

Falkirk Council

Report to Members and the Controller of Audit on the 2009/10 Audit

October 2010

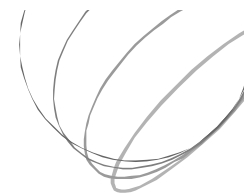


Falkirk Council

**Report to Members and the Controller of Audit
on the 2009/10 Audit**

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Key Messages

We have given an unqualified opinion on the financial statements of Falkirk Council. The accounts were certified by the target date of 30 September. They are now available for publication and are an essential means by which the council accounts for its stewardship of public money.

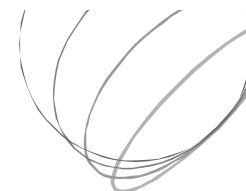
Overall the council's spending was in line with the budget set. Unplanned costs relating to social work, education and development services were offset by savings elsewhere. These savings were non-recurring however and will not be available to offset budget demands in future years.

Uncommitted general fund balances at year end were £6.8 million, which is within the target range of £5.5 million to £7.5 million agreed by the council in 2006 to cope with unforeseen events. The council also holds £31.4 million of earmarked reserves, including £20.7 million towards funding an injection payment of £24 million in 2011 for the new schools project. The high level of earmarking provides some protection to the council's overall reserve position in future years, however reserves are likely to be under increasing pressure as a result of the economic climate.

We were broadly satisfied with disclosures made in the annual corporate governance assurance statement and the adequacy of the process put in place by the council to obtain assurances on systems of control, although we have identified scope for improvement in disclosures of other group entities' governance arrangements and signed declarations about the effectiveness of governance arrangements by all service directors. We also assessed key financial systems as having a satisfactory level of control for our purposes.

We have previously raised concerns that the audit committee is chaired by the council leader which is contrary to good practice and could impede its effectiveness. In April 2010, the council approved changes to this arrangement with the introduction of a lay member who will act as the chairperson. Arrangements are currently underway for this appointment. Following the council meeting in April 2010, two Members tendered their resignation from the committee and have yet to be replaced. As a result there is a political imbalance within the audit committee which could continue to impact on its effectiveness.

The council is in the early stages of developing a quality management framework based on the Improvement Service's Public Service Improvement Framework. The initial self evaluation under the framework, together with the findings from previous inspection and audit reports, have resulted in a revised corporate improvement plan. Progress against this plan is monitored and reported to the Best Value Forum. The council intend to continue to monitor the steps taken to deliver the plan and to ensure that improvement initiatives have the anticipated impact.



Outlook

The financial challenges facing the Scottish public sector are well documented. There remains uncertainty about what the financial implications for Falkirk Council will be and the settlement for local government is not likely to be finally known until December 2010. The council has shown an understanding of the financial challenges it faces and has made early progress in addressing these. Its most recent assessment is that aggregate savings of £60 million (17.6% of the revenue budget) will be required by 2014/15 and consultation is ongoing to determine how these savings could be achieved. Decisions on future budgets have yet to be made.

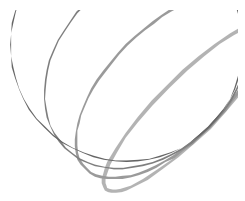
In establishing its financial plans the council makes an allowance for a range of inflationary and other cost pressures and considered the extent to which new developments, priorities and responsibilities can be funded. Moving forward it is important that the council has a clear understanding of what its spending priorities are, developing these in partnership with other community planning partners where appropriate. The council will need to consider its programme of savings which will need to be achieved in a manner that best supports the council's overall objectives and priorities. Real terms grant reductions are expected to continue until 2015/16 on current projections, and the council will continue to face tough decisions about spending and priorities. The Community Planning Leadership Group has already discussed a process for reviewing budget proposals in order to ensure the implications of the total public sector savings proposals for the Falkirk area are clearly understood.

The council is committed to reviewing its Human Resources and Workforce Strategy, however intends to await the outcome of the funding announcement and the budget consultation process before completing the review and reporting to Members. This will allow the council to fully consider the workforce implications of any funding and budget decisions and ensure that the council is able to demonstrate that it has the right people in the right place to take forward its strategic objectives and priorities, and that any up-front costs represent best value for money in what is an increasingly difficult economic environment.

The council has made significant progress in developing its approach to asset management, but acknowledges that further work is required in key areas. This is essential to help achieve objectives and priorities, while getting best value from reducing resources. The wider economic situation also has serious implications for the management of the council's property portfolio, it proving difficult to capitalise on surplus assets to support reinvestment plans or regeneration schemes.

The council was assessed, along with most other councils, as 'non-conforming' in the annual procurement capability assessment and there is scope to do more to deliver savings from this area.

Effectively managing the council's performance will remain a key challenge as council budgets are reduced. It is unlikely that the council will be able to maintain or improve current performance levels across all of its existing services, and it will need to make difficult decisions about what areas are seen as priorities and in which areas will service levels need to be reduced. Crucially, the council will need to use its performance information to understand and manage the effect of spending decisions.



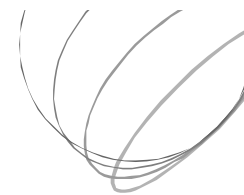
There is still scope to shift some outcomes and indicators included in the Single Outcome Agreement (2009–2012) to 'below the waterline' performance management arrangements, to allow for a more strategic set of high level outcome measures. We understand that a full review of the Single Outcome Agreement outcomes and indicators is planned for 2011 once the Community Planning Partnership's revised Strategic Community Plan is approved. This will include revising the number of outcomes and ensuring performance indicators and targets are relevant and meaningful to the community within the Falkirk area.

In June 2010, we submitted our final shared risk assessment and assurance and improvement plan (AIP) to the council. This document was produced by the local area network of scrutiny bodies and describes the work planned on corporate activities over the next three years. The local area network is led by Audit Scotland and we shall keep the council up-to-date with any changes to the AIP.

The co-operation and assistance given to us by Falkirk Council Members, officers and staff is gratefully acknowledged.

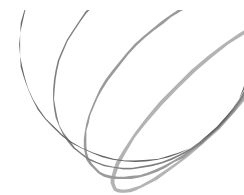


October 2010



Introduction

1. This report is the summary of our findings arising from the 2009/10 audit of Falkirk Council (the council). A number of reports have been issued in the course of the year in which we make recommendations for improvements (Appendix A). We do not repeat all of the findings in this report. Instead we focus on the financial statements and any significant findings that have arisen from our review of the management of strategic risks.
2. The report uses the headings of the corporate assessment framework, which we and the other scrutiny bodies used as the structure for the recent shared risk assessment and assurance and improvement plan (AIP) (www.audit-scotland.gov.uk/work/scrutiny/docs/Falkirk.pdf). Where relevant, we comment on issues identified in the AIP for investigation or monitoring by the local auditor throughout the Report.
3. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. Reports in the last year of direct interest are:
 - Making an Impact - Overview of best value audits 2004 -09.
 - Scotland's public finances – preparing for the future.
 - Protecting and improving Scotland's environment.
 - The national fraud initiative in Scotland 2008/09.
 - Overview of local government in Scotland 2009.
 - Improving public sector efficiency.
 - Roles and working relationships: are you getting it right?
 - Getting it right for children in residential care.
4. These reports have been sent to the council for consideration and we do not consider them all in this report. They are available on our website www.audit-scotland.gov.uk.
5. Appendix B is an action plan setting out the high level risks we have identified from the audit. Officers have considered the issues and have agreed to take the specific steps set out in the column headed *Planned Management Action*. We do not expect all risks to be eliminated or even minimised. What we are expecting to see is that the council understands its risks and has arrangements in place to manage them. Members should ensure that they are satisfied with the proposed management action and have a mechanism in place to be duly assured that the proposed action has been implemented, and is effective.
6. This report is addressed to Members and the Controller of Audit. It will be published on our website after consideration by the council. The information in this report may be used for the annual overview of local authority audits to the Accounts Commission later this year. The overview report is published and presented to the Local Government and Communities Committee of the Scottish Parliament.



Financial statements

Introduction

7. In this section we summarise key outcomes from our audit of the council's financial statements for 2009/10, comment on the significant accounting issues faced, and provide an outlook on future financial reporting issues.

Audit Opinion

8. We have given an unqualified opinion that the financial statements of Falkirk Council and its group for 2009/10 give a true and fair view of the financial position and expenditure and income of the council and its group for the year. We have also certified that the accounts have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements.

Annual governance statement

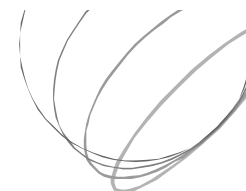
9. The council's financial statements include an Annual Governance Statement, which sets out the findings from the council's review of the effectiveness of its governance systems. This Statement is recognised as good practice in the CIPFA publication *Delivering Good Governance in Local Government*. We were satisfied with disclosures made in the annual governance statement.
10. We were also generally satisfied with the adequacy of the process put in place by the council to obtain assurances on the governance systems, which included a review by services of their governance arrangements against the practices identified in *Delivering Good Governance in Local Government*. As part of this process service Directors are required to sign a declaration about their service's governance arrangements, however for 2009/10 not all service Directors provided the signed declaration.

Action plan no. 1

11. Where an authority has group relationships through which it undertakes significant activities, these activities should be brought within the scope of the Statement. As noted in our 2008/09 report, the Statement focuses on the wider governance arrangements within Falkirk Council and in terms of other group entities, reporting is restricted to the effectiveness of their internal financial controls.

