Note 7: Expenditure and Funding Analysis

Adjustments between Funding and Accounting Basis 2018/19

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts	Adjustments for Capital Purposes (Note 1) £'000	Net change for the Pensions Adjustments (Note 2) £'000	Other Differences (Note 3) £'000	Total Adjustments £'000
Children's Services	44,210	5,217	(16,944)	32,483
Social Work – Adult Services	472	2,946	57	3,475
Development Services	11,589	4,142	120	15,851
Corporate & Housing Services	2,232	7,669	557	10,458
Housing Revenue Account	21,350	2,538	(20,769)	3,119
Net Cost of Services	**79,853**	**22,512**	**(36,979)**	**65,386**
Other Income and Expenditure from the Expenditure and Funding Analysis	**(57,361)**	**7,048**	**38,038**	**(12,275)**
Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statements Surplus or Deficit on the Provision of Services	**22,492**	**29,560**	**1,059**	**53,111**

Adjustments between Funding and Accounting Basis 2017/18

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts	Adjustments for Capital Purposes (Note 1) £'000	Net change for the Pensions Adjustments (Note 2) £'000	Other Differences (Note 3) £'000	Total Adjustments £'000
Children's Services	12,654	4,503	(18,595)	(1,438)
Social Work – Adult Services	407	2,765	4	3,176
Development Services	10,476	3,730	350	14,556
Corporate & Housing Services	1,031	177	12	1,220
Housing Revenue Account	18,950	2,211	(22,254)	(1,093)
Net Cost of Services	**43,518**	**13,386**	**(40,483)**	**16,421**
Other Income and Expenditure from the Expenditure and Funding Analysis	**(59,653)**	**11,728**	**40,606**	**(7,319)**
Difference between General Fund Surplus or Deficit and Comprehensive Income and Expenditure Statements Surplus or Deficit on the Provision of Services	**(16,135)**	**25,114**	**123**	**9,102**

(1) Adjustments for Capital Purposes

Adds in depreciation and impairment and revaluation gains and losses in the services line, and for:

- Other operating expenditure – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets.
- Financing and investment income and expenditure – the statutory charges for capital financing i.e. Minimum Revenue Provision and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices.
- Taxation and non-specific grant income and expenditure – capital grants are adjusted for income not chargeable under generally accepted accounting practices. Revenue grants are adjusted from those receivable in the year to those receivable without conditions or for which conditions were satisfied throughout the year. The Taxation and Non Specific Grant Income and Expenditure line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year.

(2) Net Change for the Pensions Adjustments

Net change for the removal of pension contributions and the addition of IAS 19 Employee Benefits pension related expenditure and income:

For services this represents the removal of the employer pension contributions made by the authority as allowed by statute and the replacement with current service costs and past service costs.

For Financing and investment income and expenditure – the net interest on the defined benefit liability is charged to the CIES.

(3) Other Differences

Other differences between amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts payable/receivable to be recognised under statute:

For Financing and investment income and expenditure the other differences column recognises adjustments to the General Fund for the timing differences for premiums and discounts.

The charge under Taxation and non-specific grant income and expenditure represents the difference between what is chargeable under statutory regulations for council tax and NDR that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices in the Code. This is a timing difference as any difference will be brought forward in future Surpluses or Deficits on the Collection Fund.

Note 8: Expenditure and Income Analysed by Nature

The authority's expenditure and income is analysed as follows:

2017/18 £'000		2018/19 £'000
	Expenditure	
238,339	Employee benefits expenses	257,756
312,008	Other services expenses	325,759
43,810	Depreciation, amortisation, impairment	80,175
25,430	Interest payments	24,157
33,939	Pensions interest cost	30,074
-	Loss on the disposal of assets	231
653,526	**Total Expenditure**	**718,152**
	Income	
(264,170)	Fees, charges and other service income	(276,721)
(416)	Interest & investment income	(463)
(21,778)	Pensions interest income on plan assets	(22,752)
(128,628)	Income from council tax, non-domestic rates	(131,152)
(231,212)	Government grants and contributions	(233,340)
(892)	Gain on the disposal of assets	-
(647,096)	**Total Income**	**(664,428)**
6,430	**(Surplus) or Deficit on the Provision of Services**	**53,724**

Note 9: Adjustments between Accounting Basis and Funding Basis Under Regulations 2018/19

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	Notes
Depreciation, impairment and downward revaluation of non-current assets	(58,057)	(21,350)	-	-	-	**(79,407)**	79,407	10(a)
Amortisation of intangible assets	(767)	-	-	-	-	**(767)**	767	10(a)
Impairment of Investment	(563)	-	-	-	-	**(563)**	563	10(a)
Statutory Repayment of Debt (Loans Fund Advances)	10,176	5,901	-	-	-	**16,077**	(16,077)	10(a)
Capital expenditure charged to the General Fund Balance (CFCR)	679	9,112	-	-	-	**9,791**	(9,791)	10(a)
Statutory Repayment of Debt (PFI)	5,475	-	-	-	-	**5,475**	(5,475)	10(a)
Capital Receipts applied to fund Capital Expenditure	-	-	-	-	-	**-**	-	10(a)
Use of reserves to finance new capital expenditure	870	-	-	-	-	**870**	(870)	10(a)
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	270	64	-	-	-	**334**	(334)	10(e)
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	(27,022)	(2,538)	-	-	-	**(29,560)**	29,560	10(c)
Net transfer to or from the Accumulated Absences account required by legislation	(1,074)	18	-	-	-	**(1,056)**	1,056	10(d)
Employee Liabilities	-	-	-	-	-	**-**	-	10(f)
Net Loss/(Gain) on Sale of Assets	(212)	(19)	-	-	-	**(231)**	-	
Capital Receipts Received	-	-	(1,422)	-	-	**(1,422)**	-	
Capital Receipts Applied to Debt Repayment	-	-	4,540	-	-	**4,540**	(4,540)	10(a)
Capital Grants Received	21,181	4,745	-	363	-	**26,289**	(26,289)	10(a)
Net Book Value of Asset Disposals	-	-	-	-	-	**-**	1,653	10(a)&(b)
Total Adjustments	**(49,044)**	**(4,067)**	**3,118**	**363**	**-**	**(49,630)**	**49,630**	

Adjustments between accounting basis and funding basis under regulations 2017/18

	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	Notes
Depreciation, impairment and downward revaluation of non-current assets	(24,278)	(18,950)	-	-	-	**(43,228)**	43,228	10(a)
Amortisation of intangible assets	(582)	-	-	-	-	**(582)**	582	10(a)
Impairment of Investment	(1,526)	-	-	-	-	**(1,526)**	1,526	10(a)
Statutory Repayment of Debt (Loans Fund Advances)	9,626	5,349	-	-	-	**14,975**	(14,975)	10(a)
Capital expenditure charged to the General Fund Balance (CFCR)	2,038	11,303	-	-	-	**13,341**	(13,341)	10(a)
Statutory Repayment of Debt (PFI)	5,688	-	-	-	-	**5,688**	(5,688)	10(a)
Capital Receipts applied to fund Capital Expenditure	-	-	2,399	-	-	**2,399**	(2,399)	10(a)
Use of reserves to finance new capital expenditure	426	-	-	-	-	**426**	(426)	10(a)
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	268	65	-	-	-	**333**	(333)	10(e)
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	(22,903)	(2,211)	-	-	-	**(25,114)**	25,114	10(c)
Net transfer to or from the Accumulated Absences account required by legislation	179	(2)	-	-	-	**177**	(177)	10(d)
Employee Liabilities	(300)	-	2,110	-	-	**1,810**	(1,810)	10(f)
Net Loss/(Gain) on Sale of Assets	(255)	1,147	-	-	-	**892**	-	
Capital Receipts Received	-	-	(3,947)	-	-	**(3,947)**	-	
Capital Grants Received	21,205	4,611	-	34	-	**25,850**	(25,850)	10(a)
Net Book Value of Asset Disposals	-	-	-	-	-	**-**	3,055	10(a)&(b)
Total Adjustments	**(10,414)**	**1,312**	**562**	**34**	**-**	**(8,506)**	**8,506**	

Note 10: Unusable Reserves

(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.

