CMT, a Corporate BCP is to be developed as soon as possible and, a BCM Test Program will be progressed;
e) A short life working group has been established to consider the possible responses to public protest, should this occur, in connection with proposed Shale Gas extraction by INEOS;
f) Services should continue to report and implement actions from lessons learnt reviews; and
g) CRMG and CMT should continue to monitor and improve Premises Management arrangements.

2.4 Stage 4: Reviewing the Effectiveness of CRM Arrangements

2.4.1. The following progress has been made:

a) CRMG agreed to use the ALARM/CIPFA benchmarking model to monitor the Council's level of risk maturity against other Council's. This model identifies 5 stages to achieving CRM maturity, and the targets and progress for the period 2013-15 are shown below:

Maturity Level	Benchmark Score	Target Date	Current Position
Level 5 – Driving	85%+		
Level 4 - Embedded and integrated	70%+	2015	
Level 3 - Working	45%+	2014	←
Level 2 – Happening	20%+	2013	
Level 1 – Awareness	0%+		

b) Appendix 1 provides an updated self-assessment, against the benchmarking model. This confirms that the Council has achieved 'Level 4 – Embedded and Integrated' in all but 3 areas – those being, information management, service risk updates and change/partnership risks.
c) The 2014 benchmarking resulted in a score of 66%. This was slightly below the average for other participants. CRMG agreed that discussions would take place with risk managers in other Scottish Local Authorities to review the results. These confirmed that our CRM arrangements now meet good practice, and results should improve by Dec 2015. A further area highlighted through this review is to improve is reporting risks to CMT and Members. This report and other associated reports help the Council to meet this criteria.

2.4.2. Actions:

a) Good progress has been made and the benchmarking results are improving, and continue with such arrangements;

b) Ensure that more progress is made in relation to change, information and partnership risks; and

c) Note that a further self-assessment and audit will be undertaken at the end of 2015.

3. RECOMMENDATIONS

Members are asked to:

3.1 Note the progress outlined above and the actions agreed by CMT and CRMG members;

3.2 Note that good progress has been made and CRM benchmarking results are improving;

3.3 Note that further work will be undertaken with CRMG and services to ensure that future risk management arrangements and reports are adapted to reflect the restructure; and

3.4 Agree to receive a further CRM work-plan update in 6 months, including the audit findings.

…………………………………..

DIRECTOR OF DEVELOPMENT SERVICES

Date: 13 August 2015
Ref: AAT210915 – CRM Work Plan
Contact Name: Hugh Coyle

Appendix 1 – CRM Work Plan – July 2015 Progress Review

LIST OF BACKGROUND PAPERS

Nil

Appendix 1: CRM Work-Plan – July 2015 Progress Review

	Current Level of Risk Maturity	Status, Progress and Actions
Stage 1: Developing the CRM Framework		
Identify CRM Resource	Embedded & Integrated	· CRM appointed, on a secondment basis.
Develop CRM Policy, Framework & Training:		
· Review CRM Policy and Develop Risk Reporting Framework;		· CRM Policy reviewed and Framework developed. Review annually.
· Review Corporate Working Groups (CWGs) & External	Embedded & Integrated	· CWG review completed. Update to be provided to the Audit Committee.
		· People Protection CWGs to be reviewed by Children's Services & HSCP
· Awareness Training: Deliver SUM and Member Training;		· Training and e-learning developed. To be completed by SUMs.
· Ongoing Training: Develop Training & Competency Matrix.		· Partnership training is planned. Monitor training needs as part of APDS.
· Review external appointments and conflicts of interest.		· Review completed. Review at least annually.
Stage 2: Reporting and Reviewing Risks		
Develop Covalent and Risk Registers:	Working	
· Risk Module (including upload of Risk Schedules & Reports);	Target - Embedded & Integrated by Dec 2015	· Risk, actions & PI data is to be maintained on Covalent by Services.
· Align risk reports with Audit, Planning & Performance Reports;		· Servies to include risk within 6-monthly CRMG & Scrutiny Panel reports.
· Support Services with updating & reporting risks on Covalent;		· Services have received user access & training - more support available.
· Identify & develop further enhancements that will add value.		· Continue to improve the system and reports e.g. links to actions.
Service Risk Reporting and Support for CRMG	Working	· 6-monthly report 'template' developed.
	Target - Embedded & Integrated by Dec 2015	· All services, except Children's Services, have provided CRMG updates.
		· All services to provide 6-monthly updates to CRMG. And the template is to be adapted to reflect each Service's risk profile and include lessons learnt from broader types of incident eg fraud, litigation & people protection.
Corporate Risk Schedule reporting to CMT and Audit Committee		· As per the CRM Policy & Framework, the CRS should be reported at least 6 monthly. The current CRS is developed on from each service's perspective and this creates a risk that it is incomplete and / or inconsistent.
Partnership Risk Reporting (on risks to Partnership and Council)		· HSCP to review develop a risk register and provide CRMG updates.
		· Ensure the CRS captures partnership risks to the Council, eg FCT.
Stage 3: Embedding Key Risk Themes		
Partnerships and Change risk management, including:-	Working	
· Procurement Board risk reports;	Target - Embedded & Integrated by 2015+	· The Procurement Board have developed a risk register and monitor this.
· Partnership Board risk reports;		· Project risk management guidance & training developed. Monitor.
		· Further Partnership risk management training is to be developed.
· Corporate Working Group risk updates.		· Services to monitor and report on risks to Portfolio Holders & CRMG.
Information risk management*, including:-	Happening*	· IM review actions to be implemented - including IM Governance WG.
· the quality of risk assessments within Info Asset Register;	Target - subjec to IM Review	· IMG WG will develop IM risk strategy, including CRMG updates.
· the quality of Privacy Impact Assessments.		
Health and Safety risk management, in terms of:-		
· the quality of the risk assessments;		· Service H&S risk assessments are reviewed on a continuous basis.
· the quality of accident investigations and lessons learnt;	Embedded & Integrated	· Service's provide 6 monthly CRMG udpates, including lessons learnt.
· targeted reductions in work-related accidents and absence;		· D/SMTs review absence, accidents & claims at least quarterly.
· the quality and completeness of Annual SOAs, inc Premises, Gas and Fleet.		· PMH, Fleet and Gas Statements of Assurance are reviewed annually. PMH assurance continues to be an issue requiring close monitoring.
· the outcomes of Service Management Reviews.		· Service H&S Management and Risk Assessment reviews are ad hoc.
Insurance risk management, in terms of:-		
· targeted reductions in claims;	Embedded & Integrated	· Complete various Gallagher Bassett reviews eg RMEQ & CNS Liability.
· the quality of claims investigations, including lessons learnt;		· Monitor and improve lessons learnt & HR14/ incident investigations.
· the outcomes of reviews by insurance and risk suppliers.		· Continue to review insurance updates 6 monthly.
Business Continuity and Resilience, in terms of:-		
· Service & Corporate BCPs - reviews of plans and tests;	Embedded & Integrated	· Complete BCM audit actions to be to completed - inc Policy & Plan.
· Key Supplier BCP Plans – reviews of plans and tests;		· Improve supplier BCPs - including waste, care homes and high schools.
· Emergency Plans - reviews of plans and tests.		· BCM Test Program agreed and to be implement and monitored.
Stage 4: Reviewing Effectiveness of CRM Framework		
Reviewing effectiveness of CRM arrangements:		
· CRMG Self Assessment: Work-Plan and KPI Reviews		· CRM 2013-15 Work-Plan developed and reviewed 6-monthly.
· CRMG Self Assessment: 2-Yearly CIPFA Benchmarking	Embedded & Integrated	· Benchmarking to be undertaken 2-yearly and self assessment annually.
· CRM Audit (reciprocal): 3 yearly		· Audit to be undertaken by West Lothian Council by Dec 2015.
· Audit Scotland Progress Review (against LAN)		· Audit Scotland and Audit Committee to receive 6 monthly CRM updates.
· Internal Audit Updates (inc Outstanding Actions)		· IA Outstanding Actions are reviewed by CRMG regularly.