Accounts submission

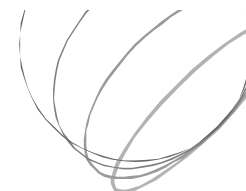
12. The council's unaudited financial statements were submitted to the Controller of Audit by the deadline of 30 June. A working papers package was also available by this date. This enabled us to conclude



the audit and certify the financial statements by the target date of 30 September 2010 and these are now available for presentation to Members and publication.

Accounting issues

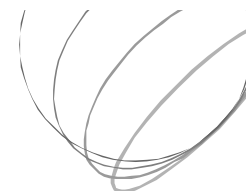
13. Local authorities in Scotland are required to follow the *Code of Practice on Local Authority Accounting in the United Kingdom – a Statement of Recommended Practice (the SORP)*. With effect from 2010/11, local authorities will move from UK Generally Accepted Accounting Principles to International Financial Reporting Standards (IFRS). Because local government has already adopted some aspects of IFRS, we expect the transition to be fairly smooth, but the change does require significant issues to be addressed.
 14. The council is making progress in the transition to IFRS accounting. In common with all Scottish Local Authorities, the council appointed CIPFA/PwC in partnership as IFRS transition consultants. The council was one of the first in Scotland to submit its initial IFRS opening balance sheet for 2008/09 to CIPFA/PwC and has assisted CIPFA/PwC to 'road-test' the transition template spreadsheet which converts the 2009-10 GAAP Accounts to IFRS Accounts.
 15. In accordance with the 2009 SORP and the decision to adopt early some IFRS accounting requirements, the council is required to account for Private Finance Initiative (PFI) projects on an IFRS basis. As a result, the council has amended its opening balance sheet and comparative information in the financial statements to reflect changes required in the Accounting for PFI contracts.
 16. Falkirk Council has two schools projects (Class 98 and Falkirk Schools Gateway) which have been delivered under PFI contracts. Under IFRS requirements, if it is considered that the council has control of a PFI asset, then the asset should appear on the council's balance sheet. The council has determined that it does exert the necessary control aspects over the school assets and has included these assets on its balance sheet for 2009/10. The comparative 2008/09 figures have been restated for these accounting changes.
 17. The impact of the economic climate is referred to in the Foreword by the Director of Finance. The commentary could have been enhanced with more detail, in particular giving a wider range of specific examples of where and how the economic climate and the reduction in available funding have impacted significantly on the accounts. Looking ahead, the Foreword provides a valuable opportunity to explain the implications of reduced funding and set out how the council has managed this.
- Action plan no. 2**
18. We were satisfied that the council prepared the financial statements in accordance with the 2009 SORP. The council has adjusted the financial statements to reflect audit findings. As is normal practice, immaterial unadjusted errors have been reported to the Director of Finance. Details of a significant accounting issue arising in the course of our audit is summarised below.



19. **Equal pay compensation costs:** In June 2010, the Directors of Finance and Corporate & Neighbourhood Services reported to the Council on the progress in negotiations for settlement of outstanding equal pay compensation claims. The report highlighted potential settlement of claims for the period prior to implementation of Single Status i.e. pre-2006 cases and post-2006 pay protection arrangement cases, however stated that on the basis of legal advice received, only the pre-2006 cases be settled at a cost of £7.9 million. The report also identified further potential liabilities which were not currently included in the settlement offer of around £0.5 million.
20. The council recognised a provision of £5.0 million in its financial statements for 2009/10, as the council's best estimate of the expenditure likely to be required to settle the present obligation at the balance sheet date. A contingent liability was also disclosed in the accounts, highlighting that recent legal judgements may mean that the council is at risk in respect of further categories of claims. The council further disclosed that it had applied for and received borrowing consent in relation to equal pay costs under the terms of Finance Circular No. 11/2009.
21. Having considered the requirements of the SORP and FRS 12, reviewed the details reported by the Directors of Finance and Corporate & Neighbourhood Services to the council in June 2010 and considered the terms of related borrowing consent, our view is that the council should have provided for an additional £3.4 million of expenditure in 2009/10 in relation to equal pay costs.
22. The Director of Finance disagreed with this, taking the view that recognising the expenditure without matching it to the corresponding funding through application of borrowing under consent would understate the general fund. While we understand the argument presented, we do not agree with this view given the accounting rules that apply.
23. While there remain uncertainties over the actual costs that will be incurred, we are satisfied that in all other respects the council's approach was reasonable. We have also agreed with the Director of Finance that it is not appropriate to recognise funding until the point that the borrowing under the consent is made.
24. The disputed amount was not considered material to our opinion on the audit, but we consider that the disagreement on accounting approach is significant enough to be highlighted in this report

Audit testing

25. As part of our work, we took assurance from a number of the council's main financial systems. We assessed the following central systems as having a satisfactory level of control for our purposes:
 - Payroll.
 - Creditors payments.
 - Housing rents.
 - Council tax billing and collection.
 - Main accounting system.
 - Non-domestic rates billing and collection.



- Debtors accounts receivable.
- Cash and bank.
- Pension investments.
- Procon (Commercial Services accounts).
- Budgetary control.
- Capital accounting.
- Pension administration.
- Trojan (care payments).

26. Auditing Standards require internal and external audit to work closely together to make optimal use of available audit resources. We relied on the work of internal audit in the following areas to support our work:

- Treasury management.
- Cash spot checks.
- Overtime and allowance administration.
- Social Work direct payments.

Group accounts

27. The diversity of service delivery vehicles used by councils means that consolidated group accounts are required to give a true and fair view of a council's income and expenditure.

28. With effect from 28 May 2009, Falkirk Community Stadium Limited was reconstructed 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 Falkirk Football & Athletic Club and the council. The loans advanced by the council have been replaced by other assets. The effect of the restructuring is that the council now wholly owns the shares of FCSL (Holdings) Ltd which in turn holds all of the share capital of Falkirk Community Stadium Ltd.

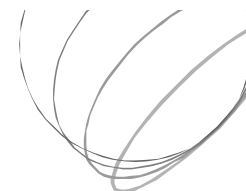
29. The council also has interests in three associates:

- Central Scotland Joint Police Board.
- Central Scotland Joint Fire and Rescue Board.
- Central Scotland Joint Valuation Board.

30. The subsidiary and three associated bodies have been included in group accounts in accordance with the SORP. In addition, the results of the Common Good have also been consolidated into the group accounts. Sufficient audit assurances to support our opinion were obtained through review of board minutes, internal audit reports and audited accounts.

31. We would like to highlight the following:

- All bodies within the group received unqualified audit opinions from their external auditors.



- In accordance with recommended accounting practice, key accounting policies for component bodies such as pension costs and the valuation of fixed assets, have been aligned with the council.

Trust funds

32. Local authorities with registered charitable bodies are required to comply with the requirements of the Charities Accounts (Scotland) Regulations 2006. In effect, this means a full set of financial statements is required for such trust funds. We have been advised that none of the Trust Funds operated by the council fall within these regulations.

Common good fund

33. In December 2007, Local Authority (Scotland) Accounts Advisory Committee (LASAAC) issued a guidance note for practitioners. The guidance requires the common good fund to be disclosed within the financial statements and a separate common good asset register to be in place by March 2009.
34. A separate account for the common good is disclosed in the council's financial statements. Fixed assets totalling £0.235 million have been included in the Common Good Accounts. This represents the land and buildings at Kilns House and these are identified separately in the Council's fixed asset register (not held as part of the council's assets).

Legality

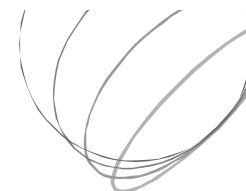
35. Through our planned audit work we consider the legality of the council's financial transactions. In addition the Director of Finance confirmed that, to the best of his knowledge and belief, and having made appropriate enquiries of the council's corporate management team, the financial transactions of the council were in accordance with relevant legislation and regulations. There are no additional legality issues arising from our audit which require to be brought to the attention of Members.

Outlook

Compliance with International Financial Reporting Standards (IFRS)

36. As noted above, the council has made good progress in this area. Although there are no formal deadlines in advance of 30 June 2011 when the 2010/11 accounts are due, the early production of a restated opening balance sheet and shadow accounts is accepted good practice. In line with this good practice the council has provided us with IFRS restated opening balance sheet as at 31 March 2009 and we are currently drafting a report on our findings in this area. There remains much to do to achieve full transition to IFRS-based financial statements however and we shall continue to monitor progress in this area.

Action plan no. 3



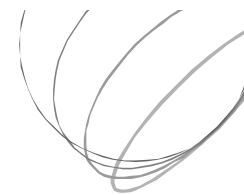
Pension funds

37. The Scottish Government is consulting on the requirement for a separate pension fund audit from 2010. This is a significant change from the current approach, where the pension fund accounts are audited as part of the administering council's audit. Audit Scotland has already started to separate the internal and external planning for the pension fund from the administering authority and we shall further refine our audit approach following the outcome of the consultation.

Action Plan no. 4

Carbon management

38. From April 2010 a new system for charging for carbon emissions was introduced to encourage a reduction in emissions. The Comprehensive Spending Review 2010 states that the system will be simplified to reduce the burden on businesses. The council will be reviewing its approach to the use of allowances under the scheme once further information is available.
39. The council already has a Carbon Management Plan which is in the process of being reviewed and has achieved the Carbon Trust Standard. The council has also recently set up a Carbon Management Group to lead its carbon management programme. The group held its first meeting in October 2010 and consists of a sponsoring Member, a representative of the Carbon Trust in Scotland, an appointed consultant and various council officers.
40. The consultant has been commissioned by the Carbon Trust in Scotland to carry out a Carbon Management Review Programme for the council. The main objectives of the programme are to:
- Assess the current status of Falkirk Council's Carbon Management Plan and to quantify the carbon savings achieved or predicted to date.
 - Carry out a gap analysis to address the challenge of meeting the council's original carbon reduction target.
 - Assist Falkirk Council in identifying potential carbon savings.
 - Quantify the carbon savings achieved/ predicted and recommend the next steps to fulfilling the requirements of the Carbon Management Plan.



