AGENDA ITEM 1
DRAFT

FALKIRK COUNCIL

MINUTE of MEETING of the AUDIT COMMITTEE held in the MUNICIPAL BUILDINGS, FALKIRK on MONDAY 16 MAY 2011 at 9.30 a.m.

PRESENT:- R Stevenson; Councillors Blackwood, Coleman, Kenna, Lemetti, C Martin and Patrick.

CONVENER: R Stevenson.

ATTENDING:- Chief Executive; Directors of Community Services and of Education Services; Acting Director of Social Work Services; Acting Chief Finance Officer (B Smail); Head of Human Resources; Internal Audit Manager; Acting Head of Environmental & Regulatory Services; Democratic Services Manager; and Internal Audit Assistant.

ALSO ATTENDING:- External Auditor (B Crosbie, Audit Scotland).

DECLARATIONS OF INTEREST:- Councillor Patrick, declared a non-financial interest in item AC6 as a member of, and as Convener of the Investment Committee but did not consider that this required him to recuse himself from consideration of the item, standing terms of paragraph 5.18 of the code of Conduct.

Councillor Coleman declared a non-financial interest in item AC6 as a member of the Investment Committee but did not consider that this required him to recuse himself from consideration of the item, standing terms of paragraph 5.18 of the code of Conduct.

Councillor Blackwood declared a non-financial interest in item AC6 as a member of the Investment Committee but did not consider that this required him to recuse himself from consideration of the item, standing terms of paragraph 5.18 of the code of Conduct.

AC1. MINUTE

There was submitted (circulated) and **APPROVED** Draft Minute of Meeting of the Audit Committee held on 21 March 2011.

AC2. INTERNAL AUDIT: ANNUAL ASSURANCE REPORT 2010/11

There was submitted Report (circulated) dated 6 May 2011 by the Internal Audit Manager (a) summarising the Internal Audit work carried out in 2010/11; (b) highlighting the outcome of Audit Reviews; (c) providing an overall assurance on the Council's arrangements for risk management, governance and control, and (d) commenting on Internal Audit's compliance with the CIPFA Code of Practice for Internal Audit in Local Government.

Discussion focussed on the:-

- deferred 2010/11 review of Forth Valley Sensory Centre
- high quality of the Council's Internal Audit function
- background to, and outcomes arising from, the review of Budgetary and Financial Control systems in Social Work Services
- factors leading to the 'substantial assurance' status following the audit of NPDO/PPP School Maintenance, and the Audit Committee's role in highlighting good practice
- reporting arrangements with regard to the Helix project and arrangements for a cross party working group meeting to discuss proposals for the Kelpies
- factors leading to the 'limited assurance' status following the audit of the Procurement Function within Corporate and Neighbourhood Services
- need to manage the Council's relationship with Voluntary organisations and the key role of the Service Monitoring Officers
- background to Internal Audit being Highly Commended by the CIPFA Cliff Nicholson award Judging Panel for its work in relation to Serious Organised Crime.

NOTED that:

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

(2) Internal Audit is able to provide substantial assurance in respect of Falkirk Council's arrangements for risk management, governance and control for the year to 31 March 2011;

(3) Audit Scotland will place formal reliance on, and obtain assurances from, the work of Internal Audit;

(4) performance against Internal Audit Key Performance Indicators for the year to 31 March 2011 was as set out at paragraph 3.10, and

(5) Internal Audit operates in compliance with the CIPFA Code.

AC3. ANNUAL GOVERNANCE STATEMENT

There was submitted Report (circulated) dated 6 May 2011 by the Chief Executive (a) advising that Public Authorities are required to review and assess their own governance arrangements and prepare an Annual Governance Statement thereon, and (b) presenting a draft Statement for comment.

Discussion focussed on the:-

- position with regard to the appointment of a Corporate Risk Manager
- statement that 'on the whole', 'substantial assurance' can be placed on the financial control systems of outside bodies falling within the Council's group boundary
- progress made to increase the membership of the Citizens Panel

- process for assessing the effectiveness of the Audit Committee
- current position with regard to introducing the Improvement Service's Continuous Professional Development training for Members.

NOTED that the Annual Governance Statement will be published with, and form part of, the Council's 2010/11 Annual Accounts.

AC4. FALKIRK COUNCIL – ANNUAL AUDIT PLAN 2010/11

There was submitted Report (circulated) by Audit Scotland presenting the Audit Scotland Annual Plan for 2010/11. The Plan set out:-

- a summary of planned audit activity for 2010/11
- risks and issues identified during the Audit process in 2010/11
- a Summary Assurance Plan detailing planned audit action
- details of the audit fees for 2010/11

Discussion focused on:-

- the nature of a disagreement between the then Director of Finance and Audit Scotland with regard to the presentation of the Council's Financial Statement
- the definition of the term 'carrying value' with regard to assets
- Audit Scotland's reliance on the Council's Internal Audit function
- the background to the increase in the audit fee.

NOTED.

AC5. FALKIRK COUNCIL – REPORT ON RESTATED IFRS OPENING BALANCE SHEET & PFI ADJUSTMENTS

There was submitted Report (circulated) by Audit Scotland summarising a review of Falkirk Council's Opening Balance Sheet which had been undertaken in advance of the audit of the Council's 2010/11 Financial Statements. The report detailed the:-

- background to the review
- progress made to date in the transition to implementing International Financial Reporting Standards (IFRS)
- main findings of the review
- an agreed action plan arising from the review

Discussion focussed on the:-

- duration of the window leasing contract
- nature of the early PFI contracts
- commercial sensitivity of the detail of the PFI contracts

- factors leading to overstatements within financial reporting and the complex transition to IFRS.

NOTED.

AC6. FALKIRK COUNCIL PENSION FUND – ANNUAL AUDIT PLAN 2010/11

There was submitted Report (circulated) by Audit Scotland presenting the Annual Audit Plan 2010/11 for Falkirk Council's Pension fund. The report detailed the:-

- background to the Audit
- planned Audit activity
- fees associated with the Audit
- risks and issues arising from the Audit
- the risks together with assurances and actions arising from the Audit.

Discussion focussed on:-

- the role of the Pension Fund's Auditors and that of Audit Scotland
- the future of Pension Fund's and the proposal for 'mega mergers'
- the increase in Audit Scotland's responsibilities with regard to the Audit of the Pension Fund
- proposals for members to further discuss the implications of the Hutton Report
- the risk arising from retirements within the Fund's administrative support function

NOTED.

AC7. UPDATE ON CORPORATE RISK MANAGEMENT WORKING GROUP

There was submitted Report (circulated) dated 5 May 2011 by the Director of Development Services (a) outlining the work of the Corporate Risk Management Group (CRMG), and (b) highlighting the current issues identified for review and consideration as:-

- 2011 Business Continuity Plans
- Pandemic Influenza Planning Consultation
- Premises Managers Handbook
- Premises Intruder Alarms
- Emergency Response Procedures
- Insurance Claim Reporting
- HR Welfare Issues/Initiatives

NOTED.

AGENDA ITEM 2 (a)

FALKIRK COUNCIL

Subject :	**ANNUAL REPORT ON 2010/11 AUDIT**
Meeting :	**AUDIT COMMITTEE**
Date:	**31 October 2011**
Author :	**CHIEF FINANCE OFFICER**

1. INTRODUCTION

Members will be aware that the appointed auditors, Audit Scotland, are required to produce an annual report on matters of significance that have arisen out of the audit process and this is attached as Appendix 1. International Standard on Auditing 260 (ISA 260) "Communication of audit matters to those charged with governance" requires auditors to communicate matters relating to the audit of the financial statements to those charged with governance of a body in sufficient time to enable appropriate action. Audit Scotland's report on this is attached as Appendix 2. A copy of the audited accounts is attached as Appendix 3. Mark Taylor, the Assistant Director responsible for the audit and Bruce Crosbie, the Senior Audit Manager involved in the audit, will be in attendance to present the report. My comments on the Auditor's Report are detailed below.

2. 2010/11 AUDIT

Audit Opinion

The unaudited accounts were issued on 30 June 2011 and the audited accounts were authorised for issue on 30 September, both dates in compliance with legislative requirements. The Auditor's certificate is free from qualification. Copies of the accounts have been sent to interested parties, their availability advertised in the local press and they have been posted on the Council's website.

Audit Report

The Report highlights a number of points, the most significant of which are detailed below:-

- The Council achieved a surplus of £4.767m within the General Fund, creating year-end reserves of £11.330m which is in excess of the target range of £6.8m to £9.5m set out in the Council's reserve strategy. Spending within the HRA was £1.567m less than planned with year-end reserves amounting to £6.392m. There are other earmarked elements of the General Fund amounting to £18.994m as at March 2011, of which £10.350m is in respect of the final contribution to the NPDO schools project.
- The auditor recognises the significant input of resources required by the Council to achieve the transition to International Financial Reporting Standards (IFRS) based financial statements and acknowledges that council officers have responded well to this challenge.
- The auditor notes the Council's progress in developing its approach to asset management
- The auditor notes that progress has been made in the Council's procurement strategy, although further work is required to achieve an improved performance level.
- The auditor notes continued progress in relation to the Council's Workforce Strategy.
- The auditor acknowledges the work the Council has undertaken to prepare for the challenges associated with the Scottish Government's Spending Review and notes that significant budget reductions will be required in future years.

3. ACTION PLAN

Also appended to the Audit Scotland report are five agreed action points. Progress on implementing the agreed actions will be reported to the Audit Committee in due course.

4. CONCLUSION

The audit of the Council's accounts for 2010/11 has now been formally concluded. The action plan arising from the audit process has been agreed and will be monitored to ensure completion within the agreed timescales.

5. RECOMMENDATION

Members are invited to note the Annual Report to Members on the 2010/11 Audit.

Chief Finance Officer

Date : 19 October 2011

<u>BACKGROUND PAPERS</u>

Nil

Falkirk Council

Annual report on the 2010/11 audit

AUDIT SCOTLAND

Prepared for Members of Falkirk Council and the Controller of Audit

October 2011

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

Contents

Key messages

2010/11

We have given an unqualified opinion on the financial statements of Falkirk Council and its group for 2010/11.

The general fund recorded a net deficit for 2010/11 of £1.234 million, therefore decreasing the balance to £36.716 million as at 31 March 2011. This balance includes earmarked commitments of £25.386 million and an unallocated general fund balance of £11.330 million which is above the council's target balance of between £6.8 million and £9.5 million.

The first of two £12.0 million legally committed payments to the Non-Profit Distributing Organisation was made in 2010/11. This amount was funded from the general fund balance of £20.726 million earmarked for this purpose, leaving a balance of £8.726 million. The council also allocated £1.624 million from capital receipts to this earmarked balance to give a balance of £10.350 million to be carried forward into 2011/12. A further £12 million is due to be paid in 2011/12 to reduce the New Schools Project liability.

Revenue savings of £11.876 million were achieved in 2010/11 and were appropriated to the total general fund balance (including £3.813 million to the devolved schools management fund and £1.624 million to the new schools project).

General Services capital expenditure for 2010/11 was £21.526 million which was broadly in line with the budget of £21.674 million. The Housing capital outturn was £16.816 million against a budget of £21.250 million. This underspend relates to slippage in the implementation of revised procurement procedures to meet EU Procurement requirements delaying the award of a number of contracts and slippage in external work as a result of the prolonged severe winter weather.

The 2010/11 financial statements have been prepared on the basis of International Financial Reporting Standards (IFRS) instead of the previous practice of preparing financial statements under UK Generally Accepted Accounting Practice (GAAP). The achievement of full transition to IFRS-based financial statements required a significant input of resources by the council and council officers have responded well to this challenge.

The Council has continued to make progress in developing its approach to asset management. An updated Corporate Asset Management Strategy 2011/14, *"Better Assets, Better Services"* was approved by the Policy and Resources Committee in September 2011 and the Forth Valley wide asset management plan, *"Making the most of Property and Assets",* was also formally launched by the council and its Forth Valley partners in September 2011.

Although the council is now assessed as "conformance level " in the annual procurement capability, this rate of improvement is still lower than the local government sector average, with a score of 30% against a national average of 32%. The council is aiming to achieve an improved performance score of 50% by late 2012 and there is still much to do to achieve this aspiration.

Progress continues to be made in relation to workforce management and the council's Workforce Strategy has now been reviewed and is currently with Services and Trade Unions for final consultation before being presented to Members. The council has also put in place an Achievement and Personal Development Scheme which includes personal development plans for employees setting out their business objectives, personal development objectives and training needs.

Overall the council's governance arrangements in 2010/11 were soundly based and operated effectively. 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 financial statements.

With effect from March 2011 the council appointed a lay member (an experienced public sector auditor) as chairperson of the Audit Committee.

Following on from the self-evaluation process which commenced in the Autumn of 2009, a four year self-evaluation programme has been agreed with the first year well underway. Improvement plans have been prepared following each assessment and these are scrutinised by the Corporate Management Team with progress being reviewed six monthly.

Outlook

Looking ahead, it is clear that the outlook for public spending for the period 2012/13 to 2014/15 remains very challenging. The high level figures for Scotland that were announced in the UK Comprehensive Spending Review indicate that significant budget reductions will be required in these years.

In addition the Audit Scotland Report "Scotland's public finances: responding to challenges" contained a number of key messages for councils to consider given the financial constraints being faced.

The council has shown an understanding of the financial challenges it faces and has made early progress in addressing these. It has established a clear strategy for managing its overall spending based around four themes: income generation, efficiency, prioritisation and costs of employment.

The Scottish Government published the 2011 Spending Review on 21 September 2011. The Review sets out spending plans for the three years from 2012/13 to 2014/15. This outlines the Government's spending proposals at a high level and detailed figures at the individual council level will not be available until December.

Preliminary work on setting the council's draft revenue budget indicates that the costs of delivering the existing level of service will rise, as a result of inflation and other cost pressures, by approximately £10 million. There is also an expectation that the council's Supporting People funding stream will reduce following a review of funding between councils.

Introduction

1. This report is the summary of our findings arising from the 2010/11 audit of Falkirk Council. The purpose of the annual audit report is to set out concisely the scope, nature and extent of the audit, and to summarise the auditor's opinions (i.e. on the financial statements), conclusions and any significant issues arising. The report is divided into sections which reflect the extent of our public sector audit model.

2. 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, but instead focus on the financial statements and any significant findings from our wider review of Falkirk Council.

3. Appendix B is an action plan setting out the high level risks we have identified from the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "planned management action". We do not expect all risks to be eliminated or even minimised. What we expect is that the council understands its risks and has arrangements in place to manage these risks. Members should ensure that they are satisfied with the proposed management actions and have a mechanism in place to assess progress.

4. This report is addressed to the members and the Controller of Audit and should form a key part of discussions with the Audit Committee as soon as possible after the formal completion of the audit of the financial statements. Reports should be available to the Scottish Parliament, other stakeholders and the public, where appropriate. Audit is an essential element of accountability and the process of public reporting.

5. This report 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.

6. The management of the council is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems. Weaknesses or risks identified by auditors are only those which have come to our attention during normal audit work, and may not be all the weaknesses that exist. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Financial statements

7. Audited bodies' financial statements are an essential part of accounting for their stewardship of the resources made available to them and their performance in the use of those resources.

8. Auditors are required to audit financial statements in accordance with the timescales set by Audit Scotland, which may be shorter than statutory requirements, and give an opinion on:
   - whether they give a true and fair view of the financial position of audited bodies and their expenditure and income
   - whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements.

9. Auditors review and report on, as appropriate, other information published with the financial statements, including the explanatory foreword, annual governance statement and the remuneration report. Where required, auditors also review and report on the Whole of Government Accounts return. This section summarises the results of our audit of the financial statements.

Audit opinion

10. We have given an unqualified opinion that the financial statements of Falkirk Council for 2010/11 give a true and fair view of the state of the affairs of the council and its group as at 31 March 2011 and of the income and expenditure for the year then ended.

Legality

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

Annual Governance Statement

12. We are satisfied with the disclosures made in the Annual Governance Statement, which is included in the financial statements in line with good practice, as identified in the CIPFA publication *Delivering Good Governance in Local Government*. We are also generally satisfied with the adequacy of the process put in place by the council to obtain the necessary assurances for the Statement.

13. We note that the declarations to support the Annual Governance Statement were not all signed by Chief Officers. This was also the case for 2009/10. We would encourage future declarations to be completed and signed by all Chief Officers as ownership of their assessment of the governance arrangements in place in their services.

Refer Action Plan No. 1

14. Progress is being made in assessing the wider governance arrangements of group entities, which require to be brought within the scope of the Statement. An Annual Governance Statement was also prepared in the 2010/11 financial statements for Central Scotland Fire & Rescue Joint Board, which assisted in the assessment of the wider group governance arrangements. In other group entities, reporting continues to be restricted to the effectiveness of the systems of internal controls. The council should consider wider governance arrangements for all group entities.

Remuneration report

15. The Local Authority Accounts (Scotland) Act 1985 and Scottish Governance Finance Circular 8/2011 introduced the requirement for a remuneration report to be included in the financial statements from 2010/11. This was a significant change to the level of disclosure required. We are satisfied that the remuneration report has been prepared in accordance with the relevant legislation. The disclosures within the 2010/11 financial statements include all eligible remuneration for the relevant council officers and elected members under a number of categories including pension benefits.

Accounting issues

16. Local authorities in Scotland are required to follow the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 (the 2010/11 Code). Overall we are satisfied that the council prepared the 2010/11 financial statements in accordance with the 2010/11 Code.

Accounts submission

17. 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 2011. The financial statements are now available for presentation to members and publication.

Presentational and monetary adjustments to the unaudited financial statements

18. A number of adjustments have been made to the 2010/11 unaudited financial statements in accordance with normal audit practice. These adjustments have not had any impact on the general fund balance of the council. A number of presentational amendments have also been processed to improve the disclosures within the financial statements. As is normal practice, immaterial unadjusted errors have been reported to the Chief Finance Officer.

19. The council has included 'other unrealised gains' of £2.148 million (2009/10 £2.907 million) in its Comprehensive Income and Expenditure Statement. These mainly relate to capital receipt transactions which are not 'other unrealised gains'. These transactions have also been incorrectly presented in the Movement in Reserves Statement, therefore there is no impact on

the General Fund balance. The approach to accounting for such transactions should be reviewed and revised appropriately.

Refer Action Plan No. 2

Prior year adjustments

20. The 2010/11 financial statements have been prepared in accordance with the 2010/11 Code which is based on International Financial Reporting Standards (IFRS) instead of the previous practice of preparing financial statements under UK Generally Accepted Accounting Practice (GAAP). This transition required a prior year adjustment to the 2009/10 audited financial statements and the restatement of the 1 April 2009 opening balance sheet position. The main areas that required restatement include the treatment of capital grants, the inclusion of an accrual for employee benefits such as annual leave and the classification of leases. These changes resulted in the net asset position of the council as at 31 March 2010 changing from £136.845 million to £138.074 million, however the accounting nature of these adjustments means that there has been no change to the usable reserves of the council.

21. The achievement of full transition to IFRS-based financial statements required a significant input of resources by the council and council officers have responded well to this challenge.

Post balance sheet events

22. The 2010/11 financial statements contain the necessary post balance sheet event disclosures for the establishment of Falkirk Community Trust Limited with effect from 1 July 2011, to deliver leisure, arts, libraries and heritage services on behalf of the Council. This will also require to be considered for group accounting in 2011/12.

Pension costs

23. Falkirk Council is a member of Falkirk Council Pension Fund which is a multi-employer defined benefit scheme. In accordance with pensions accounting standard IAS19 'Retirement Benefits' the council has recognised its share of the net liabilities for the pension fund in the balance sheet. The valuation at 31 March 2011 provided by the scheme's actuaries reduced the council's share of the deficit from £289.3 million last year to £171.9 million this year. The large decrease is primarily due to a change in one of the financial assumptions, with future pensions' increases now linked to the consumer prices index (CPI) rather than the retail prices index (RPI).

24. This change in assumption is a consequence of the UK Government's announcement that CPI is to be used for the indexation of public sector pensions from April 2011, which is expected to lead to a reduction in pension costs over time. This is reflected as non-recurring income of £60.783 million in the Comprehensive Income and Expenditure Statement. Local government accounting rules mean that this is reversed in the Movement in Reserves Statement but the council will experience the financial benefits of the change as future contribution rates are set.

Pension fund accounts presentation and disclosure

25. From 2010/11 there is a requirement for a separate annual report and financial statements to be produced for pension funds. A separate annual audit report is therefore being produced for 2010/11 which covers the specific issues and risks relating to the Falkirk Council Pension Fund. This report will be completed by the required deadline of 30 November 2011.

Whole of government accounts

26. The whole of government accounts (WGA) are the consolidated financial statements for all branches of government in the UK. The council submitted the consolidated pack to support its 2010/11 WGA return to the Scottish Government prior to the deadline of 29 July. This has now been audited and the audited return submitted.

Group financial statements

27. The diversity of service delivery vehicles means that consolidated group financial statements are required to give a true and fair view of the activities of the council and its group. To enable the preparation of group financial statements, councils are required to consider their interests in all entities, including subsidiary companies, joint ventures and statutory bodies such as police, fire & rescue and valuation boards. Falkirk Council consolidates the results of a subsidiary company (Falkirk Community Stadium Limited), three associates (Central Scotland Joint Police, Fire & Rescue and Valuation Boards) and the Common Good Fund into the group financial statements.

28. The overall effect of inclusion of all of the council's subsidiaries, associates and common good fund on the group balance sheet is to reduce net assets by £260.362 million, mainly because of pension liabilities. The 2010/11 group balance sheet shows a net liability of £54.953 million. 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.

29. The group financial statements have reported a net liability for a number of years due to the impact of accounting for Central Scotland Police and Fire pensions. The council has identified that it has considered this and that it is appropriate to prepare the accounts on a going concern basis and we concur with this assessment. Whilst the deficit funding position of the pension funds indicates that the expected liabilities are not fully met at the balance sheet date, the funding policy seeks to ensure that these are met over the long term by increases in annual pension contributions.

Trust funds

30. Falkirk Council has one charitable trust which requires to comply with the requirements of the Charities Accounts (Scotland) Regulations 2006, meaning a full set of financial statements is required for each trust fund. However the Office of the Scottish Charities Regulator (OSCR) has deferred full implementation until 2013/14, allowing the council to rely on its existing disclosures for trust funds in the council's financial statements, supplemented with additional

working papers. The council will be reviewing arrangements to enable full compliance by 2013/14.

Common good fund

31. In December 2007, the Local Authority (Scotland) Accounts Advisory Committee (LASAAC) issued guidance covering the common good fund. The council complies with this guidance as it prepares a separate disclosure in the council's financial statements. However the common good assets are not separately identified in the council's asset register due to the insignificant amounts involved (£0.235 million).

Outlook

Carbon Management

32. In April 2010 a complex system of charging for carbon emissions was introduced by the EU. The council is now required to purchase and account for carbon credits to cover all of its non-transport related energy usage. Incentives and penalties are built into the system to encourage a reduction in carbon emissions. It is estimated that the council will have to purchase around £0.400 million worth of carbon allowances in 2012 and it will need to ensure that this expenditure is properly accounted for.

33. A consultant was commissioned by the Carbon Trust in Scotland to carry out a Carbon Management Review Programme for the council in 2010. The review concluded that carbon management is not fully embedded in the council, and made recommendations for improvement including:

- A revised and updated list of carbon reduction projects
- Staff and capital resources to carry through the agreed projects.

34. The council already has a Carbon Management Plan. This has been reviewed during 2011 and a revised Plan approved by Members in September 2011. The Council is now developing a Sustainable Development and Climate Change Strategy 2011-2016 and the Carbon Management Plan will form part of this strategy.