AGENDA ITEM 9

FALKIRK COUNCIL

Subject: CORPORATE RISK REGISTER UPDATE
Meeting: AUDIT COMMITTEE
Date: 21 SEPTEMBER 2015
Author: DIRECTOR OF DEVELOPMENT SERVICES

1. INTRODUCTION

1.1 Members will recall that the Corporate Risk Management Policy and Framework includes a commitment that the Corporate Risk Register (CRR) will be monitored by CRMG and CMT, and reported to the Audit Committee and the Executive at least 6 monthly.

1.2 The total number of risks is outlined below:

	Very High	High	Medium
No. of Risks	3	18	26

1.3 The CRR is summarised in the following appendices:

Appendix 1: Corporate Risk Register;
Appendix 2: A summary of Appendix 1, by Risk Category and Current Risk Rating; and
Appendix 3: A summary of Appendix 1, by Portfolio Holder.

1.4 It should be highlighted that some risks do not have a Target Risk Level. This means that the lead officer for these risks considers that existing control mechanisms are adequate and that the risk level cannot reasonably be reduced further. However, risks which have a Current Risk Level of Very High do have a Target Risk Level, and additional actions are in place to reduce these risks to within the Council's risk appetite.

1.5 It should be noted that further work is being undertaken for risks associated with Children's Services, the Health & Social Care Partnership and Governance. A review of their service risks is being progressed. The CRR will be further developed to reflect the new structure arrangements and a service based risk register will be developed at this level.

2. RECOMMENDATIONS

2.1 **Members are asked to note the Appendices attached and:**

a) Note that Appendix 1 (CRR) is the outputs of a review by CMT in Aug 2015;
b) Note that Appendixes 2 and 3 are a summary of the information in Appendix 1;
c) Note that services and partnerships aim to finalise their risk reviews as soon as possible; and
d) Note that CRR updates will be provided c. 6 monthly

……………………………………..
DIRECTOR OF DEVELOPMENT SERVICES

Date: 09 September 2015
Ref:

Appendix 1: Corporate Risk Register

Introduction

The report is limited to the information advised by each Service and recorded on Covalent on 29 June 2015.

This report is divided into the 7 Corporate Risk Categories – assets, change, finance etc. - and for each there are 2 tables:

- Table A - A summary of the risks, controls and review mechanisms; and
- Table B - A list of specific risks - including a description, rating and ownership for each. This was previously called a 'schedule'.

The Lead Service / Officer for each risk is able to edit their individual risks within Covalent and each service have agreed a process for updating Covalent and recording more detailed information about each risk e.g. scoring and details of controls and additional actions to mitigate and manage risks.

The Lead Service / Officer have been adjusted, where necessary, to reflect the service re-design in Aug 2015, and these may need further review.

Heat Map i.e. Total Number of Risks By 'Current Risk Level'

Impact						
1	2	3	4	5		
	1		2	1	5	Likelihood
	3		4		4	
		9	7	5	3	
			14	1	2	
					1	

Low	Med	High	VH	Total
0	26	18	3	47

TABLE A: Summary for Corporate Risk Category:	ASSETS	Failure to properly manage assets.

Potential Outcomes	Potential Consequences
Deterioration in assets resulting in: • harm to others; • increased repairs and maintenance obligations; • loss of value if realised; • not fit for purpose; • not making best use of fixed assets (efficiency); • Environmental impact; • Failure to achieve SOA, Corporate and Service plan objectives; • Lack of capital to support identified improvement works; • Under-utilisation of assets; • Failure to comply with statutory obligations; • Failures in procurement governance; • Supplier failure; • Inaccurate Asset Valuations; • Increased property damage claims; • Failure to maximise recoveries from contractors; • Premises access & evacuation restrictions (particularly in high rises).	• Failure to deliver core services; • Prosecution or other legal remedies; • Financial loss; • Unnecessary revenue and capital expenditure; • Assets not fit for purpose (poor quality service / delivery methods); • Increased running costs; • Failure to demonstrate / achieve good environmental governance; • Failure to demonstrate best value; • Shortfall in capital receipts leading to capital plan slippage; • Service inefficiency; • Damage to reputation; • Delays; • Service interruption; • Flawed financial information & decision making; • Detrimental impact on costs & availability of insurance; • Equalities issues – Disability Discrimination Act claims.

Risk Controls	Review Mechanisms
• Capital management – including risk considerations within Bids; • Premises managers' handbook, including fire risk assessments; • Inspection, repair and maintenance arrangements; • Maintenance schedules, inc Roads Winter Plan; • Customer service & complaints monitoring; • Utilisation & efficiency reviews, inc carbon/ energy management & occupancy; • Sustainability Strategy, targets and impact assessments; • SOA, Corporate and Service Plans and Performance Reports; • Asset Management and Capital Programme alignment; • Statutory inspections and testing, inc PAT, engineering; SHQS & Gas; • Procurement strategy & guidance; • Business Continuity Policy (BCP) reviews & testing; • Periodic & appropriate Asset Valuations; • Claims management – eg. loss adjusting and contractor recoveries; • PFI high schools insurance premium adjustments & recharge; • Impact assessments – inc environment, equalities & poverty.	• CRMG, CMT and Member scrutiny; • Statements of Assurance – Premises & Fleet; • Service management teams scrutiny and monitoring; • Timely and accurate management information; • Housing Participation Groups; • Corporate Working Group (CWG)s, inc assets, housing, capital & sustainability; • Internal and External audit scrutiny and other inspections; • Investment Committee scrutiny and monitoring; • User Intelligence Meetings; • Inspection program and monitoring; • Procurement Board scrutiny and monitoring; • Council & supplier BCP monitoring; • Internal & external review of Asset Valuations; • Independent Broker PFI high school insurance premium calculations.