Use of resources

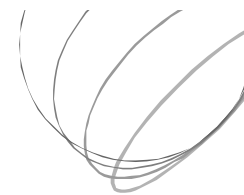
Financial results

41. In 2009/10, Falkirk Council spent £531.3 million on the provision of public services, with more than £490.4 million on revenue services and £40.9 million on capital. The council's net operating expenditure was £351.9 million, which was met by central government and local taxation of £333.2 million, resulting in a deficit of £18.7 million for the year on the income and expenditure account.
42. As the council is required to set its council tax on a different accounting basis this deficit is subject to further adjustments. The main adjustments are to ensure that capital investment is accounted for as it is financed rather than when fixed assets are consumed and that retirement benefits are charged as amounts become payable to pension funds and pensioners rather than as future benefits are earned. The impact of these adjustments in 2009/10 is to reduce the deficit by £17.2 million, meaning general fund balances of £1.5 million were used during the year. £2.3 million was appropriated from the cash backed reserves to the general fund during the year resulting in an increase in the general fund of £0.8 million.
43. While the general fund surplus or deficit is a key measure in managing the council's annual budget, the income and expenditure deficit indicates the underlying level of resources the council has consumed during the year. The effect of this will ultimately impact on future revenue and capital budgets as assets are maintained and replaced and pension commitments met.
44. The budget set for 2009/10 was based on a Band D council tax level of £1,070 with a planned contribution of £1.4 million from reserves (exhibit 1). Audited accounts show a net contribution of £1.5 million from reserves, which is in line with the budget.

Exhibit 1

Budgeted and actual use of reserves 2009/10

Reserve	Budget (£m)	Actual (£m)	Variance (£m)
General Fund	(1.410)	0.769	2.179
Capital Fund (CRR)	-	(1.337)	(1.337)
Renewal & Repair Fund	-	(1.044)	(1.044)
Insurance Fund	-	0.108	0.108
Total reserves applied	(1.410)	(1.504)	(0.094)



45. The outturn position masks some underlying pressures in the recurring budget position that the council will have to manage in future years. Significant effort was required to manage the overall budget position during the year. The council overspent by £3.530 million on social work, education and development services (mainly due to significant pressure in childrens' residential and crisis care and adult home care and 24 hour care, increased cost of provision of Support for Learning and increased cost resulting from severe winter weather), but was able to manage this during the year by making offsetting savings in other general fund services, and within the housing revenue account
46. The council made significant savings of £1.465 million on a prudent budget for interest and loan costs and received a one off repayment of £1.365 million for overpaid VAT covering a number of years. These amounts were able to mitigate the impact of the increased budget pressures however are unlikely to be available on a recurring basis. As the public sector enters a period of significant financial constraint it is likely that interest budgets will be under significant pressure, reducing the scope to use these areas to help manage the overall financial position of the council.

Financial Position

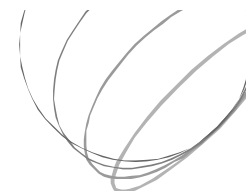
47. Exhibit 2 shows the balance in the council's funds at 31 March 2010 compared to the previous year. Funds include a capital fund which may be used to defray capital expenditure or repay loan principal, and a repair and renewal fund to finance expenditure incurred in repairing, maintaining, repairing and replacing fixed assets. At 31 March 2010, the council had total funds of £46.1 million, a decrease of £0.2 million on the previous year.

Exhibit 2

Cash backed reserves

Description	31 March 2010 £ Million	31 March 2009 £ Million
General Fund	38.163	37.394
Repairs and Renewals Fund	1.290	2.334
Insurance Fund	3.018	2.910
Capital Fund (Capital Receipts Reserve)	3.599	3.631
	46.070	46.269

48. The general fund increased by £0.8 million during the year to a balance of £38.2 million which equates to 11% of the council's net operating expenditure. Of this balance £31.4 million has been earmarked for specific purposes: housing funds to limit the impact of future rent increases, devolved schools management balances held by individual schools, economic development balances for the

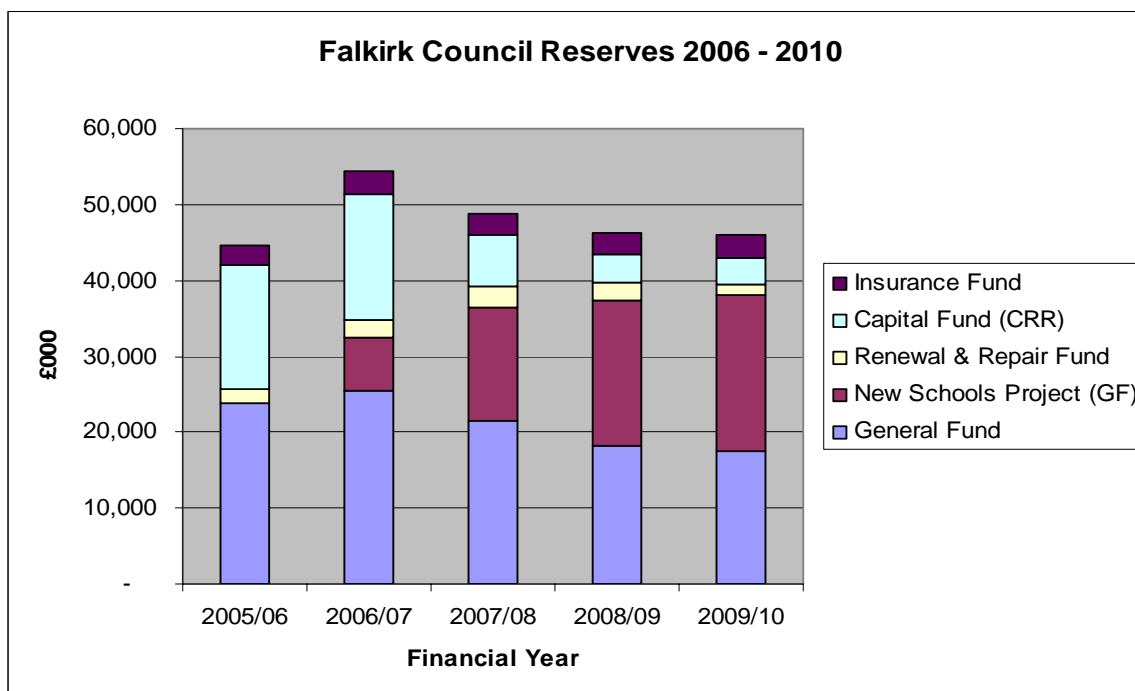


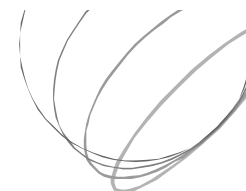
development of strategic business parks, central energy efficiency funds to improve energy efficiency in council buildings and amounts set aside to fund a 'payment' which the council is contracted to pay in 2011. This leaves an unallocated balance of £6.8 million, which is within the target range of £5.5 million to £7.5 million set out in the council's reserve strategy to meet unforeseen circumstances or risks.

49. As noted above the council continues to fund part of the repayment of loans fund principal from the council's Usable Capital Receipts Reserve (effectively a capital fund) rather than from service expenditure. The practical effect of this is to release revenue funding to support other items of expenditure. This approach is being taken in order to build up an earmarked fund for financing the council's New Schools project. The council decided to allocate £1.337 million of capital receipts to this purpose in 2009/10, resulting in an increase in the general fund balance which has been earmarked for the project.
50. Over the last five years, after allowing for the fund being built up for the new schools project, the council has maintained general fund balances between a maximum of £25.4 million (2006/07) and a minimum of £17.4 million (in 2009/10). As can be seen in exhibit 3, the balance has been steadily falling from its peak level over the last four years, with the 2009/10 outturn being the lowest level in the period. The balance on the insurance fund has remained consistent over this period but the balance on the repairs and renewals fund has reduced in 2009/10 from £2.3 million to £1.3 million.

Exhibit 3

Falkirk Council cash backed reserves 2005/06 to 2009/10





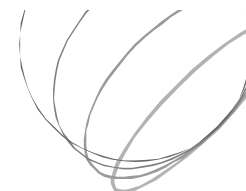
51. The aggregate of the council's capital fund and the earmarked element of the general fund being built up for the new schools project has remained broadly consistent as receipts are released. An injection payment of £24 million requires to be made to the new schools project in 2011. A total of £20.7 million is currently set-aside for this. Taken together with the remaining balance on the capital receipts reserve, there are sufficient balances to fund this payment.
52. The council has seen increasing pressures as it has managed its overall financial position over the past five years. While aggregate reserve levels are significant, a major proportion of these are committed to fund the injection required under the new schools project contract. A further amount is earmarked for the devolved school management scheme. Uncommitted general fund balances are within the target level previously approved by the Council, but represent less than 2% of the 2010/11 net revenue budget. The council applied part of the remaining earmarked amounts (HRA) as part of its 2009/10 budget and taken together with uncommitted balances these total 3.7% of the 2010/11 net revenue budget. This provides some scope to manage the overall financial position, were this required, but the council has limited opportunity to use its balances to manage any significant reductions in income and recurring expenditure pressures.
53. Exhibit 4 provides some information about the council's financial position compared to other Scottish councils.