2017/18 £'000		2018/19 £'000
(179,433)	**Balance at 1 April**	**(210,719)**
(25,850)	Capital Grants Received	(26,289)
1,047	Net Book Value of Asset Disposals	1,174
(168)	Gain/(loss) on Revaluation of Non-Current Assets	-
43,228	Depreciation/ impairment and downward revaluation of non-current assets	79,407
582	Amortisation of intangible assets	767
1,526	Impairment of Investment	563
(14,975)	Statutory Repayment of Debt (Loans Fund Advances)	(20,617)
(13,341)	Capital expenditure charged to the General Fund Balance (CFCR)	(10,661)
(5,688)	Statutory Repayment of Debt (PFI)	(5,475)
(2,399)	Capital Receipts applied to fund Capital Expenditure	-
(426)	Use of the Repairs & Renewals Fund, DMR, Spend to Save to Finance new capital expenditure	-
(14,822)	Adjustment between CAA and Revaluation Reserve for depreciation that is related to the revaluation balance rather than Historic Cost	(22,922)
(210,719)	**Balance at 31 March**	**(214,772)**

(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.

2017/18 £'000		2018/19 £'000
(429,160)	**Balance at 1 April**	**(421,240)**
2,008	Net Book Value of Assets Disposals	479
(8,910)	Loss/(Gain) on Revaluation of Non-Current Assets	(29,798)
14,822	Adjustment between CAA and Revaluation Reserve for depreciation that is related to the revaluation balance rather than Historic Cost	22,922
(421,240)	**Balance at 31 March**	**(427,637)**

(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.

2017/18 £'000		2018/19 £'000
461,650	**Balance at 1 April**	**263,978**
(222,786)	Remeasurements of Pension Assets/Liabilities	40,624
25,114	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	29,560
263,978	**Balance at 31 March**	**334,162**

(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.

2017/18 £'000		2018/19 £'000
6,128	**Balance at 1 April**	**5,951**
(177)	Net transfer to or from earmarked reserves required by legislation	1,056
5,951	**Balance at 31 March**	**7,007**

(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 2019 will be charged to the General Fund over the next 34 years.

2017/18 £'000		2018/19 £'000
5,072	**Balance at 1 April**	**4,739**
(333)	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	(334)
4,739	**Balance at 31 March**	**4,405**

(f) Employee Statutory Adjustment Account

An Employee Statutory Adjustment Account was established in 2016/17. This account allows the charge for a provision for employee related liabilities, to be deferred until a settlement is actually made. When the accounting provision is paid or reduced, the statutory adjustment account is to be credited and the General Fund is to be charged with the amount of the payment or reduction, unless the provision is funded by Capital Receipts as was the case in 2016/17 and 2017/18.

2017/18 £'000		2018/19 £'000
1,810	**Balance at 1 April**	**-**
300	Net transfer to or from earmarked reserves required by legislation	-
(2,110)	Payment of Employee Liabilities	-
-	**Balance at 31 March**	**-**

Note 11: Material Items of Income and Expense

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 material items requiring additional disclosure in 2018/19.

Note 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.

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

Other material transactions with related parties were as follows:

Related party		Income 2018/19 £'000	Expenditure 2018/19 £'000
Falkirk Towns Ltd	Promotion of Town Centres	-	316
Falkirk Council Pension Fund	Charge for Support Services (Also see Note 17 – Defined Benefit Pension Schemes)	97	-
Falkirk Community Stadium Ltd	Repayment of expenses and Professional Fees	400	-
Central Scotland Green Network Trust	Promotion of Cycling and Environmental Development	-	78
Family Centres	Funding provided per Service Level Agreement	-	193
Central Scotland Valuation Joint Board	Contribution to running costs	-	1,215
	Charge for Support Services	15	-
Falkirk Schools Gateway	Contribution to operating costs	-	4,688
Committed to Ending Abuse (CEA Ltd)	Funding provided per Service Level Agreement	-	176
Falkirk Community Trust	Contribution to Community Trust	-	11,087
	Charge for Support Services	79	-
Fife & Forth Valley Community Justice Authority	Administration Charge	253	-
thinkWhere Ltd	Contribution to operating costs	-	176
Falkirk IJB	Commission Income	62,517	-
	Contribution to IJB	-	62,389

Outstanding balances for parties were as follows:

2017/18 Debtor £'000	2017/18 Creditor £'000		2018/19 Debtor £'000	2018/19 Creditor £'000
7	-	Joint Boards	14	-
311	3	Falkirk Community Stadium Ltd	1,108	-
980	15	Falkirk Community Trust	665	546
-	20	Falkirk Council Pension Fund	-	87
-	1,127	Falkirk IJB	-	1,042
5	-	thinkWhere Ltd	5	-
2	-	Falkirk Schools Gateway	271	-

Note 13: External Audit Fee

The agreed external audit fee for Falkirk Council for 2018/19 was £313,430 (£307,800 in 2017/18). Ernst & Young LLP propose to charge £550 for the audit of the Temperance Trust (£550 in 2017/18). These fees were for work undertaken in accordance with the Code of Audit Practice. No non-audit services were provided by Ernst & Young LLP.

Note 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 31/03/17 £'000	Actual Year to 31/03/18 £'000	Building Maintenance Trading Account	Actual Year to 31/03/19 £'000	3 Year Total £'000
33,489	35,550	Turnover	37,432	106,471
32,933	34,999	Expenditure	36,711	104,643
556	551	Surplus/(Deficit) per CIES	721	1,828
(83)	(74)	Interest	(45)	(202)
473	**477**	**Surplus/(Deficit) for Financial Return Purposes**	**676**	**1,626**

The Building Maintenance Division is primarily responsible for providing a repairs and maintenance service for the Council's housing stock, which at 31 March 2019 amounted to 16,404 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/Receivable in the Comprehensive Income and Expenditure Account.

Note 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 2018/19 was £511,792 (£511,792 in 2017/18).

Note 16: 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. These termination benefits are charged on an accruals basis to 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 (i.e. retirement lump sums and pensions) to members earned whilst working as employees 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 currently 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 2016. The results of this have determined that employer contribution rates will increase to 23% from 1 September 2019. Falkirk’s level of participation in the scheme is 2.6% based on the proportion of employer contributions paid in 2017/18.

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 Children’s 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 2.4% (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.

Note 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 Public Services Pensions Act 2013.

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% 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 the 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.

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 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.

The Council is itself a guarantor of the pension liabilities of thinkWhere Ltd (formerly Forth Valley GIS Ltd) and Haven Products Ltd. There was no requirement for the guarantor role to be activated during 2018/19. Activation could be triggered if either of the bodies ceased trading and were unable to meet their financial commitments to the pension fund. 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 and three co-opted members representing Trade Unions, Pensioners and Other Fund employers. The work of the Pensions Committee is overseen by a statutory Pension Board which consists of four trade union representatives and four employer representatives.

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 2019 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 55 of the Local Government Pension Scheme (Scotland) Regulations 2014 requires that an Administering Authority must 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 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 11.9% 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

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 were both amended with effect from 1 April 2015 to meet the requirements of the Public Service Pensions Act 2013. Both schemes have moved 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 generally continuing to be calculated on a final salary basis.

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 and 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 2018/19 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

31/03/18 £'000		31/03/19 £'000
38,006	Current Service Cost	41,422
33,940	Interest Cost	30,074
(21,778)	Interest Income on Plan Assets	(22,752)
235	Past Service Costs/(Gains)	7,814
-	Losses/(Gains) on Curtailments and Settlements	-
50,403	**Total**	**56,558**

Reconciliation of present value of defined benefit obligation

31/03/18 £'000		31/03/19 £'000
1,298,423	**Opening Defined Benefit Obligation**	**1,100,957**
38,006	Current Service Cost	41,422
33,940	Interest Cost	30,074
6,253	Contributions by Members	6,550
	Remeasurements:	
3,003	• Change in demographic assumptions	-
(65,678)	• Change in financial assumption	92,413
(184,563)	• Other experience	1,109
235	Past Service Cost	7,814
(26,081)	Benefits paid	(25,631)
(2,581)	Unfunded Benefits Paid	(2,619)
1,100,957	**Closing Defined Benefit Obligation**	**1,252,089**

Reconciliation of present value of defined benefit obligation

31/03/18 £'000		31/03/19 £'000
836,773	**Opening Fair Value of Plan Assets**	**836,979**
21,778	Interest Income on Plan Assets	22,752
	Remeasurements	
(24,452)	• Return on Plan Assets excluding the amount included in net interest	52,898
22,708	Contributions by Employer	24,379
6,253	Contributions by Members	6,550
2,581	Contributions in respect of unfunded benefits	2,619
(26,081)	Benefits Paid	(25,631)
(2,581)	Unfunded Benefits Paid	(2,619)
836,979	**Closing Fair Value of Plan Assets**	**917,927**

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 2019 are as follows:

31/03/18 £'000		31/03/19 £'000
(263,978)	Net Liability	(334,162)

The net liability above includes the sum of £45.7m for year ended 31 March 2019 (£45.1m for 31 March 2018) being unfunded liabilities related to the award of discretionary benefits.