Audit appointment for 2011/12

35. Audit appointments are made by the Accounts Commission, either to Audit Scotland staff or to private firms of accountants for a five year term. 2010/11 is the last year of the current audit appointment and we would like to thank officers and members for their assistance during the last five years. The procurement process for the next five years was completed in May 2011. From next year (2011/12) Audit Scotland will again be the appointed auditor for Falkirk Council but a different audit team will be in place, led by Fiona Mitchell-Knight. We look forward to continuing the good working relationships that exist.

Financial position

36. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.

37. Auditors consider whether audited bodies have established adequate arrangements and examine:

- financial performance in the period under audit
- compliance with any statutory financial requirements and financial targets
- ability to meet known or contingent, statutory and other financial obligations
- responses to developments which may have an impact on the financial position
- financial plans for future periods.

38. These are key areas in the current economic circumstances. This section summarises the financial position and outlook for the organisation.

Financial results

39. In 2010/11, Falkirk Council spent £550.236 million on the provision of public services, with £511.895 million on revenue services and £38.341 million on capital. The revenue budget for 2010/11 was based on Band D council tax of £1,070 and assumed the use of £1.110 million from the earmarked HRA portion of the general fund balance to finance HRA expenditure.

Budgetary control

40. The net service expenditure across the council was £333.932 million, an overspend of £0.124 million against the budget. The outturn position masks some significant variances from budget which are detailed below.

41. Service cost savings of some £8.6 million were realised in 2010/11. Education Services reported a net underspend of £4.8 million, primarily due to savings in property costs, lower than anticipated staffing costs, reduced residential schools expenditure and underspent Early Years expenditure. Significant savings in employee costs, support services and capital charges contributed to an HRA underspend of £1.567 million. Within Social Work Services, ongoing pressures in children's residential care and adult community care were offset by savings in staff cost and additional income from residential homes and NHS Forth Valley, resulting in an underspend of £0.994 million.

42. The council was also able to make savings of £1.080 million on a prudent budget for interest and loans cost and £1.521 million savings in loan principal not charged to services but financed through a Capital Fund.

43. As a result, savings of £11.876 million was appropriated to the total general fund balance (including £3.813 million to the devolved schools management reserve and £1.624 million to the new schools project).

44. These savings were offset by the payment of £12.000 million to the council's new schools project operator as a capital injection, which is not included within the council's budget setting, but is part of a sum earmarked within the general fund balance. Further details on this sum are included in paragraph 48 below.

Financial position

45. Exhibit 1 shows the balance in the council's funds at 31 March 2011 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 2011, the council had total funds of £52.713 million, an increase of £0.613 million on the previous year.

Exhibit 1: Reserves

Description	31 March 2010 £ million	31 March 2011 £ million
General Fund	37,950	36,716
Repair and Renewal Fund	1,290	1,905
Capital Fund (Capital Receipts Reserve)	4,899	5,342
Capital Grants Unapplied	4,943	5,067
Insurance Fund	3,018	3,683
Total	52,100	52,713

Source: Falkirk Council 2010/11 financial statements

46. The general fund balance has decreased to £36.716 million as at 31 March 2011. This balance is made up of earmarked commitments of £25.386 million leaving an unallocated general fund balance of £11.330 million. This is above the target range of between £6.8 million and £9.5 million set out in the council's reserve strategy to meet unforeseen circumstances or risks.

47. The earmarked commitments of £25.386 million includes: housing funds to limit the impact of future rent increases (£6.4 million), devolved schools management balances held by individual schools (£7.4 million), economic development balances for the development of strategic business parks (£0.9 million), central energy efficiency funds to improve energy efficiency in council buildings (£0.3 million) and amounts set aside to fund a 'payment' which the council is contracted to pay in 2011/12 (£10.4 million).

48. 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 the earmarked fund for financing the council's New Schools project. The council decided to allocate £1.624 million of capital receipts to this purpose in 2010/11. The first of two £12.0 million legally committed payments made to the Non-Profit Distributing Organisation was made in 2010/11 and was funded from the earmarked balance, resulting in a decrease to £10.350 million in the balance which is earmarked for the project. The second £12.0 million legally committed payment was made in April of 2011/12.

49. A suite of financial indicators has been developed in consultation with the CIPFA Directors of Finance working group. The indicators will assist in evaluating the council's financial sustainability and the affordability of financial plans. They also demonstrate the effectiveness of the financial management arrangements. The financial indicators are detailed in Appendix C.

50. For 2010/11 Audit Scotland is compiling the financial indicators, and they may be published in the Local Government Overview report for 2010/11. However they are not yet available to include with this report, as they are based on the audited financial statements for all councils.

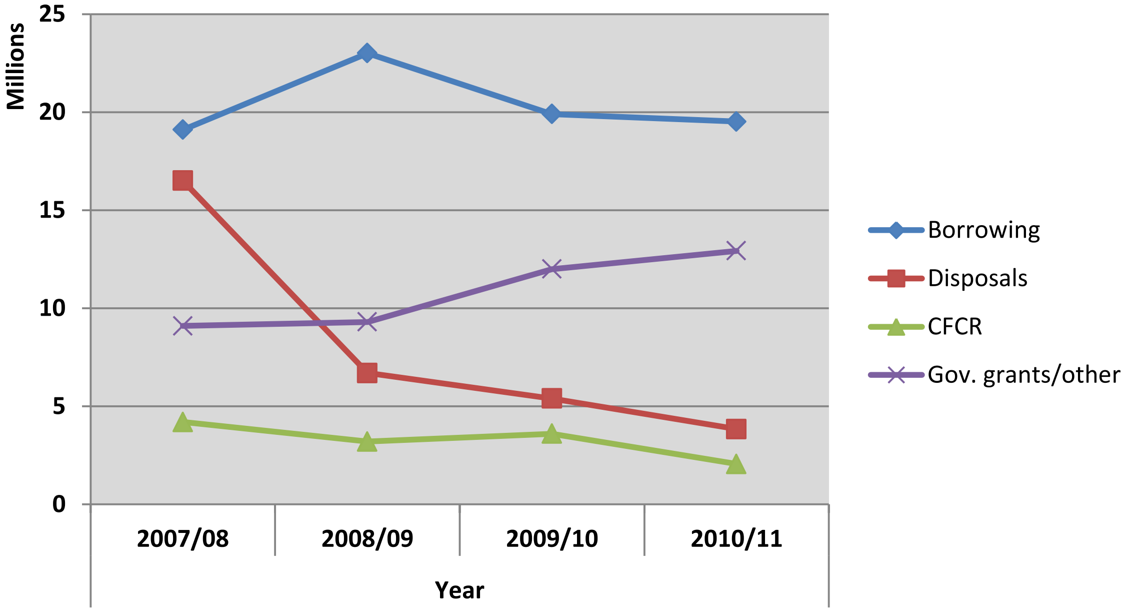
Capital investment and performance

51. The 2010/11 financial statements include capital expenditure of £38.342 million, split between the housing programme and the general services programme. The housing programme includes areas such as new house building, fabric improvements, energy efficiency works and high rise flat refurbishment. The general services programme includes investments on a new primary school in Falkirk, major improvement and structural work to roads, the Helix ecopark and vehicle replacement.

52. General Services Capital expenditure was £21.526 million and was broadly in line with the budget of £21.674 million. The housing capital outturn for 2010/11 was £16.816 million against a budget of £21.250 million, an underspend of £4.434 million. This relates to slippage in the implementation of revised procurement procedures to meet EU Procurement requirements delaying the award of a number of contracts and slippage in external work as a result of the prolonged severe winter weather. The slippage is incorporated into the 2011/12 housing capital programme.

53. Exhibit 2 shows the sources of finance for capital expenditure in 2010/11. The graphical presentation shows that the government grants funding has been increasing whereas the other sources of finance, i.e. borrowing, disposals and capital financed from current revenue (CFCR), have been reducing over the 4 year period from 2007/08. Government finance has remained stable over the last few years but the availability of future finance from this source is uncertain in light of cuts to the Scottish Government's budget.

Exhibit 2: Sources of finance for capital expenditure 2007/08 - 2010/11



Source: Falkirk Council 2010/11 financial statements

Treasury management

54. The current economic climate means that interest rates on investments continue to be low and the council received £0.5 million in investment income this year (2009/10 £0.5 million). Borrowing rates are also low, but the council has a significant proportion of its debt at fixed rates. As at 31 March 2011, the council held cash and cash equivalents (including short term investments) totalling £21.541 million, an increase of £14.167 million on the 2009/10 balance of £7.374 million. This was a short term increase to reflect the cash flow requirements as at 31 March 2011, part of which was the requirement to hold £12.0 million to fund the payment in respect of the NPDO project.

Financial planning to support priority setting and cost reductions

55. The council has shown a good understanding of the financial challenges it faces and has made progress in addressing these. In setting its 2011/12 budget the council agreed to freeze its council tax, identifying in-year savings of around £8.50 million to meet known spending pressures and planned growth.

56. The most recently reported financial position for 2011/12 anticipates an overspend of £0.227 million for the year and the council is making continuing effort to manage its spending and ensure planned saving levels are delivered.

57. The council introduced "Our Challenges, Our Choices" which included a consultation process during 2010/11 to seek the views of stakeholders on the future revenue budget options. The information has been used in identifying and prioritising revenue budget decisions. It has established a clear strategy for managing its overall spending based around four themes: income generation, efficiency, prioritisation and costs of employment.

58. In recognition of the considerable financial challenges which lie ahead and to assist in meeting those challenges, the Council has developed a five year budget model which aims to quantify the increase in demand for services along with the forecast reduction in resources. Proposals for further cost reductions are to be presented to Members.

Use of resources

Asset management

59. The council has in place a strategic approach to capital planning, which is integrated with asset management planning. An updated Corporate Asset Management Strategy 2011/14, *'Better Assets, Better Services'*, was formally approved by Policy and Resources Committee, together with a new Property Asset Management Plan on 6 September 2011.

60. Specific asset management strategies and plans are in place for different asset classes e.g. Roads Infrastructure, Housing, Open Spaces, Vehicles and ICT and ongoing development work is taking place in this area. Whilst the council's approach to corporate asset management is based around these individual asset class plans being developed in line with the over-arching Corporate Asset Management Strategy, the need for Services to embed and co-ordinate asset management within their individual Service Plans, consistent with the overall strategy and asset class plans is being taken forward. The Asset Management Unit is engaging with Service Management Teams on this issue.

61. Further work has been undertaken to improve collection and analysis of asset management performance data. A database of property asset information has been compiled and consideration of the scope and development of an integrated property asset management data management system is underway.

62. A Forth Valley wide strategic asset management plan, *'Making the most of Property and Assets'*, was formally launched by Falkirk Council and its Forth Valley partners on 30 September 2011.

Procurement

63. The Public Procurement Reform Programme aims to drive continuous improvement in public sector procurement. In 2009 the Scottish Government introduced an annual evidence-based assessment, the procurement capability assessment (PCA), to monitor public bodies' adoption of good purchasing practice and as a basis for sharing best practice. So far two rounds of PCA assessment have been completed. In 2010, the council scored 30% (classed as 'conformance') and demonstrates improvement on the 2009 score of 24% (non-conformance).

64. The council has demonstrated a strong commitment to taking forward the principles of McClelland within the Central Procurement Team, the Corporate Management Team and at Member level. This is reflected in the improving PCA score between 2009 and 2010, the main areas of improvement being in contract and supplier management and key purchasing processes and systems. However the council recognises that although there is improvement, the rate of improvement is lower than the local government sector average, with the council's

score of 30% comparing to a national average of 32%. An internal audit review of procurement was also reported in 2011 which identified scope for improvement.

65. Feedback from the 2010 PCA identifies two key specific areas for improvement. These were the resourcing of the Central Procurement Team and the need to enhance the reach and influence of the Central Procurement Team across all Council Services. The assessment scores also highlight performance measurement and contract/supplier management as the areas which require the greatest improvement.

66. The council is aiming to achieve an improved performance level of 50% by late 2012, however there is still much to do to achieve this aspiration. The council has developed a new draft Procurement Strategy for 2011-14, supported by a detailed Procurement Improvement Plan for 2011-12. The Improvement Plan is monitored by a Procurement Board, which will also agree future annual Improvement Plans.

Refer Action Plan No. 3

Workforce management

67. The significant reduction in funding in the years ahead will clearly have implications for the council's workforce. The Council's Workforce Strategy has now been reviewed and is currently with Services and Trade Unions for final consultation before being presented to Members.

68. The revised draft workforce strategy takes account of this challenging economic environment and workforce activity designed to react to this challenge. There has also been a shift in emphasis of the workforce strategy, shifting its focus from actions which concentrate on specific human resources activity to a wider, corporate approach to workforce management. In doing so the council aims to strengthen the links to the corporate plan.

69. The council continues to recognise 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 has recently completed a survey of the take up of APDS and identified that Services are making progress in the implementation of the scheme.

70. The Council's self-evaluation process has highlighted areas where further training on specific aspects of APDS would be beneficial and training and guidance on the APDS is being provided to Services as required. An e-learning support tool is also being developed to assist managers.

Outlook

2011/12 budget

71. The council, like all public sector organisations, faces a very challenging financial climate and there will be a continuing requirement to make significant savings to meet increasing costs

and reductions in funding. This requires strategic planning and the implementation of sustainable measures to balance the budget, including rigorous monitoring.

72. When setting the 2011/12 budget the council identified a potential funding gap of £8.5 million. Savings to be made to bridge this gap included £5.0 million of service specific savings and £2.1 million from a reduction in employee costs.

2011/12 budget reporting

73. The latest estimate of the 2011/12 financial position (as at August 2011) predicts an overspend of £0.227million for the year. The overspend includes compensatory lump sum payments (£1.02 million) and the delivery of refuse collection and street cleaning services (£0.526 million), mainly due to increased vehicle running costs and loss of income from trade waste. These overspends are offset by an underspend in Education Services (£0.867 million) and the final element of a one off repayment for overpaid VAT (£0.302 million).

Financial forecasts beyond 2011/12

74. Looking ahead, it is clear that the outlook for public spending for the period 2012/13 to 2014/15 remains very challenging. The high level figures for Scotland that were announced in the UK Comprehensive Spending Review indicate that significant budget reductions will be required in these years. Continuing to deliver vital public services with a reducing budget will be a significant challenge for the council.

Refer Action Plan No. 4

Governance and accountability

75. The three fundamental principles of corporate governance – openness, integrity and accountability – apply to all audited bodies, whether their members are elected or appointed, or whether they comprise groups of people or an individual accountable officer.

76. Through its chief executive or accountable officer, each body is responsible for establishing arrangements for ensuring the proper conduct of its affairs, including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies usually involve those charged with governance (including audit committees or similar groups) in monitoring these arrangements.

77. Consistent with the wider scope of public audit, auditors have a responsibility to review and report on audited bodies' corporate governance arrangements as they relate to:

- corporate governance and systems of internal control
- the prevention and detection of fraud and irregularity
- standards of conduct and arrangements for the prevention and detection of corruption.

78. In this part of the report we comment on key areas of governance.

Corporate governance

Processes and committees

79. 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. The corporate governance framework within Falkirk Council is centred on a Full Council which is supported by a number of scrutiny committees that are accountable to it.

80. The council has an Audit Committee in place 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.

81. We had previously noted that contrary to good practice, the Audit Committee was chaired by the Leader of the Administration. With effect from March 2011 the council appointed a lay member (an experienced public sector Internal Auditor) who assumed the role of chairperson of the committee. We are encouraged to note the improvements in the Audit Committee arrangements in 2010/11.

82. Overall, the council's governance arrangements in 2010/11 were soundly based and operated effectively

Internal control

83. While auditors concentrate on significant systems and key controls in support of the opinion on the financial statements, their wider responsibilities require them to consider the financial systems and controls of audited bodies as a whole. However, the extent of this work should also be informed by their assessment of risk and the activities of internal audit.

84. 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 financial statements.

85. As part of our work, we took assurance from key controls within the council's financial systems. The results of our review of key controls were reported to management in August 2011. The identified weaknesses were taken into account in our approach to the audit of the financial statements. Areas where key control improvements could be made have been discussed with officers and have either already been implemented or will be implemented in due course.

86. In his annual assurance report the Internal Audit Manager reported that "substantial assurance can be placed on the adequacy and effectiveness of the council's internal financial control systems for the year to 31 March 2011”. 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.

ICT

87. The council makes effective use of information communications technology to support and deliver services, recognising the need for continuing capital investment in its ICT infrastructure to ensure its continued effective operation. It is maintaining good progress in establishing a robust information management environment through the implementation of policies, guidance, standards and training needed to improve information governance.

88. The ICT service is involved in all levels of business continuity planning and has continued to develop and refine a database of the plans for all services. The council recognises that business continuity planning is an important operational process especially with the regular changes to technology and service priorities.

Data handling and security

89. 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 has an approved Information Security Policy (ISP) 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.

90. In response to the need to improve data security for mobile devices the council initiated the project to install encryption software on laptops used by corporate staff and the Becrypt encryption software has now been installed on laptops.

Prevention and detection of fraud and irregularities

91. Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. Auditors review and report on these arrangements.

92. 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.

National Fraud Initiative (NFI) in Scotland.

93. As part of our local audit work we monitor the council's approach to the NFI, a counter-fraud exercise that uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify circumstances (matches) that might suggest the existence of fraud or error.

94. The council is proactive in preventing and detecting fraud including participation in the NFI. The council has good systems in place to review NFI data matches for further investigation with progress and outcomes reported bi-annually to members.

95. The council involvement in the 2010/11 NFI includes the review and potential investigation of 67 reports with 8,971 data matches of which 1,160 are considered high quality. As at September good progress had been made in the investigation of data matches. Investigated outcomes have uncovered 2 cases of fraud and 37 errors totalling £171,350 with £59,841 currently under recovery. These cases relate almost in their entirety to housing benefit payments.

96. The Audit Scotland report *The National Fraud Initiative in Scotland; making an impact (May 2010)* highlighted that much of the information used in the last NFI round was collected before the recession really took hold. An economic downturn is commonly linked to a heightened risk of fraud, and public bodies need to remain vigilant.

Housing benefit

97. Audit Scotland took over the inspection responsibilities of the Benefit Fraud Inspectorate in Scotland in April 2008. Our specialist team assessed the council in 2009 and a detailed report was issued. The council developed an action plan in response to the risks identified and progress against this plan has been reviewed as part of Audit Scotland's 2010/11 programme of benefits performance audit work.

98. The council's updated action plan has identified that of the 19 risks highlighted:

- 11 actions had been fully completed
- 5 actions had been partially completed
- 2 actions are outstanding, and
- 1 risk was not accepted

99. The Risk Assessment Report published by Audit Scotland in March 2011, recognises that, despite a significant increase in benefits caseload as a result of the economic downturn, the council has continued to deliver a good level of service to its benefits customers, while improving its new claims processing performance considerably during 2010/11.

100. The council continues to demonstrate an awareness of what constitutes an effective, efficient and secure benefits service. However, in order to continue to deliver continuous improvement across all aspects of the service it needs to focus on completing the outstanding actions from the previous risk assessment, and address the new risks identified by:

- routinely consulting with landlords to determine the level and type of services they require
- setting, monitoring and reporting performance of the benefits service against the customer service standards
- linking the value of overpayments to the type of interventions activity carried out
- setting a target to reduce the volume of non-financial errors identified from management checks
- publicising the outcomes of successful prosecutions on the council website and in the local press and media.

Refer Action Plan No. 5

Standards of conduct and arrangements for the prevention/ detection of bribery and corruption

101. Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and have proper arrangements in place for implementing and monitoring compliance with standards and codes of conduct, standing orders and financial instructions. Auditors consider whether bodies have adequate arrangements in place. We have concluded that the arrangements in Falkirk Council are satisfactory and we are not aware of any specific issues that we need to report.

Roles and relationships

102. During 2010/11 the council reviewed its management structure and reduced the number of Services from six to four. This restructuring included the transfer of leisure and other services to a community trust from 1 July 2011 and the moving of Finance Services as a separate Service to be included under the direction of the Chief Executive's Office. As part of this restructuring the Director of Finance retired as at 31 March 2011. The council adopted a structured and planned approach to ensure that these changes were well managed and to minimise any impact on service delivery.

103. The Scottish Government issued a revised Councillors' Code of Conduct in December 2010. The main changes included clarification of the rules on registering and declaring interests, and the new decision-making procedures for planning applications. A copy of the revised guidance was sent to all members on 31 December 2011.

104. During the year, two Members were referred to the Standards Commission. In both cases the Commissioner found that the Member had not contravened the Code of Conduct and no further action was taken.

Best Value, performance and improvement

105. Audited bodies have a specific responsibility to ensure that arrangements have been made to secure Best Value.

106. The Local Government (Scotland) Act 1973 places a duty on the auditors of local government bodies to be satisfied that proper arrangements have been made for securing Best Value and complying with responsibilities relating to community planning. Auditors of local government bodies also have a responsibility to review and report on the arrangements that audited bodies have to prepare and publish performance information in accordance with directions issued by the Accounts Commission.

107. As part of their statutory responsibilities, the Accounts Commission may procure, through Audit Scotland, examinations of the use of resources by audited bodies and publish reports or guidance. Auditors may be requested from time to time to participate in:

- a performance audit which may result in the publication of a national report
- an examination of the implications of a particular topic or performance audit for an audited body at local level
- a review of a body's response to national recommendations.

108. Auditors may also consider the use of resources in services or functions, where the need for this is identified through local audit risk assessments.

109. During the course of their audit appointment auditors should also consider and report on progress made by audited bodies in implementing the recommendations arising from reviews in earlier years.

110. This section includes a commentary on the Best Value / performance management arrangements within the council. We also note any headline performance outcomes and measures used by the council and comment on any relevant national reports.

Management arrangements

Best Value

111. The first Best Value report in 2008 highlighted that the council demonstrated a clear commitment to best value and community planning. Since this time the council has implemented its improvement plan which was compiled in response to this report. The timing of Falkirk Council's next Best Value audit (BV2) is determined by a risk assessment performed by the Local Area Network (LAN). A BV2 audit is currently planned for 2012/13, however the LAN has recognised a reduction in the areas of uncertainty and improvements in the arrangements for self evaluation in 2010/11, resulting in a planned narrower scope to the BV2

audit for the council. Further risk assessment by the LAN in 2011/12 will explore the continued need for a BV2 audit.

Self-evaluation arrangements

112. The council commenced an extensive self–evaluation process using the Improvement Service's Public Service Improvement Framework (PSIF) in the Autumn of 2009. PSIF is a tool for self-assessment and is to be used in all services to evaluate and challenge performance and improvement through a Review Panel process.

113. We noted in our 2009/10 report on the audit that improvement plans had been developed following an over-arching corporate assessment and assessments of six service units. A self - evaluation programme has since been agreed for four years with the first year well underway. The programme will be finalised each year to ensure account is taken of challenges and opportunities facing each unit of service.

114. Improvement plans have been prepared following each assessment and these are scrutinised by the Corporate Management Team, with progress being reviewed six monthly. The council aims to ensure that positive improvements are achieved in taking forward the improvement plans.

115. The Education Service has also developed a self-evaluation mechanism outwith the PSIF. At the council's request, Her Majesty's Inspectorate of Education has jointly worked with the Education Services to develop validated self-evaluation in the education service and the Director of Education and her management team have instilled a positive self-evaluation culture within the service.

Community/user engagement

116. The council has 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 community engagement strategy which has been subject to consultation with the community and Members of the Council. The strategy, branded as '*Have Your Say – a plan for local involvement'* was approved by Members in April 2011 and comprises the 'Principles for Community Involvement in Falkirk' which set out the standards that the council aims to achieve in involving local communities and an 'Action Plan for Better Community Involvement' which lays out a range of actions to be taken forward in 2011-2014 in order to develop the council's approach to community involvement.

117. A Scheme of Decentralisation has also been approved to support the 'Principles for Community Involvement in Falkirk'. This scheme has seen the move away from the Area Forum model to the development of a Citizen's Panel consisting of around 1,100 citizens, using a more accessible consultation method.