Exhibit 4

Key indicators

Ratio	Description	Falkirk		All mainland Councils
		2008/09	2009/10	2009/10
Working capital (Current assets as a ratio of current liabilities)	This is an indicator of the council's ability to pay its current liabilities in the short term	24%	34%	33% - 191%
Useable reserves as a percentage of general revenue expenditure	This shows the proportion of revenue expenditure that could be met from reserves	13.35%	13.09%	3.7% - 19.6%
Long term borrowing compared to tax revenue	This ratio illustrates the proportion of a council's tax related income that would be needed to pay off long term debt	104%	115%	48% - 295%
Long term assets as a percentage of long term borrowing	This gives an indication of the ability to borrow to replace or repair assets	640%	586%	200% - 755%

Source: audited 2009/10 accounts



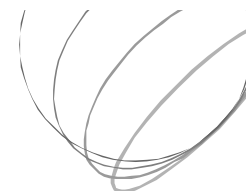
54. These ratios indicate the liquidity and financing position of the council. In making comparisons between councils, there are a number of factors which affect the indicators. These include the council's group structure, asset management arrangements (e.g. housing stock transfers) and financial strategies. We have compiled this information for the first time this year and it establishes a starting point to enable the council's financial stability to be monitored in the future. The council should consider whether the ratios indicate any areas for further consideration within the context of its financial strategies.

Group balances and going concern

55. The overall effect of inclusion of all of the council's subsidiaries and associates on the group balance sheet is to reduce net assets by £303.0 million, mainly because of pension liabilities. However, all group bodies' accounts have been prepared on a going concern basis as pension liabilities will be funded as they fall due through a combination of employee and employer contributions, government grants and council tax.
56. The council has an obligation to meet a proportion of the expenditure of the joint boards of which it is a constituent member. All of these boards (Central Scotland Police, Central Scotland Fire and Rescue and Central Scotland Valuation) had an excess of liabilities over assets at 31 March 2010 due to the accrual of pension liabilities. In total these deficits amounted to £587 million (2008/09 £360 million), with the council's share being £304 million (2008/09 £188 million).

Capital performance 2009/10

57. Capital expenditure in 2009/10 totalled £40.9 million, a drop of £1.3 million from 2008/09. General Services Capital expenditure was £26.8 million and was in line with the budget of £26.6 million. Slippage of £3.4 million resulting from delays in the Glenbervie slip road and the Business Property Reinvestment Programme were compensated by accelerated projects arising from additional Scottish Government capital grant and a range of additional work on town centre regeneration.
58. General Services Capital expenditure included some major projects such as the completion of major upgrades to Larbert and Hallglen primary schools and Denny Nursery (£3.4m), general improvements to school buildings in the Falkirk area (£2.0m), the vehicle replacement programme (£2.0m) and improvements in the roads, paths and transport infrastructure (£5.5m).
59. Investment in council housing stock was £14.1 million against an initial budget of £17.6 million. The housing capital programme was revised during 2009/10 to reflect the decline in the number of council house sales. Anticipated funding for the housing programme included £7.0 million of capital receipts from council house sales, however, due to the economic downturn, the level of council house sales income fell to only £3.3 million. Delayed site progress due to severe weather conditions and amendments to contract start dates allowed the council to make this adjustment.



60. The trend in capital investment and sources of funds is reflected in exhibit 5. The trend in investment each year continued to reduce in 2009/10 following a steady increase up to 2007/08, for reasons outlined above.

Exhibit 5

Sources of finance for capital expenditure 2006/10

	2006/07 Actual £M	2007/08 Actual £M	2008/09 Actual £M	2009/10 Actual £M	2009/10 Budget £M
Borrowing	17.3	19.1	23.0	19.9	24.8
Capital receipts	14.0	16.5	6.7	5.4	8.9
Government grants/other	4.5	9.1	9.3	12.0	8.2
CFCR	3.7	4.2	3.2	3.6	2.2
Total	39.5	48.9	42.2	40.9	44.1 *

* includes a slippage allowance of £4.2 million

61. The world's financial markets are continuing to experience turbulence and uncertainty. There is limited scope to achieve savings through debt restructuring and it is increasingly difficult to forecast interest rate movements as the balance between preventing recession and managing inflation is sought. It is also likely that capital receipts and developer contributions will be less than forecast for the medium to long term. This means that the council will have to consider alternative sources of capital funding or further reducing capital budgets.

Treasury management

62. The current economic climate means that interest rates on investments are low and the council received £0.5 million in investment income this year compared to £5 million last year. Borrowing rates are also low, but the council has a significant proportion of its debt at fixed rates. As at 31 March 2010, the council held cash and temporary investments totalling £7.6 million, an increase on the 2008/09 balance of £2.7 million.

Pension funds

63. The council is responsible for the management and administration of the Falkirk Council Pension Fund (FCPF). Investment assets for the funds are diverse and are largely managed by a range of external fund managers. The value of the investment assets are illustrated in Exhibit 6.

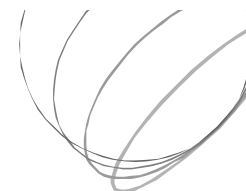


Exhibit 6

Pension Fund Investments

Value of investments (£m)	31/03/06	31/03/07	31/03/08	31/03/09	31/03/10
	£m	£m	£m	£m	£m
FCPF	883	959	947	783	1,073

64. By the end of 2009/10, indications were that the worst of the global financial and economic crisis had passed. Low interest rates supported a rally in markets. All major asset classes rose significantly and improved manufacturing, economic and consumer confidence data suggested the world economy was recovering, but concerns remain over the sustainability of the recovery. This has resulted in the total investment value of the pension fund increasing during 2009/10. However the dynamic nature of the current market does not lend itself to a reliable long term estimate of asset values.

65. Exhibit 7 identifies that the Fund produced a total annual return of 34.5% for 2009/10 against a benchmark return of 36.6%. The fund has achieved a 10 year annualised return of 4.0%, slightly under performing against its benchmark over 10 years.

Exhibit 7

Pension Fund returns 2001 - 2010

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010		3Yr	5Yr	10Yr
	%	%	%	%	%	%	%	%	%	%		%	%	%
Fund Return	(2.7)	1.2	(22.8)	27.1	11.0	24.1	6.5	(3.4)	(19.7)	34.5		1.4	6.7	4.0
Fund B/mark	(6.3)	(0.5)	(20.6)	25.0	12.5	26.0	6.7	(2.8)	(19.8)	36.6		2.1	7.5	4.1

Falkirk Council Pension Fund – 2009/2010 Custodian Performance Review (note, 2001-2002 measured by WM Company and compared with a benchmark of the WM Local Authority Funds)

66. The effect on the asset values of the pension fund and the future outlook for employers' contributions was assessed at the triennial valuation of the pension fund at March 2008. In addition in an interim valuation report at 31 March 2010, the actuary showed that the funding position had reduced from 79% in March 2008 to 76% in March 2010 (this is an increase from the estimated 63% last year).

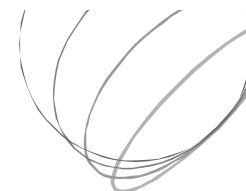


Exhibit 8

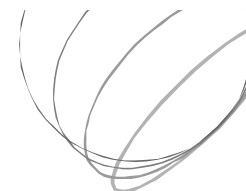
Projected Funding Position

	31Mar2005	31Mar2008	31Mar2010
	Actual	Actual	(Projected)
	£m	£m	£m
Assets	700	948	1,065
Liabilities	810	1,203	1,398
Surplus/(Deficit)	(110)	(255)	(333)
Funding Level	86%	79%	76%

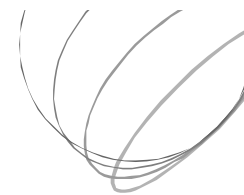
67. A full actuarial valuation of the pension fund was undertaken as at 31 March 2008 and the actuary reported that the pension fund had a funding level of 79% with a funding shortfall of £255 million. The actuary calculated that, taking past service and future service calculations into account, a theoretical employer contribution of 23.8% of pay would be required to extinguish this shortfall over a 20 year period.
68. As noted in our 2008/09 report on the audit, the council considered that this was unaffordable in the present economic climate and asked the actuary to explore the long term effect on the fund of capping contribution increases for employers. The actuary and the council agreed a 'stabilisation strategy' for employers with a strong covenant, resulting in the following contribution rates applying to Clackmannanshire, Falkirk and Stirling Councils and to the Police, Fire and Valuation Joint Boards:
- 2009/10 – 18%.
 - 2010/11 – 18.5%.
 - 2011/12 – 19%.
69. The implications of the decision to restrict employers' contributions will be kept under review by the actuary in the course of future valuations.

Financial planning

70. The financial challenges facing the Scottish public sector are well documented, with public bodies facing deep and prolonged cuts in funding. In June 2010 the new UK Government set out an Emergency Budget, planning for a period of significant fiscal consolidation. It immediately implemented £6 billion of UK budget reductions. The Scottish Government agreed that it would defer its share of these 2010/11 cuts (estimated as £332 million) until 2011/12, and will have to implement these alongside continuing reductions in the Scottish budget.