TABLE B: List of Corporate Risks for Risk Category: ASSETS			Failure to properly manage assets.	
Risk Title	Current Risk Level (after Controls)	Target Risk Level (after Actions)	Corporate Lead (or Sponsor)	Chief Officer Lead (or Sponsor)
Development Projects	High		DVS	Development Services DMT
Management of the various risks identified within major projects; such as Roads, Helix and Town Centre Regeneration; is essential to effectively meeting the project goals and improving the local environment and economy. Each project has more specific and detailed Project Risk Registers.				
Asset Construction & Design (All Asset Types)	Medium		DVS	Development Services DMT
Safe and efficient construction and design ensures that assets remain efficient and safe; compliant with equalities, building & planning regulations; and deliver efficiency objectives.				
Assets (excluding Housing): – Maintenance, Availability, Reliability	Medium		DVS	Head of Economic Development & Environmental Services
Effective maintenance, availability, and reliability of assets ensures sufficient capacity and continuity to deliver effective and value for money services. This includes all asset types, including premises, utilities, fleet, roads, lighting and ICT. [Note that Housing is more appropriately covered under the heading 'Council Housing Standards'].				
Premises Management	Medium		CHS / DVS	Heads of Roads & Design, Economic Development & Environmental Services and HR & Business Transformation
Premises Management: Effective / compliant processes minimise injury, protect assets (including data) and minimises financial costs and service interruptions which may be caused by repairs and claims.				
Council Housing Standards	Medium		CHS	Head of Housing Services
Providing and maintaining suitable, efficient, affordable and quality accommodation ensures reasonable living standards for tenants and compliance with H&S & SHQS regulations.				
Affordable Housing Need	Medium		CHS	Head of Housing Services
Failure to meet (or to deliver) affordable housing needs could increase (or reduce) disadvantage, inequality, poverty, legal non-compliance, homelessness and damage to economic growth.				
Environmental Risks: Energy, Waste and Sustainability.	Medium		DVS	Development Services DMT
Effective environmental management controls minimise operating costs, damage to the environment and economy, fuel poverty and protects reputation. And there is a risk that if services don't abide by regulations when preparing Plans, Strategies and Programmes these could be challenged and delays /disruptions/ embarrassment caused. This includes SEA (Strategic Environmental Assessment) / EIA (Environmental Impact Assessment) and Climate Change regulations. The risks will be further detailed within a Climate Change Risk Register.				
Contaminated & Vacant Land	Medium		DVS	Head of Economic Development & Environmental Services
Contaminated land management reduces the risk of it being disturbed; and minimises injury, clean up costs and damage to the local economy.				

TABLE A: Summary for Corporate Risk Category: CHANGE	Failure to properly recognise, plan for, and manage significant change, both internal and external.
Potential Outcomes	**Potential Consequences**
• Missed opportunities / failure to maximise financial position; • Failure to engage & obtain stakeholder buy–in; • Failure to support staff through significant change; • Failures in project governance; • Failure to respond to statutory changes (eg. equalities & planning); • Failure to achieve SOA, Corporate. Service & Project Plan objectives; • Failure to meet economic & demographic changes; • Failure to maximise investment income eg. TIF; • Failure to respond to emergencies inc pandemic and severe weather; • Asset construction & design is flawed or does not meet statutes; • Failure to respond to Council or Community emergencies; • Constitutional change.	• Financial or reputational damage by consequences of change; • Failure to achieve SOA, Corporate & Service plan objectives; • Deterioration in morale and service & increased stress; • Time/ cost / quality of project outcomes is compromised; • Prosecution or other legal remedy; • Failure to achieve and demonstrate best value; • Failure to meet increased demand for core services; • Failure to maximise economic benefits & consequences thereof; • Interruption to core services & impact on communities; • Harm to users (eg. due to poor ventilation or access); • Detrimental impact on partner organisations; • Financial loss.
Risk Controls	**Review Mechanisms**
• Corporate risk management arrangements; • Participation & engagement plans & strategies; • Employee communications, training & succession planning; • Project management framework; • Horizon scanning for changes to risks, legislation and service demand; • SOA, Service Planning and performance monitoring; • Demand planning, aligned with capital, revenue & assets; • Project management of strategic projects; • BCP & Emergency Response (Resilience) plans; • Contractor and Council insurance requirements; • Media communications and engagement; • Public Sector Improvement Framework (PSIF) reviews; • Participation in Government consultation exercises; • CWG monitoring and scrutiny – inc Improvement Governance Board & Best Value.	• Member & CMT scrutiny via established committee structure; • Internal and External audit scrutiny and other inspections; • Training evaluations; • Project status reports and monitoring by Project Boards; • Liaison with Central and Local Government partners; • Internal and External audit scrutiny and other inspections; • Review of economic & population census information; • Monitor partnership and project funding & spend; • BCP monitoring and Regional Resilience Partnership scrutiny and monitoring; • Ongoing review of legal requirements & best practice standards; • Scottish Public Services Ombudsman (SPSO) reviews.

TABLE B: List of Corporate Risks for Risk Category:	CHANGE	Failure to properly recognise, plan for, and manage significant change, both internal and external.		
Risk Title	Current Risk Level (after Controls)	Target Risk Level (after Actions)	Corporate Lead (or Sponsor)	Chief Officer Lead (or Sponsor)
Corporate Transformational Change	Very High		CMT	Corporate Management Team
Effective management of change / transformation is necessary to deliver savings, efficiencies and ensure we meet changing customer needs in an effective and planned approach. There should be Project Risk Registers in place for each change program/ project, and these should detail the risks to the achievement of objectives for individual projects, and these should be monitored by Project Boards.				
Welfare Reform	Very High		CHS	Director of Corporate & Housing Services
Welfare Reform will substantially impact on the Council, citizens, the economy; and affect a variety of groups including employees, landlords and partners; resulting in an estimated reduction in the Falkirk area economy of £48m per annum. The risks associated with WR are detailed in a Risk Schedule developed by the Welfare Reform Governance Group. The scale of change requires more flexible and innovative approaches to change & decision making, and being too 'risk averse' and slow to implement change could increase the risks.				
Health & Social Care Integration	Very High	Medium	HSCP	Chief Officer, Health & Social Care Partnership
A Project Risk Register (covering project delivery, Strategic Risk Register (covering risks to HSC Partnership once established) and Strategic Risk Management Policy and Guidance is being developed jointly by Forth Valley HSC Partners. In addition to the Project Risk Register there will be a Strategic Partnership and Unit Risk Registers.				
Integration of Education & Social Work Services to create Children's Services, following service re-design	High	Medium	CS	Director of Childrens Services
To be populated once Children's Services DMT review their risk register. The risks / challenges include:- a) Ensuring that functional areas of service delivery are mapped out; b) Senior management accountabilities are assigned; c) Senior management is recruited; and d) Relationships with the new integrated health board are embedded in the service delivery approach.				
Children & Family Services Review	High		CS	Head of Children, Families & Criminal Justice
Specific, measurable risks are set out within Service, Unit and Project Risk Registers. To be reviewed as part of CS risk register review.				
Self-Directed Support Reforms	High	Medium	CS	Chief Social Work Officer
SDS will substantially impact on the Council, our partners and vulnerable people - in particular, the elderly, the young and those with physical, mental and learning disabilities. The risks include uncertainty around the capacity to deliver change due to resources, skills and budgets; financial, information and governance risks - including IT changes, loss of charging incomes, and potential increased fraud. The risks & actions associated with this project are detailed within the SDS Project Risk Register.				
Criminal Justice Review	High		CS	Head of Children, Families & Criminal Justice
Specific, measurable risk registers are to be developed at Service, Unit and Project levels. To be reviewed as part of CS risk register review.				