118. In order to ensure that the Community Participation Strategy is making a difference to the standard of engagement with the public, the council is establishing a monitoring and

evaluation system with community member involvement. The council is currently exploring the best model for this system.

119. A programme of training is also being developed for officers, to enhance consultation and community engagement skills across the Council.

Partnership working

120. The Assurance and Improvement Plan 2011-13 for Falkirk Council noted that there is evidence of effective partnership working in some specific areas including prison social work services and older people's services. The outcomes of planned scrutiny activity will however, provide evidence of the more strategic aspects of partnership working within the council area.

121. The council has undertaken a self-assessment of its Community Planning Partnership (CPP) which has been aimed at helping the Partnership to:

- establish a consistent and structured approach in progressing continuous improvement
- enhance the understanding and information available to the CPP to aid future decision making
- inform the development and achievement of future improvement plans
- secure continuous improvement in performance across the CPP.

122. An improvement plan identified four key areas from this self-assessment exercise and these are being progressed. These areas were:

- assuring partnership effectiveness
- partnership governance
- communication and engagement
- underpinning partner commitment.

123. This self-assessment exercise has also stressed the need to re-examine the remit of strategic partnership groups and that members and officers sitting on and supporting these groups, are clear on their respective roles. It should improve both the effectiveness and efficiency of local partnership working, resulting in the attainment of better outcomes for local people.

124. The next step is to agree on and implement both the improvements highlighted in the improvement plan and the new governance arrangements.

125. Falkirk Council continues to participate in a number of shared services and joint arrangements including provision of social transport and fleet management and the Forth Valley Data Sharing Partnership. Further shared service arrangements are being explored with West Lothian Council and there are existing arrangements with Clackmannanshire and Stirling Councils on a variety of services, examples being CCTV monitoring and the joint loan equipment service.

126. A major challenge facing councils is the need to achieve potential cost savings through opportunities for shared IT developments. In June 2011 John McClelland published a review of ICT in the public sector in Scotland and among the report's recommendations was that the

"standalone self-sufficiency" operating mode is no longer affordable. The report recommends that councils should commit to an era of sharing ICT that will not only offer better value but also still meet the needs of individual organisations and their customers.

127. In response to exploring opportunities for economy, efficiency and effectiveness, the council is part of a local tri-Council, Police, Fire, Further Education and NHS group looking at options for sharing ICT infrastructure. With the recent proposal to establish a single police and fire service, it is unclear how this will affect existing and proposed shared service arrangements.

128. There is a Framework Agreement covering the period from 1 September 2010 to 31 August 2013 for the purchase of computer hardware. The partners to this agreement are the Falkirk, Clackmannanshire, Stirling and Dumfries and Galloway Councils, Assessor for Central Scotland and Central Scotland Fire and Rescue Service. The Framework has been set up in such a manner that if it is not performing or if there is a credible alternative, it can be terminated at the end of year 2 and is reviewed annually to ensure it continues to meet best value.

Overview of performance in 2010/11

Performance management

129. The council has a corporate performance management framework in place which is embedded throughout the council. The framework makes use of a good balance of local and statutory performance information.

130. The Single Outcome Agreement (SOA) provides the performance management framework for the Community Planning Partnership. The council is awaiting guidance on the review and development of SOAs from the Scottish Government which it is anticipated will give further obligations on partners to work towards achieving all outcomes.

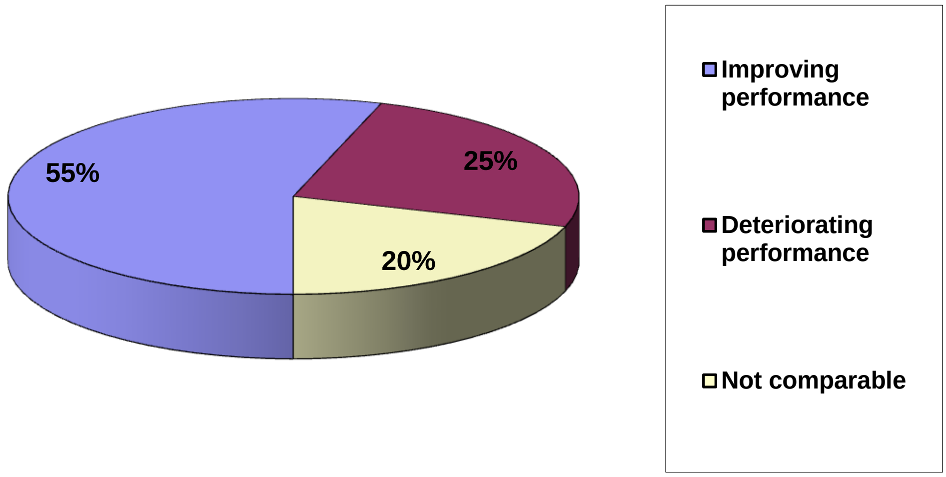
131. The SOA, which was approved by the council and other partners in May 2009 and signed off by the Scottish Government in August 2009, has been amended this year to take account of outcomes contained in the new Strategic Community Plan, approved by members in December 2010.The council has reviewed the outcomes contained within the SOA following approval of the Strategic Community Plan and while a number of subsidiary outcomes have been rationalised, the SOA now aligns more closely with the council's Corporate Plan.

132. Service performance reports are submitted quarterly to the Best Value Forum to enable members to scrutinise performance on a quarterly basis. A traffic light system is used to provide members with an "at a glance" view of performance against targets. Previous years' information is also included to provide additional context and a further basis for comparison. Members, therefore, are able to identify where performance is improving, is remaining steady or is significantly below set targets.

Overview of Performance in 2010/11

133. 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 2011, a monitoring statement was presented to the Council which identified that performance as summarised in Exhibit 3 below :

Exhibit 3: Progress against Single Outcome Agreement Performance Indicators



Source: Falkirk Council SOA 2010/2011 Monitoring Statement: report to Falkirk Council 5 October 2011

134. The monitoring statement sets out the partnership's achievements in delivering the single outcome agreement and reports good progress. While some of the challenging targets set out in 2008 for some indicators have not been achieved, most indicators show improvement. Examples of such improvements are the cumulative increase in the number of schools achieving "good", "very good" or "excellent" in the last 3 years in HMIE reports (No. 4), the increase in the number of business start ups which received support from the council through the business gateway (No. 3) and percentage of homecare clients aged 65+ receiving personal care (No. 6).

135. Some of the measures of performance not achieved include the percentage of older people aged 65+ with intensive care needs receiving treatment at home (No. 6), the percentage of looked after children who on leaving care achieve both English and Maths at SCQF level 3 or higher (No. 5) and the percentage of gross internal floor area of operational buildings that is in a satisfactory condition (No. 15).

National performance reports

136. 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 detailed in Exhibit 4.

Exhibit 4: A selection of National performance reports 2010/11

- The cost of public sector pensions in Scotland
- How councils work: an improvement series for councillors and officers - Arms-length external organisations
- Scotland's public finances: responding to the challenges
- Maintaining Scotland's roads: a follow-up report
- Physical recreation services in local government
- An overview of local government in Scotland 2010
- Community Health Partnerships
- Improving energy efficiency: a follow-up report
- Transport for health and social care

Source: www.audit-scotland.gov.uk

Scotland's public finances: responding to challenges

137. This report provides an overview of the financial environment facing the public sector in Scotland and the cost pressures currently faced. It outlines what the public sector is doing to respond to current and future budget reductions, and highlights a number of key risks and issues that the public sector needs to manage in responding to the challenges. Key messages in the report include the following:

- The budget reductions affect revenue and capital expenditure differently with the capital budget taking the largest cut in percentage terms.
- Public bodies are finding it difficult to plan beyond 2011/12, as they do not have a clear view of their budgets beyond 2011/12. The Scottish Government published spending plans for the years 2012/13 to 2014/15 in September 2011, which should establish a framework that bodies can use to make future spending plans. The most significant issue for councils is the government proposal for a "flat-cash" settlement over the next three years.
- The need to reduce costs provides public bodies with an opportunity to reform and streamline public service delivery. However, in doing so, bodies must focus on long-term financial sustainability.
- Pay restraint and reducing workforce levels are the most common approaches being taken by public bodies to reduce costs over the next few years. Good workforce planning is necessary to ensure that the right people and skills are available to deliver effective public services in the future.
- Public bodies are considering how they can work better together to reduce costs. While a number of initiatives are being planned to increase working together, sharing resources and involving voluntary and private organisations, progress to date has been limited.

138. Preliminary work on compiling the council's draft revenue budget for the forthcoming year is progressing and the council currently projects to have general fund reserves of around £10.8 million as at March 2012. There are clearly a number of challenges arising from the "flat-cash" settlement proposed as well as ongoing uncertainty around the final exposure to equal pay claims.

Maintaining Scotland's roads: a follow-up report

139. This report examines the progress on implementing the recommendations contained in the initial report published in November 2004, with particular emphasis on the change in condition of the road network, current expenditure on road maintenance and management arrangements. Key messages in the report include:

- Limited progress has been made to improve the road networks based on an assessment against the recommendations from the 2004 report.
- The condition of Scotland's roads has worsened since the 2004 report despite public spending rising by around 25 per cent. Only 63 per cent of roads are now in an acceptable condition.
- The Society of Chief Officers of Transportation in Scotland (SCOTS) considers that the present levels of spending are insufficient to maintain Scotland's roads, even in their current condition.

140. Falkirk Council fully supports the SCOTS road asset management project and had its first road asset management plan approved by Members in January 2011. The council has previously reported to Members on backlog maintenance and is in the process of developing a long-term strategy for road maintenance work that embraces sustainability.

141. The council has also been active in the development of the SCOTS national road asset management performance indicator suite and national benchmarking exercises through the SCOTS Performance Management and Improvement Focus Group and can demonstrate improved performance management and reporting.

142. Further work is ongoing to develop a strategy for asset information management including the compilation of an inventory relating to road assets.

143. All of this work is designed to further improve the area's road network which has already seen an improvement in condition as evidenced in the last Scottish Road Maintenance Condition Survey (SRMCS) which reported an improvement from 63.6% of roads being in an acceptable condition compared to 57.9% at the previous review.

Outlook

144. A best value review of Falkirk Council is currently planned for 2012/13. However as stated in paragraph 111, the scope of the council's BV2 audit is likely to be narrower than previously envisaged as there has been improvement in some of the areas of uncertainty previously identified in Audit Scotland's Assurance and Improvement Plan. The Assurance and Improvement Plan update 2011 - 14 produced by the LAN also includes activity by other scrutiny bodies over the next three years including:

- Scottish Housing Regulator (SHR) - desk top review of the council's self assessment followed by work targeted at risk areas identified from the review. Work will include a review of the outcomes from the housing allocations system, impact upon the homeless and progress in the investment programme for meeting the Scottish Housing Quality Standard - scheduled for 2011/12

- Social Care and Social Work Improvement Scotland (now the Care Commission) - multi-agency inspection of services to protect children under CP2, including adoption and fostering - scheduled for 2011/12*.*
- Social Care and Social Work Improvement Scotland (now the Care Commission) - Initial Scrutiny level Assessment for adult and children's services followed by work targeted at risk areas identified from the review - scheduled for 2011/12.

Appendix A: Audit reports

External audit reports and audit opinions issued for 2010/11

Title of report or opinion	Date of issue	Date presented to Audit Committee
Annual Audit Plan – Falkirk Council	27 April 2011	16 May 2011
Review of IFRS shadow financial statements	26 April 2011	16 May 2011
Shared Risk Assessment / Assurance and Improvement Plan	25 May 2011	Note 1
Improving public sector purchasing follow-up	31 August 2011	Note 2
Review of internal controls	31 August 2011	31 October 2011
Report to those charged with governance on the 2010/11 audit	28 September 2011	31 October 2011
Audit opinion on the 2010/11 financial statements	30 September 2011	31 October 2011

Note 1: taken to Best Value Forum on 3 June 2011
Note 2: not yet presented to the Audit Committee

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	13	**Annual Governance Statement** The declaration of the effectiveness of Services' governance arrangements was not signed by all Directors (this risk was also identified in last year's report) Risk - Services' governance arrangements may not support good governance within the council.	Education Services, Statement of Assurance (SOA) was considered and approved by the Education Senior Management Team. The Law & Administration SOA was received via email from the then Acting Director, accepted as electronic signature. The then Heads of Accountancy and of Treasury & Investment were fully engaged in the Annual Governance Statement (AGS) preparation and review. A formal return will be sought from the Chief Finance Officer in respect of the 2011/12 AGS.	Internal Audit Manager	June 2012

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
2	19	**Accounting Treatment** "Other unrealised gains" of £2.148 million has been included in the Comprehensive Income and Expenditure Statement. These transactions relate mainly to capital receipt transactions which are not "other unrealised gains". Risk - the financial statements may be inaccurate	The transactions relate to capital receipts. A separate analysis of such transactions will be provided for the 2011/12 Accounts.	Capital Manager	March 2012
3	66	**Procurement** The council is aiming to achieve an improved performance level of 50% by late 2012. There is still much to do to achieve this aspiration. Risk - the council may not achieve the anticipated level of improvement to make it's level comparable with the local government sector average.	The Council has taken steps to substantially increase resources in the procurement team with a view to achieving this objective.	Head of Resources and Procurement	December 2012
4	74	**Financial Uncertainty** Future finance settlements are predicted to be lower than current levels. Continuing to deliver public services with a reducing budget will be a significant challenge for the council. Risk - the council fails to	The Council has developed a 5 year budget model which quantifies the increase in demand for services and a reduction in resources. Robust proposals for cost reduction will be	Chief Finance Officer	Nov 2011 - Feb 2012 (for 2012/13 budget) March 2012 onwards (for subsequent

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		identify and respond to opportunities for savings or threats from increasing costs.	presented to Members.		years)
5	100	**Housing Benefit Audit** In order to continue to deliver continuous improvement across all aspects of the housing service the council needs to focus on completing the outstanding actions from the previous risk assessment and address the new risks identified in the current risk assessment report Risk - the council may not be able to deliver continuous improvement across all aspects of the housing benefits service.	The outstanding risks have been prioritised and work is underway to ensure outstanding actions are addressed. Regular reviews are scheduled to take place to assess progress.	Acting Head of Revenues and Benefits.	December 2011 and 6 monthly review thereafter

Appendix C: Financial ratios

Reserves

Uncommitted general fund reserve as a proportion of annual budgeted net expenditure

Movement in the uncommitted general fund balance

Council Tax

In-year collection rate

Ratio of council tax income to overall level of funding

Financial Management

Actual outturn net service expenditure compared to budgeted net service expenditure

Actual contribution to/from unallocated general fund balance compared to budget

Debt/Long Term Borrowing

Capital financing requirement for the current year

External debt level for the current year

Ratio of financing costs to net revenue income

Impact of capital investment on council tax and weekly rents

Falkirk Council

Report to those charged with governance on the 2010/11 audit

AUDIT SCOTLAND

Prepared for Falkirk Council
September 2011

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds

Contents

Key Issues

Introduction

1. International Standard on Auditing 260 (ISA 260) requires auditors to communicate matters relating to the audit of the financial statements to those charged with governance of a body in sufficient time to enable appropriate action.

2. ISA 260 requires us to highlight:
   - the integrity and objectivity of the audit engagement lead and audit staff;
   - the nature and scope of the audit, including any limitations, and the form of reports expected to be made;
   - expected modifications to the audit report;
   - management representations requested by us;
   - unadjusted misstatements (other than those which are clearly trifling);
   - material weaknesses in the accounting and internal control systems identified during the audit;
   - views about the qualitative aspects of accounting practices and financial reporting; and
   - matters specifically required by other auditing standards to be communicated and any other matter relevant to the audit.

3. This report sets out for the Council's consideration the relevant matters arising from the audit of the Falkirk Council's financial statements for 2010/11 that require reporting under ISA 260. The contents should be brought to the attention of the Chief Finance Officer, Chief Executive and Leader so that they can consider them before the Financial Statements are signed. An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance. The report has been prepared for the use of Falkirk Council and no responsibility to any third party is accepted.

4. This financial year (2010/11) is the first year of adoption of International Financial Reporting Standards (IFRS) by the council and we commend the Chief Finance Officer and finance staff for the extra effort that was required to lay the foundations for the production of draft financial statements on time.

Status of the audit

5. Our work on the financial statements is substantially complete and all matters arising during the audit have been discussed with the Chief Finance Officer's staff with responsibility for the preparation of the financial statements. Should any further matters arise in concluding our work that requires to be reported under ISA 260, we will raise them with the Chief Finance Officer.

Matters to be reported to those charged with governance

Conduct and scope of the audit

6. Information on the integrity and objectivity of the audit engagement lead and audit staff and the nature and scope of the audit, is outlined in the Code of Audit Practice approved by the Accounts Commission for Scotland in March 2007 and in the Annual Audit Plan submitted to management in April 2011 and presented to the Audit Committee on 16 May 2011.

Audit opinion & representations

7. My anticipated auditor's report (appendix A) is unqualified.

8. The accounts have been adjusted to correct a number of identified financial misstatements and other typographical or presentational changes. However, eight items have not been amended in the financial statements where, if adjustment were made for these items, the comprehensive income and expenditure account would disclose an increase in expenditure of £1.834 million. The net effect on the balance sheet would be a decrease in the net worth of the Council of £1.834 million. These items are summarised at Appendix B and not material to the accounts as a whole. The Chief Finance Officer proposes not to adjust the accounts for these items and we concur on this.

9. As part of the completion of our audit, we seek written assurances from the Chief Finance Officer on aspects of the accounts and judgements and estimates made. A draft letter of representation under ISA 580 has been provided to the Chief Finance Officer. This should be returned and signed by the Chief Finance Officer as soon as practicable and prior to the independent auditor's opinion being certified. We expect to receive all the representations requested.

Accounting and internal control systems

10. 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.

11. We reviewed the governance statement included within the financial statements and obtained evidence as to its completeness and accuracy. The Statement is consistent with our understanding of the governance arrangements in the Council.

Matters arising

Provisions

12. We have requested and received a specific representation from the Chief Finance Officer that actual and potential claims in relation to equal pay legislation have been reviewed and the amount recognised as a provision (£5.0 million) is the best estimate of the expenditure likely to be required to settle the present obligation at the balance sheet date. A contingent liability is also disclosed in the accounts, highlighting that recent legal judgements may mean that the

council is at risk in respect of further potential equal pay obligations. The Council has further disclosed that it has received permission to carry forward borrowing consent of £1million in relation to equal pay costs under the terms of Finance Circular No. 11/2009.

13. Having considered the requirements of the Code and IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, reviewed evidence of the estimated value of potential liabilities and considered the terms of related borrowing consent, our view is that the council should provide for an additional £1.2 million of expenditure in 2010/11 in relation to equal pay costs.

14. The Chief Finance Officer has 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.

15. While there remain uncertainties over the actual costs that will be incurred, we are satisfied that in all other respects the council's approach is reasonable. We have also agreed with the Chief Finance Officer that it is not appropriate to recognise funding until the point that the borrowing under the consent is made.

16. The disputed amount is 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. The amount involved is included in the overall unadjusted financial misstatements summarised in appendix B.

Resolution: The accounts have not been amended, but this is not considered material for our audit opinion.

Movement in the pension liability

17. The pension liability has decreased by £117.4 million at 31 March 2011 largely as a result of a change in government policy which is accounted for as a change in benefits. The liability is now being linked to the consumer price index rather than the retail price index as in prior years. This results in a cost reduction, the effect of which is recognised as income in the Comprehensive Income and Expenditure Statement, although the impact on the general fund will only be realised on future reviews of the pension contribution rate.

18. Having considered the work of the actuary in relation to the IAS 19 valuation in accordance with ISA 620 - Using the Work of an Expert, I am satisfied that

- the expert was suitably competent and objective
- there was sufficient appropriate evidence that the scope of the expert's work at Falkirk Council was adequate for our purposes.

Resolution: The expert's work provided appropriate evidence in relation to amounts relating to the retirement benefits recognised in the accounts of Falkirk Council.

Non-depreciation of council house dwellings

19. The Council has not charged depreciation on its council housing stock on the grounds that the amount involved would not be material. We have requested a specific representation from the Chief Finance Officer that in his view this treatment is appropriate on the grounds that the impact of depreciation would not be material. Subject to receipt of this representation, we are satisfied that the approach adopted does not have a material impact on the accounts.

Resolution: No depreciation has been charged on council dwellings and we have accepted the Chief Finance Officer's representation that depreciation of these assets is not material in 2010/11.

Going concern (Group Accounts)

20. The Group Balance Sheet at 31 March 2011 has an excess of liabilities over assets of £54.9 million due to the accrual of pension liabilities in accordance with IAS 19 (retirement benefits). The Group net worth reflects both the IAS 19 liability for the council and for the unfunded pension schemes in its associate bodies, Central Scotland Joint Police Board and Central Scotland Fire & Rescue Joint Board. The Council and its group have adopted a 'going concern' basis for the preparation of the financial statements as future actuarial valuations of the pension fund will consider the appropriate employer's rate to meet the funds' commitments.

Resolution: We are satisfied that the process which the Council and its group has undertaken to consider the group's ability to continue as a going concern is reasonable.

Assets not previously recognised

21. The council has brought non-current assets into its accounts in 2010/11 which had been held by the council since 2003 but had not been recorded in its asset register system. The assets were provided to the council by a developer in return for existing land and buildings. A sum of £2.715 million has been added to the non-current assets within the accounts for these assets, being the valuation determined for these assets at that time. In my view, the building assets should have been depreciated since their construction. The absence of depreciation has resulted in the balance on the Comprehensive Income and Expenditure Statement and the value of the non-current assets being overstated by £0.149 million. There is no impact on the General Fund Balance however, as the overstatement in the Comprehensive Income and Expenditure Statement is reversed out through the Capital Adjustment Account for funding purposes.

Resolution: There is no impact on the general fund arising from the understatement in depreciation. Non-current assets are overstated however, and this is reflected in appendix B Non-adjusted Items.

Other unrealised gains and losses

22. The council has included 'other unrealised gains' of £2.148 million (2009/10 £2.907 million) in its Comprehensive Income and Expenditure Statement. These mainly relate to transactions on sales of assets which are not 'other unrealised gains', These transactions have also been incorrectly presented in the Movement in Reserves Statement, therefore there is no impact on the General Fund balance.

    Resolution: The accounts have not been amended, but this is not considered material for our audit opinion.

Outstanding Information

23. Letter of Representation: The formal Letter of Representation is required prior to the auditor's certification of the financial statements.

24. Revised draft accounts: We require revised draft accounts to ensure that all of the presentational and disclosure matters arising and communicated to the finance function have been actioned in line with our expectations.

Acknowledgements

25. I would like to express my thanks to the staff of the Falkirk Council for their help and assistance during the audit of this year's Accounts which has enabled me to certify the financial statements by the Controller of Audit's target date.

26. As this is the final year of the appointment of the current audit team, we would like to express our appreciation of the courtesy and co-operation we have received from all members, officers and directors and the internal audit team, throughout the appointment.

Mark Taylor CPFA

Assistant Director

Appendix A

Proposed Independent Auditor's Report

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

I certify that I have audited the financial statements of Falkirk Council and its group for the year ended 31 March 2011 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the group and authority-only Comprehensive Income and Expenditure Statements, Movement in Reserves Statements, Balance Sheets and Cash-Flow Statements, and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 (the 2010/11 Code).

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 123 of the Code of Audit Practice approved by the Accounts Commission for Scotland, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Respective responsibilities of the Chief Finance Officer and auditor

As explained more fully in the Statement of Responsibilities, the Chief Finance Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. Those standards require me to comply with the Auditing Practices Board’s Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view in accordance with applicable law and the 2010/11 Code of the state of the affairs of the group and Falkirk Council as at 31 March 2011 and of the income and expenditure of the group and Falkirk Council for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2010/11 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973 and the Local Government in Scotland Act 2003.