71. There remains uncertainty about what the financial implications for Falkirk Council will be. The UK government published its comprehensive spending review on 20 October and the Scottish Government will publish the results of its own review in late November. A key issue will be the extent to which some priority services, particularly health, may be protected from budget reductions. The settlement for local government is not expected to be finally known until December 2010. Negotiations are continuing and the Scottish Government is consulting on an end to the council tax freeze.
72. While recognising this uncertainty, all Scottish councils have been working with the Centre for Public Policy and the Regions (CPPR) to estimate the potential impact on the government funding they receive. This provides a basis for financial planning and understanding the level of savings that they will require to make to balance future budgets. Current projections are that a 14% real terms reduction will be experienced over 2011/14, heavily weighted toward 2011/12 reflecting the deferral of 2010/11 cuts. In cash terms this is equivalent to annual reductions in grant of 4%, 1.7% and 1.7% respectively.
73. The council has shown a good understanding of the financial challenges it faces and has made early progress in addressing these. In setting its 2010/11 budget the council agreed to freeze its council tax, identifying in-year savings of around £10 million to meet known spending pressures and planned growth. The most recent corporate budgetary control report anticipates an underspend of £0.5 million for the year and the council is making continuing effort to manage its spending and ensure planned saving levels are delivered.
74. The council is undertaking public consultation on where savings options can be directed and continues to develop its plans. Its most recent assessment is that aggregate savings of around £60 million may be required over the period 2011/12 to 2014/15. This is equivalent to 17.6% of the net revenue budget for 2011/12. Decisions on future budgets have yet to be made, and options remain under discussion amongst elected Members and senior officers.
75. As well as addressing the anticipated reduction in funding, councils also have to manage a range of cost pressures and consider the extent to which they can fund new developments, priorities and responsibilities. This means that savings targets need to be greater than would be required to simply offset the anticipated reduction of grant.
76. A report was submitted to the Council on 6 October 2010 which set out the preparatory work that is underway within the council for the 2011/12 to 2014/15 budgets. This preparatory work includes ongoing prioritisation of service delivery (this includes public consultation as referred to above and staff consultation), improvements in efficiencies, workforce planning measures, review of income generation and better asset management, including property rationalisation.



77. Moving forward it is important that the council has a clear understanding of what its spending priorities are, developing these in partnership with other public sector organisations where appropriate. Real term grant reductions are expected to continue until 2015/16 on current projections, and the council will continue to face tough decisions about spending and priorities.

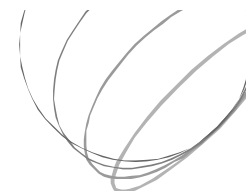
Action plan no. 5

Asset Management

78. The pressure to get the best out of the council's asset base and the money that is invested in it is greater than ever in the current financial circumstances. Effective management of council assets is essential to help the council achieve its objectives and priorities, while getting best value from its reducing resources. The wider economic situation also has serious implications for the management of the council's property portfolio, it proving difficult to capitalise on surplus assets to support reinvestment plans or regeneration schemes.
79. In 2009, we published *Asset Management in Councils*. Our study found that strategic asset management was not well developed in most councils. For Scottish councils as a whole, over a quarter of all properties were in poor condition and slightly less than that were not suitable for the services being delivered from them.
80. The council has had a corporate asset management plan in place since 2007 and has been taking positive steps to improve asset management. An updated corporate asset management strategy is being developed which will be based on the national template produced by the Improvement Service.
81. Further areas of improvements have been identified by the council, including the development of asset management plans for services and specific asset 'classes' (e.g. property) and rationalisation of asset management systems. The council intends to have a full asset management plan in place by early 2011. The council is also developing a Forth Valley wide plan which will be jointly prepared with NHS Forth Valley, Central Scotland Joint Police Board and other councils.
82. During 2010 the council relocated its Education Service HQ, with anticipated annual savings in excess of £0.100 million.

Procurement

83. Improved procurement practices are an important source of savings. The Public Procurement Reform Programme aims to drive continuous improvement in public sector procurement and to deliver value for money and increased efficiency through improved structures, capability and processes. In 2009, the Scottish Government promoted the use of an annual procurement capability assessment (PCA) to assess procurement performance in all public sector bodies and as a basis for the sharing of best



practice and continuous improvement. Results are summarised as non-conformance, conformance, improved performance and superior performance.

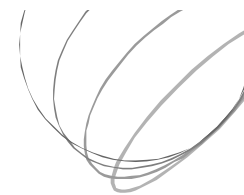
84. All councils have been assessed by Scotland Excel and most scored as non-conformant. This means that overall, councils are not achieving best value across their procurement activities. In response, in December 2009, councils agreed to participate in a national procurement improvement programme.
85. Whilst Falkirk Council scored above the Scottish average, with an overall score of 24%, like most councils the Council was assessed overall as 'non-conformant'. The areas in which the council was assessed as conformant included leadership and governance (38%), procurement strategy (43%) and processes and systems (26%). The weaker areas where the council was assessed as non conformant were specification of goods and services (17%), sourcing strategies and collaborative procurement (22%), contracts and supplier management (17%), people (22%) and performance measurement (17%).
86. Significant steps need to be taken by the council to improve procurement performance and In August 2010, a Procurement Capability Assessment (PCA) Improvement Plan 2010-11 was presented to the council's Procurement Board. This plan is intended to enhance procurement processes ahead of the 2010 PCA assessments which are due to take place in November 2010.

Action plan no. 6

87. In March 2010, the Council agreed to become a member of Scotland Excel. Regular updates on the impact and benefit of Scotland Excel participation will be presented to Members through the Best Value Forum and the Policy and Resources Committee.

Managing People

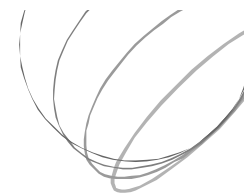
88. The significant reduction in funding in the years ahead will clearly have implications for the council's workforce. Reducing spending on staff will need to be a key component of the way in which the council responds to the challenges it faces. The speed with which spending reductions are required may mean that some pragmatic solutions need to be adopted in the short term. This will need to be balanced with the need to ensure that the council has the right people in the right place to take forward its strategic objectives and priorities, and that any up-front costs represent best value for money.
89. The council's Human Resources and Workforce Strategy 2007-10 is currently at the end of its useful life. The strategy is to be reviewed but the review will not be completed until 2011, once the implication of the budget consultation and funding arrangements are known. This will allow the council to fully consider the direction of the council and the workforce implications before taking forward its workforce plan.



90. The council recognises the importance of staff development to the achievement of the council's objectives and has put in place an Achievement and Personal Development Scheme (APDS) which includes personal development plans for employees setting out their business objectives, personal development objectives and training needs. The APDS is not mandatory and the council intends to undertake a survey of the take up of APDS later in the year. The council hopes to increase the use of APDS by providing sessions to raise awareness and develop the skills of managers in its usage.

Information and Communication Technology

91. The council makes good use of Information Communication Technology (ICT) to support and deliver services. It also recognises the need for continuing capital investment in its ICT infrastructure to ensure its continued effective operation. As part of that investment there has been expenditure in the education service which involves the deployment of 1500 PCs and 50 servers. This investment in PCs allows for expansion of the use of technology into primary schools with the servers providing the required storage necessary to support the expansion.
92. The council is maintaining good progress in establishing a sound information management environment. Sound management is being achieved through the implementation of policies, guidance, standards and training needed to improve information governance. To support this regime the ICT section has created and published Information Security Policy Guidelines to assist Services to preserve the confidentiality, integrity and availability of the Information which they manage. This resource is available to all staff on the council Intranet.
93. A draft updated ICT strategy to incorporate all the changes to infrastructure and systems currently underway and to provide the direction going forward was presented to the ICT Strategy Group (ICTSG) in March 2010 and further updated in June. Finalising the strategy is being held while the council consider plans to restructure which includes the management of the ICT Service.
94. The ICT Service is involved in all levels of business continuity planning (BCP) within Falkirk Council and has developed a database of the plans in place for all services, including the ICT BCP. It is recognised by the council that planning in this area is a continuous process especially with the regular changes to technology. The ICT created plans are:
- Updated and reviewed at least annually.
 - Tested wherever possible.
 - Used to form the basis for Corporate Business Continuity Planning.
 - Reviewed by the Emergency Planning Officer.

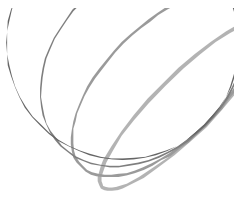


Data handling and security

95. Data handling and security continues to receive public and media attention as a result of a number of national incidents relating to lost data. The council shares data with a number of organisations such as the Department for Work and Pensions and other government departments. Information security is now a service delivery issue where a significant failure of controls could lead to loss of stakeholder confidence and opt out from services, higher compliance costs due to enforcement action, withdrawal of third party services such as payment card processing and legal fees relating to civil and criminal litigation.
96. The council has an approved information security policy that is being used along with other policies to make up the council's information management / security regime in the provision of robust, reliable data security within the council. The work being carried out to maintain and progress the council's information management / security plans, include:
- A Data Handling Register has been created through the ICT Strategy Group.
 - Computerised data is backed up and for all major Corporate applications.
 - The Corporate Risk Register includes a section on Information Management risk which is subject to regular review.
 - An ICT Service Risk Register is maintained and reviewed on a regular basis.
 - The council adhere to the Code of Connectivity for the Government Secure Extranet (GSX) and review compliance requirements every two years.
97. The ICT Strategy Group has identified and reviewed all the data transfer and sharing arrangements undertaken by each Service.