There has been an increase in IAS19 liabilities of £70.2m as at 31 March 2019 compared with the liabilities as at 31 March 2018. This is mainly due to an increase in the value of liabilities as a result of a decrease in the net discount rate and an increased pension increase rate based on CPI, which has been partly offset by higher than expected asset returns. An allowance of £5m has also been included within liabilities for the estimated impact of the McCloud judgement.

In summary, the IAS19 balance sheet this year has deteriorated compared to last year with IAS19 liabilities increasing in monetary terms reflecting market conditions, however, this has been partially offset with higher than expected asset returns over the year (8.5% against the fund's targeted return of 6%).

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. 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 2.4% (2.7% for year ended 31 March 2018).

Quoted Prices in Active Markets 31/03/18 £'000	Prices not Quoted in Active Markets 31/03/18 £'000	Total 31/03/18 £'000		Quoted Prices in Active Markets 31/03/19 £'000	Prices not Quoted in Active Markets 31/03/19 £'000	Total 31/03/19 £'000
			Equity Securities			
87,160	-	87,160	Consumer	73,245	-	73,245
37,664	-	37,664	Manufacturing	55,563	-	55,563
28,815	-	28,815	Energy and Utilities	34,612	-	34,612
64,351	-	64,351	Financial Institutions	68,436	-	68,436
33,183	-	33,183	Health & Care	30,389	-	30,389
51,811	-	51,811	Information Technology	81,282	-	81,282
14,336	-	14,336	Other	324	-	324
317,320	**-**	**317,320**		**343,851**	**-**	**343,851**
			Debt Securities			
-	26,832	26,832	Corporate Bonds	-	-	-
-	**26,832**	**26,832**		**-**	**-**	**-**
			Private Equity			
-	**76,262**	**76,262**		**-**	**23,867**	**23,867**
			Real Estate			
-	49,192	49,192	UK Property	-	54,019	54,019
-	571	571	Overseas Property	-	8,019	8,019
-	**49,763**	**49,763**		**-**	**62,038**	**62,038**
			Investment Funds and Unit Trusts			
186,146	-	186,146	Equities	192,318	-	192,318
-	39,300	39,300	Bonds	68,491	-	68,491
-	8,972	8,972	Infrastructure	-	76,583	76,583
85,241	-	85,241	Other	89,056	5,248	94,304
271,387	**48,272**	**319,659**		**349,865**	**81,831**	**431,696**
			Cash and Cash Equivalents			
47,143	**-**	**47,143**		**56,475**	**-**	**56,475**
635,850	**201,129**	**836,979**	**Total**	**750,191**	**167,736**	**917,927**

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:

31/03/18 % p.a.		31/03/19 % p.a.
2.4	Pension Increase Rate	2.5
2.9	Salary Increase Rate	3.0
2.7	Discount Rate	2.4

Investment Returns

The return on the fund in market value terms for the period to 31 March 2019 is estimated based on actual fund returns and index returns where necessary. Details are given below:

Actual Returns from 1 April 2018 to 31 March 2019	8.5%
Total Returns from 1 April 2018 to 31 March 2019	8.5%

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	21.2 years	23.7 years
Future Pensioners	22.7 years	25.5 years

Current Pensioners life expectancy is based on a member being age 65 as at the valuation of 31 March 2017. Future Pensioners are assumed to be age 45 as at the March, 2017 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 2020
The following table sets out the estimation of the pension cost for 2019/20, based on the assumptions as at 31 March 2019 (the start of the period).

Analysis of projected amount to be charged to operating profit for the year to 31 March 2020

Year Ended	£’000
Projected Current Service Cost	47,429
Interest on Obligation	30,356
Interest Income on Plan Assets	(22,096)
Past Service Cost	-
Total	**55,689**

The estimated Employer’s contributions for the year to 31 March 2020 will be approximately £24.6m.

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 £10.808m (£10.675m in 2017/18) to the Scottish Government in respect of teachers’ pension costs and this represents 17.2% 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 2018/19, these amounted to £1.040m, representing 1.65% of pensionable pay (£1.060m, representing 1.71% of pensionable pay in 2017/18).

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

Note 18: 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
The Council currently has no finance lease arrangements with the Council acting as lessee.

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:

31/03/18 £'000		31/03/19 £'000
979	Not later than one year	810
1,224	Later than one year and not later than 5 years	1,057
1,228	Later than five years	1,084
3,431	**Total**	**2,951**

The total of future minimum sub-lease payments expected to be received as at 31 March 2019 is £0.131m (£0.452m as at 31 March 2018).

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

31/03/18 £'000		31/03/19 £'000
1,121	Minimum lease payments	1,120
-	Contingent rents	-
(320)	(sub-lease payments receivable)	(315)
801	**Total**	**805**

(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. 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 10 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:

31/03/18 £'000		31/03/19 £'000
	Finance lease debtor (net present value of minimum lease payments):	
52	• Current	56
732	• Non-Current	676
307	Unearned finance income	253
-	Unguaranteed residual value of property	-
1,091	**Gross investment in the lease**	**985**

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

Gross Investment in the Lease 31/03/18 £'000	Minimum Lease Payment 31/03/18 £'000		Gross Investment in the Lease 31/03/19 £'000	Minimum Lease Payment 31/03/19 £'000
106	53	Not later than one year	106	56
528	330	Later than one year and not later than 5 years	528	356
457	402	Later than five years	351	320
1,091	**785**	**Total**	**985**	**732**

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:

31/03/18 £'000		31/03/19 £'000
2,054	Not later than one year	1,645
5,132	Later than one year and not later than five years	4,405
25,847	Later than five years	24,928
33,033	**Total**	**30,978**

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.

Note 19: 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 £0.8m was charged to revenue in 2018/19.

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

Other Assets 2017/18 £'000		Other Assets 2018/19 £'000
	Balance at start of year:	
3,550	• Gross carrying amounts	3,639
(1,238)	• Accumulated amortisation	(1,820)
2,312	**Net carrying amount at start of year**	**1,819**
	Additions:	
309	• Purchases	886
(220)	Other movements and costs or valuation	(219)
(582)	Amortisation for the period	(767)
1,819	**Net carrying amount at end of year**	**1,719**
	Comprising:	
3,639	• Gross carrying amounts	4,306
(1,820)	• Accumulated amortisation	(2,587)
1,819		**1,719**

The other movements and costs or valuation above reflects the accounting treatment for the Carbon Reduction Commitment (CRC).

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

Carrying Amount 31/03/18 £'000		Carrying Amount 31/03/19 £'000	Remaining Amortisation Period
-	Social Work Information System	307	5 years

Note 20: 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 (i.e. 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 – current value, determined using the basis of existing use value (Social Housing – Beacon Method)
- surplus assets – fair value, estimated at highest and best use from a market participant's perspective
- all other assets – current 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. However, 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 as follows:

- 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); or
- 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 to determine if 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 as follows:

- 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); or
- 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.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and 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.

Land and Buildings owned by Education Services have been valued as at 31 March 2019. The assets valued included Community Education Facilities, Nurseries, Primary Schools, Secondary Schools (including PFI Schools) and Special Schools. The revaluation gains and losses flowing from these revaluations, together with the impairment for non-enhancing capital expenditure within the Housing Revenue Account were accounted for in 2018/19. The overall net loss was £2.6m, of which £29.4m was credited to the Revaluation Reserve and £32m was debited to the Comprehensive Income and Expenditure Statement.

Depreciation

Depreciation is charged 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).

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

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

Where an item of Property, Plant and Equipment has a valuation in excess of £1m and has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

Depreciation is charged in the year of acquisition but no depreciation is charged in the year of disposal. This is a change in policy from prior years due to the embedded depreciation rules in the newly implemented financial system module to account for Property, Plant and Equipment. Previously depreciation was not charged in the year of acquisition but charged in the year of disposal. Due to the transition between the two different systems, it has not been possible to determine the value of the change.