Opinion on other prescribed matters

In my opinion:

- the part of the remuneration report to be audited has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 1985; and
- the information given in the Foreword by the Chief Finance Officer for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I am required to report by exception

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

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

I have nothing to report in respect of these matters.

Mark Taylor CPFA

Assistant Director

Audit Scotland

Osborne Terrace

1/5 Osborne House

Edinburgh EH12 5HG

Date

Appendix B

Non-adjusted Items

Narrative	General Fund		Balance Sheet	
	Dr	Cr	Dr	Cr
	£000	£000	£000	£000
General Fund	634			
Short Term Creditors				634
Under accrual in respect of 2010/11 payroll costs.				
General Fund		44		
Short Term Creditors			44	
General Fund	44			
Accumulated Absences Account				44
Over accrual of backdated holiday pay for teachers, reversed out of General Fund for financing purposes.				
Short Term Debtors			86	
Short Term Creditors				86
Short term creditors treated as negative debtors.				
Non-current Assets			179	
Revaluation Reserve				179
Undervaluation of non-current assets.				
Revaluation Reserve			175	
Non-current Assets				175
Building asset previously demolished but retained in the council's non-current assets balance in error.				

Narrative	General Fund		Balance Sheet	
	Dr	Cr	Dr	Cr
	£000	£000	£000	£000
General Fund	149			
Non-current assets				149
General Fund		149		
Capital Adjustment Account			149	
Non-depreciation of previously unrecognised non-current assets, reversed out of the General Fund for financing purposes.				
General Fund	1,200			
Provisions				1,200
Understated provisions				
Totals	2,027	193	633	2,467
Net Total	1,834			1,834

None of the items above have been adjusted as they are individually and collectively immaterial to the financial statements as a whole.

Non-adjusted Items (Common Good)

Narrative	I &E Account		Balance Sheet	
	Dr	Cr	Dr	Cr
	£000	£000	£000	£000
Expenditure	30			
Non-current assets				30
Expenditure		30		
Capital Adjustment Account			30	
Non-depreciation of Kilns House. Reversed out through the Capital Adjustment Account.				
Totals	30	30	30	30
Net Total	0			0

The item above has not been adjusted as it is immaterial to the financial statements as a whole.

APPENDIX 3

Annual Report & Accounts

2010/2011

ANE FOR A'

Falkirk Council

FALKIRK COUNCIL

ANNUAL REPORT AND ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2011

INDEX

FALKIRK COUNCIL

INTRODUCTION TO THE ACCOUNTS

The statements which follow, show the financial results of Falkirk Council for the year to 31 March 2011.

They comprise:

- A Foreword by the Chief Finance Officer providing a summary of the Council's financial position.
- A Statement of the Accounting Policies followed in preparing the Accounts.
- A Statement of Responsibilities for the Statement of Accounts.
- An Annual Governance Statement.
- A Remuneration Report detailing payments and pension information for senior officers and elected members.
- The Comprehensive Income and Expenditure Statement - this highlights gross revenue expenditure, income and net expenditure for the Council. The Account shows how net expenditure has been financed.
- The Balance Sheet - sets out the overall financial position of the Council as at 31 March 2011.
- The Cash Flow Statement - shows where the Council's money came from and how it was spent.
- The Movement in Reserves Statement which shows the movement in the year of the different reserves used by the Council.
- Group Financial Statements which reflect the Council's interest in the Police, Fire and Rescue and Valuation Joint Boards, FCSL (Holdings) Ltd, Falkirk Community Stadium Limited and Common Good Funds.

FOREWORD BY CHIEF FINANCE OFFICER

1. INTRODUCTION

The purpose of the Annual Accounts is to demonstrate the Council's stewardship of the significant amount of public funds with which it is entrusted. The financial statements represent the financial position of Falkirk Council as at 31 March 2011.

The results for 2010/11 are set out on pages 44 to 120 and have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11. The Statement of Accounting Policies on pages 10 to 27 sets out the accounting policies adopted by the Council in order to ensure that the Accounts provide a true and fair view of our financial performance. This foreword seeks to provide a guide to the most significant matters disclosed in the Accounts. An explanation of the main technical terms used in the Accounts is included at pages 119 to 121.

2. THE FINANCIAL STATEMENTS

Core Financial Statements
The 2010/11 Code of Practice on Local Authority Accounting (Code) requires local authorities to produce Accounts on an International Financial Reporting Standards (IFRS) basis. This has resulted in changes in both the format and presentation of the Accounts in comparison to previous years. An explanation of the financial statements which follow and their purpose are as follows:

- *The Comprehensive Income and Expenditure Statement* (CIES) shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

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

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

- *The Movement in Reserves Statement* shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and unusable reserves (i.e. those that the Council is not able to use to provide services). The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the Council's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance and the Housing Revenue Account for council tax setting and dwellings rent setting purposes. The Net Increase/Decrease before Transfers to Other Statutory Reserves line shows the statutory General Fund Balance and Housing Revenue Account Balance before any discretionary transfers to or from earmarked reserves undertaken by the council.

- *The Notes to the Accounts* provide further information.

Supplementary Financial Statements (shown as Notes to the Accounts 35 to 42)

An explanation of the supplementary financial statements and their purpose are:

- *The Housing Revenue Account (HRA)* reflects the statutory requirement to account separately for local authority housing provision, as defined in the Housing (Scotland) Act 1987. The HRA account has three parts:

  i. HRA Income and Expenditure Statement – which shows in more detail the income and expenditure on HRA services included in the whole Council Comprehensive Income and Expenditure Statement.
  ii. Movement on the HRA Statement – which shows how the HRA Income and Expenditure Statement surplus or deficit for the year reconciles to the movement on the Housing Revenue Account balance for the year.
  iii. Notes to the Housing Revenue Account – which gives additional information on the HRA.

- *The Council Tax Income Account* shows the gross and net income from council tax, together with details of the number of properties on which council tax is levied, and the charge per property.

- *The Non-Domestic Rates Income Account* shows the gross and net income from non-domestic rates and details the amount payable to the national non-domestic pool, as well as the resulting net income for the financial year to the Council that is shown in the Comprehensive Income and Expenditure Statement.

- *Common Good Funds* were inherited from the former burgh authorities of Bo'ness, Denny, Grangemouth and Falkirk in 1975. These funds are used solely for the benefit of the residents of these areas. An Income and Expenditure Statement as well as a Balance Sheet have been prepared for each fund. In addition, a cumulative financial statement has also been prepared.

Group Accounts

The Council has an interest in the Police, Fire & Rescue and Joint Valuation Joint Boards and Common Good Funds. The Council also has an interest in two limited companies. The Joint Boards have a wide range of functions to discharge, and members of each Board are elected councillors and are appointed by the Council in proportions specified in the legislation. Under accounting standards guidance, the Council can be seen to have significant influence over these statutory bodies, through nominated Council Member involvement in the bodies' governing Boards. As a result, the Boards are included within the Group Accounts.

The following statements make up the "group accounts" for the Council:

- *The Group Comprehensive Income and Expenditure Statement* combines the Income and Expenditure figures for the Council with the Council's share of the operating results of its external interests.
- *The Group Balance Sheet* brings together all of the assets and liabilities of the group. It also combines the Council's assets and liabilities with its share of the net assets or liabilities of its external interests.
- *The Group Cash Flow Statement* shows the changes in cash and cash equivalents of the Group
- *The Group Movement in Reserves Statement* shows the movement in the year on the different reserves that are held. It also explains the contribution of the external interests to the overall group surplus or deficit.
- *The Notes to the Group Accounts* provide further information on the Council's group accounts and includes *The Group Segment Note* which reconciles the budgetary control figures per the final Committee report to the Service figures in the Group CIES on a subjective basis.

Statement of Responsibilities for the Statement of Accounts

This statement sets out the respective responsibilities of the Council and the Chief Finance Officer for the financial statements.

Annual Governance Statement

This statement summarises, openly and transparently, arrangements established by Falkirk Council for ensuring good governance and appropriate arrangements for internal financial control for 2010/11. It highlights areas of improvement that have been identified to enhance existing governance arrangements, and is consistent with the Council's established improvement agenda.

Disclosure of Officers & Elected Members Remuneration
Regulations to introduce a new Remuneration Report, effective from financial year 2010/11, have been laid before the Scottish Parliament. These new Regulations are designed to bring councils in Scotland into line with best practice disclosure in central government and the private sector. As a result, the publication of much more personal information than previously disclosed in the Council's Annual Accounts is required.

The Remuneration Report on pages 35 to 44 provides details of the Council's remuneration policy for senior employees as well as senior councillors in addition to describing the role and membership of the committee that deals with remuneration arrangements. The Report also details the number of employees earning £50,000 or more in bands of £5,000, together with comparative data for the previous year. This differs from the Accounts for previous years which showed salary levels in bands of £10,000.

The Remuneration Report contains prescribed information on remuneration as well as pension rights that have been accrued or acquired.

3. FINANCIAL PERFORMANCE

General Fund
The General Fund Balance detailed in Note 2 has decreased by £1.234m, compared to a budgeted deficit of £1.110m giving a total movement of £0.124m. The main reasons for this reduction are summarised below:

	£'000
Increased Council Tax	210
Decreased Trading Account Surpluses	(360)
Savings on Loan Charges	1,080
Decreased cost of service delivery in several Services	3,288
Offsetting costs in other General Fund Services	(204)
Contribution from Central Scotland Fire & Rescue Service	753
Net variance in Uncommitted General Fund	4,767
Reduced costs in the Housing Revenue Account	1,567
Savings in Debt Repayments not charged to Revenue	1,521
Savings on Loan Charges relating to New Schools Project	104
Payment from NPDO Reserve	(12,000)
Increased Contributions to Earmarked Funds	3,917
	(124)

The main items included in the decreased cost of service delivery were:-

1. In Education Services, significant savings in property costs, particularly from energy and rates, contributed to the overall underspend along with lower than anticipated staffing costs and reduced expenditure within residential schools. The net underspend was £1.008m which represents 0.6% of budget.

2. In Social Work Services, pressure in childrens residential care and adult community care was offset by savings in staff costs and additional income from residential homes and the NHS. The net underspend was £0.994m which represents 1.2% of budget.

3. In Central Support Services, there were significant savings in staff and property costs. The saving which accrues to the General Fund is £0.466m which is 2.1% of budget.

4. In Community Services, reduced staff costs and property costs helped to offset reduced income in a number of areas. The underspend was £0.678m which is 3.5% of budget.

The offsetting costs of £0.204m were incurred in a number of services.

Central Scotland Fire and Rescue Board made a decision to refund an element of the 2010/11 requisition to constituent authorities. Falkirk Council's share of this was £0.753m.

In the Housing Revenue Account, there were significant savings in Employee Costs, Support Services and Capital Charges. There was also increased income from commercial properties. The final outturn was a surplus of £0.457m, which gave an underspend of £1.567m when compared to the budgeted deficit of £1.110m.

A Capital Fund (Capital Receipts Reserve) was used to repay loans, resulting in savings in debt repayment of £1.521m. These savings, together with associated interest will be used as a contribution towards the New Schools Project in 2011 (see Note 2). The sum of £12.0m was paid from this reserve in 2010/11 and a further £12.0m was paid on 1 April 2011. The total payment of £24.0m was an integral part of the Council's NPDO project, the purpose of the payment being to reduce the long term liability of the Council over the life of the NPDO project.

The Council's General Fund balance has therefore decreased to £36.7m. The table at Note 2 sets out the composition of the General Fund balance including a range of funds which have been earmarked for specific purposes. The resultant uncommitted general fund balance of £11.330m is greater than the level of uncommitted General Fund reserves of between £6.8m and £9.5m referred to in the Council's Reserves Strategy.

The Council made payments totalling £3.629m in respect of backdated equal pay claims for which it received government consent to borrow. Whilst the eventual cost of settling these claims cannot be fully quantified at this time, it is considered appropriate to retain a provision of £5m in the 2010/11 accounts. In addition, the Council has been given permission to borrow a further £1m in 2011/12.

The sum of £3.629m referred to above, along with the £12.0m contribution to the new schools project is shown as an Exceptional Item in the CIES.

Housing Revenue Account
In order to comply with accounting requirements, the Housing Revenue Income and Expenditure Statement, which is shown as note 35 to the Core Finance Statements, includes impairment on housing assets totalling £53.811m. The Movement on the HRA Statement adjusts this amount by a corresponding credit which is part of the amount required by statute to be debited or credited to the Housing balance for the year.

Compared to a budgeted deficit of £1.11m, the overall position was a net surplus of £0.457m. This was transferred to the earmarked Housing Revenue Account balance resulting in a cumulative balance going forward of £6.392m (see Note 36). It should be noted that around £0.92m of balances has been earmarked to restrict house rent levels in 2011/12.

Capital Expenditure
The Council has set its capital expenditure limits in accordance with the Prudential Code. The objective of the Code is to ensure that all capital spending is affordable, prudent and sustainable. In 2010/11, the Council incurred capital expenditure of £21m on areas such as Education, Social Work, Leisure, Economic Development and Roads infrastructure and a further £17m on Council Housing. Major investment by the Council included:

- £3m on school buildings
- £3m on roads and infrastructure in the Falkirk area
- £6m on the Council's commercial property portfolio and other community assets
- £8m on Vehicle, Plant and Equipment purchases
- £1m on various Social Work properties

The Council's investment programme was funded from capital grants and other contributions (£13m), capital receipts including sale of assets (£4m), borrowing (£19m) and funding from revenue (£2m). At the end of the year, Council borrowing totalled £163.188m as shown in note 22. The external borrowing figures remain within the limits set by the Council in line with the Prudential Code requirements.

Trading Operations
The Council operates two Statutory Trading Accounts, one for Building Maintenance and one for Roads Maintenance. Building Maintenance achieved a surplus for the year of £0.129m and Roads Maintenance achieved a surplus for the year of £0.407m. Both Statutory Trading Accounts exceeded the minimum financial requirement to break-even over a three year rolling period.

During the year, the Council discontinued the operation of non-statutory trading accounts for Schools & Welfare Catering and Building Cleaning. These are now simply accounted for as recharge allocation accounts.
Further details of the Council's trading operations can be found at Note 6.

4. PUBLIC PRIVATE PARTNERSHIP (PPP)

In order to provide fit for purpose schools, the Council has entered into a scheme under PPP financing arrangements. This scheme involved the replacement of five schools which were first occupied by the Council in August 2000. During the financial year 2010/11, £12.847m was paid to the contractor under the terms of the agreement for these schools.

5. NOT FOR PROFIT DISTRIBUTING ORGANISATION (NPDO)

The Council reached Financial Close in May 2007 on its second PPP scheme to provide four new high schools. The Council is using a Non-Profit Distributing Organisation (NPDO) model. Two schools were delivered in January and February 2009 and a further two were delivered in June and July 2009. During the financial year 2010/11, £10.842m was paid to the contractor under the terms of the agreement for these schools for the basic annual payment and the sum of £12.000m was also paid from the New Schools Reserve (see note 2).

6. BALANCE SHEET

The Balance Sheet on Page 46 summarises the assets and liabilities of the Council as at 31 March 2011, with explanatory notes also being provided. Total net assets have increased by £67.335m from £138.074m to £205.409m. This increase is summarised in the Movement in Reserves Statement on Page 48, with the main reason being a significant decrease in pension fund liabilities.

7. LONG-TERM BORROWING

The Council's borrowing strategy is prepared in accordance with the Code of Practice on Treasury Management in Local Authorities. The majority of the Council's borrowing, which is used to finance capital expenditure, comes from the Public Works Loan Board with the remainder from market bonds or the European Investment Bank. Further details are provided at Note 22.

8. PRINCIPAL SOURCES OF FINANCE

The principal sources of finance utilised by the Council in 2010/11 were as follows:

Revenue Support Grant	£222.46m	Provided by the Scottish Government
Ring-Fenced Government Grants	£14.15m	Provided by the Scottish Government
Non-Domestic Rates Income	£60.65m	Provided by the Scottish Government*
Council Tax	£59.64m	Raised from local taxpayers
Housing Rents	£42.48m	Raised from tenants
Other Income	£98.27m	Sales, fees, charges and other contributions for services

* Although the Council was due £60.65m of non-domestic rate income from the Scottish Government, £60.23m was due to be paid to the Government from non-domestic rates raised in the Falkirk Council area which represents a net draw by the Council of £0.42m (£7.36m draw in 2009/10).

9. PENSION LIABILITIES

In terms of Financial Reporting Standard 17 (Accounting for Pensions) the Council is required to show the actuarially assessed net pension deficit/liability within the Balance Sheet. The deficit is assessed as £171.869m as at 31 March 2011 (£289.253m as at 31 March 2010). Pension Fund deficits have decreased significantly since last year due to the fact that the real discount rate has increased from 1.6% to 2.7%, reflecting the impact of a change in pension increase assumptions. Further information on accounting for retirement benefits can be found in Note 9. Future actuarial valuations will recommend employer contribution rates which, together with employee contributions and revenues generated by the Fund's assets will be sufficient to meet future pension liabilities.

10. COMMON GOOD

The Council administers Common Good funds for the areas of Bo'ness, Denny, Grangemouth and Falkirk. Overall, the total net asset value of the funds rose from £1.077m in 2009/10 to £1.078m in 2010/11. Further information can be found in note 42.

11. GROUP FINANCIAL STATEMENTS

Local authorities are required to prepare Group Accounts in addition to their own Council's accounts where they have a material interest in other organisations. Group Financial Statements have been prepared (see pages 103 to 118) which consolidate the results of the Council with its share of the following entities – the Police, Fire and Rescue and Valuation Joint Boards, FCSL (Holdings) Ltd, Falkirk Community Stadium Limited and Common Good Funds. The effect of the inclusion of the Council's interests on the Group Balance Sheet is to reduce both Reserves and Net Assets by £260.353m. The main reason for this reduction is due to the inclusion of pension fund deficits attributable to the Police, Fire and Rescue and Valuation Joint Boards. Pension Fund deficits have decreased significantly since last year due to the fact that the real discount rate has increased from 1.6% to 2.7%. Notwithstanding the excess of liabilities over assets, I consider it appropriate to adopt a going concern basis for the preparation of these financial statements as the amounts will fall due to be met by the constituent authorities and Scottish Government grants as appropriate.

12. CHANGE IN ACCOUNTING PRACTICE

Move from UK GAAP to IFRS
The main changes to the Statement of Accounts as a result of the transition to an IFRS-based accounting basis are that the Statement of Movement on the General Fund Balance is subsumed in a new Movement in Reserves Statement and the Income & Expenditure Account as well as the Statement of Total Recognised Gains & Losses have been replaced with a Comprehensive Income and Expenditure Statement.

In the Balance Sheet, Tangible Fixed Assets are now referred to as Property, Plant and Equipment and there are changes in respect of the recognition of subsequent costs in that a greater emphasis is placed on depreciation of components and accounting for impairment. In addition, the Balance Sheet for 2010/11 contains two sets of prior year figures for both 2009 and 2010. These figures have been restated on an IFRS basis.

In order to comply with the Service Reporting Code of Practice the amounts in the Comprehensive Income & Expenditure Statement are also shown as per the Service Expenditure Analysis.

Other changes include the accounting treatment of grants used to fund capital expenditure, the requirement to recognise a liability for untaken annual leave at the year end and changes in accounting for and disclosure of leases.

The main change to the Notes to the Accounts is that a new note has been prepared detailing a reconciliation from the budgetary control figures per the final budgetary control report to the Policy & Resources Committee, to the Service figures in the Comprehensive Income & Expenditure Statement on a subjective basis. This is called the "Segment Note", which is shown as Note 3 to the Accounts.

The 2010/11 Code of Practice gives local authorities a choice as to how Group Accounts should be disclosed. They can either be shown in additional columns in the main Accounts or as a separate section. Falkirk Council has taken the option of showing them as a separate section (as we have previously done). Under the Code, the definition of what is to be considered to be included in Group Accounts is slightly wider than the 2009 Statement of Recommended Practice in respect of Associates, however, this has not resulted in any additional entities falling into the Group boundary.

It should be noted that the Group Accounts also contain the new Movement in Reserves Statement and Segment Note, as well as the previous disclosures.

13. CHANGE IN ACCOUNTING POLICIES

PFI Lifecycle Maintenance
The revised accounting arrangements for 2009/10 resulted in a variety of accounting and presentational changes including the requirement to allocate a portion of the Unitary Charge payment against lifecycle maintenance where such costs were incurred. When the Council implemented these changes during 2009/10, its policy was to show as lifecycle maintenance, any costs in the original Operators Model which were in excess of £100,000. That policy has now changed due to the fact that information has not been forthcoming from one of the PFI operators which would allow us to determine what type of "maintenance" the figures in the Operators Model refer to, when the actual "maintenance" was carried out and how much it actually cost. To carry on with the existing policy would have meant that costs were being capitalised with no back-up details to determine the nature of the work involved and the useful life over which the costs should be written off. A decision has now been taken to change the policy such that no lifecycle maintenance costs are included in the Unitary Charge payment and therefore no such costs are capitalised.

Had the original policy continued a total of £58.844m of lifecycle maintenance costs would have been capitalised over the duration of the 2 PFI contracts.

14. FUTURE DEVELOPMENTS

The Council's revenue budget strategy will continue to reflect the priorities set out in the Council's Corporate Plan and the Strategic Community Plan which was approved by the Council in December 2010. In constructing the 2011/12 revenue budget, the Council has retained provision of an additional £2.8m which was first incorporated into the budget for 2010/11. In recognition of the need to continue to invest in the provision of quality Social Work and Roads Services, the sum of £2.3m has been allocated to the Social Work budget and the balance of £0.5m added to the Development Services budget to boost provision for winter maintenance and the road and footpath network.

The grant settlement incorporates additional funding of £0.6m to address the threat of flooding and whilst this funding is not ring-fenced, the Council has been able to add this new money to the Development Services budget. The Revenue Budget also includes a continuation of resources to deliver key government policies and programmes specified in the Single Outcome Agreement such as reducing class sizes and implementing the Adult Support and Protection Act.

In addition to the above, the Scottish Government has allocated £70 million nationally for a new Change Fund which will provide bridging finance to facilitate shifts in the balance of care from institutional to primary and community settings. The fund will be distributed through NHS boards and the spending of these resources will be overseen by a local partnership governance arrangement on the basis of local change plans which are agreed between NHS Boards, local government and the third/independent sectors. The allocation to the Falkirk partnership for 2011/12 is £1.8m and whilst this has initially been confirmed for one year only, the Scottish Government has expressed the intention that subject to Parliamentary Approval, the Change Fund will be included in the next Spending Review process and could be part of a 4 year programme to re-shape care for older people.

In recognition of the need for ongoing efficiency savings, a £2.3m reduction in government grant and additional cost pressures of £6.2m, the Council's budget strategy required all areas of expenditure and income to be subject to detailed scrutiny. This included:

- Reducing employee costs through the Scheme of Voluntary Severance and reviewing staff terms and conditions
- Redesign of services
- Establishment of a Community Services Trust
- Maximising income through reviewing existing fees and charges and examining the potential to generate more income through the introduction of new charges
- Seeking a contribution of savings from joint boards

The Council will also continue to focus on a strategic approach to the generation of efficiencies which aims to prioritise efficiencies that minimise the impact on services provided.

The Council will approve a three year capital investment plan for all areas of service delivery. This plan will help the Council and its Services to meet Community, Corporate and Services Plan priorities and improve facilities for the Falkirk area and its community. In respect of Housing, the Council will continue to develop and monitor the Standard Development Plan, which outlines how the Council will improve its housing stock to meet the Scottish Quality Standard by 2015 and maintain that standard going forward. The 3 year investment programme also provides resources for a new build programme of 132 houses.