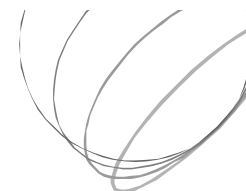
Shared Services

98. The Accounts Commission commented on the lack of progress in developing shared services in its *Overview of the local authority audits 2008*. They recommended that councils should give this high priority in the light of financial pressures and the drive for efficiency.
99. Falkirk Council currently participate in a number of shared services and joint arrangements including:
- Social transport and fleet management (Falkirk Council acts as lead authority).
 - The Forth Valley Data Sharing Partnership.



- A Framework Agreement for the purchase of computer hardware covering 1 September 2010 to 31 August 2013. The partners are Falkirk, Clackmannan, Stirling and Dumfries & Galloway Councils, Central Scotland Valuation Joint Board and Central Scotland Fire & Rescue Joint Board.
- The National Gazetteer – a single database of land and property for Scotland.
- the National Entitlement Card – a single, customisable card and management system providing access to a range of local government services.

100. Discussions are currently ongoing with other councils about extending shared services opportunities and we intend to monitor progress in this area.



Governance and accountability

Introduction

101. Corporate governance is about direction and control of organisations. Councils are large complex organisations, so good governance is critically important. The council has approved and adopted a Local Code of Corporate Governance which is consistent with the principles of the CIPFA/SOLACE guidance: *Delivering Good Governance in Local Government*. Our AIP assessed that the council had no significant risks in this area.

Scrutiny

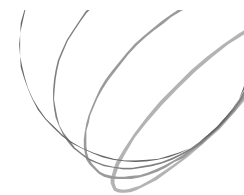
102. Effective scrutiny is central to good governance, with a significant role for Members to scrutinise performance, hold management to account and support the modernisation agenda. A revised political structure was introduced with effect from the March/April 2009 committee cycle. We intend to monitor the arrangements the council has in place to keep the effectiveness of the new arrangements under review.

103. As part of the new arrangements the council introduced an Audit Committee with a remit which includes risk management, consideration of the adequacy of the council's control environment, approval of Internal Audit strategy, ensuring that there are effective relationships between internal and external audit and reviewing the council's assurance statements to ensure that they properly reflect the risk environment.

104. In our 2008/09 annual report on the audit we noted that contrary to good practice, the Audit Committee was chaired by the Leader of the Administration. Reports recommending changes to the convenorship and membership of the audit committee were submitted to the Council in April and June 2010. In June 2010 the Council agreed to work towards the appointment of a lay member to act as the chair for the Audit Committee and in October 2010 a further report was submitted to the Council setting out the recommended processes for recruitment and the terms of the appointment.

105. *CIPFA Guidance on Audit Committee Principles in Local Authorities in Scotland* states that it is good practice for membership to include at least as many Members drawn from outwith the administration as the political balance would suggest. Following the Council meeting in April 2010, two Members of the Audit Committee resigned their membership, resulting in a political imbalance on the committee. It remains to be seen whether the Members reconsider their membership prior to the next audit committee meeting in November 2010, however we would recommend that every effort is made to achieve the committee balance as identified as good practice in the CIPFA Guidance.

Action plan no. 7



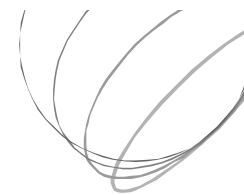
106. The council has recognised the importance of training for audit committee Members to help them fulfil their specialist role. Audit Committee Members have received training on risk management, internal audit and external audit during 2010 and further training on understanding the financial statements is expected to take place by the end of 2010.

Roles and relationships

107. In the current economic environment, where decision making will become increasingly challenging, it is even more important that the council would continue to make often difficult, strategic decisions and that the effectiveness of the scrutiny arrangements would be maintained. A recent Audit Scotland report *Role and working relationships: are you getting it right?* (www.audit-scotland.gov.uk/docs/best_value/2010/bvrm_100826_councillors_officers.pdf) includes a tool for councillors and officers to assess their relationships.
108. The Accounts Commission recommends that councils give priority to the continuous professional development of its Members, however Members' completion of training needs analysis (TNA), personal development plans (PDPs) and attendance at training events continues to be variable. In 2009/10 six Members took part in a pilot Continuous Professional Development (CPD) Framework for Elected Members. The framework, developed by the Improvement Service, is not compulsory for either the council or any individual Member. The Framework was officially launched in September 2010 and has been adopted by Falkirk Council. The framework should enhance current training and development activity.
109. The challenge remains for officers to provide training appropriate to Members' varying training needs as identified through the TNA and CPD frameworks. We would encourage the council to continue to identify and support Members' training.
110. During the year, five Members were referred to the Standards Commission. None of the cases resulted in the Commissioner finding that the Member had contravened the Code of Conduct and no further action was taken.

Partnership Working

111. The council and its partners have a strong commitment for working together for the benefit of the Falkirk area and have put in place an effective structure for Community Planning. The council is working well with partners to address priorities through themed implementation groups.
112. Our Assurance and Improvement Plan issued in June 2010 highlighted that there may be some scope for improving the effectiveness of Members in providing leadership to the Community Planning Partnership (CPP). The Plan also identifies the partnership's approach to providing improved outcomes for vulnerable children and partners working together to integrate their services to older

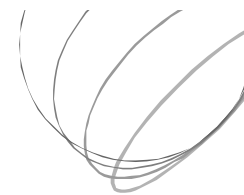


people as areas where there may be scope for improvement. Progress on these areas will be monitored through the new shared risk assessment, a collaborative process adopted by scrutiny bodies.

113. A draft Strategic Community Plan 2010-2015 has been approved by the CPP Leadership Group in September 2010 and will be submitted to the Council in December 2010 for approval. This plan is the keystone of the strategic planning framework for the council and its partners. In June 2009, Members of the Falkirk CPP approved the 2009-2012 Single Outcome Agreement which underpins the priorities set out in the strategic community plan.
114. In our 2008/09 report on the audit we noted that Falkirk's SOA has the highest number of local outcomes of all 32 SOAs across Scotland. The new Strategic Community Plan reduces the number of outcomes to provide a more strategic set of high level outcome measures to be included within the Single Outcome Agreement (SOA) itself. To date there has been some review of the indicators within the SOA, however we understand that a fundamental review of the SOA indicators will be carried out after the Strategic Community Plan 2010-2015 is approved.

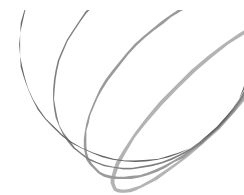
Community engagement

115. Falkirk council and its community planning partners have adopted the national standards for community engagement. The council has previously recognised the need to implement a community engagement strategy to provide a more consistent approach to community engagement. As a result, the council has developed a draft community engagement strategy which has been subject to consultation with the community and Members of the Council. The draft strategy will be submitted to Members for approval in November 2010.
116. The council has added to its range of engagement approaches by setting up a citizens' panel. This has proved highly successful, with currently over 1,000 people signed up. This will be a key focus of the council's future engagement with the community. The Council also continues to support a Business Panel which connects with 2,500 members in 800 companies across the area.
117. A household survey is conducted every two years to monitor levels of service use and satisfaction. The latest survey which was completed in Spring 2010 attracted over 4,000 responses. The survey explores issues such as performance reporting, customer satisfaction with services provided, satisfaction with the area where people live and views on savings that could be made given the financial pressures on the Council. The results of the survey show users satisfaction largely improving since the last survey in 2008.



Public performance reporting

118. Although the council does not issue a standalone annual public performance report it uses a range of mechanisms in its approach to public performance reporting (PPR). These are being used to communicate corporate and service PPR information to stakeholders. They include articles in the Falkirk Council News which is distributed quarterly to all households in the council area, publication of housing performance in the '*in our neighbourhood*' newsletter and through the "Performance Zone" on the council's website. This provides a clear way of accessing an impressive and well organised range of council performance information. We noted, however, that some of the information on service performance is not regularly updated in the performance zone and this could impact on the ability of the public to assess current service performance.
119. The council's PPR also includes information on the SOA and service progress and performance. In addition the council produces information targeted at specific stakeholders, including newsletters for tenants and local businesses and an annual standards and quality report for education, supplemented by reports for individual schools.
120. Councils are also required to publish statutory performance information. The Accounts Commission has significantly reduced the range of statutory performance information that all councils must report. This reflects the developing scrutiny arrangements, single outcome agreements and the development of the Best Value audit regime. The council's SPI information is published on its website. In addition to the 25 specified SPIs for 2009/10, the council is also required to publish local indicators which:
- Demonstrate the council is securing best value
 - Assist stakeholders and other interested parties to compare performance both over time and between councils as appropriate.
121. The council has identified a further 80 local indicators which cover a wide range of activities under various indicator categories including responsiveness to communities, asset management, sustainable development, education of children, community care and revenue and service costs. Data on these indicators has been collected for 2009/10 as a baseline for reporting trends and comparisons in subsequent years. The data was published by the statutory 30 September date.
122. Each year we review the reliability of the council's arrangements to prepare SPIs. Overall, the quality of working papers provided to support the SPIs was satisfactory and we had no concerns over the reliability of the published indicators.