Resilience: Business Continuity Management	Medium		DVS	Director of Development Services
Effective BCM protects services, reputation, finances and people, especially the most vulnerable. The threats to continuity include loss of people (due to e.g. pandemic flu); Council assets (due to e.g. severe weather or fire); and key suppliers or data (due to e.g. supplier closure and barriers to sharing information).				
Resilience: Emergency Planning / Civil Contingencies	Medium		DVS	Director of Development Services
Effective resilience and emergency response plans (including severe weather, pandemic, utilities, Grangemouth and vulnerable people) limits non-compliance with the Civil Contingencies Act (CCA); and aims to reduce avoidable harm and costs to the Council, vulnerable citizens & communities.				
Pensions Reform	Medium		CHS	Chief Finance Officer and Head of HR & Business Transformation
An effective response to the implementation of the revised LGPS and STSS schemes is required as this could impact on staff pensions and if not achieved appropriately, could result in a statutory breach.				

TABLE A: Summary for Corporate Risk Category: FINANCIAL	Failures in proper financial management
Potential Outcomes	**Potential Consequences**
• Breach of statutory duty to achieve best value; • Material mis-statement of financial position; • Inability to fulfil financial and policy obligations; • Failure to collect all income due from debtors; • Failure to pay invoices timeously; • Flawed borrowing or investment related decision making; • Fraud / irregularity; • Failure to plan for economic climate and budget challenges; • Failure to achieve SOA, Corporate and Service plan objectives; • Qualification of Annual Accounts or criticism from External Auditor; • Failure to manage the impacts of welfare reform; • Exposure to Serious Organised Crime.	• Failure to achieve and demonstrate best value; • Prosecution or other legal remedy; • Failure to deliver core services to stakeholders; • Financial leakage; • Detrimental impact on partners & risk to future supply chain; • Compromised medium to long term financial position; • Financial loss; • Compromise the financial position of partners; • External intervention / control; • Damage to reputation; • Greater demand for other Council services.
Risk Controls	**Review Mechanisms**
• CMT commitment to good financial governance and achievement of best value; • Clear and up to date Standing Orders and Financial Regulations; • SOA, Corporate and Service Plans and Performance reporting; • Debt Recovery Policy; • Reliable financial IT systems, with appropriate automated controls & BCPs; • Investment Policy; • Adherence to CIPFA Code of Practice for Treasury Management; • Anti-fraud arrangements; • Community planning priorities defined and monitored; • Internal and external scrutiny; • Complaints procedure; • Anti-Poverty Strategy.	• Member scrutiny via established Committee structure, inc. Audit Cttee; • Service management team scrutiny and monitoring; • SPSO reviews; • Debtors monitoring & Performance Indicator (PI)s; • BCP reviews & testing; • Pensions Committee scrutiny; • CWG scrutiny and monitoring e.g. Capital Review; • Following the Public Pound (FPP) monitoring, inc. Peer Reviews; • Internal and External audit scrutiny and other inspections; • Financial reporting & monitoring.

TABLE B: List of Corporate Risks for Risk Category:	FINANCIAL		Failures in proper financial management	
Risk Title	Current Risk Level (after Controls)	Target Risk Level (after Actions)	Corporate Lead (or Sponsor)	Chief Officer Lead (or Sponsor)

Budget, Economic & Demographic Pressures	Very High	High	CHS	Chief Finance Officer
Government funding cuts; reduced investment returns and capital income; inflation and interest rates; and economic and demographic pressures leads to sustained cut-backs. This needs to be balanced with protecting vulnerable people.				

Major Investment: TIF & Regeneration	High	Medium	DVS	Head of Economic Development & Environmental Services
Failure (or opportunity) to maximise funding, or withdrawal of the TIF scheme by the Scottish Government, improves opportunities for future investment and economic growth. These risks are detailed within Project Risk Schedules.				

Financial Controls	Medium		CHS	Chief Finance Officer
Failures in (or effective) spend and income management limits (or protects) financial loss and capital/ funding to meet SOA./ Service Plan commitments; greater scrutiny & challenge; and protects reputation.				

TABLE A: Summary for Corporate Risk Category: GOVERNANCE Failures in governance, leadership, accountability and decision making.	
Potential Outcomes	**Potential Consequences**
• Failure to demonstrate best value; • Members / Officers unclear/ unsure of duties and responsibilities; • Poor quality decisions; • Members lack the skills to make effective decisions; • Breakdown in relations between Members & Officers; • Lack of strategic vision, direction and outcomes; • Failure to comply with statutory duties; • Lack of information to support decisions making; • Failure to deliver multiple & simultaneous elections; • Failure to protect vulnerable people from harm; • Negligent Professional Advice e.g. legal & planning; • Failure to monitor & replicate best practice; • Failures in risk management.	• Failure to achieve SOA, Corporate and Service plan objectives; • Failure of Members / officers to fulfil responsibilities; • External intervention and criticism (and consequences thereof); • Unworkable organisation; • Failure to deliver core services; • Prosecution and other legal action; • Financial loss; • Ineffective decision making; • Re-run of elections and consequences thereof; • Injury and civil claims; • Flawed decision making; • Poor Quality Services; • Failure to identify and/or to communicate risks appropriately.
Risk Controls	**Review Mechanisms**
• SOA, Corporate and Service Plans, inc PI's; • Clear & up to date job descriptions for Officers; • Democratic process; • APDS for Members and Officers; • Code of conduct; • Standing orders via scheme of delegation; • Legal and risk implications included in Committee reports; • Annual Governance Statement; • Corporate consultation on draft committee reports; • BCPs; • Officials indemnity insurance for Officers & Members; • Professional indemnity insurance for professional advisors; • Policy, guidance & monitoring; • PSIF & REFLECT reviews; • CRM Policy and Framework, inc risk registers.	• CRMG and CMT scrutiny; • Member scrutiny via defined Committee Structure; • Standards Commissioner; • Internal and external audit and other inspections; • SPSO reviews; • Service management team scrutiny and monitoring; • Horizon scanning for legal changes; • Internal and External Audit and other inspections; • Monitoring Officers; • CWG scrutiny and monitoring inc. CAPSG, MAPPA & BVWG; • Review of lessons learnt from previous events; • Reviews of corporate working groups schedule inc. role and risks.

TABLE B: List of Corporate Risks for Risk Category:	GOVERNANCE		Failures in governance, leadership, accountability and decision making.	
Risk Title	Current Risk Level (after Controls)	Target Risk Level (after Actions)	Corporate Lead (or Sponsor)	Chief Officer Lead (or Sponsor)
Prohibitions & loss of licences – e.g. Operator Licence for vehicles	High	Medium	DVS	Head of Operational Services
Prohibitions could have significant impacts on essential services (e.g. loss of or curtailment of Operator Licence could stop the use of refuse collection and roads vehicles) and the service, reputational and financial impacts could be very high.				
Shale Gas Extraction by INEOS	High		DVS	Director of Development Services
The risk here is dependent upon developments associated with exploitation of natural energy resources by INEOS at Grangemouth. The risk is likely to focus upon the role of the Council in maintaining its statutory and other obligations in a situation which may attract significant national attention, including the possibility of a protest camp and other associated protest activity. A report will be submitted in the near future to CRMG to highlight the implications for the Council.				
Harm to vulnerable people (risk managed by Council and Partners)	High		CS	Chief Social Work Officer and Director of Childrens' Services
Protecting vulnerable people from harm minimises compensation claims; prosecutions/negative inspections & external intervention; and damage to reputation. Also, multiple reforms raises significant resource planning, skills and budget challenges, including Child & Adult Protection, Criminal Justice & NHS Integration.				
Equalities	Medium		CHS	Head of Policy & ICT Improvement
Failure (or opportunity) to comply with equalities duties (including access to housing, education & training and employment matters) may lead to (or reduce) disadvantage, poverty, inequality and welfare dependency; and associated reputational, safety, legal and financial consequences thereof.				
GIRFEC	High	Medium	CS	Head of Education
To be populated once Children's Services DMT review their risk register. The risks / challenges include:– a) Implementing "named person" responsibilities (GIRFEC); b) Regulatory compliance in regard to ASN (Additional Support Needs); c) Completing the inclusion review; and d) Work associated with the Children's Services inspection.				
Closing the gap in attainment	High	Medium	CS	Head of Education
To be populated once Children's Services DMT review their risk register. The risks / challenges include:– a) Increasing positive destinations/ outcomes; b) Meeting attainment targets; c) Improving pupil attendance; and d) Delivering zero tolerance on literacy & numeracy.				