15. IMPACT OF ECONOMIC CLIMATE

The Council is not immune from the impact of the economic downturn and has experienced a reduction in certain income streams e.g. planning applications and has encountered considerable difficulty in generating capital receipts from asset disposals while demand for services has not reduced. The Council's investment plans for 2011/12 have anticipated an ongoing lower level of receipts from asset disposals and this will be monitored on an ongoing basis.

As mentioned above, government grant levels have reduced and all areas of expenditure and income have been subject to detailed scrutiny. The Council will continue to focus on a strategic approach to the generation of efficiencies which aims to prioritise efficiencies that minimise the impact on services provided.

In December 2008 and January 2009 the Council agreed a number of measures which were aimed at bolstering the area's economy, including using accelerated Scottish Government Grant to bring forward proposals earmarked for economic development and allocating £100,000 of revenue funding over financial years 2008/09 and 2009/10 to permit the extension of business support. The Council is also aiming to pay suppliers invoices within 20 days compared to the previous target of 30 days.

16. CONCLUSION

This is a satisfactory performance in the challenging circumstances outlined above and reflects well on both the efforts as well as professionalism of officers and on the Council's financial management, scrutiny and monitoring procedures.

17. ACKNOWLEDGEMENTS

I should like to record my appreciation for the efforts of my own staff in producing these Accounts timeously and to colleagues throughout the Council for their help and co-operation.

Bryan Smail, CPFA
Chief Finance Officer
30 September 2011

STATEMENT OF ACCOUNTING POLICIES

1. GENERAL PRINCIPLES

The Statement of Accounts summarises the Council's transactions for the 2010/11 financial year and its position at the year-end of 31 March 2011. The Council is required to prepare an annual Statement of Accounts by the Local Authority Accounts (Scotland) Regulations 1985. Section 12 of the Local Government in Scotland Act 2003 requires that the accounts are prepared in accordance with proper accounting practices. The Accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 (the Code) and the Best Value Accounting Code of Practice 2010/11 (BVACOP), supported by International Financial Reporting Standards (IFRS).

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

The Accounts are designed to illustrate the financial performance in the year as well as the position of the Council as at 31 March 2011. Comparative figures for the previous financial year are also provided. In addition comparative Balance Sheet figures are provided for 2008/09 and 2009/10 as required by the Code.

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

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

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

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

As noted in the foreword by the Chief Finance Officer, Group Financial Statements have been prepared which reflect the Council's interest in the Central Scotland Police, Fire & Rescue and Valuation Joint Boards, FCSL (Holdings) Ltd, Falkirk Community Stadium Limited and Common Good Funds.

2. CHANGES TO THE STATEMENT OF ACCOUNTS INTRODUCED IN THE 2010/11 CODE OF PRACTICE (THE CODE)

The Statement of Accounts for 2010/11 is the first to be fully prepared on an IFRS basis. Adoption of the IFRS based Code has resulted in the restatement of various balances and transactions, with the result that some amounts presented in the financial statements are different from the equivalent figures presented in the Statement of Accounts for 2009/10. Note 1 to the Accounts details these differences.

3. ACCRUAL OF INCOME AND EXPENDITURE

Transactions of the Council are recorded in the Accounts on the accruals basis in accordance with Financial Reporting Standard 18, 'Accounting Policies' (IAS 8). In other words, income and expenditure are matched to the service provided in the financial year, by including both estimated and actual amounts due to or by the Council as at 31 March where these are significant. This applies to both Revenue and Capital accruals. Debtor and Creditor balances represent sums due but unpaid at 31 March 2011.

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

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

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

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

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

4. ACQUISITIONS AND DISCONTINUED OPERATIONS

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

5. PRIOR PERIOD ADJUSTMENTS, CHANGES IN ACCOUNTING POLICIES AND ESTIMATES AND ERRORS

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

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

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

6. EXCEPTIONAL ITEMS

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the Council's financial performance.

7. CASH AND CASH EQUIVALENTS

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

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

8. CHARGES TO REVENUE FOR NON-CURRENT ASSETS

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

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

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

9. CONSTRUCTION CONTRACTS

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

10. VALUE ADDED TAX

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

11. EVENTS AFTER THE BALANCE SHEET DATE

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

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

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

The Council has agreed to establish Falkirk Community Trust Ltd and its trading subsidiary, Falkirk Community Trading Ltd to deliver Leisure, Arts, Libraries and Heritage services on behalf of the Council, with effect from 1 July 2011.

12. CONTINGENT ASSETS

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential. Details of contingent assets are shown in note 19.

13. CONTINGENT LIABILITIES

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in the Notes to the Core Financial Statements. Where such liabilities are reduced through contributions or recoveries from other parties the net liability is shown. Details of such liabilities are shown in Note 19.

14. PROVISIONS

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential and a reliable estimate can be made of the obligation. Provisions are charged as an expense to the appropriate service revenue account in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation, based on the best estimate of the likely settlement. When payments are eventually made, they are charged to the provision set up in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year and appropriate adjustments made to the level of provision. Any provisions are included in the financial statements in accordance with IAS37, under Note 24.

15. RESERVES

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

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

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

Usable Reserves

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

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

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

Housing Revenue Account
The Housing (Scotland) Act 1987 requires the Council to account separately for local authority housing provision and the reserves relate to the activities detailed in Notes 35-37.

Other Usable Reserves
This comprises:

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

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

Unusable Reserves

Pensions Reserve

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

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

Financial Instruments Adjustment Account
The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions. The Council uses the Account to manage premiums paid on the early redemption of loans. Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out of the General Fund Balance to the Account in the Movement in Reserves Statement. Over time, the expense is posted back to the General Fund Balance in accordance with statutory arrangements for spreading the burden on council tax. In the Council's case, this period is the unexpired term that was outstanding on the loans when they were redeemed. As a result, the balance on the Account at 31 March 2011 will be charged to the General Fund over the next 14 years.

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

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

Movements in all of the above reserves are shown in the Movement in Reserves Statement.

16. REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE

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

17. GOVERNMENT GRANTS AND CONTRIBUTIONS

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

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

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

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

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

18. INVENTORIES

All inventories have been valued in accordance with Statement of Standard Accounting Practice 9 ‘Stocks and Long Term Contracts’ (SSAP9) as follows:-

- Lower of cost and net realisable value (nrv)
- At average cost - For stocks held on the Procon costing system, which has been designed to value stocks at average cost. The difference between the average cost and valuation at the lower of cost and net realisable value is not considered material.
- At latest invoice price - For stocks which are generally minimal and the records are held manually. It is therefore more practical to value these items at latest invoice price. The difference between the replacement cost and the book value for these stocks is not considered material.

Full details are provided in Note 26. Work in progress is subject to a valuation of the cost of work completed to 31 March 2011. It is recorded in the Balance Sheet at cost plus an appropriate proportion of overheads, together with attributable profits and allowances for foreseeable losses.

19. INTANGIBLE ASSETS

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

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

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

20. INTERESTS IN COMPANIES AND OTHER ENTITIES

The Council has material interests in companies and other entities that have the nature of subsidiaries, associates and joint ventures and therefore require it to prepare group accounts. As such, Group Financial Statements have been prepared (see pages 103 to 118) which reflect the Council's interest in the Central Scotland Police, Fire & Rescue and Valuation Joint Boards, FCSL (Holdings) Ltd, Falkirk Community Stadium Limited and Common Good Funds. The effect of inclusion of the Council's interests on the Group Balance Sheet is to reduce both Reserves and Net Assets by £260.353m.

In the Council's own single-entity accounts, the interests in companies and other entities are recorded as financial assets at cost, less any provision for losses.

21. INVESTMENT PROPERTIES

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

The Council does not have any Investment Properties.

22. OVERHEADS AND SUPPORT SERVICES

The costs of Central Support Services have been fully allocated to all Services and Trading Accounts in accordance with the CIPFA Best Value Accounting Code of Practice 2010/11 (BVACOP) but not to Common Good and Trust Funds. The main allocation bases are summarised below:-

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

23. CORPORATE AND DEMOCRATIC CORE AND NON-DISTRIBUTED COSTS

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

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

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

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

(ii) Non-Distributed Costs include the cost of discretionary benefits awarded to employees retiring early. In accordance with CIPFA Guidance, these costs have not been recharged to services but accumulated and charged to the General Fund and Housing Revenue Account.

24. JOINTLY CONTROLLED OPERATIONS AND JOINTLY CONTROLLED ASSETS

Jointly controlled operations are activities undertaken by the Council in conjunction with other venturers that involve the use of the assets and resources of the venturers rather than the establishment of a separate entity. The Council recognises on its Balance Sheet the assets that it controls and the liabilities that it incurs. The Comprehensive Income & Expenditure Statement is debited with the expenditure incurred and credited with the share of income the Council earns from the activity of the operation.

Jointly controlled assets are items of property, plant or equipment that are jointly controlled by the Council and other venturers, with the assets being used to obtain benefits for the venturers. The joint venture does not involve the establishment of a separate entity. The Council accounts for its share of the jointly controlled assets, the liabilities as well as expenses that it incurs on its own behalf or jointly with others in respect of its interest in the joint venture and income that it earns from the venture.

25. PRIVATE FINANCE INITIATIVE (PFI) AND SIMILAR CONTRACTS

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

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

The two PFI Schemes operated by Falkirk Council are:-

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

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

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

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

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

- Statutory Charge for the Repayment of Debt (for the element of the Unitary Payment designated for the repayment of the finance lease liability).
- Capital Expenditure Charged to General Fund (for the element of the Unitary Payment designated for lifecycle replacement costs). However, see change to accounting policy in Foreword.

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

26. EMPLOYEE BENEFITS

Benefits Payable During Employment

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

Termination Benefits

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

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

Post Employment Benefits

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

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

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

Teachers

The Teachers' Pension Scheme is an unfunded scheme where the employer contribution rate is 14.9% of pensionable pay. The Scottish Government has set this rate on the basis of a notional fund. The most recent actuarial valuation of the Teachers' Pension Scheme took place on 31 March, 2005. Further details about the valuation process should be obtained from the scheme administrators who are the Scottish Public Pensions Agency.

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

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

Other Employees

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

The Scheme is a funded arrangement with the employer's contribution rate being set on a three yearly basis by an independent actuary. The rate is set to ensure that the Pension Fund remains solvent and with a view to meeting 100% of its overall liabilities in the long term. Full details of the most recent actuarial valuation can be found in the Annual Report and Accounts of Falkirk Council Pension Fund.

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

Liabilities are discounted to their value at current prices, using a real discount rate of 2.5% (based on the indicative rate of return on high quality corporate bonds).

The assets attributable to the Council are included in the Balance Sheet at their fair value. Where there is an active market, bid price is usually the appropriate quoted market price:

- Quoted securities – current bid price
- Unquoted securities – professional estimate
- Unitised securities – current bid price
- Property – market value.

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

- current service cost - the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income & Expenditure Statement to the services for which the employees worked

- past service cost - the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus/Deficit on the Provision of Services in the Comprehensive Income & Expenditure Statement as part of Non-Distributed Costs

- interest cost - the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to the Finance and Investment Income and Expenditure line in the Comprehensive Income & Expenditure Statement

- expected return on assets - the annual investment return on the fund assets attributable to the Council, based on an average of the expected long-term return – credited to the Finance and Investment Income and Expenditure line in the Comprehensive Income & Expenditure Statement

- gains/losses on settlements and curtailments - the result of actions to relieve the council of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited/credited to the Surplus/ Deficit on the Provision of Services in the Comprehensive Income & Expenditure Statement as part of Non-Distributed Costs

- actuarial gains and losses - changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited to the Pensions Reserve

- contributions paid to the Local Government Pension Scheme - cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense

- estimated benefits paid – an estimate of the pension and lump sum benefits payable from the Local Government Pension and other discretionary arrangements.

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

Discretionary Benefits

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

More Information

More information about pension costs is disclosed in Note 9 of the core financial statements.

27. LEASES

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

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

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

The Council as Lessee

Finance Leases

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

Lease payments are apportioned between:

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

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

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

Operating Leases

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

The Council as Lessor

Finance Leases

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

Lease rentals receivable are apportioned between:

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

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

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

Operating Leases

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

28. FINANCIAL INSTRUMENTS

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

<u>Financial Liabilities</u>

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

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

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

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

<u>Financial Assets</u>

Financial assets are classified into two types:

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

Loans and Receivables

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

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

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

Available for Sale Assets

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

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

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

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

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

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

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

29. PROPERTY, PLANT AND EQUIPMENT

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

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

Measurement
Assets are initially measured at cost, comprising:

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

The Council does not capitalise borrowing costs incurred whilst assets are under construction.

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

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

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

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

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

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

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

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

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

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

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

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

- where there is a balance of revaluation gains for the asset in the revaluation reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the revaluation reserve, or an insufficient balance, the excess value is written down against the relevant service line(s) in the comprehensive income & expenditure statement.

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

Depreciation

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

Depreciation is calculated on the following bases:

- dwellings and other buildings – straight-line allocation over the useful life of the property as estimated by the valuer
- vehicles, plant, furniture and equipment - a percentage of the value of each class of assets in the Balance Sheet, as advised by a suitably qualified officer
- infrastructure – straight-line allocation over 25 years

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

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

Disposals and Non-current Assets Held for Sale

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

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

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

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

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

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

30. ACCOUNTING STANDARDS THAT HAVE BEEN ISSUED BUT HAVE NOT YET BEEN ADOPTED

The 2010/11 Code requires the disclosure of information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. This applies to the adoption of FRS30 Heritage Assets within the 2011/12 Code, whereby heritage assets will be recognised as a separate class of assets for the first time.

A heritage asset is a tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture. Operational heritage assets (assets held for their heritage characteristics) that are also used to provide other services, are accounted for as operational assets.

Heritage assets are measured at valuation by any method that is appropriate and relevant. Depreciation is not applied to heritage assets, which have indefinite lives. However, the valuation will be reviewed where there is evidence of impairment.

As of 2011/12, the Council will be required to report Heritage Assets as a separate class of asset.

The Council has the following Heritage Assets:

- Museum Collection
- Visual Art Collection
- Archive Collection
- Civic Regalia

It will hopefully be possible to recognise much of the Council's museum, gallery collections and civic regalia on the balance sheet using insurance valuations held by the authority, which is generally based on market value. As the value of these Heritage Assets have not been recognised in the Balance Sheet, the valuation to be used will represent a revaluation gain within the Revaluation Reserve.

The Council does not consider it appropriate to charge depreciation in respect of heritage assets due to indeterminate lives and high residential values. There will therefore be no change to the depreciation charged in the Financial Statements in respect of heritage assets.

31. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

- there is a high degree of uncertainty about future levels of funding for local government. However, the Council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close facilities and reduce levels of service provision.

- The Code has adopted the International Public Sector Accounting Standards (IPSAS) definition of Investment Property as one that is used solely to earn rentals or for capital appreciation, or both. Property that is used to facilitate the delivery of services or production of goods as well as to earn rentals or for capital appreciation does not meet the definition of investment property under IPSAS 16 and is accounted for as property, plant and equipment.

The Council has examined its portfolio of property, in particular those which were classified as investment properties under the SORP and concluded that they do not meet the definition of an investment property as noted above. Instead, these properties are held for economic development purposes and have now been reclassified as property, plant and equipment.

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

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

The items in the Council's Balance Sheet at 31 March 2011 for which there is a significant risk of material adjustment in the forthcoming financial years are as follows:

<u>Provisions</u>
The Council has made a provision of £5m for the settlement of claims for back pay arising from the Equal Pay initiative, based on the number of claims received and an average settlement amount. It is not certain that all valid claims have yet been received by the Council or that precedents set by other authorities in the settlement of claims will be applicable. In addition to this, the Council has been given permission to borrow £1m in 2011/12 in respect of these costs. An increase over the forthcoming year of 10% in either the total number of claims or the estimated average settlement would each have the effect of adding £0.6m to the provision needed.

<u>Pensions Liability</u>
Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied. The effects on the net pensions liability of changes in individual assumptions can be measured. For instance, a 0.5% decrease in the discount rate assumption would result in an increase in the pension liability of £62m.

However, the assumptions interact in complex ways. During 2010/11, the Council's actuaries advised that the net pensions liability had reduced by £60m due to the updating of the actuarial assumptions used and also reduced by £9.8m, mainly as a result of the estimated actual return on assets of 8.7% being greater than the previously anticipated return on assets of 7.2%.

<u>Arrears</u>
At 31 March 2011, the Council had a balance of sundry debtors of c£8.0m, council tax circa £7.7m and house rents of circa £1.8m. Provision for doubtful debts amount to circa £3.0m, £7.3m and £1.4m respectively. An increase of 10% in the value of these would amount to £0.3m, £0.7m and £0.1m respectively.

33. EQUAL PAY CLAIMS

The Council made payments totalling £3.629m in respect of backdated equal pay claims for which it received government consent to borrow. The accounting treatment for this is as described above. Whilst the eventual cost of settling these claims cannot be fully quantified at this time, it is considered appropriate to retain a provision of £5m in the 2010/11 accounts. In addition, the Council has been given permission to borrow a further £1m in 2011/12.

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

FALKIRK COUNCIL RESPONSIBILITIES

The Council made the necessary arrangements for the proper administration of its financial affairs, the Chief Finance Officer being the nominated officer responsible for this task.

The Council managed its affairs to secure economic, efficient and effective use of resources and safeguard its assets.

The Audited Accounts are required to be laid before a meeting of the Council within two months of receipt of the Audit Certificate.

THE CHIEF FINANCE OFFICER'S RESPONSIBILITIES

The Chief Finance Officer is responsible for the Council's Statement of Accounts which, in terms of the CIPFA/LA(S)AAC Code of Practice on Local Authority Accounting in the United Kingdom 2010/11, is required to present a true and fair view of the financial position of the Council at the accounting date and its income and expenditure for the year ended 31 March 2011.

In preparing this Statement of Accounts, the Chief Finance Officer has:-

- selected suitable accounting policies and then applied them consistently;
- made judgements that were reasonable and prudent; and
- complied with the accounting code of practice.

The Chief Finance Officer has also:-

- kept proper accounting records which were up to date; and
- taken reasonable steps to prevent and detect fraud and other irregularities.

FALKIRK COUNCIL

ANNUAL GOVERNANCE STATEMENT 2010/11

Introduction

1. Falkirk Council has a duty under the Local Government in Scotland Act 2003 to make arrangements to secure best value and ensure continuous improvement in the Services it delivers. The Council must ensure that public money is used economically, efficiently, and effectively, and that this responsibility is undertaken with due regard to the achievement of sustainability.

2. To help ensure that these responsibilities are met, the Council must put in place comprehensive and robust governance arrangements, ensuring that these arrangements are properly applied. This must be done within the context of the Single Outcome Agreement 2009-11 which sets out improvements the Council, its Community Planning Partners, and the Scottish Government want to make in the Falkirk Council area.

3. Responsibility for ensuring good governance is shared by all Falkirk Council employees and elected Members, and must be part of the culture of the organisation. To demonstrate Falkirk Council's commitment to ensuring good governance, this Statement has been prepared on the basis of the principles set out in the CIPFA/SOLACE Framework '*Delivering Good Governance in Local Government*' to highlight established and developing good practice as well as areas for further improvement. It should be noted that any review of governance arrangements can provide reasonable but not absolute assurance that policies, aims, and objectives are being applied and implemented as intended.

4. The CIPFA/SOLACE Framework defines governance as being the arrangements that ensure Authorities are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner. In practice, this comprises the systems, processes, cultures and values by which the Council is directed and controlled and through which it engages with the community.

5. Preparation of this Annual Governance Statement meets the requirements of Section 3.7 of the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11.

Falkirk Council's Governance Framework

6. The following sections summarise the key elements of Falkirk Council's governance framework, set out within the context of the six Principles of Good Governance defined within the CIPFA/SOLACE Framework.

Principle 1 - Focusing on the purpose of the Council and on outcomes for the community, and creating and implementing a vision for the local area.

7. This principle is about developing and communicating the Council's vision, purpose, and intended outcomes for citizens and service users.

8. The Council's well established Strategic Planning and Management Framework is fundamental to ensuring that the Council undertakes its business in a focussed, efficient, and effective way, particularly within the context of the particularly challenging economic conditions we continue to face.

9. Work on addressing the actions and realising the outcomes set out in the Council's Action Plan for the Economic Downturn was completed during 2010/11. In addition, Falkirk was named the most enterprising place in Scotland at the annual Enterprising Scotland Awards ceremony in November 2010, demonstrating our commitment to improvement and innovation.

10. Information on the performance of individual Council Services continues to be made available via the 'Performance Zone' area of the Council's website, with a review of non-statutory performance indicators on-going to ensure that these are properly targeted and outcome focussed.

11. In addition, a detailed Customer Survey was undertaken during 2010, with around 4,400 forms returned to the Council, providing a comprehensive and rounded picture of customers' perceptions of how the Council goes about delivering key services. The results of this Survey will be fully considered in determining future policy and priorities.

Principle 2 - Members and Officers working together to achieve a common purpose with clearly defined functions and roles.

12. This principle is about ensuring effective leadership and the clarity and consistency of roles and responsibilities.

13. The Council's Standing Orders Relating to Meetings and Scheme of Delegation to Committees are well embedded, with a review underway to ensure that these remain fit for purpose in light of changes that have taken place, or are yet to take place, in respect of the Council's organisational structure.

14. These are supported by Financial Regulations and Contract Standing Orders. While Financial Regulations were reviewed and updated in 2009/10, consideration will be given to reviewing Contract Standing Orders to ensure that there is consistency with the Scottish Procurement Directorate's Procurement Journey guidance.

Principle 3 - Promoting values for the Council and demonstrating the values of good governance through upholding high standards of conduct and behaviour.

15. All elected Members and Officers are expected to demonstrate leadership and good governance by complying with the Council's established Code of Conduct for Members and Officers and the supporting Protocols for Member/Officer Relations and Officer/Convener Relationships.

16. Arrangements are also in place to document and record extra-mural employment (with an exercise to refresh these records undertaken during 2010/11), and registers of gifts and hospitality are maintained. All staff are made aware of these policies and arrangements at induction, and all are available via the Council's Intranet.

17. The Council has a Confidential Reporting Policy and Procedure and an Anti-Fraud and Corruption Strategy which provides a framework for encouraging a corporate culture of fraud deterrence and prevention.

Principle 4 - Taking informed and transparent decisions which are subject to effective scrutiny and managing risk.

18. Corporate Management Team has established a number of Officer led groups to consider matters such as IT strategy and security, sustainability, best value, and risk management.

19. Risk management arrangements remain in need of further development, both in terms of embedding the existing Policy and Strategy across all Services and in better linking risk management and business planning. Action is, however, being taken to address this, with an independent review of existing activities undertaken during 2010/11, and through plans to appoint a Corporate Risk Manager. In addition, the Audit Committee will continue to monitor progress with embedding risk management across the Council.

20. Related to that, Corporate Risk Management Group has, during 2010/11, agreed a process for building assurance around the proper premises management of the Council's operational estate, with the initial outputs arising from this process considered by the Group in May 2011. This is a positive development, as it provides a framework aimed at making Falkirk Council's operational buildings a safer and more secure environment for staff and visitors.

21. For the first time, an Annual Report and Accounts will require to be prepared for the Falkirk Council Pension Fund for 2010/11. The Annual Report will include a Governance Compliance Statement, and the Report and Accounts will be subject to a separate audit by Audit Scotland, the fund's appointed auditor. While this process places additional responsibilities on pension administration and investment staff, there are clear benefits in improving and enhancing transparency and accountability, including scrutiny via the Council's Investment Committee.

22. The Audit Committee is now an established element of the Council's governance framework. At its June 2010 meeting, Council made a decision to appoint an external lay member to chair the Audit Committee. This appointment has now been made, with the March 2011 Audit Committee meeting the first to be chaired by the external lay member.

Principle 5 - Developing the capacity and capability of Officers and Members to be effective.