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 Assets Held for Sale, adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Assets 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 2018/19

	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 2018	**414,244**	**702,105**	**32,091**	**160,266**	**17,642**	**10,841**	**7,941**	**1,345,130**
Additions	29,618	7,375	5,320	10,369	489	11,954	-	**65,125**
Revaluations:								
Recognised in Revaluation Reserve	-	79,106	-	-	-	-	-	**79,106**
Recognised in Provision of Services	-	728	-	-	-	-	-	**728**
De-recognition:								
Disposals	-	(544)	(1,484)	-	-	-	-	**(2,028)**
Assets reclassified to/from Held for Sale	-	(1,153)	-	-	-	-	(853)	**(2,006)**
Other Movements in Cost or Valuation	1,613	1,250	(3)	-	-	(2,871)	103	**92**
As at 31 March 2019	445,475	788,867	35,924	170,635	18,131	19,924	7,191	**1,486,147**
Accumulated Depreciation & Impairment as at 1 April 2018	**64,657**	**187,586**	**19,423**	**46,910**	**3,587**	**1,151**	**4,902**	**328,216**
Depreciation:								
Charge for Year	13,420	23,767	4,232	5,634	559	-	-	**47,612**
Impairment Losses/(Reversals):								
Recognised in Revaluation Reserve	2,662	47,006	-	-	-	-	-	**49,668**
Recognised in Provision of Services	7,573	25,167	7	-	-	-	-	**32,747**
De-recognition:								
Disposals	-	(54)	(1,284)	-	-	-	-	**(1,338)**
As at 31 March 2019	88,312	283,472	22,378	52,544	4,146	1,151	4,902	**456,905**
Net Book Value								
31 March 2018	349,587	514,519	12,668	113,356	14,055	9,690	3,039	**1,016,914**
31 March 2019	357,163	505,395	13,546	118,091	13,985	18,773	2,289	**1,029,242**

(a) Property, Plant & Equipment Movements in 2017/18

	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 2017	**385,023**	**662,164**	**30,120**	**150,197**	**16,800**	**19,815**	**7,554**	**1,271,673**
Additions	29,273	4,265	3,863	10,061	842	13,321	-	**61,625**
Revaluations:								
Recognised in Revaluation Reserve	-	13,056	-	-	-	-	-	**13,056**
Recognised in Provision of Services	-	3,449	-	-	-	-	-	**3,449**
De-recognition:								
Disposals	(1,337)	(784)	(1,892)	-	-	-	(277)	**(4,290)**
Assets reclassified to/from Held for Sale	-	(383)	-	-	-	-	-	**(383)**
Other Movements in Cost or Valuation	1,285	20,338	-	8	-	(22,295)	664	**-**
As at 31 March 2018	**414,244**	**702,105**	**32,091**	**160,266**	**17,642**	**10,841**	**7,941**	**1,345,130**
Accumulated Depreciation & Impairment as at 1 April 2017	**42,855**	**166,454**	**18,548**	**41,960**	**3,075**	**1,151**	**5,179**	**279,222**
Depreciation:								
Charge for Year	12,270	16,261	2,637	4,950	512	-	-	**36,630**
Impairment Losses/(Reversals):								
Recognised in Revaluation Reserve	3,267	1,241	-	-	-	-	-	**4,508**
Recognised in Provision of Services	6,349	3,912	-	-	-	-	-	**10,261**
De-recognition:								
Disposals	(84)	(282)	(1,762)	-	-	-	(277)	**(2,405)**
As at 31 March 2018	**64,657**	**187,586**	**19,423**	**46,910**	**3,587**	**1,151**	**4,902**	**328,216**
Net Book Value								
31 March 2017	342,168	495,710	11,572	108,237	13,725	18,664	2,375	**992,451**
31 March 2018	349,587	514,519	12,668	113,356	14,055	9,690	3,039	**1,016,914**

Note 21: 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.

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 the assets to be recognised on the Balance Sheet. Where valuation is available, this is based on insurance valuation. Any increases in valuation are accounted for in accordance with the Council's general policies on revaluation.

Heritage Assets are reviewed periodically where there is evidence of physical deterioration or breakage. Where impairment losses are identified, they are accounted for in accordance with the Council's general policies on impairment. The Council does not consider it appropriate to charge depreciation in respect of Heritage Assets due to the undetermined lives and high residual values.

With the exception of Civic Regalia and one 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.

2017/18 £'000		2018/19 £'000
266	**Cost or Valuation as at 1 April**	**266**
-	Additions	-
	Revaluations:	
-	• Recognised in Revaluation Reserve	-
-	Recognised in Provision of Services	-
	De-recognition:	
-	• Disposals	-
-	Assets reclassified to/from Held for Sale	-
-	Other Movements in Cost or Valuation	-
266	**As at 31 March**	**266**
-	**Accumulated Depreciation and Impairment as at 1 April**	**-**
	Depreciation:	
-	• Charge for Year	-
	Impairment:	
-	• Written Out to Revaluation Reserve	-
-	• Written Out to Provision of Services	-
-	Assets reclassified to/from Held for Sale	-
	De-recognition:	
-	• Disposals	-
-	**As at 31 March**	**-**
266	**Net Book Value at 31 March**	**266**

The total net book value of Heritage Assets at 31 March 2019 is £0.266m, of which £0.211m relates to Civic Regalia.

Heritage Assets were initially recognised in the Balance Sheet in 2011/12. The initial recognition was via the Revaluation Reserve. Thereafter, in 2013/14, £0.048m was added for Town Centre Sculptures, with a further £0.007m added in 2016/17 for a memorial statue.

Note 22: Other Capital Notes

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 31 March of the year. The revaluations are performed externally by the District Valuer or external property surveyors.

The Housing Stock was re-valued as at 1 April 2015 by the District Valuer of the Scotland South East Valuation Office, using the 'Existing Use Value' for Social Housing – EUV-SH Beacons method. Previously Housing Stock was valued using the Discounted Cash Flow method. This substantially increased the value of housing stock and was reflected in the 2015/16 Accounts.

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 2015 by Ryden LLP.

Land and Buildings owned by Social Work have been valued as at 1 April 2016 and were valued on the basis of open market value for existing use.

Other Land and Buildings including Community Assets and some offices have been valued as at 1 April 2017 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. This valuation was carried out as at 1 April 2017 by Ryden LLP.

Land and Buildings owned by Education Services have been valued as at 1 April 2018. The assets valued included Community Education Facilities, Nurseries, Primary Schools, Secondary Schools (including PFI Schools) and Special Schools. Where the assets were considered to be non-specialised e.g. Nurseries, these were valued on the basis of an existing use value using a market value comparable. Where the assets were considered to be specialised e.g. primary schools, these were valued on the basis of depreciated replacement cost (DRC) based on a modern equivalent asset basis where appropriate. The valuation was carried out as at 1 April 2018 by J & E Shepherd.

The Helix Visitors Centre has been valued at 1 April 2016 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 at fair value equivalent to Market Value.

Assets Under Construction have been valued at cost.

Vehicles, Plant and Equipment are valued at depreciated historical 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 2019, the Council has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2018/19 and future years, budgeted to cost £5.8m. Similar commitments at 31 March 2018 were £9.1m. The major commitments are:

Project	£'m
Kinnaird PS Early Years Campus	1.2
New Build Housing	3.9
Grangemouth Flood Protection Scheme	0.7
Total	**5.8**

Note 23: Assets held for Sale

Current 2017/18 £'000	Non-Current 2017/18 £'000		Current 2018/19 £'000	Non-Current 2018/19 £'000
3,348	**74**	**Balance at 1 April**	**3,012**	**-**
474	-	Assets newly classified as held for sale	2,007	-
		Revaluation losses:		
(46)	-	• Recognised in Revaluation Reserve	-	-
-	-	• Recognised in Provision of Services	-	-
		Revaluation gains:		
402	5	• Recognised in Revaluation Reserve	361	-
8	11	• Recognised in Provision of Services	-	-
		Assets declassified as held for sale		
-	(90)	• Property, Plant & Equipment	(103)	-
(1,174)	-	Assets sold	(964)	-
-	-	Transfer from/to non-current/current	-	-
3,012	**-**	**Balance outstanding 31 March**	**4,313**	**-**

Note 24: 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.

2017/18 £'000		2018/19 £'000
395,299	**Opening Capital Financing Requirement**	**394,551**
	Capital Investment:	
61,623	• Property, Plant and Equipment	65,244
309	• Intangible Assets	767
-	• Heritage Assets	-
327	• Revenue Expenditure Funded from Capital under Statute	327
	Sources of Finance:	
(2,399)	• Capital receipts	-
(26,178)	• Government grants and other contributions	(26,616)
	Sums set aside from revenue:	
(13,767)	• Direct revenue contributions	(10,661)
(20,663)	• MRP/loans fund principal	(26,092)
394,551	**Closing Capital Financing Requirement**	**397,520**
	Explanation of movements in year:	
4,940	• Reduction in underlying need to borrow (unsupported by government financial assistance)	8,444
(5,688)	• Assets acquired under PFI / PPP contracts	(5,475)
(748)	**Increase / (Decrease) in Capital Financing Requirements**	**2,969**

Note 25: 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 Ltd, 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 and 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 and 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); and
- 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	2018/19 £'000
Balance as at 1 April 2018	**89,672**	**113,504**	**203,176**
Net Additions during year	567	-	567
Revaluation	(6,355)	3,932	(2,423)
Depreciation	(4,668)	(4,136)	(8,804)
Net Book Value 31 March 2019	**79,216**	**113,300**	**192,516**