Leadership, Decision Making & Scrutiny	Medium		CE	Chief Executive
A breakdown in relationships and/or arrangements could inhibit delivery of strategic objectives; lead to a lack of accountability for decisions and inappropriate spend. This could result in litigation; external intervention; lack of BV; financial loss & reputation damage. Includes Effectiveness & Implementation of Standing Orders, Governance Arrangements and Member Training.				
External Appointments & Conflicts of Interest	Medium		CHS	Chief Governance Officer and Head of HR & Business Transformation
Extra-Mural Employment and External Appointments of both Members and Officers may lead to conflicts of interest, particularly where Members/ Officers sit on board's of external organisations. There is also a potential conflict in relation to receipt/ acceptance of Gifts and Hospitality.				
Audit Assurance	Medium		CHS	Chief Finance Officer
Failure to complete planned Internal / External Audit work, provide a balanced assurance, and make / implement pragmatic and proportionate recommendations could lead to compromised internal control, external criticism, and breach of statutory duty.				
Procurement & Commissioning	Medium		CHS	Head of Resources & Procurement
Failure (or opportunity) to implement procurement best practice may adversely (or positively) impact on Council service provision; may adversely (or positively) impact on achieving Council's priorities in relation to matters such as sustainability and employment; and may result in failure to deliver best value and legal challenges, with consequential costs and reputational damage.				
Investment strategy is inconsistent with Political & Social Policies	Medium		CHS	Chief Finance Officer
Failure (or opportunity) to ensure that our investment strategy supports our corporate policies could lead to (or reduce) criticism from stakeholders and failure to achieve stated objectives.				
Fraud / Corruption / Serious Organised Crime	Medium		CHS	Chief Finance Officer
Failure to minimise the risk of fraud / corruption (via opportunism, insider threat, SOC, etc) could lead to legal recourse, financial loss, or reputational damage.				
Regulatory Enforcement	Medium		DVS	Heads of Economic Development & Environmental Services and Planning & Transportation
Inadequate monitoring and enforcement of planning, building, environmental and trading standards legislation creates risks to public safety and buildings, and could results in reputational damage and legal action against the Council.				

TABLE A: Summary for Corporate Risk Category: HUMAN RESOURCES Failures in human resource management	
Potential Outcomes	**Potential Consequences**
• Insufficient staff; • Recruitment and retention problems; • Absence; • Non performing staff,: • Not properly qualified; • Not properly supported; • Not properly trained; • Not properly paid; • Injured / sick staff; • Inequitable treatment of staff; • Failure to achieve SOA, Corporate and Service plan objectives; • Failure to carry out suitable disclosure checks; • Challenge of severance decisions/ sustainability; • Failure to manage safety & control claims spend; • Exposure to Serious Organised Crime (SOC); • Pay inequality; • Negative impact of changes resulting from budget.	• Failure to deliver core services; • Damage to reputation – unable to recruit /retain skilled workforce; • Cost of absences – direct & indirect, inc. sick pay & morale; • Cost of identifying and rectifying human errors; • Cost of covering vacant posts; • Reduced staff morale; • Reduced Performance / Failure to achieve full potential; • Industrial relations disputes; • Prosecution or other legal remedy; • Tribunals & civil claims; • Failure to demonstrate best value; • Prosecution or other legal remedy; • Attract too many / too few people for retirement; or union disputes; • Detrimental impact on cost & availability of insurance.
Risk Controls	**Review Mechanisms**
• Appropriate management and accountability structures; • Adequate and appropriate staff establishments; • Occupational Health & associated services; • Clear and robust HR policies and procedures; • Clear and up to date job descriptions for Officers; • APDS & Employee Development Bulletin; • Complaints & Quality Monitoring Processes; • BCPs, inc staff absence and ICT failure; • Health & safety policies and arrangements, inc PMH; • Equality Impacts Assessment included in committee reports; • Timely and accurate management information; • Appropriate Disclosure Checks & Manager Guidance; • Consultation and engagement process; • Incident reports, investigations and manager reports; • Joint Trade Union/Officer Grading Group.	• Service management teams scrutiny and monitoring; • Service Based Forums; • CRMG and CMT scrutiny; • Internal and External audit scrutiny / inspections; • External accreditation, inc IiP; • Staff Satisfaction Surveys; • CWGs scrutiny and monitoring, inc Safety @ Work; • Benchmarking of terms & conditions of service; • Statements of Assurance (Premises & Fleet); • Review of Staff Satisfaction Surveys; • Member scrutiny via established committee structure inc. JCC; • Safer Recruitment Working Group scrutiny and monitoring; • Monitoring severance (including savings achieved); • Audits & lessons learnt – inc accidents and claims reviews.

TABLE B: List of Corporate Risks for Risk Category:	HUMAN RESOURCES		Failures in human resource management	
Risk Title	Current Risk Level (after Controls)	Target Risk Level (after Actions)	Corporate Lead (or Sponsor)	Chief Officer Lead (or Sponsor)
Vacancy Management	High		CHS	Head of HR & Business Transformation
Effective vacancy management enables the Council to ensure it has the right people, in the right place, at the right time. It assists in maintaining the morale, motivation and overall well-being of employees, whilst simultaneously assisting with workforce costs, ensuring that all expenditure on workforce spend is essential. In turn, this ensures service delivery demands can be delivered at appropriate levels.				
HR Management / Workforce Planning	Medium		CHS	Head of HR & Business Transformation
Ineffective; legally non-compliant policies and practices in relation to recruitment, pay, equalities, performance and training / development issues causes employee dissatisfaction and leads to Industrial Action / Union Disputes and Legal Action. All of these factors have a significant impact on service delivery and could lead to financial loss, inefficiency & reputational damage; and may also cause in Harm to Vulnerable People.				
Absence	High		CHS	Head of HR & Business Transformation
Pro-active management of absence by Managers can help to reduce absence, resulting in lower costs from absence and a reduced impact on service delivery. The effective management of absence can also have a positive impact on the health, morale, motivation and performance of employees, resulting in better and more efficient services being delivered by the Council.				
Health & Safety	Medium		CHS	Head of HR & Business Transformation
Failure (or opportunity) to protect the well-being of staff could result in (or reduce) illness, poor morale, financial costs and reputational damage. This includes risk from premises; fleet; and the public; and risks and actions identified within various HR and H&S Policies, Risk Assessments & Audits.				
Payroll & Pension Payment Failures	Medium		CHS	Chief Finance Officer and Head of HR & Business Transformation
Payroll & Pension Failures: Failure to pay the correct amount and on time to employees and pensioners could lead to distress and financial hardship to individuals, lack of trust and morale, and damage to reputation.				