23. This principle is about ensuring that Officers and Members have the appropriate knowledge and skills to allow them to effectively fulfil their roles and responsibilities.

24. As mentioned above, the Audit Committee continues to develop in its role, and to facilitate this, training and development will continue to be made available to Members, including the external lay member Chair. The Committee will, at an appropriate point, undertake a review of its own effectiveness, as required by CIPFA Audit Committee guidance.

25. In addition, steps are being taken to ensure the timely adoption of the Improvement Service Continuing Professional Development approach to Member training, with a view to fully embedding this prior to the new intake of Councillors following the 2012 Scottish Local Government Elections. This will build on the existing Member training programme (which includes, for example, Treasury Management training delivered prior to the summer recess).

26. The Achievement and Personal Development Scheme for Officers continues to be rolled out, and the Council remains committed to the development of staff via, for example, the provision of induction programmes for new staff, a corporate ‘Learning Zone’ for existing staff, and the support of individual Services towards achieving and maintaining Investors in People status.

Principle 6 - Engaging with local people and other stakeholders to ensure robust public accountability.

27. The Council engages with stakeholders in various ways and on a number of levels.

28. Meetings of Falkirk Council and its Committees are open to the public, with agendas and papers published on the Council’s website. The website also includes a ‘Performance Zone’, where annual accounts and statutory and other performance information is made available.

29. Website accessibility continues to be improved, with a British Sign Language facility for the Deaf Community and compliance with W3C's Web Accessibility Initiative's (WAI) Guidelines.

30. A Citizens Panel has been set up, comprising more than 1,000 local people who have volunteered to respond to surveys and provide feedback on services. Surveys have been undertaken in August 2010 and January 2011, and the Council is committed to fully considering the results of these surveys in developing future policy and direction.

31. Various other initiatives and developments aimed at improving communication and engagement with stakeholders have become embedded over the course of 2010/11, including the roll out of Homespot, which is aimed at simplifying and making more transparent the housing allocations process, and the development of a Revenues Customer Charter, which sets out the minimum service standards to be expected in any interaction with the Council’s Revenues Division.

32. A draft Community Participation Strategy, entitled ‘Have Your Say – A Plan for Local Involvement’, was considered by the Council’s Leisure, Tourism and Community Committee in November 2010 with a final version agreed in April 2011, taking account of feedback received from local stakeholder groups. This is supported by a Scheme of Decentralisation, demonstrating how the Council will continue to bring services and decision-making closer to local communities

Monitoring and Review of Governance Arrangements

33. Falkirk Council’s governance arrangements are formally monitored via:

- the Council’s established Committee framework, including the Audit Committee;
- the Best Value Forum and Best Value Working Group;
- Corporate Management Team;
- Internal and external audit work; and
- the work of Falkirk Council’s Local Area Network,.

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

35. The Council has a Strategic Planning and Management Framework (SPMF) which brings each of these strands together. The SPMF sets a common operational framework linking all activities to the Council's strategic priorities and service delivery objectives. This framework facilitates the monitoring and management of performance and quality, and provides for demonstrable consistency between strategic and operational aims and objectives.

System of Internal Financial Control

36. This section of the Annual Governance Statement relates to the systems of internal financial control of Falkirk Council and of the consolidated entries in the Council's group accounts for the year to 31 March 2011. It incorporates assurance on the systems of internal financial controls (and, where appropriate, governance arrangements) in place within each of these entities.

37. Responsibility for ensuring that an effective system of internal financial control is maintained and operated rests with the Council's Chief Finance Officer. It should be noted that the system of internal financial control can only provide reasonable and not absolute assurance that assets are safeguarded, that transactions are authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected within a timely period.

38. The system of internal financial control is based on a framework of risk management, robust management information, application of comprehensive financial regulations, administrative procedures including management supervision, and a system of delegation and accountability. Development and maintenance of the system is undertaken by managers, and includes:

- arrangements for the identification and management of risks;
- comprehensive budgeting systems;
- the preparation and regular review of periodic and annual financial reports which indicate actual expenditure and financial performance against forecasts;
- setting targets to measure financial and other performance;
- clear capital expenditure guidelines; and
- formal project management arrangements.

39. The Council's Internal Audit Section provides an independent assessment of arrangements for risk management, governance and control. The Section undertakes an annual programme of work approved by the Chief Executive, Chief Finance Officer, and Audit Committee. This work is planned taking account of the outcomes of the Council's risk management arrangements and Internal Audit's own assessment of risk.

40. The Council's appointed external auditors have concluded that the Internal Audit Section operates in accordance with the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006, and formally place reliance on work undertaken by the Section.

41. All Internal Audit reports are brought to the attention of management and include recommendations and agreed action plans where scope for improvement has been identified. It is then management's responsibility to ensure that proper consideration is given to these reports and that appropriate action is taken to address recommendations. Significant matters, including non-compliance with recommendations arising from Internal Audit work, are reported periodically to the Council's Audit Committee.

42. The Audit Committee, which was set up on the basis of a decision by Council in June 2008, operates in accordance with guidance entitled 'Audit Committee Principles in Local Authorities in Scotland' (CIPFA, 2004) and 'Audit Committees: Practical Guidance for Local Authorities' (CIPFA, 2005). As noted at paragraph 22 above, the Committee is chaired by an external lay member, and has a remit to provide:

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

43. Part of the role of the Committee is to consider the Annual Assurance Report provided by the Internal Audit Manager. This report provides an independent opinion on the adequacy and effectiveness of the Council's arrangements for risk management, governance and control, and is based on work undertaken during the year. In his Annual Assurance Report for 2010/11 the Internal Audit Manager concluded that he was able to provide substantial assurance on the Council's overall framework of control for the year to 31 March 2011.

44. The programme of Internal Audit work for 2010/11 was completed as planned, and the breadth and depth of work undertaken was sufficient to allow the Internal Audit Manager to form a robust and balanced opinion based on the level of assurance provided in each individual Internal Audit report.

45. While, in overall terms, the Internal Audit Manager was able to provide substantial assurance in respect of the Council's control framework, there were areas where limited assurance was provided. It is part of the Internal Audit process to carry out follow-up work to determine the extent to which recommendations have been implemented, and particular emphasis will be placed on recommendations made in these reviews. The outcomes of follow-up work will be reported to Members of the Audit Committee during 2011/12.

46. The Chief Finance Officer is required to review the effectiveness of the Council's systems of internal financial control, taking account of:

- the work of managers within the Council;
- the work of Internal Audit (as described above); and
- the work of external audit.

47. Based on consideration of the above, the Chief Finance Officer has concluded that substantial assurance can be placed on the adequacy and effectiveness of the Council's internal financial control systems for the year to 31 March 2011.

48. In respect of other entities that fall within the Council's group boundary, the Chief Finance Officer's review of their internal control systems is informed by:

- the Annual Governance Statement included within the Annual Accounts of Central Scotland Joint Fire and Rescue Board;
- the Statements on the System of Internal Financial Control included within the Annual Accounts of Central Scotland Joint Police Board and Central Scotland Valuation Joint Board; and
- the work of these bodies' respective external auditors (and, where relevant, Internal Auditors) and other interim reports.

49. Based on consideration of the above, the Chief Finance Officer has concluded that, on the whole, substantial assurance can be placed on the internal financial control systems (and, where available, governance arrangements) of other bodies falling within the Council's group boundary.

50. As part of the Council's 2009/10 Annual Governance Statement, a commitment was made to undertake an assessment of the Council's compliance with the principles set out in the 2010 CIPFA 'Statement on the Role of the Chief Financial Officer (CFO) in Local Government' and associated 'Application Note to Delivering Good Governance in Local Government: A Framework'.

51. Due to the retirement of the Council's previous Director of Finance, and the on-going process of making a permanent appointment to the new Chief Finance Officer post, this assessment has not been undertaken. A full assessment will, however, be undertaken once a permanent appointment to the post of Chief Finance Officer has been made.

52. Related to that, during 2010 CIPFA published a 'Statement on the Role of the Head of Internal Audit in Public Service Organisations'. Arrangements have been put in place with West Lothian Council for the coming year to facilitate a reciprocal peer review of each Council's Internal Audit Section against this Statement and against the CIPFA Code of Practice for Internal Audit in Local Government in the UK 2006. The results of this exercise will be reported to the Audit Committee in due course.

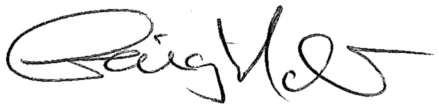
Governance Arrangements – Areas for Improvement

53. Falkirk Council continues to be committed to ensuring that governance and internal financial control arrangements are robust, proportionate, and in line with best practice. The process of preparing this Statement has, however, highlighted areas where further work is required, and these will be addressed within the context of the Council's continuous improvement agenda:

- Contract Standing Orders will be reviewed and updated to ensure that they fully reflect relevant national guidance;
- risk management arrangements will continue to be enhanced and improved, with consideration given to ensuring clear linkage between risk management and business planning;
- the Premises Management Statement of Assurance process will be fully embedded across all Council Services;
- the Audit Committee will undertake a formal review of its effectiveness;
- the Improvement Service Continuing Professional Development approach for elected Members will be fully adopted ahead of the 2012 Local Government elections;
- the Community Participation Strategy will be fully implemented; and
- assessments of compliance with the CIPFA Statements on the Roles of the Chief Financial Officer and Head of Internal Audit will be undertaken.

Conclusion

54. This Annual Governance Statement summarises, openly and transparently, arrangements established by Falkirk Council for ensuring good governance and appropriate arrangements for internal financial control for 2010/11 and the period to date. It highlights areas of improvement that have been identified to enhance existing governance arrangements, and is consistent with the Council's established improvement agenda.



Councillor Craig Martin
Leader of Falkirk Council
30 September 2011

Mary Pitcaithly
Chief Executive
30 September 2011

FALKIRK COUNCIL
ANNUAL REMUNERATION REPORT

The Local Authority Accounts (Scotland) Regulations 1985 (as amended by the Local Authority (Scotland) Amendment Regulations 2011) require the accounts of the Council to contain a Remuneration Report. This Report for the financial year 2010/11 contains the information specified in the Schedule to the above regulations.

All information disclosed in the tables [at 2.1, 4.2 and 5.9] will be audited by Audit Scotland. The other sections of this Report will be reviewed by Audit Scotland to ensure that they are consistent with the financial statements.

1. Senior Councillors Remuneration Arrangements

(Paragraphs 2 and 3 of the Schedule to the 1985 Regulations)

1.1 The remuneration of councillors is regulated by the Local Governance (Scotland) Act 2004 (Remuneration) Regulations 2007 (SSI No. 2007/183). The Regulations provide for the grading of councillors for the purposes of remuneration arrangements, as either the Leader of the Council, the Civic Head, Senior Councillors or Councillors. The Leader of the Council and the Civic Head cannot be the same person for the purposes of payment of remuneration. A senior councillor is a councillor who holds a significant position of responsibility in the Council's political management structure.

1.2 When determining the level of remuneration for councillors the Scottish Ministers consider the recommendations of the Scottish Local Authority Remuneration Committee (SLARC). SLARC is an advisory Non-Departmental Public Body set up in 2005 to advise Scottish Ministers on the remuneration, allowances and expenses incurred by local authority councillors.

1.3 The salary that is to be paid to the Leader of the Council is set out in the Regulations. For 2010-11 the salary for the Leader of Falkirk Council is £32,470. The Regulations permit the Council to remunerate one Civic Head. The regulations set out the maximum salary that may be paid to that Civic Head as £23,179. The Council agreed on 4th March 2009 not to apply the 2.5% increase permitted by an amendment to the Local Governance (Scotland) Act 2004 (Remuneration) Regulations 2007, to the Civic Head salary.

1.4 The Regulations also set out the remuneration that may be paid to senior councillors and the total number of senior councillors the Council may have. The maximum yearly amount that may be paid to a Senior Councillor is 75 per cent of the total yearly amount payable to the Leader of the Council (£24,353). The total yearly amount payable by the Council for remuneration of all of its Senior Councillors is specified by the above regulations and shall not exceed £284,116. The Council is able to exercise local flexibility in the determination of the precise number of Senior Councillors and their salary within these maximum limits. The Council policy agreed on 4th March 2009 is that there will be seven level 1 Senior Councillors each with a salary of £21,803 and seven level 2 Senior Councillors each with a salary of £18,280.

1.5 In 2010-11 Falkirk Council had 14 senior councillors and the remuneration paid to these councillors totalled £280,581. The Regulations also permit the Council to pay contributions or other payments as required to the Local Government Pension Scheme in respect of those councillors who elect to become councillor members of the pension scheme.

1.6 The Falkirk Council remuneration framework, which encompasses the salaries of all elected members including the Leader, Civic Head and Senior Councillors was agreed at a meeting of the full Council on 4th March 2009 and is available at www.falkirk.gov.uk.

1.7 In addition to the Senior Councillors of the Council the Regulations also set out the remuneration payable to councillors with responsibility of a Convener or Vice-Convener of a Joint Board such as a Police Joint Board. The Regulations require the remuneration to be paid by the Council of which the convener or vice-convener (as the case may be) is a member. The Council is also required to pay any pension contributions arising from the Convener or Vice-Convener being a member of the Local Government Pension Scheme.

1.8 The Council is reimbursed by the Joint Board for any additional remuneration paid to the member from being a Convener or Vice-Convener.

FALKIRK COUNCIL

Senior Employees Remuneration Arrangements

1.9 The salary of senior employees is set by reference to national arrangements. The Scottish Joint Negotiating Committee (SJNC) for Local Authority Services sets the salaries for the Chief Executives of Scottish local authorities. Circular CO/144 sets the amount of salary for the Chief Executive of Falkirk Council for the period 2008 to 2011.The Chief Executive declined the pay award set for 2010/11. The salaries of Service Directors are not currently based on a fixed percentage of the Chief Executive's salary. All Directors are paid at the same rate of salary as implemented in 2000 at the time of approval for a revised structure at a meeting of full Council on 26th April 2000.

1.10 Senior employees also receive a fixed car allowance. This allowance was agreed by the Resources Committee on 18th June 1996.

1.11 The Council does not have a role in determining the remuneration policy of Falkirk Community Stadium Ltd., a subsidiary of the Council.

2. General Disclosure by Pay Band
(Paragraph 4 of the Schedule to the 1985 Regulations)

2.1 The number of employees whose remuneration was £50,000 or more in 2010-11 is disclosed in bands of £5,000 in the following table:

Remuneration Bands	Number of Employees		Chief Officials		Teachers		SJC Employees	
	2010-2011	2009-2010	2010-2011	2009-2010	2010-2011	2009-2010	2010-2011	2009-2010
£50,000 - £54,999	61	50	0	0	50	41	11	9
£55,000 - £59,999	21	9	0	0	17	7	4	2
£60,000 - £64,999	4	7	3	3	0	2	1	2
£65,000 - £69,999	7	13	4	11	2	2	1	0
£70,000 - £74,999	12	7	9	3	3	4	0	0
£75,000 - £79,999	4	1	0	0	4	1	0	0
£80,000 - £84,999	0	0	0	0	0	0	0	0
£85,000 - £89,999	1	1	1	1	0	0	0	0
£90,000 - £94,999	5	5	5	5	0	0	0	0
£95,000 - £99,999	1	0	1	0	0	0	0	0
£100,000 - £104,999	0	1	0	1	0	0	0	0
£125,000 - £129,999	1	1	1	1	0	0	0	0
Totals	**117**	**95**	**24**	**25**	**76**	**57**	**17**	**13**

3. Disclosure – Local Authority Subsidiary Bodies
(Paragraph 5 of the Schedule to the 1985 Regulations)

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

a) the Chief Executive is Mr Peter Eadie;

b) there were no Councillors of Falkirk Council remunerated by the body in 2010-2011; and

c) there were no employees of the body whose remuneration in 2010-2011, including any annual remuneration from Falkirk Council, was £150,000 or more.

4. Disclosure of Remuneration for Relevant Persons
(Paragraphs 6 to 8 of the Schedule to the 1985 Regulations)

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

4.2 The information is provided in separate tables as follows:
a) Senior Councillors of Falkirk Council;
a) Senior employees of Falkirk Council; and
c) Relevant persons of Falkirk Community Stadium Ltd.

FALKIRK COUNCIL

a) Remuneration paid to Falkirk Council's Senior Councillors.

SURNAME	FORENAME	Post	2010-11 Salary, fees and allowances £	2010-11 Taxable Expenses £	2010-11 Non-cash expenses & benefits-in-kind £	2010-11 Total Remuneration £	2009-10 Total Remuneration £
ALEXANDER	DAVID	Leader of Main Opposition Group	18,280	0	0	18,280	18,280
BLACK	ALLYSON	Depute Provost, Depute Convener of Civic Events Panel and of Investment Committee	21,803	0	0	21,803	21,803
BLACKWOOD	JAMES	Convener of Housing & Social Care Committee (from 09/12/2009) Depute Convener Central Scotland Joint Police Board	21,803	0	0	21,803	19,368
BUCHANAN	WILLIAM	Convener of Planning Committee	21,803	0	0	21,803	21,803
FRY	STEPHEN	Depute Convener Policy & Resources Committee	16,234	0	0	16,234	16,234
GOLDIE	GERALD	Senior Councillor 1 to 08/12/2009 (Councillor from 09/12/2009) Convener of Joint Consultative Committee (from 28/04/2010)	18,127	0	0	18,127	20,066
GOW	LINDA	Leader of Council to 27/01/2010 (Councillor from 28/01/2010)	16,234	0	0	16,234	29,589
LEMETTI	JOE	Depute Convener of Economic Strategy & Development Committee	18,280	0	0	18,280	18,280
MACDONALD	CHARLES	Convener of Environment & Community Safety Committee Depute Convener of Appointments Committee	21,803	0	0	21,803	21,803
MAHONEY	ADRIAN	Convener of Economic Strategy & Development Committee Convener of Leisure, Tourism & Community Committee	21,803	0	0	21,803	21,803
MARTIN	CRAIG	Convener of Central Scotland Joint Fire & Rescue Board (to 27/01/2010) Leader of the Council (from 28/01/2010) Convener of Policy & Resources Committee Convener of Appointments Committee	32,470	0	0	32,470	25,793
MARTIN	CRAIG R	Depute Convener Environment & Community Safety Committee	18,280	0	0	18,280	18,280
MCLUCKIE	JOHN	Depute Convener of Planning Committee Convener of Appeals Committee	18,280	0	0	18,280	18,280
MCNEILL	ALISTAIR	Depute Convener of Housing & Social Care Committee Depute Convener of Appeals Committee	18,280	0	0	18,280	18,280
NICOL	MALCOLM	Convener of Licensing Board Convener of Civic Licensing Committee	21,803	0	0	21,803	21,803
NIMMO	ALAN	Convener of Central Scotland Joint Fire & Rescue Board (from 26/03/2010) Convener Joint Consultative Committee (to 25/03/2010)	24,451	0	0	24,451	18,280
PATRICK	JOHN	Convener of Audit Committee Convener of Investment Committee Depute Convener of Education Committee	18,280	0	0	18,280	18,280
REID	PATRICK	Provost Depute Convener of Leisure, Tourism & Community Committee Depute Convener of Licensing Board Depute Convener of Civic Licensing Committee Convener of Civic Events Panel	23,179	0	0	23,179	23,179
WADDELL	ALEXANDER	Convener of Education Committee	21,803	0	0	21,803	21,803
		Totals	392,996	0	0	392,996	393,007

The amount recharged to Central Scotland Fire & Rescue Joint Board in 2010-2011 was £8,512 (2009-2010 £1,992).

b) Remuneration of Senior Employees of Falkirk Council

Name	Post Title	Salary, Fees and Allowances £	Bonuses £	Taxable Expenses £	Compensation for loss of employment £	Benefits other than in cash £	Other Amounts £	Total Remuneration 2010-11 £	Total Remuneration 2009-10 £
Mary Pitcaithly	Chief Executive	129,062	-	-	-	-	2,894	131,956	133,740
Margaret Anderson	Acting Director of Social Work Services	92,574	-	-	-	-	-	92,574	91,123
Maureen Campbell	Director of Community Services	93,506	-	-	-	-	-	93,506	91,286
Rhona Geisler	Director of Development Services	93,506	-	-	-	-	-	93,506	91,246
Rose Mary Glackin	Acting Director of Law & Administration Services (Monitoring Officer)	88,082	-	-	-	-	-	88,082	85,972
Alexander Jannetta	Director of Finance (Section 95 Officer) (Until 31/03/2011)	97,007	-	-	-	-	-	97,007	91,286
Stuart Ritchie	Director of Corporate & Neighbourhood Services	93,506	-	-	-	-	-	93,506	101,286
Julia Swan	Director of Education Services	93,506	-	-	-	-	-	93,506	91,286
TOTAL		780,749	-	-	-	-	2,894	783,643	777,225

The “Other Amounts” value above relates to Returning Officer fees received during 2010-2011.

The senior employees included in the table include any council employee:

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

c) Remuneration paid to relevant persons of Falkirk Community Stadium Ltd

Name	Post Title	Salary, Fees and Allowances £	Bonuses £	Taxable Expenses £	Compensation for loss of employment £	Benefits other than in cash £	Other Amounts £	Total Remuneration 2010-11 £	Total Remuneration 2009-10 £
Peter Eadie	Chief Executive	55,821	-	-	-	2,128	-	57,949	58,389
TOTAL		55,821	-	-	-	2,128	-	57,949	58,389

5. Pension Benefits
(Paragraphs 9 to 12 of the Schedule to the 1985 Regulations)

5.1 Pension benefits for councillors and local government employees are provided through the Local Government Pension Scheme (LGPS).

5.2 Councillors' pension benefits are based on career average pay. The councillor's pay for each year or part year ending 31 March (other than the pay in the final year commencing 1 April) is increased by the increase in the cost of living, as measured by the appropriate index (or indices) between the end of that year and the last day of the month in which their membership of the scheme ends. The total of the revalued pay is then divided by the period of membership to calculate the career average pay. This is the value used to calculate the pension benefits.

5.3 For local government employees this is a final salary pension scheme. This means that pension benefits are based on the final year's pay and the number of years that person has been a member of the scheme.

5.4 The scheme's normal retirement age for both councillors and employees is 65.

5.5 From 1 April 2009 a five tier contribution system was introduced with contributions from scheme members being based on how much pay falls into each tier. This is designed to give more equality between the cost and benefits of scheme membership. Prior to 2009 contributions rates were set at 6% for all non-manual employees.

5.6 The tiers and members contribution rates for 2010-11 remain at the 2009-10 rates, (due to negative increase in the cost of living index for 2010-11) and are as follows:

Whole time pay	Contribution rate 2010-11	Contribution rate 2009-10
On earnings up to and including £18,000	5.5%	5.5%
On earnings above £18,000 and up to £22,000	7.25%	7.25%
On earnings above £22,000 and up to £30,000	8.5%	8.5%
On earnings above £30,000 and up to £40,000	9.5%	9.5%
On earnings above £40,000	12%	12%

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

5.7 There is now no automatic entitlement to a lump sum. Members may opt to give up (commute) pension for lump sum up to the limit set by the Finance Act 2004. The accrual rate guarantees a pension based on 1/60th of final pensionable salary and years of pensionable service. (Prior to 2009 the accrual rate guaranteed a pension based on 1/80th and a lump sum based on 3/80th of final pensionable salary and years of pensionable service).

5.8 The value of the accrued benefits has been calculated on the basis of the age at which the person will first become entitled to receive a full pension on retirement without reduction on account of its payment at that age; without exercising any option to commute pension entitlement into a lump sum; and without any adjustment for the effects of future inflation.

5.9 The pension figures shown in the following tables relate to the benefits that the person has accrued as a consequence of their total pensionable service, which may include service derived from other employments, and not just their current appointment.

a) Pension Rights of Senior Councillors of Falkirk Council

The pension entitlements for Senior Councillors for the year to 31 March 2011 are shown in the table below, together with the contribution made by the Council to each Senior Councillors' pension during the year.