(b) Movement in Liabilities

	Class 98 £'000	Falkirk Schools Gateway Ltd £'000	2018/19 £'000
Balance as at 1 April 2018	**34,572**	**74,069**	**108,641**
Repaid during year	(3,070)	(2,294)	(5,364)
Balance as at 31 March 2019	**31,502**	**71,775**	**103,277**
of which:			
• Current	3,903	2,757	6,660
• Long Term	27,599	69,018	96,617
Total	**31,502**	**71,775**	**103,277**

(c) Estimated Future Unitary Payment Obligations

Basic Annual Payments – Class 98	Service Charges £'000	Interest £'000	Finance Lease Repayment £'000	2018/19 £'000
Within one year	3,314	6,194	3,903	13,411
In the second to fifth years inclusive	14,861	20,370	18,776	54,007
In the sixth to tenth years inclusive	3,199	6,061	8,823	18,083
Total	**21,374**	**32,625**	**31,502**	**85,501**

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 3.7% 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	2018/19 £'000
Within one year	4,373	6,644	2,757	13,774
In the second to fifth years inclusive	22,023	26,328	10,272	58,623
In the sixth to tenth years inclusive	34,767	33,379	13,764	81,910
In the eleventh to fifteenth years inclusive	43,754	33,265	15,654	92,673
In the sixteenth to twentieth years inclusive	37,736	40,137	26,979	104,852
In the twenty first to twenty fifth years inclusive	2,173	3,001	2,349	7,523
Total	**144,826**	**142,754**	**71,775**	**359,355**

The figures shown above for the Basic Annual Payment assume an indexation rate of 3.6% as per the operator's financial model.

Note 26: 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. 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. A legal agreement in respect of settlement arrangements was finalised. This settlement is by means of transfer of land and property assets by the company to the Council for subsequent disposal, together with a further cash payment (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. To date, some £0.502m has been received including £0.176m during 2018/19 for the disposal of the first property transferred to the Council. An area of ground extending to 0.85 Acres at the edge of the original development is also to be transferred by the company to Falkirk Council with residential planning permission in place.

(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.

(i) 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 2019, this totalled £24m (£28m as at March 2018).

(ii) Note 30 includes provision in respect of potential expenditure arising from outstanding equal pay claims. Legal judgements on pay protection and equal pay matters 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.

(iii) The Council recognises the potential for compensation claims deriving from the Scottish Government's Limitation (Childhood Abuse) (Scotland) Bill which will remove the three-year time limit on claims of child abuse. Some claims will be historic and relate to Falkirk District Council, Central Regional Council or their predecessors and some will date post-reorganisation and relate to Falkirk Council.

(iv) 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.

Note 27: 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 £3.11m 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 £2m on 31 March 2003, £2.795m on 22 December 2004 and £0.3m 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 were replaced by Property, Plant & Equipment of £3.85m and a Long Term Investment of £9.34m. The assets comprised Ground Leases of £0.25m and Development Sites of £3.6m per the 2009 valuation. These assets were subsequently revalued at 1 April 2015. The Ground Leases were revalued to £0.362m and the Development Sites at £0.65m. The Long Term Investment was also subject to revaluation with a value of £4.284m at 31 March 2018. It has been further revalued to £3.721m at 31 March 2019.

- 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 2018/19 equated to £0.5m (£0.5m in 2017/18).

Note 28: Loans Outstanding

These loans were raised to finance the capital expenditure of the Council. The source of these loans as at 31 March 2019 was as follows:

2017/18 £'000	Borrowing Repayable on Demand or Within 12 Months	2018/19 £'000
28,500	Temporary Borrowing	30,000
2,798	Accrued Interest	2,818
31,298	**Total**	**32,818**
	Long Term Borrowing	
190,630	• Public Works Loan Board	204,630
26,000	• Market Bonds	26,000
216,630		**230,630**
1,505	Accrued Interest	1,469
218,135	**Total**	**232,099**

Short Term Borrowing per the Balance Sheet is £34.198m. This figure includes temporary borrowing of £32.818m and £1.380m in respect of Third Party balances which are invested in the Loans Fund as at 31 March 2019.

Note 29: Insurance Fund

An updated independent actuarial valuation of the Insurance Fund was undertaken in October 2018. 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 2019 is £5.80m (£5.51m as at 31 March 2018).

Note 30: 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 accounts in accordance with IAS37.

(a) Kinneil Kerse

A provision exists for the restoration costs associated with the restoration of Kinneil Kerse landfill site. Planning approval was granted and work commenced during 2015/16. Restoration costs of £0.224m have been incurred during 2018/19. Consequently the provision has been reduced by this amount and the balance on the provision at 31 March 2019 is £1.362m (£1.586m as at 31 March 2018). The annual cost of restoration is £0.3m, the provision should therefore be fully written down within 5 years.

(b) Equal Pay Claims

Employment Tribunal proceedings have been raised against the Council by a number of staff relating to Equal Pay. The information usually required by International Accounting Standard 37 (Provisions, Contingent Liabilities and Contingent Assets) is not disclosed in respect of this provision on the grounds that it can be expected to prejudice seriously the outcome of the proceedings.

(c) Insurance Claims

(i) 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 litigation has created a financial liability for Falkirk Council as successor Council. Consequently a provision of £0.720m was created. This provision has been drawn down by £0.456m up to 31 March 2018. There has been no draw down in 2018/19. Consequently the balance on the provision at 31 March 2019 remains at £0.264m i.e. the same level as at 31 March 2018.

(ii) The Council has received a number of insurance claims relating to crematoria practices. A provision of £0.1m was created in settlement of these claims. There has been no draw down on this provision in 2018/19. Consequently the balance on the provision at 31 March 2019 remains at £0.1m i.e. the same level as at 31 March 2018.

Note 31: Long Term Debtors

Balance 01/04/18 £'000		Advanced 2018/19 £'000	Repaid 2018/19 £'000	Balance 31/03/19 £'000
784	Northfield Quarry	53	(105)	732
107	Owner Occupiers	-	-	107
5	Loan Arrears	-	-	5
1	Housing Loans	-	(1)	-
2,342	National Housing Trust Initiative	88	(88)	2,342
4,196	Scottish Fire Service	-	(279)	3,917
1,009	Falkirk Community Stadium Ltd.	-	-	1,009
8,444	**Total**	**141**	**(473)**	**8,112**

(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.

Note 32: Inventories

Consumable Closing Stocks are valued at average cost.

The value of stocks as at 31 March 2019 is shown below:

	2018/19 Opening Stock £'000	Purchases / Additions £'000	Stock Write Downs £'000	Recognition as an expense £'000	Closing Stock £'000
Stocks	362	1,734	(5)	(1,866)	225

Note 33: 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 2019, the Council's Building Maintenance Division had several construction contracts in progress. The income derived from the value of work completed at 31 March 2019 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 2019.

Note 34: Debtors

2017/18 £'000		2018/19 £'000
8,369	Central government bodies	8,831
808	Other local authorities	27
1,543	NHS Bodies	1,373
70	Public corporations and trading funds	70
32,940	Other entities and individuals	35,455
1,001	Falkirk Community Trust	96
-	Falkirk IJB	-
44,731		**45,852**
(19,511)	Provision for Bad Debt	(20,168)
25,220	**Total Debtors**	**25,684**

Note 35: Creditors

2017/18 £'000		2018/19 £'000
11,095	Central government bodies	9,405
2,820	Other local authorities	3,192
696	NHS Bodies	264
48,956	Other entities and individuals	55,935
15	Falkirk Community Trust	546
1,127	Falkirk IJB	1,042
64,709	**Total Creditors**	**70,384**

Note 36: Cash and Cash Equivalents

2017/18 £'000		2018/19 £'000
(2,541)	Bank Current Accounts	8,789
34,032	Deposits with UK Banks, Building Societies & Local Authorities	33,009
31,491	**Total Creditors**	**41,798**

Note 37: Trust and 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 (£55,968) - to provide donations to residents of the former Burgh of Falkirk at the sole discretion of the Provost.
- Shank's Bequest (£26,539) - to provide donations to the needy of Denny.
- Grangemouth Children's Day Committee (£23,310) - to provide a donation to the annual cost of the Grangemouth Children's Day.
- Candyend Trust (£76,180) - to provide donations to specific organisations assisting the elderly in the Muiravonside area.
- Alexander Douglas King Bequest (£21,279) – bequest for the promotion and advancement of education of art at Bo'ness Academy.
- McNair Bequest (£11,000) – bequest for the benefit of Bo'ness Academy.

Funds for which the Council is not Sole Trustee

- Scottish Veterans' Garden City Association (SVGCA) (£57,666) - 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 (£27,628) - 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 has 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. As at 31 March 2019 there are two trustees of the Trust – Councillor David Grant and Councillor Laura Murtagh. 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 2019 the Trust had available funds of £160,388. The funds do not represent assets of the Council and are not included in the Council's Balance Sheet. Annual Report and Accounts are available for the Temperance Trust, here.