Governance and internal control

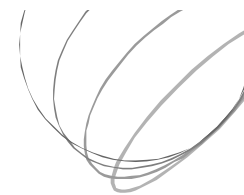
123. No material weaknesses in the accounting and internal control systems were identified during the audit which could adversely affect the ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the accounts.
124. In his annual assurance report the Head of Internal Audit reported that he was “able to provide substantial assurance in respect of Falkirk Council’s overall framework of controls for the year to 31 March 2010”. As noted in our annual audit plan we carried out an assessment of the internal audit function provided in Falkirk Council. Our review revealed that Internal Audit met the requirements of the CIPFA Code of Practice for Internal Audit in Local Government and that we were able to place reliance on them to support our audit work

Prevention and detection of fraud and irregularities

125. At the corporate level, the council has appropriate arrangements in place to help prevent and detect fraud, inappropriate conduct and corruption. These arrangements include a confidential reporting (‘whistleblowing’) policy and an anti-fraud & corruption strategy which includes a fraud response policy. The council also has a code of conduct for elected Members (the nationally prescribed code of conduct for members) and for employees.

NFI in Scotland

126. The National Fraud Initiative (NFI) helps participating bodies to identify possible cases of fraud, and to detect and correct any consequential under or overpayments. NFI also helps auditors to satisfy their duties to assess bodies’ arrangements for preventing, deterring and detecting fraud.
127. The council remains fully committed to NFI as a means of detecting and deterring fraud and is fully involved in the 2010/11 exercise. The Audit Scotland report ‘*National Fraud Initiative in Scotland – Making an impact*’ was published in May 2010 and this summarised the national findings for the 2008/09 exercise. This resulted in outcomes of £21.1 million since the previous exercise, with a further £37 million resulting from earlier exercises.
128. The council involvement generated 9,332 data matches, covering housing benefits, payroll, pensions, housing rents and payment to suppliers. The council has completed the investigation of all data matches recommended for investigation with the exception of “Blue badges” cases. The 550 matches investigated have resulted in the detection of 3 errors and 1 alleged case of fraud within housing benefits with a total outcome of £27,841 of which £27,542 is subject to recovery action.
129. Organisations now need to actively plan for the submission of the data for the 2010/11 data matching exercise. This includes the following key steps:



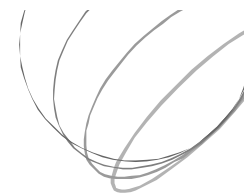
- Considering the 2008/09 national report and completion of the self appraisal checklist.
- Confirming that fair processing notes are issued in line with the 2010/11 instructions.
- Considering risk-based data sets.
- Ensuring the upload of all relevant data timeously.

Housing benefit inspections

130. Audit Scotland undertook a risk assessment of Falkirk's benefits service in March 2009 and a detailed report was issued. The council developed an action plan in response to the risks identified and progress against this plan will be reviewed as part of Audit Scotland's 2010/11 programme of benefits performance audit work.

Outlook

131. Governance and accountability issues are likely to be prominent as the council's operating environment and economic position becomes more difficult and the development of working in partnership with others increases.
132. We recognise the challenges posed by the SOAs. The Accounts Commission acknowledges that SOAs are still at an early stage of development. At this stage in the evolution of this new approach to planning, we are interested in the processes rather than just the outcomes. Partnership working is critical to the council's success and this has been recognised by the council who have included its partners from the beginning of the SOA process. We are developing our approach to the audit of partnerships and will increasingly be looking at the contribution of partners as well as the council's own contribution to the delivery of outcomes.
133. We also recognise the commitment to improving the scrutiny arrangements within the Audit Committee. In our view the introduction of a lay-member to act as chairperson for the committee is a positive step. The next challenge will be to ensure that the membership balance reflects the good practice identified in the *CIPFA Guidance on Audit Committee Principles in Local Authorities in Scotland* and that the newly structured Audit Committee delivers effective scrutiny.



Performance management and improvement

Introduction

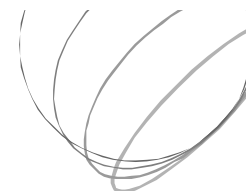
134. We believe that an effective council has a clear and ambitious vision for what it wants to achieve to secure high quality services and effective outcomes for local people. The vision is backed up by clear plans and strategies to secure improvement, with resources aligned to support their delivery. The council has a performance management culture which is embedded throughout the organisation. The assurance and improvement plan concluded that the council did not have any significant weaknesses in this area.

Vision and strategic direction

135. The council and its partners have established a long-term vision for the Falkirk area which is shared and well understood. The council has put in place an effective structure for Community Planning and is working well with partners to address priorities through the themed implementation groups, however there is some uncertainty about the effectiveness of Members in providing leadership to the Community Planning Partnership. There is evidence that the council and its partners are making progress on their strategic priorities, particularly those for lifelong learning, health and well being and community safety.
136. The community plan is at the centre of the council's planning framework and cascades to service plans. The current community plan is being reviewed with the council's partners and will be presented to Members for approval in December 2010. There is a well embedded strategic planning framework in place which aligns the various plans with resource and finance requirements, however longer term financial planning is not yet well developed in Falkirk Council.

Performance management

137. The council has put in place a corporate performance management framework which is embedded throughout the council. The framework makes use of a good balance of local and statutory performance information. Further work is required however, on the development of a performance management framework for the Community Planning Partnership.
138. The development of the Single Outcome Agreement (SOA) and supporting arrangements has the potential to improve planning and performance management significantly. However, the long term and complex nature of many of the outcome targets pose many questions for performance management



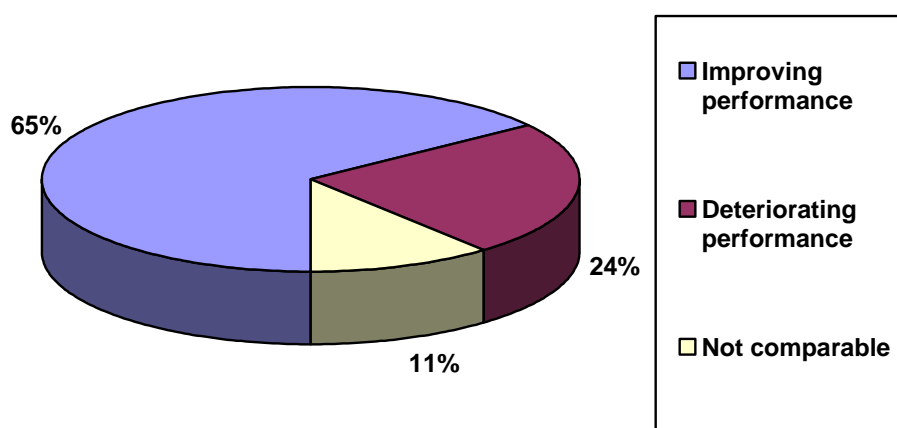
(including activity and quality measures). A key challenge will be integrating and aligning the council's processes to support delivery of the desired outcomes – making sure that resources and efforts are directed to key areas.

Overview of performance in 2009/10

139. Each year the Community Planning Partnership is required to produce an annual monitoring statement which sets out progress against performance indicators included in the Single Outcome Agreement. In October 2010, a monitoring statement was presented to the Council which identified that performance as summarised in Exhibit 9 below (230 total indicators).

Exhibit 9

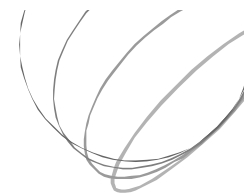
Progress against Single Outcome Agreement Performance Indicators



Falkirk Council SOA 2009/2011 Monitoring Statement: report to Falkirk Council 6 October 2010

140. The monitoring statement sets out the partnership's achievements in delivering the single outcome agreement and reflects largely improving performance including improvements in, for example, cumulative attainment of National Qualifications by all pupils in publicly funded schools for S4 and S5 (NO4), numbers of persons who were new starts on national training programmes (NO2) and percentage of homecare clients aged 65+ receiving personal care (NO6).

141. Some of the measures of performance not achieved include the percentage of older people aged 65+ with intensive care needs receiving treatment at home (NO6), the number and percentage of first contacts following supervision requirement within 15 days (NO8), special uplifts completed within five days (NO12) and sickness absence (NO15).



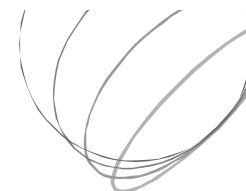
Equality and Diversity

142. Falkirk Council aims to ensure that all of its activities comply with best practice in the field of equality and diversity. Corporate task groups supplement the work of the Equality and Diversity partnership and in relevant targets are included in service plans. The Community Planning Partnership has developed a reporting structure which provides for reporting Equality and Equity of Access issues to the Community Planning Management Group.
143. The council can demonstrate good examples of promoting equality of opportunity and shows a clear intent to raise the profile of equalities. In 2009 the Audit Scotland report on *'The impact of the race equality duty on council services'* highlighted some good practices in Falkirk Council.
144. Previous inspections identified some risk regarding embedding equalities within services and the impact of equalities actions on service users and we intend to establish scrutiny activity in this area under our work identified in our Assurance and Improvement Plan 2010-13.

Efficiency & Improvement Programme

Change Management

145. The current economic climate and the reduction in public sector spending present significant challenges to the council. Despite the reductions in funding, there is increasing demand for council services and the council needs to explore whether there are better, more cost effective ways of delivering quality services. The council recognises that difficult decisions will have to be made over the next few years. All services will be affected and a significant programme of change is inevitable.
146. Falkirk Council has introduced *'Our Challenges, Our Choices'*, a change management process which will guide the council through the change process. As part of this process the council is consulting with residents about their priorities and building these into the budget deliberations.
147. Key changes have already been announced to the management structure within Falkirk Council including the restructuring of services and the potential transfer of services currently provided by Community Services to a Trust.
148. It is essential that the council is able to demonstrate how effective it is in managing the change programme and the impact of change on service users. We intend to monitor the management of the change programme as part of our scrutiny activity identified in our Assurance and Improvement Plan 2010-13.