SURNAME	FORENAME	Post	In-year Pension Contributions		Accrued Pension Benefits			
			For year to 31/03/2011 £	For year to 31/03/2010 £	Benefit Type	As at 31/03/2011 £000	As at 31/03/2010 £000	Difference from 31/03/2010 £000
ALEXANDER	DAVID	Leader of Main Opposition Group	3,382	3,290	Pension Lump Sum	5 13	4 13	1 0
BLACK	ALLYSON	Depute Provost, Depute Convener of Civic Events Panel and of Investment Committee	4,033	3,925	Pension Lump Sum	1 2	1 2	0 0
BLACKWOOD	JAMES	Depute Convener Central Scotland Joint Police Board (to 08/12/2009) Convener of Housing & Social Care Committee (from 09/12/2009)	4,033	3,486	Pension Lump Sum	1 1	1 1	0 0
GOLDIE	GERALD	Senior Councillor 1 to 08/12/2009 (Councillor from 09/12/2009) Convener of Joint Consultative Committee (from 28/04/2010)	3,353	3,612	Pension Lump Sum	8 22	7 21	1 1
GOW	LINDA	Leader of Council to 27/01/2010 (Councillor from 28/01/2010)	3,003	5,326	Pension Lump Sum	2 2	1 2	1 0
MARTIN	CRAIG R	Depute Convener Environment & Community Safety Committee	3,382	3,290	Pension Lump Sum	1 1	1 1	0 0
MCLUCKIE	JOHN	Depute Convener of Planning Committee Convener of Appeals Committee	3,382	3,290	Pension Lump Sum	1 1	1 1	0 0
MCNEILL	ALISTAIR	Depute Convener of Housing & Social Care Committee Depute Convener of Appeals Committee	3,382	3,290	Pension Lump Sum	1 1	1 1	0 0
NICOL	MALCOLM	Convener of Licensing Board Convener of Civic Licensing Committee	4,034	3,925	Pension Lump Sum	1 2	1 2	0 0
PATRICK	JOHN	Convener of Audit Committee Convener of Investment Committee Depute Convener of Education Committee	3,382	3,290	Pension Lump Sum	2 2	1 2	1 0
		Totals	**35,366**	**36,724**	Pension Lump Sum	**23** **47**	**19** **46**	**4** **1**

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

b) Pension Rights of Senior Employees of Falkirk Council

The pension entitlements of Senior Employees for the year to 31 March 2011 are shown in the table below, together with the contribution made by the Council to each Senior Employee's pension during the year.

Name	Post Title	In-year Pension Contributions		Accrued Pension Benefits			
		For year to 31/03/2011 £	For year to 31/03/2010 £	Benefit Type	As at 31/03/2011 £000	As at 31/03/2010 £000	Difference from 31/03/2010 £000
Mary Pitcaithly	Chief Executive	23,420	22,787	Pension	49	47	2
				Lump Sum	135	135	0
Mary Pitcaithly	Returning Officer duties	536	842	Pension	0	0	0
				Lump Sum	1	1	0
Margaret Anderson	Acting Director of Social Work Services	16,843	16,141	Pension	34	32	2
				Lump Sum	93	92	1
Maureen Campbell	Director of Community Services	16,843	15,988	Pension	28	26	2
				Lump Sum	76	74	2
Rhona Geisler	Director of Development Services	16,843	15,988	Pension	36	34	2
				Lump Sum	99	97	2
Rose Mary Glackin	Acting Director of Law & Administration Services (Monitoring Officer)	16,012	15,199	Pension	32	29	3
				Lump Sum	86	84	2
Alexander Jannetta	Director of Finance (Section 95 Officer) (Until 31/03/2011)	* 48,692	15,988	Pension	47	44	3
				Lump Sum	131	128	3
Stuart Ritchie	Director of Corporate & Neighbourhood Services	16,843	15,988	Pension	34	32	2
				Lump Sum	93	90	3
Julia Swan	Director of Education Services	16,843	15,988	Pension	40	37	3
				Lump Sum	111	108	3
TOTAL		172,875	134,909	Pension	300	281	19
				Lump Sum	825	809	16

* This includes an additional contribution of £31,849 in respect of the early payment of accrued pension benefits.

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

c) Pension Rights of relevant persons of Falkirk Community Stadium Ltd

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

Councillor Craig Martin	**Mary Pitcaithly**
Leader of Falkirk Council	**Chief Executive**
30 September 2011	**30 September 2011**

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT FOR THE YEAR ENDED 31 MARCH 2011

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

2009/10 Gross Expenditure £'000	2009/10 Gross Income £'000	2009/10 Net Expenditure £'000		2010/11 Gross Expenditure £'000	2010/11 Gross Income £'000	2010/11 Net Expenditure £'000
158,311	(6,633)	151,678	Education Services	168,151	(6,675)	161,476
90,815	(84,352)	6,463	Housing Services	129,602	(87,784)	41,818
26,015	(7,823)	18,192	Cultural and Related Services	24,365	(5,865)	18,500
16,765	(928)	15,837	Environmental Services	19,995	(3,475)	16,520
9,414	-	9,414	Fire Services	8,053	-	8,053
16,646	(1,528)	15,118	Roads & Transport Services	18,548	(1,902)	16,646
14,331	-	14,331	Police Services	12,879	-	12,879
13,766	(8,986)	4,780	Planning and Development Services	22,426	(8,089)	14,337
100,304	(22,417)	77,887	Social Work	108,196	(24,208)	83,988
8,808	(5,284)	3,524	Central Services to the Public	15,648	(11,399)	4,249
3,085	(134)	2,951	Corporate & Democratic Core	3,217	-	3,217
7,212	(482)	6,730	Non-Distributed Costs	(51,380)	-	(51,380)
-	-	-	Exceptional Items	3,629	-	3,629
465,472	**(138,567)**	**326,905**	**Cost of Services**	**483,329**	**(149,397)**	**333,932**
			Other Operating Expenditure			
-	(3,004)	(3,004)	(Gains) or Losses on disposal of Fixed Assets	-	(131)	(131)
			Financing and Investment Income and Expenditure			
41,010	(43,799)	(2,789)	Surplus or deficit on trading undertakings	38,252	(39,029)	(777)
22,141	-	22,141	Interest Payable and Similar Charges	23,124	-	23,124
-	(527)	(527)	Interest & Investment Income	-	(478)	(478)
28,608	(18,348)	10,260	Pensions interest cost & expected return on pensions assets	35,624	(28,796)	6,828
557,231	**(204,245)**	**352,986**		**580,329**	**(217,831)**	**362,498**
			Taxation and Non-Specific Grant Income			
-	(59,364)	(59,364)	Council Tax	-	(59,643)	(59,643)
-	(210,590)	(210,590)	Government Grants	-	(222,460)	(222,460)
-	(17,583)	(17,583)	Capital Grants, Contributions & Donations	-	(13,054)	(13,054)
-	(63,201)	(63,201)	Non-Domestic Rate redistribution	-	(60,652)	(60,652)
-	**(350,738)**	**(350,738)**		**-**	**(355,809)**	**(355,809)**
557,231	**(554,983)**	**2,248**	**(Surplus) or Deficit on Provision of Services**	**580,329**	**(573,640)**	**6,689**
		16,314	Surplus or deficit on revaluation of non-current assets			(2,160)
		156,432	Actuarial gains/losses on pension assets/ liabilities			(69,716)
		(2,907)	Other unrealised gains/losses			(2,148)
		169,839	**Other Comprehensive Income and Expenditure**			**(74,024)**
		172,087	**Total Comprehensive Income and Expenditure**			**(67,335)**

BALANCE SHEET AS AT 31 MARCH 2011

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

2008/09 £'000	2009/10 £'000		2010/11 £'000	Notes
		Long Term Assets		
730,489	779,407	Property, Plant & Equipment	718,797	14
258	190	Intangible Assets	79	11
201	-	Assets Held for Sale	507	16
3,110	9,340	Long Term Investments	9,340	21
7,007	6,571	Investments in Associates and Joint Ventures	6,200	21
7,505	1,310	Long Term Debtors	1,227	25
748,570	796,818		736,150	
		Current Assets		
846	771	Inventories	872	26
15,589	18,983	Short Term Debtors	16,332	28
2,559	7,374	Cash and Cash Equivalents	21,541	
55	225	Assets Held for Sale	390	16
19,049	27,353		39,135	
		Current Liabilities		
(36,192)	(28,887)	Short Term Borrowing	(25,112)	
(54,670)	(62,952)	Short Term Creditors	(75,780)	29
-	(5,000)	Provisions	(5,000)	24
(90,862)	(96,839)		(105,892)	
		Long Term Liabilities		
(5,000)	-	Provisions	-	
(121,005)	(140,479)	Long Term Borrowing	(149,922)	22
(124,107)	(289,253)	Defined Benefit Pension Scheme Liability	(171,869)	9
(115,494)	(156,524)	Other Long Term Liabilities	(139,667)	33
(990)	(3,002)	Capital Grants Received in Advance	(2,526)	31
(366,596)	(589,258)		(463,984)	
310,161	138,074	**NET ASSETS**	205,409	20
		Usable Reserves		
4,932	4,899	Capital Receipts Reserve	5,342	
3,254	4,943	Capital Grants Unapplied Account	5,067	
37,206	37,950	General Fund	36,716	2
5,244	4,308	Other Usable Reserves	5,588	
50,636	52,100		52,713	
		Unusable Reserves		
231,453	243,492	Capital Adjustment Account	197,745	
(7,721)	(7,389)	Financial Instruments Adjustment Account	(7,057)	
169,486	149,254	Revaluation Reserve	144,375	
(124,107)	(289,253)	Pensions Reserve	(171,869)	
(9,586)	(10,130)	Accumulated Absences Account	(10,498)	
259,525	85,974		152,696	
310,161	138,074	**TOTAL RESERVES**	205,409	

Bryan Smail, CPFA
Chief Finance Officer

The unaudited accounts were issued on 30 June 2011 and the audited accounts were authorised for issue on 30 September 2011.

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 MARCH 2011

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

2009/10 £'000		2010/11 £'000
2,248	Net (surplus) or deficit on the provision of services	6,689
(10,121)	Adjust net surplus or deficit on the provision of services for non-cash movements	(60,746)
(13,552)	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	13,054
(21,425)	**Net cash flows from operating activities**	(41,003)
	Investing Activities	
39,948	Purchase of property, plant & equipment, investment property and intangible assets	36,758
117	Other payments for investing activities	-
(6,728)	Proceeds from the sale of property, plant & equipment, investment property and intangible assets	(5,804)
(14,946)	Other receipts and investing activities	(13,835)
18,391	**Net cash flows from investing activities**	17,119
	Financing Activities	
(96,720)	Cash receipts of short and long-term borrowing	(23,617)
15,344	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	3,984
79,595	Repayments of short and long-term borrowing	29,350
(1,781)	**Net cash flows from financing activities**	9,717
(4,815)	**Net (increase) or decrease in cash and cash equivalents**	(14,167)
	Cash and cash equivalents	
(2,559)	Cash and cash equivalents at the beginning of the reporting period	(7,374)
	Cash and cash equivalents at the end of the reporting period	
(41)	Cash held by Officers	(42)
233	Bank Current Accounts	(11,144)
(7,566)	Short-term deposits	(10,355)
(7,374)		(21,541)

The cash flows for operating activities include interest paid of £23.124m (2009/10 £21.903m) and interest received of £0.478m (2009/10 £0.448m).

MOVEMENT IN RESERVES STATEMENT FOR THE YEAR ENDED 31 MARCH 2011

This statement shows the movement in the year on the different reserves held by the Council, analysed into "usable reserves" (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the Council's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance and the Housing Revenue Account for council tax setting and dwellings rent setting purposes. The Net Increase/Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance and Housing Revenue Account Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

	Usable Reserves						**Unusable Reserves**						**Total**	
	General Fund Balance (excl HRA)	**HRA Balance**	**Capital Receipts Reserve**	**Capital Grants Unapplied Account**	**Other Reserves**	**Total Usable Reserves**	**Capital Adjustment Account**	**Revaluation Reserve**	**Pension Reserve**	**Accumu-lated Absences Account**	**Financial Instru-ments Adjustment Account**	**Total Unusable Reserves**	**Total Reserves**	**Notes shown below**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	
Balance at 31 March 2010	**32,015**	**5,935**	**4,899**	**4,943**	**4,308**	**52,100**	**243,492**	**149,254**	**(289,253)**	**(10,130)**	**(7,389)**	**85,974**	**138,074**	
Surplus or (deficit) on provision of services (accounting basis)	30,485	(37,174)	-	-	-	(6,689)	-	-	-	-	-	-	(6,689)	
Other Comprehensive Expenditure and Income	(9,883)	(3,195)	5,804	124	-	(7,150)	12,309	(851)	69,716	-	-	81,174	74,024	1
Total Comprehensive Expenditure and Income	**20,602**	**(40,369)**	**5,804**	**124**	**-**	**(13,839)**	**12,309**	**(851)**	**69,716**	**-**	**-**	**81,174**	**67,335**	
Adjustments between accounting basis and funding basis under regulations	(22,434)	40,826	(3,840)	-	(100)	14,452	(58,056)	(4,028)	47,668	(368)	332	(14,452)	-	2
Net Increase/Decrease before Transfers to Other Statutory Reserves	**(1,832)**	**457**	**1,964**	**124**	**(100)**	**613**	**(45,747)**	**(4,879)**	**117,384**	**(368)**	**332**	**66,722**	**67,335**	
Transfers to/from Other Statutory Reserves	141	-	(1,521)	-	1,380	-	-	-	-	-	-	-	-	3
Increase/Decrease in Year 2010/11	**(1,691)**	**457**	**443**	**124**	**1,280**	**613**	**(45,747)**	**(4,879)**	**117,384**	**(368)**	**332**	**66,722**	**67,335**	
Balance at 31 March 2011 carried forward	**30,324**	**6,392**	**5,342**	**5,067**	**5,588**	**52,713**	**197,745**	**144,375**	**(171,869)**	**(10,498)**	**(7,057)**	**152,696**	**205,409**	

MOVEMENT IN RESERVES STATEMENT FOR THE YEAR ENDED 31 MARCH 2011

NOTES

	Usable Reserves						Unusable Reserves						Total
	General Fund Balance (excl HRA)	**HRA Balance**	**Capital Receipts Reserve**	**Capital Grants Unapplied Account**	**Other Reserves**	**Total Usable Reserves**	**Capital Adjustment Account**	**Revaluation Reserve**	**Pension Reserve**	**Accumulated Absences Account**	**Financial Instruments Adjustment Account**	**Total Unusable Reserves**	**Total Reserves**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
1. Analysis of Other Comprehensive Expenditure and Income													
Net Gain on Sale of Assets	2,131	(2,262)	-	-	-	(131)	-	-	-	-	-	-	(131)
Capital Receipts Received	-	-	5,804	-	-	5,804	-	-	-	-	-	-	5,804
Capital Grants Received	(12,121)	(933)	-	124	-	(12,930)	12,930	-	-	-	-	12,930	-
Net Book Value of Asset Disposals	-	-	-	-	-	-	(3,336)	(296)	-	-	-	(3,632)	(3,632)
Long Term Debtor	107	-	-	-	-	107	-	-	-	-	-	-	107
Deficit on Revaluation of Fixed Assets	-	-	-	-	-	-	2,715	(555)	-	-	-	2,160	2,160
Actuarial Loss on Pension Fixed Assets and Liabilities	-	-	-	-	-	-	-	-	69,716	-	-	69,716	69,716
Total	**(9,883)**	**(3,195)**	**5,804**	**124**	**-**	**(7,150)**	**12,309**	**(851)**	**69,716**	**-**	**-**	**81,174**	**74,024**
2. Analysis of Adjustments between accounting basis and funding basis under regulations													
2a. Reversal of items debited or credited to the CIES													
Depreciation, impairment and downward revaluation of non-current assets	42,993	53,812	-	-	-	96,805	(96,805)	-	-	-	-	(96,805)	-
Amortisation of intangible assets	113	-	-	-	-	113	(113)	-	-	-	-	(113)	-
2b. Insertion of items not debited or credited to the CIES													
Statutory Repayment of Debt (Loans Fund Advances)	(9,673)	(6,925)	-	-	-	(16,598)	16,598	-	-	-	-	16,598	-
Capital expenditure charged to the General Fund Balance (CFCR)	-	(1,955)	-	-	-	(1,955)	1,955	-	-	-	-	1,955	-
Statutory Repayment of Debt (Finance Lease Liabilities)	-	(1,786)	-	-	-	(1,786)	1,786	-	-	-	-	1,786	-
Statutory Repayment of Debt (PFI)	(14,304)	-	-	-	-	(14,304)	14,304	-	-	-	-	14,304	-
Borrowing Consent	3,749	-	-	-	-	3,749	(3,749)	-	-	-	-	(3,749)	-

MOVEMENT IN RESERVES STATEMENT FOR THE YEAR ENDED 31 MARCH 2011

	Usable Reserves						Unusable Reserves						Total
	General Fund Balance (excl HRA)	HRA Balance	Capital Receipts Reserve	Capital Grants Unapplied Account	Other Reserves	Total Usable Reserves	Capital Adjustment Account	Revaluation Reserve	Pension Reserve	Accumulated Absences Account	Financial Instruments Adjustment Account	Total Unusable Reserves	Total Reserves
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
2c. Adjustments involving the Capital Receipts Reserve													
Capital Receipts applied to fund Capital Expenditure	-	-	(3,840)	-	-	(3,840)	3,840	-	-	-	-	3,840	-
2d. Adjustments involving the Repairs and Renewals Fund													
Use of the Repairs & Renewals Fund to Finance new capital expenditure	-	-	-	-	(100)	(100)	100	-	-	-	-	100	-
2e. Adjustments involving the Financial Instruments Adjustment Account													
Amount by which finance costs calculated in accordance with the Code are different from the amount of finance costs calculated in accordance with statutory requirements	(268)	(64)	-	-	-	(332)	-	-	-	-	332	332	-
2f. Adjustments involving the Pensions Reserve													
Amount by which pension costs calculated in accordance with the Code (i.e. in accordance with IAS 19) are different from the contributions due under the pension scheme regulations	(45,412)	(2,256)	-	-	-	(47,668)	-	-	47,668	-	-	47,668	-
2g. Adjustments involving the Accumulated Absences Account													
Net transfer to or from earmarked reserves required by legislation	368	-	-	-	-	368	-	-	-	(368)	-	(368)	-

MOVEMENT IN RESERVES STATEMENT FOR THE YEAR ENDED 31 MARCH 2011

	Usable Reserves						Unusable Reserves					Total	
	General Fund Balance (excl HRA)	HRA Balance	Capital Receipts Reserve	Capital Grants Unapplied Account	Other Reserves	Total Usable Reserves	Capital Adjustment Account	Revaluation Reserve	Pension Reserve	Accumulated Absences Account	Financial Instruments Adjustment Account	Total Unusable Reserves	Total Reserves
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
2h. Other Adjustments													
Adjustment between CAA and Revaluation Reserve for depreciation that is related to the revaluation balance rather than Historic Cost	-	-	-	-	-	-	4,028	(4,028)	-	-	-	-	-
Total	**(22,434)**	**40,826**	**(3,840)**	**-**	**(100)**	**14,452**	**(58,056)**	**(4,028)**	**47,668**	**(368)**	**332**	**(14,452)**	**-**
3. Analysis of transfers to/from Other Statutory Reserves													
Transfer to Insurance Fund	(665)	-	-	-	665	-	-	-	-	-	-	-	-
Transfer from Repairs and Renewals Fund	(715)	-	-	-	715	-	-	-	-	-	-	-	-
Capital Receipts	1,521	-	(1,521)	-	-	-	-	-	-	-	-	-	-
Total	**141**		**(1,521)**	**-**	**1,380**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

MOVEMENT IN RESERVES STATEMENT FOR THE YEAR ENDED 31 MARCH 2010

This statement shows the movement in the year on the different reserves held by the Council, analysed into "usable reserves" (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the Council's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance and the Housing Revenue Account for council tax setting and dwellings rent setting purposes. The Net Increase/Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance and Housing Revenue Account Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

	Usable Reserves						Unusable Reserves						Total	
	General Fund Balance (excl HRA)	**HRA Balance**	**Capital Receipts Reserve**	**Capital Grants Unapplied Account**	**Other Reserves**	**Total Usable Reserves**	**Capital Adjustment Account**	**Revaluation Reserve**	**Pension Reserve**	**Accumulated Absences Account**	**Financial Instruments Adjustment Account**	**Total Unusable Reserves**	**Total Reserves**	**Notes shown below**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	
Balance at 31 March 2009	**30,663**	**6,544**	**4,932**	**3,253**	**5,244**	**50,636**	**231,453**	**169,486**	**(124,107)**	**(9,586)**	**(7,721)**	**259,525**	**310,161**	
Surplus or (deficit) on provision of services (accounting basis)	249	(2,497)	-	-	-	(2,248)	-	-	-	-	-	-	(2,248)	
Other Comprehensive Expenditure and Income	(3,004)	-	6,728	-	-	3,724	(763)	(16,368)	(156,432)	-	-	(173,563)	(169,839)	1
Total Comprehensive Expenditure and Income	**(2,755)**	**(2,497)**	**6,728**	**-**	**-**	**1,476**	**(763)**	**(16,368)**	**(156,432)**	**-**	**-**	**(173,563)**	**(172,087)**	
Adjustments between accounting basis and funding basis under regulations	1,833	1,888	(5,423)	1,690	-	(12)	12,802	(3,864)	(8,714)	(544)	332	12	-	2
Net Increase/Decrease before Transfers to Other Statutory Reserves	**(922)**	**(609)**	**1,305**	**1,690**	**-**	**1,464**	**12,039**	**(20,232)**	**(165,146)**	**(544)**	**332**	**(173,551)**	**(172,087)**	
Transfers to/from Other Statutory Reserves	2,274	-	(1,338)	-	(936)	-	-	-	-	-	-	-	-	3
Increase/Decrease in Year 2009/10	**1,352**	**(609)**	**(33)**	**1,690**	**(936)**	**1,464**	**12,039**	**(20,232)**	**(165,146)**	**(544)**	**332**	**(173,551)**	**(172,087)**	
Balance at 31 March 2010 carried forward	**32,015**	**5,935**	**4,899**	**4,943**	**4,308**	**52,100**	**243,492**	**149,254**	**(289,253)**	**(10,130)**	**(7,389)**	**85,974**	**138,074**	