General 2017/18 £'000	Temperance 2017/18 £'000		General 2018/19 £'000	Temperance 2018/19 £'000
		Income		
(11)	(1)	Investment Income	(12)	(1)
		Expenditure		
2	-	Awards and Other Expenses	48	3
(9)	**(1)**	**Deficit / (Surplus) for the Year**	**36**	**2**
		Balance Sheet		
		Fixed Assets		
3	162	External Investments	3	160
417	-	Internal Investments	381	-
420	**162**	**Net Assets**	**384**	**160**
(411)	(161)	Fund Balance at 1 April 2018	(420)	(162)
(9)	(1)	Deficit/(Surplus) for Year	36	2
(420)	**(162)**	**Fund Balance at 31 March 2019**	**(384)**	**(160)**

Note 38: 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
- 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 and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and 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.

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

2017/18 £'000	Credited to Services	2018/19 £'000
3,710	Criminal Justice	3,681
-	Regional Improvement Collaborative	899
39,302	Housing DWP Subsidy	36,199
386	Education Maintenance Allowances	397
-	ETU Programmes	781
478	Home Insulation Scheme	1,411
10,110	Integration Fund	10,752
3,539	Pupil Equity Fund	3,577
653	Early Years Expansion	2,250
2,693	Other Grants	3,867
60,871	**Total**	**63,814**

2017/18 £'000	Credited to Taxation and Non-Specific Grant Income	2018/19 £'000
17,624	Scottish Government – General Capital Grant	14,232
217	Scottish Government – Specific Capital Grants	217
4,780	Scottish Government – Other Grants	8,508
2,558	Other Grants	2,251
492	Developers Contributions	282
145	Other Contributions	437
25,816	**Total Creditors**	**25,927**

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:

2017/18 £'000	Capital Grants Received in Advance	2018/19 £'000
2,231	Scottish Government	3,488
3,589	Developers Contributions	5,026
1,669	Other Contributions	1,610
7,489	**Total Creditors**	**10,124**

Note 39: 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 based on a classification and measurement approach that reflects the business model for holding financial assets and their cash flow characteristics. There are three main classes of financial assets measured at:

- Amortised costs
- Fair value through other comprehensive income (FVOCI) and
- Fair value through profit or loss (FVPL)

The Council's business model is to hold investments to collect contractual cash flows. Financial assets are therefore classified as amortised cost, except for those whose contractual payments are not solely payment of principal and interest (i.e. where the cash flows do not take the form of a basic debt instrument).

Financial Assets Measured at Amortised Cost

Financial assets 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.

Financial Assets Measured at Fair Value through Comprehensive Income

Financial assets can be measured at Fair Value through Other Comprehensive Income (FVOCI) if both the following conditions are met:

- The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial instruments and

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

However, at initial recognition, an authority may make an irrevocable election to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument within the scope of IFRS 9 that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies.

The Council has no financial instruments measured at FVOCI.

Financial Assets Measured at Fair Value through Profit and loss

Financial assets that are measured at fair value through profit or loss (FVPL) are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arrive in the Surplus or Deficit on the Provision of Services.

The fair value measurements of the financial assets are based on the following techniques:

- Instruments with quoted market prices – the market price
- Other instruments with fixed and determinable payments – discounted cash flow analysis.

The Council has investments in Falkirk Community Stadium Ltd and thinkWhere, as per Note 27 above. These investments are to be reclassified and measured at FVPL, however as they were originally funded from capital resources and any movements in value will therefore be reflected in the Capital Adjustment Account (CAA).

Expected Credit Losses

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses. Local authorities shall not recognise a loss allowance for expected credit losses on a financial asset where the counterparty for a financial asset is central government or a local authority for which relevant statutory provisions prevent default.

For Falkirk Council, the majority of financial assets held are with other local authorities and banks and the Council's policy is to invest in approved counterparties for no more than 12 months. Local authorities are excluded from the impairment loss calculation. Deposits with other counterparties mature in less than 12 months and the credit risk is extremely low, consequently no credit losses are anticipated and therefore an impairment loss has not been calculated.

The Council has a finance lease for Northfield Quarry (see Note 18) with ten years remaining. For accounting procedures, the Council will adopt the simplified approach and any loss allowances will be calculated using the lifetime expected credit losses method. However, in assessing the expected credit losses for the company concerned, the previous twenty years payments have all been made on time and a recent credit check on the company scored 98 out of a possible 100. In the Council's opinion the expected credit loss would be extremely low and any such impairment calculations would be immaterial and consequently an impairment loss has not been calculated.

IFRS 13 Fair Value Measurement

The 2015/16 Code of Practice introduced a number of changes to reflect the adoption of IFRS 13 Fair Value Measurement. Fair value is defined 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. There are a number of valuation techniques used to measure the fair value of financial assets and liabilities, details of which are explained in the following fair value hierarchy:

- Level 1 Inputs – quoted prices (adjusted) in active markets for identical assets or liabilities that the authority can access at the measurement date.
- Level 2 Inputs – inputs other than the quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 Inputs – unobservable inputs for the asset or liability.

Details of the valuation technique applied and the fair value measurement in relation to the Council's financial instruments are as follows:

Financial Instrument	Input Level in Fair Value Hierarchy	Fair Value at 31/03/18 £'000	Fair Value at 31/03/19 £'000
PWLB Debt	Level 2	269,023	286,149
Non – PWLB Debt	Level 2	36,744	37,534
Temporary Loans	Level 2	29,575	30,037
Total		**335,342**	**353,720**

There were no transfers between levels 1 and 2 and no change in the valuation technique used during 2018/19 for the financial instruments.

39(a) Financial Instruments Adjustment Account

2017/18 £'000	Financial Instruments Adjustment Account	2018/19 £'000
3,510	De-recognition of Premiums from Debt Restructuring	3,202
(307)	Annual Amortisation	(307)
3,203		**2,895**
(239)	De-recognition of Discounts from Debt Restructuring	(232)
7	Annual Amortisation	7
(232)		**(225)**
1,801	Re-measurement of Market LOBO's	1,769
(33)	Annual Amortisation	(34)
1,768		**1,735**
4,739	**Total**	**4,405**

Disclosure of Financial Assets and Liabilities from 1 April 2018

39(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 31/03/18 £'000	Current 31/03/18 £'000		Long Term 31/03/19 £'000	Current 31/03/19 £'000
215,630	29,500	Financial liabilities (principal amount)	228,166	32,464
217,135	32,299	Financial liabilities at amortised cost	229,635	35,282
-	36,458	Loans and receivables (principal amount)	-	44,154
-	36,483	Loans and receivables at amortised cost	-	44,160
4,784	-	Unquoted investments at cost	4,221	-

The Council does not have any soft loans.

39(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	(11,180)	-	(11,180)
Interest Income	-	463	463
Net gain / (loss) for the year	**(11,180)**	**463**	**(10,717)**

39(b)(iii) Reclassification and Remeasurement of Financial Assets at 1 April 2018

This note shows the effect of reclassification of financial assets following the adoption of IFRS 9 Financial Instruments by the Code of Practice on Local Authority Accounting and the remeasurements of carrying amounts then required.

Previous Classification	Carrying Amount brought forward at 01/04/18 £'000	Amortised Cost £'000	Fair Value through Other Comprehensive Income £'000	Fair value through Profit and Loss £'000
Loans and Receivables	74,906	70,122	-	4,784
Reclassified amounts at 01/04/18	**74,906**	**70,122**	**-**	**4,784**

The table above shows where the previous classifications have moved to the new classifications. The Loans and Receivables have been split to separately identify the Long Term Investments as Fair Value through Profit and Loss.

39(b)(iv) 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 31/03/18 £'000	Fair Value 31/03/18 £'000		Carrying Amount 31/03/19 £'000	Fair value 31/03/19 £'000
190,630	269,023	PWLB Debt	204,630	286,149
26,000	36,744	Non-PWLB Debt	26,000	37,534
28,500	29,575	Temporary Loans	30,000	30,037
245,130	**335,342**	**Total Debt**	**260,630**	**353,720**
64,709	64,709	Trade Creditors	70,384	70,384
309,839	**400,051**	**Total Financial Liabilities**	**331,014**	**424,104**

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 31/03/18 £'000	Fair Value 31/03/18 £'000		Carrying Amount 31/03/19 £'000	Fair value 31/03/19 £'000
36,458	36,483	Short Term Deposits < 1 year	44,154	44,160
4,784	4,784	Long-Term Investments	-	-
25,220	25,220	Trade Debtors	25,684	25,684
8,444	8,444	Loans and Receivables	8,113	8,113
74,906	**74,931**	**Total Assets at Amortised Cost**	**77,951**	**77,957**

39(b)(v) Fair Value of Assets and Liabilities through Profit and Loss

The Council has reclassified the Long Term Investments to be carried through Profit and Loss. However, as these investments have been initially financed through capital resources, any movements in value will therefore be reflected in the Capital Adjustment Account (CAA).