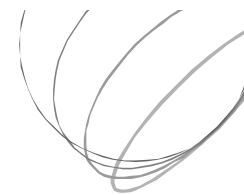


Self Evaluation

149. The council has commenced an extensive self – evaluation process using the Improvement Service's Public Service Improvement Framework and is at an early stage of development of the process. A corporate assessment has been carried out resulting in the development of a corporate improvement plan. Six service units were also selected to undertake initial self evaluations with assistance from the council's Business Improvement Team. Improvement plans have been developed following the self evaluation.
150. Self-evaluation will be an important tool in managing future performance and the council needs to consider how well it coordinates all of its improvement activity and reviews to ensure that it systematically identifies key areas for improvement and ensures that it implements the actions necessary to improve effectiveness and efficiency.

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

151. A full review of best value and community planning was completed in early 2008. Although the best value report concluded that the council shows good, solid performance with many characteristics of best value, it also identified areas of improvement including the embedding of new strategies and policies in key areas such as asset management, procurement and risk management.
152. The improvement agenda identified by the Best Value report was included within the council's existing improvement plan and was monitored by the corporate management team, with progress reported to the Best Value Forum (BVF) and the Policy & Resources Committee. The March 2009 progress report presented to the BVF identified that almost all of the actions identified in the Improvement Plan were complete or were proceeding within their target timescales.
153. As noted at paragraph 149, in 2009/10 the council introduced a new quality management framework using the Improvement Services' PSIF. The improvement plans created from the council's self evaluation are being taken forward as the council's new improvement agenda. Improvements being progressed through the initial improvement plan have been subsumed into the quality management improvement agenda as appropriate. A recent internal review of the improvement plan has reported good progress.
154. Key areas identified in the corporate improvement plan include:
- Reviewing the utilisation and effectiveness of Achievement and Personal Development System (APDS) throughout the council and ensuring it is implemented consistently.
 - Developing a communication strategy for the Corporate Management Team.



- Reviewing service planning processes to ensure they lead to evidence based planning.
- Consulting Members and the community with regard to their expectations of customer engagement.
- Coordinating the council's approach to customer consultation and engagement.
- Undertaking a programme of reviews based on self evaluation outcomes.
- Further developing risk management arrangements.

Efficiency Programme

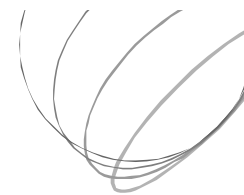
155. The Scottish Government Efficient Government Programme 2008/09 – 2010/11 sets out its target to deliver cash-releasing efficiency savings amounting to £1.6 billion by 2010/11. To achieve this level of savings the Scottish Government set a target of two per cent cash-releasing savings for each of the three financial years. Public bodies need to be able to deliver year on year efficiency savings and contribute to the achievement of the Scottish Government's savings targets.

156. As part of the 2009/10 budget process, £7.0 million of efficiency savings were identified and reported to Members. Achievement of these efficiency savings is monitored through the budgetary control process. All councils are asked to publish an efficiency statement by September each year and the council's fourth efficiency statement, presented to the BVF in September 2010 reports that efficiencies gains were below target in 2009/10 with £5.3 million of efficiencies gains actually achieved. However as a result of other non-recurring savings achieved in 2009/10, expenditure for 2009/10 was within budget. Total efficiency savings of £22 million have been reported by the council over the last four years.

157. The council will need to achieve significant efficiencies and other savings in the years ahead. This will require continuing review across all of the council's activities and effective coordination of the council's efforts.

Risk Management

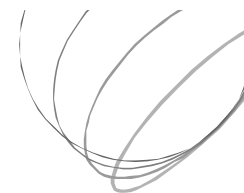
158. Effective risk management is an essential element of good corporate governance which, in turn, supports effective decision making and ultimately contributes to improved performance. Councils with mature governance arrangements embrace the concept of risk, recognising that awareness, discussion and management of risk represents strength in their management arrangements.



159. The council has a risk management policy in place and has reviewed its corporate risk register which was considered and approved by the Audit Committee in November 2009. The council also has a Corporate Risk Management Group, chaired by the Director of Development Services.
160. The council's corporate improvement plan includes an action for further developing risk management arrangements. Work in this area is ongoing with the council's insurance consultant being commissioned to undertake an assessment of the council's arrangements. A draft report has recently been submitted by the consultant for consideration by council officers.

Outlook

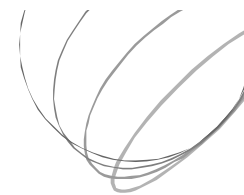
161. Effectively managing the council's performance will remain a key challenge as council budgets are reduced. It is unlikely that the council will be able to maintain or improve current performance levels across all of its existing services, and it will need to make difficult decisions about what areas are seen as priorities and in which areas service levels will need to be reduced. Crucially, the council will need to use its performance information to understand and manage the effect of spending decisions.
162. The long term and complex nature of many of the outcome targets established through the SOA process also poses many challenges for performance management. In responding to short term and more structural funding difficulties, the council and its partners will need to be clear how they will continue to contribute to shared objectives and priorities – maximising impact from the funds available.



Appendix A: Audit Reports

External audit reports and audit opinions issued for 2009/10

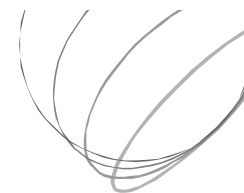
Title of report or opinion	Date of issue	Date presented to Audit Committee / Best Value Forum
Annual Audit Plan – Falkirk Council	12 March 2010	22 March 2010
Shared Risk Assessment/ Assurance and Improvement Plan	11 June 2010	17 June 2010
Key financial controls assurance report	October 2010	Scheduled for next Audit Committee (15 November 2010)
Report on financial statements to those charged with governance	29 September 2010	Scheduled for next Audit Committee (15 November 2010)
Audit opinion on the 2009/10 financial statements	30 September 2010	Scheduled for next Audit Committee (15 November 2010)



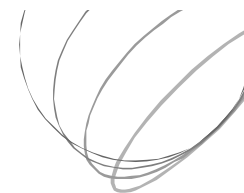
Appendix B: Action Plan

Key Risk Areas and Planned Management Action

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1.	10.	Annual Governance Statement The declaration of the effectiveness of Services' governance arrangements was not signed by all Directors <i>Risk: Services' Governance arrangements may not support good governance within the council.</i>	Arrangements for obtaining assurances from Directors will be reviewed ahead of the 2010/11 Annual Governance Statement process.	Internal Audit Manager	March 2011
2.	17.	Foreword by the Director of Finance The commentary could have been enhanced with more detail, in particular giving a wider range of specific examples of where and how the economic climate and the reduction in available funding have impacted significantly on the accounts <i>Risk: The accounts are not fully transparent and it may be difficult for readers to understand the financial implications to the council of the difficult economic environment.</i>	The commentary within paragraph 13 of the Foreword is considered to be adequate. The content of the Foreword will be reviewed for the 2010/11 Accounts.	Head of Accountancy & Revenues	March 2011
3.	36.	IFRS The introduction of IFRS is a significant change to local government accounting and will need to be effectively managed. <i>Risk: Insufficient attention is paid to the introduction of IFRS, meaning that the council is unable to prepare compliant accounts in time.</i>	Action Plans will be prepared to ensure that the relevant responsible people are aware of tasks to be completed to ensure production of the 2010/11 Accounts by the due date.	Accountancy Services Manager	November 2010



Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
4.	37.	Pension Fund Audit The Scottish Government may decide, following consultation to introduce a separate audit requirement for the Pension Fund from 2010/11. Risk: The arrangements to support this change may not be in place.	We feel that a compelling case has yet to be made for changing the arrangements for the audit of pension funds at this time. However, appropriate arrangements will be made to ensure compliance with any decision which the Scottish Government makes in this regard.	Heads of Treasury & Payroll	Dependant on decision by Scottish Government
5.	77.	Financial Planning Moving forward it is important that the council has a clear understanding of what its spending priorities are, developing these in partnership with other public sector organisations where appropriate. Effectively managing performance will remain a key challenge as budgets are reduced. Crucially, the council will need to use its performance information to understand and manage the effect of spending decisions. Risk: the council is unable to meet expenditure commitments from available income and available funding is not effectively directed to priorities.	The Council is planning for the future on the assumption that resources will be reduced. The Council's financial planning will be better informed in December 2010 when the Scottish Government announces how it will allocate its resources to Councils over the next 4 years covered by the current UK Spending Review. The Council's Corporate Management Team is developing a range of proposals to address the implications arising from differing levels of resources availability.	Director of Finance	December 2010 – February 2011
6.	86.	Procurement The council has been assessed as 'non-conforming' in the annual procurement capability assessment and there is scope to do more to deliver savings in this area. Risk: Procurement approaches do not deliver best value for money.	An improvement plan has been developed and the Council is progressing implementation, in order to improve the Council's procurement capability and thereby deliver further savings through our procurement activities.	Head of Business Services	July 2011



Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
7.	105.	<p>Scrutiny</p> <p>Due to the resignation of two Members in April 2010, the Audit Committee does not currently reflect the political make up of the Council, as identified as good practice in the CIPFA Guidance on <i>Audit Committee Principles in Local Authorities in Scotland</i>.</p> <p>Risk: the Audit Committee may not be fully effective.</p>	The vacancies on this Committee have been reported to Council and will be reconsidered at the Council meeting due to take place on 8 December 2010.	Acting Director of Law and Administration	December 2010