TABLE A: Summary for Corporate Risk Category: INFORMATION	Failures in proper information management (availability, integrity and security).
Potential Outcomes	**Potential Consequences**
• Information / data loss; • Information / data corruption; • Compromised decision making; • Breach of statutory duty e.g. DPA & Public Records; • Inappropriate use of Council ICT equipment; • Breach of confidentiality, compromising staff, public, or other stakeholders; • Flawed decision-making or reporting; • Failure to achieve SOA, Corporate and Service plan objectives; • Inefficient / sub-optimal systems; • Systems breakdown / failure; • Failure in ICT contract management; • Exposure to Serious Organised Crime; • Loss of PSX / GSX Accreditation;	• Prosecution/ other legal remedy; • Financial loss resulting from reliance on flawed or incomplete data; • Failure to deliver core services; • Failure to provide evidence for inspections, regulators etc; • Damage to reputation; • Risk of harm to data subjects e.g. offenders; • Detrimental impact on partner organisations; • Failure to deliver best value services; • Costs of reinstatement/ additional costs of working; • Dependence on suppliers and risks of their failure; • Unable to access key ICT systems eg remote working;
Risk Controls	**Review Mechanisms**
• Data loss reporting to SPSO; • Compliance with relevant legislation e.g. Data Protection; • Clear ICT strategy and supporting policy & procedures; • Clear records management policy & procedures; • Acceptable Use of the internet and email policy; • Data sharing protocols with partners inc Info Audit & logging of info transfers; • CMT commitment to good information governance; • SOA, Corporate and Service Plans (including PI's); • Investment – alignment of ICT, Service & Asset Strategies; • BCPs; • Contract Monitoring Framework for critical systems; • Systems & buildings security inc access controls, encryption & virus checking; • Property damage & business interruption insurance, including increased cost of working; • Privacy Impact Assessments; • Information Asset Register. • Project management of PSX, inc consultants;	• SIC (info. Commissioner); • CWGs inc Improvement Governance Board monitoring & scrutiny; • CWG sub-group monitoring, inc FOI, Records Management & RIPSA*; • Service Management Teams scrutiny and monitoring; • Public Records Statement of Assurance; • ICT Controls & Monitoring e.g. internet use & email scanning; • Internal and External audit scrutiny and other inspections; • CRMG & CMT scrutiny; • Member scrutiny via established committee structure; • Tendering & best practice monitoring; • BCP reviews & testing; • Contract Monitoring Officers; • Systems Administrators; • RIPSA* Working Group (Regulation of Investigatory Powers) monitoring; • Reviews of Project Plans and Business Impact Assessments;

TABLE B: List of Corporate Risks for Risk Category:	INFORMATION		Failures in proper information management (availability, integrity and security).	
Risk Title	Current Risk Level (after Controls)	Target Risk Level (after Actions)	Corporate Lead (or Sponsor)	Chief Officer Lead (or Sponsor)
MI: Availability, Reliability & Fitness For Purpose (including ICT Business Continuity)	High	Medium	CHS	Head of Policy & ICT Improvement
Reliability and effectiveness of ICT to ensure continued service delivery.				
Barriers to Sharing Data	High	Medium	CHS	To be confirmed by Director of CHS
Barriers to Sharing Data: This applies to data shared both within the Council & with our Partners Many of the barriers – especially internal barriers – are 'artificial'; meaning they are not based on an accurate interpretation of Data Protection laws. In addition to the risks highlighted under 'Data Protection', this risk may have a serious impact on the Council and our Partners ability to identify and offer appropriate (targeted) support to vulnerable people. It also affects service improvement/ efficiency and the quality of decisions, and therefore service outcomes. Also, multiple and incompatible internal systems creates additional costs and resource implications.				
Data Protection	High		CHS	To be confirmed by Director of CHS
Data Protection: Employees may not adhere to Corporate Information Policies & Guidance and this could compromise the security of data, and result in unauthorised access and/or data loss. The consequences may include fines from the ICO; costs of correcting the error; threats to data subjects and reputation.				
ICT – PSN Compliance	High		CHS	Head of Policy & ICT Improvement
In addition to the risks highlighted under 'Data Protection', there are significant costs & time pressures of complying with changes to government ICT security requirements. Access to PSN (government systems where we exchange information) could be cut off. Potential for unauthorised access and/or compromise to confidential data; service interruption (particularly to home/ remote working) and significant costs & time pressures of complying with changes.				
PCI DSS (Payment Card Industry Data Security Standards) Compliance	High	Low	CHS	Chief Finance Officer and Head of Policy & ICT Improvement
The Council has a duty to comply with the Payment Card Industry Data Security Standards (PCI DSS). At present the Income Management system is managed by Capita which already has the Gold standard for compliance, however, the Council must adhere to the regulations before the card data is received in the system. This includes physical hardware which must be PCI DSS compliant with constant visual checks and the ICT infrastructure including networks and firewalls. An annual questionnaire must be completed and submitted, and quarterly review audits need to be carried out. Whilst the Council is non-compliant we could be subject to charges relating to each month non-compliant and fines if there is a data breach based on the number of card details processed and could be subject to the breach. A questionnaire must be completed for each Merchant Number in use within the Council and the Community Trust.				
Public Performance Reporting and Engagement	High	Medium	CHS	Head of Policy & ICT Improvement
Need to ensure our customer and stakeholders have information on the performance of Council services and opportunities to feedback on those services. This information is then used to change and improve services where appropriate.				

TABLE A: Summary for Corporate Risk Category: PARTNERSHIPS Failures in partnerships or contracts with external bodies.	
Potential Outcomes	**Potential Consequences**
• No delivery mechanism for plan/ project; • Failure/ deteriorating performance of partners; • Interruption to supply chain; • Failure to achieve aims of partnership or contract; • Failure to prioritise partner funding effectively; • Harm to service users; • Failures in procurement & partnership governance.	• Failure to deliver core services; • Financial loss; • Customer service issues & consequences thereof; • Failure to achieve SOA, Corporate and Partnership objectives; • Detrimental impact on partner organisations; • Prosecution or other legal action; • Time/ cost / quality of project outcomes is compromised.
Risk Controls	**Review Mechanisms**
• SOA, Corporate, Service & Partnership Plans; • JWA's (Joint Working Agreements); • FPP (Follow the Public Pound) & supplier monitoring; • Suppliers/partners BCPs and monitoring; • Measuring return on investment / impact of funding; • Partnership Agreement and Contracts, with legal input; • PSIF; • Surety eg. Performance & Parental Guarantee / insurance; • Procurement Policies, inc appointment of consultants; • Make payments in arrears to partners, where appropriate.	• CMT & Member scrutiny via established committee structure; • CWGs, inc. Community Planning Partnership, Procurement Board and Best Value; • Review and testing of key supplier BCPs; • Internal and External Audit and other inspections; • Scrutiny and monitoring by Peer Review Groups; • Evidence of surety gathered as part of contract monitoring; • SLA monitoring.