The fair values calculated are as follows:

Carrying Amount 31/03/18 £'000	Fair Value 31/03/18 £'000		Carrying Amount 31/03/19 £'000	Fair value 31/03/19 £'000
-	-	Long-Term Investments	4,221	4,221
-	**-**	**Total Assets at FVPL**	**4,221**	**4,221**

39(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 required 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.

39(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 2019 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 it's counterparties in relation to deposits.

The Council does not generally allow credit for its trade debtors, such that £5.4m of the £10.4m balance is past its due date for payment. The past due amount can be analysed by age as follows:

	£'000
Less than 31 days	1,020
31 – 60 days	712
61 – 90 days	56
More than 90 days	3,597
Total	**5,385**

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 2019 was £0.9m.

39(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.

39(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:

31/03/18 £'000		Approved Maximum Limits %	Approved Maximum Limits £'000	31/03/19 £'000
29,500	Less than one year	20	52,126	32,465
2,464	Between one and two years	20	52,126	3,964
16,965	Between two and five years	30	78,189	25,464
63,502	Between five and ten years	30	78,189	61,038
32,381	Between ten and twenty years	40	104,252	33,381
15,000	Between twenty and thirty years	40	104,252	30,000
71,318	Between thirty and forty years	40	104,252	45,318
14,000	Between forty and fifty years	40	104,252	29,000
245,130	**Total**			**260,630**

39(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
- 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	(442)
Impact on Other Comprehensive Income and Expenditure	**(442)**
Share of overall impact credited to the HRA	(218)
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)	**(40,636)**

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 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.

Note 40: Other Long Term Liabilities

2017/18 £'000		2018/19 £'000
103,276	PFI Finance Lease Liabilities	96,617
1,013	PFI Deferred Income	901
104,289	**Total**	**97,518**

Note 41: Interest Payable

2017/18 £'000		2018/19 £'000
11,088	Interest Paid	11,181
12,816	Finance Lease Interest PFI / NPDO	12,413
1,526	Impairment of Long Term Investment	563
25,430	**Total**	**24,157**

Group Movement in Reserves Statement

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.

Group Movement in Reserves Statement for the year ended 31 March 2019

	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 2018	**(44,354)**	**1,748**	**(42,606)**	**(357,291)**	**618**	**(356,673)**	**(399,279)**
Movement in Reserves during 2018/19							
Total Comprehensive Income and Expenditure	53,724	844	54,568	10,826	1,040	11,866	**66,434**
Adjustments between accounting basis and funding basis under regulations	(49,630)	(181)	(49,811)	49,630	181	49,811	**-**
(Increase) / Decrease in 2018/19	**4,094**	**663**	**4,757**	**60,456**	**1,221**	**61,677**	**66,434**
Transfers to/from Other Statutory Reserves	-	-	**-**	-	-	**-**	**-**
Balance at 31 March 2019	**(40,260)**	**2,411**	**(37,849)**	**(296,835)**	**1,839**	**(294,996)**	**(332,845)**

Group Movement in Reserves Statement for the year ended 31 March 2018 (restated)

	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 2017	**(42,278)**	**2,606**	**(39,672)**	**(133,933)**	**1,931**	**(132,002)**	**(171,674)**
Movement in Reserves during 2017/18							
Total Comprehensive Income and Expenditure	6,430	(639)	5,791	(231,864)	(1,532)	(233,396)	**(227,605)**
Adjustments between accounting basis and funding basis under regulations	(8,506)	(219)	(8,725)	8,506	219	8,725	**-**
(Increase) / Decrease in 2017/18	**(2,076)**	**(858)**	**(2,934)**	**(223,358)**	**(1,313)**	**(224,671)**	**(227,605)**
Transfers to/from Other Statutory Reserves	-	-	**-**	-	-	**-**	**-**
Balance at 31 March 2018	**(44,354)**	**1,748**	**(42,606)**	**(357,291)**	**618**	**(356,673)**	**(399,279)**

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.

	(restated) 2017/18				2018/19		
Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000		Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000	Notes
197,340	(14,729)	182,611	Children's Services	241,924	(17,235)	224,689	
164,757	(97,662)	67,095	Social Work Adult Services	168,503	(100,769)	67,734	
57,747	(14,133)	43,614	Development Services	61,620	(16,777)	44,843	
71,471	(45,726)	25,745	Corporate & Housing Services	78,582	(43,480)	35,102	
55,886	(57,110)	(1,224)	Housing Revenue Account	64,730	(61,676)	3,054	
1,214	-	1,214	Valuation Joint Board	1,215	-	1,215	
15,938	(4,465)	11,473	Falkirk Community Trust	17,229	(5,646)	11,583	
564,353	**(233,825)**	**330,528**	**Net Cost of Services**	**633,803**	**(245,583)**	**388,220**	
-	(892)	(892)	Other Operating Expenditure	231	-	231	
94,386	(57,745)	36,641	Financing and Investment Income and Expenditure	90,960	(60,648)	30,312	
-	(359,840)	(359,840)	Taxation and Non-Specific Grant Income	-	(364,492)	(364,492)	
658,739	**(652,302)**	**6,437**	**(Surplus) or Deficit on Provision of Services**	**724,994**	**(670,723)**	**54,271**	
		(650)	Share of the (Surplus) or Deficit on Provision of Services by Associates and Joint Ventures			297	4
		4	Tax Expenses			-	
		5,791	**Group (Surplus) or Deficit**			**54,568**	
		(9,078)	(Surplus) or deficit on revaluation of non-current assets			(29,798)	
		(222,786)	Remeasurements of pension assets/liabilities			40,624	
		(1,532)	Share of other Comprehensive Income & Expenditure of Associates and Joint Ventures			1,040	4
		(233,396)	**Other Comprehensive Income and Expenditure**			**11,866**	
		(227,605)	**Total Comprehensive Income and Expenditure**			**66,434**	

Group Balance Sheet as at 31 March 2019

(restated) 2017/18 £'000		2018/19 £'000	Notes
	Non-Current Assets		
1,022,553	Property, Plant & Equipment	1,034,184	
157	Investment Property	147	
266	Heritage Assets	265	
1,819	Intangible Assets	1,719	
500	Long Term Investments	550	
7,435	Long Term Debtors	7,104	
1,032,730		**1,043,969**	
	Current Assets		
467	Inventories	350	
24,285	Short Term Debtors	25,046	
35,390	Cash and Cash Equivalents	44,020	
3,012	Assets Held for Sale	4,313	
63,154		**73,729**	
	Current Liabilities		
(31,217)	Short Term Borrowing	(33,349)	
(65,910)	Short Term Creditors (including provisions)	(70,670)	
(97,127)		**(104,019)**	
	Long Term Liabilities		
(224,117)	Long Term Borrowing	(238,713)	
(355)	Provisions	(355)	
(263,978)	Defined Benefit Pension Scheme Liability	(334,162)	
(104,289)	Other Long Term Liabilities	(97,518)	
(7,489)	Capital Grants Received in Advance	(10,125)	
750	Liabilities in Associates and Joint Ventures	39	
(599,478)		**(680,834)**	
399,279	**Net Assets**	**332,845**	
	Usable Reserves		
(44,354)	Falkirk Council Usable Reserves	(40,260)	
1,748	Usable Reserves of other Group Entities	2,411	5
(42,606)		**(37,849)**	
	Unusable Reserves		
(357,291)	Falkirk Council Unusable Reserves	(296,835)	
618	Unusable Reserves of other Group Entities	1,839	5
(356,673)		**(294,996)**	
(399,279)	**Total Reserves**	**(332,845)**	

Bryan Smail, CPFA MBA
Chief Finance Officer

25 September 2019
The unaudited accounts were issued on 17 June 2019.

Group Cash Flow Statement

(restated) 2017/18 £'000		2018/19 £'000
5,791	Net (surplus) or deficit on the provision of services	54,568
(61,569)	Adjust net surplus or deficit on the provision of services for non-cash movements	(114,147)
25,816	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	25,926
(29,962)	**Net cash flows from operating activities**	**(33,653)**
	Investing Activities	
59,931	Purchase of property, plant & equipment, investment property and intangible assets	66,557
(3,947)	Proceeds from the sale of property, plant & equipment, investment property and intangible assets	(1,422)
(28,168)	Other receipts and investing activities	(29,492)
27,816	**Net cash flows from investing activities**	**35,643**
	Financing Activities	
(38,848)	Cash receipts of short and long-term borrowing	(47,067)
5,688	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	5,475
29,798	Repayments of short and long-term borrowing	30,972
(3,362)	**Net cash flows from financing activities**	**(10,620)**
(5,508)	**Net (increase) or decrease in cash and cash equivalents**	**(8,630)**
(29,882)	Cash and cash equivalents at the beginning of the reporting period	(35,390)
	Cash and cash equivalents at the end of the reporting period	
(44)	Cash held by Officers	(44)
(1,314)	Bank Current Accounts	(10,967)
(34,032)	Short-term deposits	(33,009)
(35,390)		**(44,020)**

Notes to the Group Accounts

1. Group Accounting Policies

The Group Accounting policies are those specified for the single entity accounts. The accounting policies of all group members are materially the same as those of the single entity.

Disclosure of Interest in Other Entities

The Council has adopted the recommendations of Chapter 9 of the Code, which requires local authorities to consider their interest in all types of entity to incorporate into Group Accounts.

A full set of Group Accounts, in addition to the Council's Accounts has been prepared which incorporates material balances from identified bodies.

Nature of Combination

The Council has accounted for its interest in its Associates and Joint Ventures 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 IFRS10 (Consolidated Accounts).

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 £4.250m. 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) and a Joint Venture (Falkirk Integration Joint Board).

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 2019. 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.

Following the demerger of the original FCSL in 2009 Falkirk Council retained its overall ground lease over all areas of the site, including the areas leased to FCSL and Falkirk Football Club. In addition, the initial loans advanced by the Council to FCSL ceased to exist with the Council receiving assets in lieu of the sum outstanding. The Council has borne the cost of repaying these loans since 2009.

In 2014 a potential alternative delivery model was identified which would effectively transfer FSCL's interests under the existing lease to Falkirk Community Trust and all the development sites to the Council. Work to facilitate the alternative delivery model is ongoing.

The Stadium's deficit 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 5 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 £11.087m for service provision in 2018/19 (£11.433m in 2017/18). The Trust returned a deficit of £0.390m (£0.035m in 2017/18) 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.

Joint Ventures

Falkirk Integration Joint Board

Falkirk Integration Joint Board (IJB) is a statutory body established to integrate health and social care services between Falkirk Council and NHS Forth Valley. The contribution provided by Falkirk Council in 2018/19 was £62.389m (£59.922m in 2017/18). The IJB Board comprises 6 voting members consisting of 3 elected members from Falkirk Council and 3 non-executive Health Board members.

4. Group Income and Expenditure of Associates and Joint Ventures

Share of the (Surplus) or Deficit on Provision of Services by Associates and Joint Ventures

(restated) 2017/18 £'000	Financial Instruments Adjustment Account	2018/19 £'000
188	Central Scotland Valuation Joint Board	205
(13)	thinkWhere Ltd	92
(825)	Falkirk Integration Joint Board	-
(650)	**Total**	**297**

Share of Other Comprehensive Income & Expenditure of Associates and Joint Ventures

(restated) 2017/18 £'000	Financial Instruments Adjustment Account	2018/19 £'000
(1,658)	Central Scotland Valuation Joint Board	282
47	thinkWhere Ltd	132
79	Falkirk Community Stadium Ltd	626
(1,532)	**Total**	**1,040**

5. Group Entities Reserves

(restated) 2017/18 Total £'000		Falkirk Community Stadium Ltd £'000	Falkirk Community Trust Ltd £'000	Central Scotland Valuation Joint Board £'000	thinkWhere Ltd £'000	Common Good Funds £'000	Falkirk Integration Joint Board £'000	2018/19 Total £'000
	Usable Reserves							
1,748	Revenue Account (Surplus)/Deficit	8,178	(1,786)	(232)	344	(848)	(3,245)	2,411
1,748	**Total**	**8,178**	**(1,786)**	**(232)**	**344**	**(848)**	(3,245)	**2,411**
	Unusable Reserves							
10	Accumulated Absences Account	-	-	11	-	-	-	11
2,880	Pensions Reserve	-	-	3,274	186	-	-	3,460
(333)	Share Capital	-	-	-	(333)	-	-	(333)
(204)	Capital Adjustment Account	-	-	(19)	(25)	(147)	-	(191)
(1,735)	Revaluation Reserve	(1,108)	-	-	-	-	-	(1,108)
618	**Total**	**(1,108)**	**-**	**3,266**	**(172)**	**(147)**	-	**1,839**

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.
- Community Schools 2008 Charity – This was established to receive and disburse monies contractually received from the NPDO Schools project holding company to voluntary groups and organisations providing recreational facilities in the Council area. Falkirk Council has no significant influence.

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. **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.

3. **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.

4. **Capital Charges**
A charge to service revenue accounts to reflect the cost of fixed assets used in the provision of services.

5. **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.

6. **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.

7. **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.

8. **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.

9. **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.

10. **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.

11. **Capital 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.

12. **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.

13. **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).

14. 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.

15. 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).

16. Property Costs
This includes rents, rates, insurance, repairs and maintenance, upkeep of grounds, heating, lighting, furnishings and fittings.

17. 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.

18. Subsidiary
This is an entity where the Council has overall control through the power to govern its financial and operating policies so as to obtain benefits from the entity's activities.

19. 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.

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

Report on the audit of the financial statements

Opinion on financial statements

We certify that we have audited the financial statements in the annual accounts of Falkirk Council and its group for the year ended 31 March 2019 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the group and council-only Comprehensive Income and Expenditure Statements, Movement in Reserves Statements, Balance Sheets, and Cash-Flow Statements, the council-only Housing Revenue Account Income and Expenditure Statement, the Housing Revenue Account Disclosures, the Council Tax Account, and the Non-domestic Rate Account, and notes to the financial statements, including a summary of significant accounting policies. 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 2018/19(the 2018/19 Code).

In our opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2018/19 Code of the state of affairs of the council and its group as at 31 March 2019 and of the income and expenditure of the council and its group 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 2018/19 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.

Basis for opinion

We conducted our audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)), as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report. We were appointed by the Accounts Commission on 26th July 2016. The period of total uninterrupted appointment is three years. We are independent of the council and its group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. Non-audit services prohibited by the Ethical Standard were not provided to the council. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern basis of accounting

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or

- the Chief Finance Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the council's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Risks of material misstatement

We have reported in a separate Annual Audit Report, which is available from the Audit Scotland website, the most significant assessed risks of material misstatement that we identified and our conclusions thereon.

Responsibilities of the Chief Finance Officer and the Audit Committee for the financial statements

As explained more fully in the Statement of Responsibilities, the Chief Finance Officer is responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the Chief Finance Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Finance Officer is responsible for assessing the council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

The Audit Committee is responsible for overseeing the financial reporting process.

Auditor’s responsibilities for the audit of the financial statements

Our objectives are to achieve reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, intentional omissions, misrepresentations, or the override of internal control. The capability of the audit to detect fraud and other irregularities depends on factors such as the skilfulness of the perpetrator, the frequency and extent of manipulation, the degree of collusion involved, the relative size of individual amounts manipulated, and the seniority of those individuals involved. We therefore design and perform audit procedures which respond to the assessed risks of material misstatement due to fraud.

A further description of the auditor’s responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor’s report.

Other information in the annual accounts

The Chief Finance Officer is responsible for the other information in the annual accounts. The other information comprises the information other than the financial statements, the audited part of the Remuneration Report, and our auditor’s report thereon. our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon except on matters prescribed by the Accounts Commission to the extent explicitly stated later in this report.

In connection with our audit of the financial statements, our responsibility is to read all the other information in the annual accounts and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Report on other requirements

Opinions on matters prescribed by the Accounts Commission

In our opinion, the audited part of the Remuneration Report has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014.

In our opinion, based on the work undertaken in the course of the audit

- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003; and
- the information given in the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016).

Matters on which we are required to report by exception

We are required by the Accounts Commission to report to you if, in our opinion:

- adequate accounting records have not been kept; or
- the financial statements and the audited part of the Remuneration Report are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit; or
- there has been a failure to achieve a prescribed financial objective.

We have nothing to report in respect of these matters.

Conclusions on wider scope responsibilities

In addition to our responsibilities for the annual accounts, our conclusions on the wider scope responsibilities specified in the Code of Audit Practice are set out in our Annual Audit Report.

Use of our report

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 120 of the Code of Audit Practice approved by the Accounts Commission, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Stephen Reid, for and on behalf of Ernst & Young LLP

Ernst & Young LLP

Atria One

144 Morrison Street

Edinburgh

EH3 8EX

Falkirk Council