TABLE B: List of Corporate Risks for Risk Category:	PARTNERSHIPS		Failures in partnerships or contracts with external bodies.	
Risk Title	Current Risk Level (after Controls)	Target Risk Level (after Actions)	Corporate Lead (or Sponsor)	Chief Officer Lead (or Sponsor)
Community Planning Partnership	Medium		CHS	Head of Policy & ICT Improvement
The Council is required to actively participate in community planning to ensure the delivery of the vision and outcomes for our communities is achieved and that all public resources are used efficiently and effectively in achieving said vision and outcomes.				
Following the Public Pound	Medium		CHS	Head of Policy & ICT Improvement
Failure (or opportunity) to manage relationships with partners and to ensure that external funding is safe; delivers best value and meets the needs of our customers could result in (or reduce) financial loss; reputation damage and increased demand for Council services.				
Falkirk Community Trust	Medium		CE	Chief Executive
This includes risks to both the Trust (i.e. failure to deliver the Trust Service Plan) and the Council (i.e. failure to deliver the Council's Corporate Plan and SOA). Failure to meet KPI's or manage risks may result in poor service to customers, inefficiency and risks to various parties. Also, poor performance by the Council may result in the Trust commissioning alternative providers – and this would reduce Council income & create surplus resources.				
Economy and Training	Medium		DVS	Head of Economic Development & Environmental Services
Failure (or opportunity) to retain and attract funding, and to meet the objectives agreed with partners and funders, could minimise financial claw back, unemployment, reputational damage, and lack of opportunities. This may increase (or reduce) welfare dependency and costs.				

Appendix 2: CRR - Summary by Risk Category

Risk Category / Risk Title	Current Risk Level	Target Risk Level
Assets		
Development Projects	High	
Asset Construction & Design (All Asset Types)	Medium	
Assets (excluding Housing): Maintenance, Availability, Reliability	Medium	
Premises Management	Medium	
Affordable Housing Need	Medium	
Council Housing Standards	Medium	
Environmental Risks: Energy, Waste and Sustainability.	Medium	
Contaminated & Vacant Land	Medium	
Change		
Corporate Transformational Change	Very High	
Health & Social Care Integration	Very High	Medium
Welfare Reform	Very High	
Integration of EDU & SWK Services to create Children's Services	High	Medium
Self-Directed Support Reforms	High	Medium
Children & Family Services Review	High	
Criminal Justice Review	High	
Resilience: Business Continuity Management	Medium	
Resilience: Emergency Planning / Civil Contingencies	Medium	
Pensions Reform	Medium	
Financial		
Budget, Economic & Demographic Pressures	Very High	High
Major Investment: TIF & Regeneration	High	Medium
Financial Controls	Medium	
Partnerships		
Community Planning Partnership	Medium	
Following the Public Pound	Medium	
Falkirk Community Trust	Medium	
Economy and Training	Medium	

Risk Category / Risk Title	Current Risk Level	Target Risk Level
Governance		
Prohibitions & loss of licences (eg VOSA licence)	High	Medium
Shale Gas Extraction by INEOS	High	
GIRFEC	High	Medium
Closing the gap in attainment	High	Medium
Leadership, Decision Making & Scrutiny	Medium	
External Appointments & Conflicts of Interest	Medium	
Audit Assurance	Medium	
Fraud / Corruption / Serious Organised Crime	Medium	
Investment strategy is inconsistent with Political & Social Policies	Medium	
Equalities	Medium	
Procurement & Commissioning	Medium	
Regulatory Enforcement	Medium	
Human Resources		
Absence	High	
Vacancy Management	High	
HR Management / Workforce Planning	Medium	
Health & Safety	Medium	
Payroll & Pension Payment Failures	Medium	
Information		
MI: Availability, Reliability & Fitness For Purpose	High	Medium
Data Protection	High	
Barriers to Sharing Data	High	Medium
ICT – PSN Compliance	High	
PCI DSS (Payment Card Ind. Data Sec. Stand.) Compliance	High	Low
Public Performance Reporting and Engagement	High	Medium

Appendix 3: CRR - Summary by Portfolio Holder

Portfolio Holder / Risk Title	Current Risk Level	Target Risk Level
Leader of the Council		
Welfare Reform	Very High	
Absence	High	
Vacancy Management	High	
Prohibitions & Loss of Licences (e.g. Vehicle Operators Licence)	High	Medium
Public Performance Reporting and Engagement	High	Medium
Leadership, Decision Making & Scrutiny	Medium	
External Appointments & Conflicts of Interest	Medium	
Audit Assurance	Medium	
Fraud / Corruption / Serious Organised Crime	Medium	
HR Management / Workforce Planning	Medium	
Health & Safety	Medium	
Equalities	Medium	
Asset Construction & Design (All Asset Types)	Medium	
Assets (exc. Housing): Maintenance, Availability, Reliability	Medium	
Premises Management	Medium	
Community Planning Partnership	Medium	
Following the Public Pound	Medium	
Procurement & Commissioning	Medium	
Regulatory Enforcement	Medium	
Culture, Leisure and Tourism		
Falkirk Community Trust	Medium	
Economic Development		
Development Projects	High	
Major Investment: TIF & Regeneration	High	Medium
Economy and Training	Medium	
Environmental Risks: Energy, Waste and Sustainability.	Medium	
Contaminated & Vacant Land	Medium	

Portfolio Holder / Risk Title	Current Risk Level	Target Risk Level
Education / Childrens' Services		
Children & Family Services Review	High	
Closing the gap in attainment	High	Medium
GIRFEC	High	Medium
Integration of Edu & SWK Services to create Children's Services	High	Medium
Health & Social Care		
Health & Social Care Integration	Very High	Medium
Self-Directed Support Reforms	High	Medium
Housing		
Affordable Housing Need	Medium	
Council Housing Standards	Medium	
Public Protection		
Criminal Justice Review	High	
Shale Gas Extraction by INEOS	High	
Resilience: Emergency Planning / Civil Contingencies	Medium	
Resources		
Budget, Economic & Demographic Pressures	Very High	High
Corporate Transformational Change	Very High	
Barriers to Sharing Data	High	Medium
Data Protection	High	
ICT - PSN Compliance	High	
MI: Availability, Reliability & Fitness For Purpose (inc ICT BCP)	High	Medium
PCI DSS (Payment Card Ind. Data Sec.Standards) Compliance	High	Low
Financial Controls	Medium	
Investment strategy is inconsistent with Political & Social Policies	Medium	
Payroll & Pension Payment Failures	Medium	
Pensions Reform	Medium	
Resilience: Business Continuity Management	Medium	

AGENDA ITEM 10

FALKIRK COUNCIL

Subject: **AUDIT COMMITTEE ANNUAL REPORT 2014/15**
Meeting: **AUDIT COMMITTEE**
Date: **21 SEPTEMBER 2015**
Author: **AUDIT COMMITTEE CONVENER**

1. INTRODUCTION

1.1 Falkirk Council's Audit Committee continues to evolve in line with relevant guidance and good practice. An external Independent Convener has been in place since 2011 which demonstrates the commitment of the Council to maintaining a culture to support risk management, governance, and control. The Committee now has an established role within the Council's wider governance framework.

1.2 In January 2012, Members of the Committee met, without Council Officers present, to review its activities against previously agreed Terms of Reference. At that meeting, the Terms of Reference themselves were also reviewed, and subsequently agreed at the December 2012 meeting of full Council.

2. AUDIT COMMITTEE

Purpose of Committee

2.1 The purpose of the Audit Committee is to support the Council in its responsibilities for risk management, governance and control.

2.2 It does this by seeking assurance that an efficient and effective system of internal control is maintained, and that reasonable and proportionate arrangements have been established to ensure that assets are safeguarded, waste or inefficiency is avoided, reliable financial information is produced, value for money is continuously sought and that Council activities are within the law.

Composition and Meetings

2.3 During 2014/15 Committee membership comprised:

Convener	Mrs. Roseann Davidson	
Members	Provost Reid Depute Provost Patrick Councillor Murray	Councillor Carleschi Councillor Coleman Baillie Paterson

2.4 The Committee met on four occasions during the period 01 April 2014 to 31 March 2015, on the undernoted dates:

- Monday 23 June 2014;
- Monday 22 September 2014;
- Monday 15 December 2014;
- Monday 20 April 2015. (Postponed March meeting)

2.5 This is in accordance with the requirements of the Terms of Reference of the Committee. An attendance schedule is attached at **Appendix 1** for information. Minutes of all meetings are submitted to Council as part of the Volume of Minutes.

3. BUSINESS

3.1 The Committee considered a variety of work during the year, primarily in relation to Internal and External Audit plans and reports, risk management and the Annual Accounts process.

3.2 Training for members was provided in the form of presentations prior to the start of formal meetings. Police Scotland's Public Sector Counter Corruption Unit provided input on initiatives to counter fraud in the public sector, and Audit Scotland updated the Committee on the narrative aspects of the financial statements.

Internal Audit

3.3 The Committee reviewed and approved the 2014/15 Internal Audit Plan on 24 March 2014. The Internal Audit Plan was based on a risk assessment and took account of input from senior management. The Committee monitored the progress of the Internal Audit Plan and received reports on the key findings of the work at each meeting throughout the year.

3.4 An Internal Audit Annual Assurance Report, summarising the work undertaken during 2014/15 was presented to the Committee by the Internal Audit Manager on 22 June 2015[1].

3.5 A summary of Internal Audit work undertaken during 2014/15 is attached at **Appendix 2**.

External Audit

3.6 Representatives of Audit Scotland, the Council's Appointed External Auditors, attend all meetings of the Committee, and presented their 2014/15 Annual Audit Plan on 12 March 2014. In September 2014 the Committee considered the detailed findings from the audit of the 2013/14 Annual Accounts, with no material matters arising.

3.7 During the year, the Committee considered progress reports on the work of the External Auditors as well as reports from them on specific areas of the Council's operations.

[1] The equivalent report, on 2013/14 Internal Audit work, was presented to Audit Committee on 23 June 2014.

Annual Accounts

3.8 At the September 2014 meeting, Members considered Annual Accounts for 2013/14, the ISA 260 Report to Those Charged with Governance, the Annual Governance Statement, and the Internal Audit Annual Assurance Report.

3.9 There were no significant matters raised by Audit Scotland following their examination of the 2013/14 accounts.

4. RISK MANAGEMENT

Policy

4.1 The Director of Development Services presented a report on the Corporate Risk Management Policy and Framework to the meeting on 20 April 2015. At that meeting, Members also considered and noted a report arising from a review of the Council's Corporate Working Groups.

5. OTHER MATERS

5.1 Over the course of the year the Committee received updates on areas such as fraud prevention, Local Authority Accounts Regulations, ICT Services, and the Local Scrutiny Plan.

5.2 A revised Anti Fraud and Corruption Policy was approved by the Committee in September 2014.

5.3 Internal and External Audit representatives attend all meetings, as does the Chief Executive, Chief Finance Officer, and a representative from Democratic Services. Other senior officers attend meetings as required.

6. FUTURE PRIORITIES

6.1 During 2015/16, Committee members will meet to consider new or emerging guidance for Audit Committees. Any required amendments to Terms of Reference (and, therefore, Standing Orders) will be submitted to the full Council for consideration and approval at the appropriate time.

6.2 The Convener will continue to meet with officers to discuss and enhance arrangements for servicing the Committee, particularly in relation to updating Members on relevant guidance and legislation.

6.3 The Committee will seek to take account of relevant good practice and guidance. Committee members may meet with Internal and External Audit, without the presence of officers, to gain assurance that the audit process is working effectively with full cooperation of officers. Actions arising from any such meeting may be brought to a formal meeting of the Committee for consideration.

6.4 As well as fulfilling its core functions (as per its Terms of Reference), the Committee will also consider:

- continuing training and development for Committee members;
- the ongoing developments in the risk management process;
- emerging issues in areas of risk and governance, including the integration of Health and Social Care;
- assurance on risk management, governance and internal control from bodies responsible for services provided on behalf of Falkirk Council.

7. RECOMMENDATION

7.1 The Committee is invited to note this report on the work of the Audit Committee and to approve its submission to Falkirk Council.

Roseann Davidson
AUDIT COMMITTEE CONVENER

Date: 21 September 2015

AUDIT COMMITTEE - ATTENDANCE RECORD 2014/15

Date of Meeting	Roseann Stevenson (Convener)	Provost Reid	Depute Provost Patrick	Baillie Paterson	Councillor Murray	Councillor Coleman	Councillor Carleschi
23 June 2014	Y	N	Y	N	Y	Y	Y
22 September 2014	Y	Y	Y	Y	Y	Y	Y
15 December 2014	Y	Y	Y	N	N	Y	Y
20 April 2015	Y	Y	N	Y	Y	Y	N

SUMMARY OF INTERNAL AUDIT WORK UNDERTAKEN DURING 2014/15

No.	Service/Status	Review / Assignment	Level of Assurance
	Reviews / Assignments Completed During 2014/15		
1.	Corporate and Neighbourhood	Central Purchasing Unit	Substantial
2.	Corporate and Neighbourhood	Overtime, Allowance, and Payroll Change Administration	Substantial
3.	Corporate and Neighbourhood / Governance / Finance	Council House Buy Back Arrangements	Substantial
4.	All Services	Performance Indicator Verification	Substantial
5.	All Services	Continuous Auditing	Not Applicable
6.	All Services	National Fraud Initiative	Not Applicable
7.	All Services	Corporate Purchasing	Substantial
8.	Social Work	Criminal Justice Services – Position Statement	Not Applicable
9.	Development	Business Gateway Contract Monitoring	Limited
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	Substantial
15.	Finance	Non-Domestic Rates	Substantial (combined report)
16.	Development	Strategic Projects	
17.	Falkirk Community Trust	Vehicle Management and Inventory Control	Substantial

	Additional Reviews / Assignments Completed During 2014/15		
18.	All Services	Consultation Exercises	Not Applicable
19.	Corporate and Neighbourhoo	Contact Centre Security	Substantial
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	Substantial