MOVEMENT IN RESERVES STATEMENT FOR THE YEAR ENDED 31 MARCH 2010

NOTES

	Usable Reserves						Unusable Reserves					Total	
	General Fund Balance (excl HRA)	HRA Balance	Capital Receipts Reserve	Capital Grants Unapplied Account	Other Reserves	Total Usable Reserves	Capital Adjustment Account	Revaluation Reserve	Pension Reserve	Accumulated Absences Account	Financial Instruments Adjustment Account	Total Unusable Reserves	Total Reserves
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
1. Analysis of Other Comprehensive Expenditure and Income													
Net Gain on Sale of Assets	(3,004)	-	-	-	-	(3,004)	-	-	-	-	-	-	(3,004)
Capital Receipts Received	-	-	6,728	-	-	6,728	-	-	-	-	-	-	6,728
Net Book Value of Asset Disposals	-	-	-	-	-	-	(657)	(54)	-	-	-	(711)	(711)
Long Term Debtor	-	-	-	-	-	-	(106)	-	-	-	-	(106)	(106)
Deficit on Revaluation of Fixed Assets	-	-	-	-	-	-	-	(16,314)	-	-	-	(16,314)	(16,314)
Actuarial Loss on Pension Fixed Assets and Liabilities	-	-	-	-	-	-	-	-	(156,432)	-	-	(156,432)	(156,432)
Total	**(3,004)**	**-**	**6,728**	**-**	**-**	**3,724**	**(763)**	**(16,368)**	**(156,432)**	**-**	**-**	**(173,563)**	**(169,839)**
2. Analysis of Adjustments between accounting basis and funding basis under regulations													
2a. Reversal of items debited or credited to the CIES													
Depreciation, impairment and downward revaluation of non-current assets	22,307	14,522	-	-	-	36,829	(36,950)	121	-	-	-	(36,829)	-
Amortisation of intangible assets	127	-	-	-	-	127	(127)	-	-	-	-	(127)	-
Capital grants and contributions that have been applied to capital financing	(13,733)	-	-	1,690	-	(12,043)	12,043	-	-	-	-	12,043	-
Movement in Donated Assets A/C	(3,850)	-	-	-	-	(3,850)	3,850	-	-	-	-	3,850	-
Revenue expenditure funded from capital under statute	-	-	-	-	-	-	-	-	-	-	-	-	-
2b. Insertion of items not debited or credited to the CIES													
Statutory Repayment of Debt (Loans Fund Advances)	(9,738)	(6,404)	-	-	-	(16,142)	16,142	-	-	-	-	16,142	-
Capital expenditure charged to the General Fund Balance (CFCR)	(1,445)	(2,155)	-	-	-	(3,600)	3,600	-	-	-	-	3,600	-
Statutory Repayment of Debt (Finance Lease Liabilities)	(106)	(1,700)	-	-	-	(1,806)	1,806	-	-	-	-	1,806	-

MOVEMENT IN RESERVES STATEMENT FOR THE YEAR ENDED 31 MARCH 2010

	Usable Reserves						Unusable Reserves						Total
	General Fund Balance (excl HRA)	**HRA Balance**	**Capital Receipts Reserve**	**Capital Grants Unapplied Account**	**Other Reserves**	**Total Usable Reserves**	**Capital Adjustment Account**	**Revaluation Reserve**	**Pension Reserve**	**Accumulated Absences Account**	**Financial Instruments Adjustment Account**	**Total Unusable Reserves**	**Total Reserves**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Statutory Repayment of Debt (PFI)	(2,015)	-	-	-	-	(2,015)	2,015	-	-	-	-	2,015	-
Statutory Charge for Lifecycle Capital (PFI)	(1,015)	-	-	-	-	(1,015)	1,015	-	-	-	-	1,015	-
2c. Adjustments involving the Capital Receipts Reserve													
Capital Receipts applied to fund Capital Expenditure	-	-	(5,423)	-	-	(5,423)	5,423	-	-	-	-	5,423	-
2d. Adjustments involving the Capital Grants Unapplied Account													
Reversal of unapplied capital grants and contributions credited to the CIES	-	-	-	-	-	-	-	-	-	-	-	-	-
Application of grants to capital financing	-	-	-	-	-	-	-	-	-	-	-	-	-
2e. Adjustments involving the Financial Instruments Adjustment Account													
Amount by which finance costs calculated in accordance with the Code are different from the amount of finance costs calculated in accordance with statutory requirements	(268)	(64)	-	-	-	(332)	-	-	-	-	332	332	-
2f. Adjustments involving the Pensions Reserve													
Amount by which pension costs calculated in accordance with the Code (i.e. in accordance with IAS 19) are different from the contributions due under the pension scheme regulations	8,151	563	-	-	-	8,714	-	-	(8,714)	-	-	(8,714)	-

MOVEMENT IN RESERVES STATEMENT FOR THE YEAR ENDED 31 MARCH 2010

	Usable Reserves						Unusable Reserves						Total
	General Fund Balance (excl HRA)	HRA Balance	Capital Receipts Reserve	Capital Grants Unapplied Account	Other Reserves	Total Usable Reserves	Capital Adjustment Account	Revaluation Reserve	Pension Reserve	Accumulated Absences Account	Financial Instruments Adjustment Account	Total Unusable Reserves	Total Reserves
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
2g. Adjustments involving the Accumulated Absences Account													
Net transfer to or from earmarked reserves required by legislation	519	25	-	-	-	544	-	-	-	(544)	-	(544)	-
2h. Other Adjustments													
Adjustment between CAA and Revaluation Reserve for depreciation that is related to the revaluation balance rather than Historic Cost	-	-	-	-	-	-	3,985	(3,985)	-	-	-	-	-
Other Transfers	2,899	(2,899)	-	-	-	-	-	-	-	-	-	-	-
Total	**1,833**	**1,888**	**(5,423)**	**1,690**	**-**	**(12)**	**12,802**	**(3,864)**	**(8,714)**	**(544)**	**332**	**12**	**-**
3. Analysis of transfers to/from Other Statutory Reserves													
Transfer to Insurance Fund	(108)	-	-	-	108	-	-	-	-	-	-	-	-
Transfer from Repairs and Renewals Fund	1,044	-	-	-	(1,044)	-	-	-	-	-	-	-	-
Use of Capital Receipts to Repay Debt	1,338	-	(1,338)	-	-	-	-	-	-	-	-	-	-
Total	**2,274**	**-**	**(1,338)**	**-**	**(936)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

NOTES TO THE CORE FINANCIAL STATEMENTS

1. IFRS Transition - Note on Material Differences Between Accounts Prepared Under UK GAAP and IFRS Code of Practice

The Statement of Accounts for 2010/11 is the first to be prepared on an IFRS basis. Adoption of the IFRS-based Code has resulted in the restatement of various balances and transactions, with the result that some amounts presented in the financial statements are different from the equivalent figures presented in the Statement of Accounts for 2009/10. The following tables explain the material differences between the amounts presented in the 2009/10 financial statements and the equivalent amounts presented in the 2010/11 financial statements.

Differences between Balance Sheets as at 31 March 2009

The adoption of IFRS-based accounting policies as required by the Code of Practice has resulted in amendment to reserves that were previously presented on a UK GAAP (Local Authority SORP) basis. The following tables summarise the changes for reserve balances as at 31 March 2009, in order to restate the comparative figures on an IFRS basis.

	Capital Adjustment Account £'000	Revaluation Reserve £'000	Capital Grants Unapplied £'000	Capital Receipts Reserve £'000	General Fund Balance £'000	Accumulated Absences Account £'000	Total £'000	Notes
Balance as at 1 April 2009 under UK GAAP	241,336	169,608	-	3,632	37,394	-	451,970	
Adjustment re Government Grants	23,930	-	3,254	-	-	-	27,184	(i)
Window Leases Payable Treated as Finance Leases	(7,145)	-	-	-	-	-	(7,145)	(ii)
Leases Receivable Treated as Finance Leases	(3,118)	-	-	1,300	(187)	-	(2,005)	(iii)
Reclassification of Investment Property	(23,443)	-	-	-	-	-	(23,443)	(iv)
Assets Held for Sale	(107)	(122)	-	-	-	-	(229)	(v)
Annual Leave Accrual	-	-	-	-	-	(9,586)	(9,586)	(vi)
Balance as at 31 March 2009 under IFRS	231,453	169,486	3,254	4,932	37,207	(9,586)	436,746	

	Other Long Term Liabilities £'000	Deferred Gov't Grant £'000	Capital Grants In Advance £'000	Property Plant & Equipment £'000	Investment Property £'000	Long Term Debtors £'000	Short Term Creditors £'000	Surplus Assets £'000	Short Term Assets Held For Sale £'000	Total £'000	Notes
Balance as at 1 April 2009 under UK GAAP	(110,049)	(28,174)	-	658,460	95,639	8,433	(43,384)	1,396	-	582,321	
Adjustment re Government Grants	-	28,174	(990)	-	-	-	-	-	-	27,184	(i)
Window Leases Payable Treated as Finance Leases	(5,445)	-	-	-	-	-	(1,700)	-	-	(7,145)	(ii)
Leases Receivable Treated as Finance Leases	-	-	-	(1,077)	-	(928)	-	-	-	(2,005)	(iii)
Reclassification of Investment Property	-	-	-	73,228	(95,639)	-	-	(1,032)	-	(23,443)	(iv)
Assets Held for Sale	-	-	-	(122)	-	-	-	(163)	56	(229)	(v)
Annual Leave Accrual	-	-	-	-	-	-	(9,586)	-	-	(9,586)	(vi)
Balance as at 31 March 2009 under IFRS	(115,494)	-	(990)	730,489	-	7,505	(54,670)	201	56	567,097	

NOTES TO THE CORE FINANCIAL STATEMENTS

Differences between Balance Sheets as at 31 March 2010

The adoption of IFRS-based accounting policies as required by the Code of Practice has resulted in amendment to reserves that were previously presented on a UK GAAP (Local Authority SORP) basis. The following tables summarise the changes for reserve balances as at 31 March 2010, being the last date on which the Local Authority SORP applied.

	Capital Adjustment Account £'000	Revaluation Reserve £'000	Capital Grants Unapplied £'000	Capital Receipts Reserve £'000	General Fund Balance £'000	Accumulated Absences Account £'000	Total £'000	Notes
Balance as at 1 April 2010 under UK GAAP	238,248	149,167	-	3,599	38,163	-	429,177	
Entries during 2009/10								
Adjustment re Government Grants	14,626	-	1,689	-	-	-	16,315	(i)
Adjustment re Surplus Assets	677	228	-	-	-	-	905	(vii)
Window Leases Payable Treated as Finance Leases	1,700	-	-	-	-	-	1,700	(ii)
Leases Receivable Treated as Finance Leases	-	-	-	-	(27)	-	(27)	(iii)
Depreciation on Assets Transferred to PPE from Investment	(1,876)	(19)	-	-	-	-	(1,895)	(iv)
Increase in Annual Leave Accrual	-	-	-	-	-	(544)	(544)	(vi)
Adjustments made as at 1 April 2009								
Adjustment re Government Grants	23,930	-	3,254	-	-	-	27,184	(i)
Window Leases Payable Treated as Finance Leases	(7,145)	-	-	-	-	-	(7,145)	(ii)
Leases Receivable Treated as Finance Leases	(3,118)	-	-	1,300	(187)	-	(2,005)	(iii)
Reclassification of Investment Property	(23,443)	-	-	-	-	-	(23,443)	(iv)
Assets Held for Sale	(107)	(122)	-	-	-	-	(229)	(v)
Annual Leave Accrual	-	-	-	-	-	(9,586)	(9,586)	(vi)
Balance as at 31 March 2010 under IFRS	243,492	149,254	4,943	4,899	37,949	(10,130)	430,407	

NOTES TO THE CORE FINANCIAL STATEMENTS

	Other Long Term Liabilities £'000	Deferred Gov't Grant £'000	Capital Grants In Advance £'000	Property Plant & Equipment £'000	Investment Property £'000	Long Term Debtors £'000	Short Term Creditors £'000	Surplus Assets £'000	Short Term Assets Held For Sale £'000	Long Term Assets Held For Sale £'000	Total £'000	Notes
Balance as at 1 April 2010 under UK GAAP	(152,779)	(46,501)	-	680,222	99,913	2,159	(51,122)	25,141	-	201	557,234	
Entries during 2009/10	-	18,327	(2,012)	-	-	-	-	-	-	-	16,315	(i)
Adjustment re Government Grants	-	-	-	831	-	106	-	-	-	(32)	905	(vii)
Adjustment re Surplus Assets	1,700	-	-	-	-	-	-	-	-	-	1,700	(ii)
Window Leases Payable Treated as Finance Leases	-	-	-	-	-	(27)	-	-	-	-	(27)	(iii)
Leases Receivable Treated as Finance Leases	-	-	-	2,379	(4,274)	-	-	-	-	-	(1,895)	(iv)
Depreciation on Assets Transferred to PPE from Investment	-	-	-	-	-	-	(544)	-	-	-	(544)	(vi)
Increase in Annual Leave Accrual	-	-	-	23,946	-	-	-	(23,946)	169	(169)	-	
Inter Account Adjustments												
Adjustments made as at 1 April 2009												
Adjustment re Government Grants	-	28,174	(990)	-	-	-	-	-	-	-	27,184	(i)
Window Leases Payable Treated as Finance Leases	(5,445)	-	-	-	-	-	(1,700)	-	-	-	(7,145)	(ii)
Leases Receivable Treated as Finance Leases	-	-	-	(1,077)	-	(928)	-	-	-	-	(2,005)	(iii)
Reclassification of Investment Property	-	-	-	73,228	(95,639)	-	-	(1,032)	-	-	(23,443)	(iv)
Assets Held for Sale	-	-	-	(122)	-	-	-	(163)	56	-	(229)	(v)
Annual Leave Accrual	-	-	-	-	-	-	(9,586)	-	-	-	(9,586)	(vi)
Balance as at 31 March 2010 under IFRS	(156,524)	-	(3,002)	779,407	-	1,310	(62,952)	-	225	-	558,464	

Differences in (Surplus)/Deficit in Provision of Services 2009/10

The adoption of IFRS-based accounting policies as required by the Code of Practice has resulted in amendment to the reported total income and expenditure that was previously presented on a UK GAAP (Local Authority SORP) basis. The following table summarises the changes to the 2009/10 income and expenditure which have been necessary to restate these figures to a Code (IFRS) compliant basis.

	£'000	Note
Deficit for the year to 31 March 2010 under UK GAAP	18,703	
Income from Capital Grants now shown in CIES	(16,316)	(i)
Adjustment re Surplus Assets	(799)	(vii)
Window Leases Payable Treated as Finance Leases	(1,700)	(ii)
Leases Receivable Treated as Finance Leases	(79)	(iii)
Depreciation on Assets Transferred to PPE from Investment	1,895	(iv)
Increase in Annual Leave Accrual	544	(vi)
Deficit for the year to 31 March 2010 under IFRS	2,248	

Differences in Other Comprehensive Income and Expenditure 2009/10	£'000
Total Recognised Gains and Losses per UK GAAP	169,839
Other Comprehensive Income & Expenditure per Restated IFRS Accounts	169,839

NOTES TO THE CORE FINANCIAL STATEMENTS

Notes

(i) Under the Code, grants and contributions for capital schemes are recognised as income when they become receivable. Previously, grants were held in a grants deferred account and recognised as income over the life of the assets which they were used to fund.

As a consequence of adopting the accounting policy required by the Code, the financial statements have been amended as follows:

(a) The balance on the Government Grants Deferred Account at 31 March 2009 has been transferred to the Capital Adjustment Account in the opening 1 April 2009 Balance Sheet.

(b) Portions of government grants deferred were previously recognised as income in 2009/10; these have been removed from the Comprehensive Income and Expenditure Statement in the comparative figures.

(c) Several grants were received in 2009/10 but not used. Previously, no income was recognised in respect of these grants, which were shown in the Grants Unapplied Account within the liabilities section of the Balance Sheet. Following the change in accounting policy, these grants have been recognised in full and transferred to the Capital Grants Unapplied Account within the Reserves section of the Balance Sheet.

(ii) Under the Code, the definition of what constitutes a finance lease has changed from the definition under the SORP. This change necessitated a full review of all leases payable with the result that leases payable in respect of window leasing were reclassified as finance from operating. The result of the change was that:

In respect of the restated Balance Sheet as at 1 April 2009,

(a) All lease payments from inception totalling £15.577m were reversed out from the HRA

(b) An asset of £18.071m was created under Property, Plant & Equipment equal to the capital value of the lease at inception, with an equivalent entry created as a finance lease liability under Current Liabilities

(c) As the value shown in the Balance Sheet for Council Housing is inclusive of windows, the £18.071m was taken back out of Property, Plant & Equipment and debited to the Capital Receipts Reserve.

(d) The lease payments since inception were apportioned between principal and interest with the principal element (£10.926m) debited to the finance lease liability and the interest element (£4.651m) to the HRA.

(e) Statutory Mitigation was applied to negate the impact of the above on the General Fund by charging the £10.926m to the General Fund and crediting the Capital Adjustment Account through the Movement in Reserves Statement.

In respect of the restated accounts for the year to 31 March 2010, Entries (d) and (e) above were applied to the lease payments of £1.938m made in 2009/10.

(iii) Under the Code, the definition of what constitutes a finance lease has changed from the definition under the SORP. This change necessitated a full review of all leases receivable with the result that a lease receivable for rental income from Northfield Quarry was reclassified as finance from operating. The result of the change was that:

In respect of the restated Balance Sheet as at 1 April 2009,

(a) The Fixed Asset of £1.1m and the Long Term Debtor of £2.041m were transferred to the Capital Adjustment Account.

(b) All lease income from inception of £1.126m was reversed out of the General Fund

(c) A Long Term Debtor of £1.3m was created being the value placed on the Quarry by the Council's surveyors, with a credit going to the Capital Receipts Reserve.

(d) The lease income since inception was apportioned between principal and interest with the principal element (£0.187m) credited to the Long Term Debtor and the interest element (£0.939m) to the HRA.

(e) As Statutory Mitigation has not been granted for changes to the General Fund re finance lease income, the principal element of the lease income of £0.187m falls to be reduced from the General Fund balance.

In respect of the restated accounts for the year to 31 March 2010, Entries (d) and (e) above were applied to the lease income received of £0.106m in 2009/10.

NOTES TO THE CORE FINANCIAL STATEMENTS

(iv) Under the strict criteria of the Code, the Council had property which had to be re-categorised out of Investment Property because it did not meet the IFRS requirement to be classified as such. The result of the change was that:

In respect of the restated Balance Sheet as at 1 April 2009

(a) Investment Property of £72.766m was re-categorised as Property, Plant and Equipment. There was no depreciation calculated on these reclassified assets as they were revalued at 1 April 2009.

(b) Investment Property of £22.873m was removed from the Balance Sheet as it related to properties which the Council does not own.

(c) The overall effect of these entries was a credit of £95.639m to Investment Properties; a debit of £72.766m to Property, Plant and Equipment; a debit of £22.873m to the Capital Adjustment Account.

In respect of the restated accounts for the year to 31 March 2010, entry (a) above was applied to £4.274m, of Investment Property in 2009/10. In addition, a depreciation entry of £1.895m was credited to Property, Plant and Equipment, with £1.876m being debited to the Capital Adjustment Account and £0.019m to the Revaluation Reserve.

(v) Surplus Assets of £1.396m were examined to ascertain whether they met the criteria for Assets Held for Sale, as required by the Code. Thereafter they were revalued and transferred to Assets Held for Sale or PPE Surplus Assets. The loss of £0.107m on Assets Held for Sale was debited to the Capital Adjustment Account, whereas the loss of £0.122m for Surplus Assets was debited to the Revaluation Reserve to offset previous gains.

(vi) Short-term accumulating compensated absences refers to benefits that employees receive as part of their contract of employment, entitlement to which is built up as they provide services to the Council. The most significant benefit covered by this heading is holiday pay. Employees build up an entitlement to paid holidays as they work. Under the Code, the cost of providing holidays and similar benefits is required to be recognised when employees render services that increases their entitlement to future compensated absences. As a result the Council is required to accrue for any annual leave earned but not taken at 31 March each year. Under the previous accounting arrangements no such accrual was required.

The government has issued regulations that mean local authorities are only required to fund holiday pay and similar benefits when they are used, rather than when employees earn the benefits. Amounts are transferred to the Accumulated Absences Account until the benefits are used.

In the restated Balance Sheet as at 1 April 2009, this accrual amounted to £9.586m of which the liability for teaching staff was £7.116m. In the restated accounts for the year to 31 March 2010 this accrual was increased by £0.544m.

(vii) During 2009/10 the Council revalued a number of Surplus Assets in preparation for IFRS. However, these assets had already been transferred out in the opening IFRS balance sheet. Therefore, in effect they had been removed twice, and as a result this adjustment is to insert them back into the Surplus Assets balance.

(viii) Under the SORP, the Reserve Balances of Group Entities were consolidated within the overall Reserve balances shown in the Group Balance Sheet. Under the Code, the Reserve Balances of Group Entities are totalled and shown separately under the heading Reserves (Group Entities).

2. Analysis of General Fund Balance

	General (1) £'000	Housing (1) £'000	Devolved Schools (2) £'000	Economic Development (3) £'000	Central Energy Efficiency Fund (4) £'000	New Schools Project (5) £'000	Total £'000
Balance at beginning of year	(6,562)	(5,935)	(3,577)	(791)	(359)	(20,726)	(37,950)
(Surplus)/Deficit for the year	1,234	-	-	-	-	-	1,234
Appropriation to General Fund	(12,020)	-	-	-	20	12,000	-
Appropriation from General Fund	6,018	(457)	(3,813)	(124)	-	(1,624)	-
Balance at end of year	(11,330)	(6,392)	(7,390)	(915)	(339)	(10,350)	(36,716)

(1) The deficit of £1.234m includes a payment of £12m for the New Schools Project. Having regard to the Council's approved strategy on the level and use of reserves, £0.3m of General Fund Reserve have been deployed in the year 2011/12. Housing Reserves of £0.9m have been deployed in 2011/12 with a further £1.1m earmarked in 2012/13 and £2.1m in 2013/14.
(2) Carry forward of unutilised budgets delegated to Headteachers under the Devolved Schools Management System.
(3) Funds arising from the strategic development of business parks.
(4) Funds to develop energy efficient initiatives in Council buildings.
(5) Funds to pay a capital injection to the new schools project built up as a consequence of savings in principal repayments which were funded from the Capital Fund. This was originally budgeted in Service expenditure.

3. Exceptional Items

Exceptional Items of £15.629m have been included in the Comprehensive Income and Expenditure Statement. The details of which are:-

(i) A payment of £12.0m was made during 2010/11 in respect of the Council's NPDO Project. The purpose of this payment was to reduce the long term liability of the Council over the life of the project.
(ii) The Council had been granted consent to borrow for equal pay claims, this equated to £3.629m for 2010/11.

4.(a) Amounts Reported for Resource Allocation Decisions 2010/11

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

- The cost of retirement benefits is based on cash flows (payment of employer's pension contributions) rather than current service cost of benefits accrued in the year.

The income and expenditure of the Council's principal portfolios recorded in the budget reports for the year are as follows:-

Portfolio Income and Expenditure 2010/11	**Education £'000**	**Social Work £'000**	**Development Services £'000**	**Community Services £'000**	**Corporate & N'Hood Services £'000**	**Misc. Services £'000**	**Joint Boards £'000**	**Trading Accounts £'000**	**HRA £'000**	**Other Costs £'000**	**Total £'000**
Income	(22,733)	(32,172)	(19,352)	(9,628)	(62,725)	(4,472)	-	(39,011)	(49,431)	-	**(239,524)**
Total Income	**(22,733)**	**(32,172)**	**(19,352)**	**(9,628)**	**(62,725)**	**(4,472)**	**-**	**(39,011)**	**(49,431)**	**-**	**(239,524)**
Employee Expenses	97,351	37,665	15,161	13,270	17,400	3,951	-	16,418	6,483	-	**207,699**
Property Expenses	11,973	2,265	3,062	4,731	1,620	707	-	391	22,155	-	**46,904**
Transport Expenses	3,132	1,116	666	180	7,632	-	-	3,957	34	-	**16,717**
Supplies & Services	12,618	2,923	5,429	3,784	5,334	1,276	-	7,460	3,192	-	**42,016**
Third Party Expenses	29,853	59,318	15,374	557	1,307	3,707	22,297	8,021	1,288	-	**141,722**
Transfer Payments	757	3,371	446	-	38,684	-	-	-	-	-	**43,258**
Support Costs	19,166	7,058	4,827	3,702	4,325	5,471	-	1,241	3,528	(466)	**48,852**
Capital Charges	8,026	584	3,601	2,027	2,062	15	-	143	12,294	1,134	**29,886**
Exceptional Item	-	-	-	-	-	3,629	-	-	-	-	**3,629**
Total Expenditure	**182,876**	**114,300**	**48,566**	**28,251**	**78,364**	**18,756**	**22,297**	**37,631**	**48,974**	**668**	**580,683**
Net Expenditure	**160,143**	**82,128**	**29,214**	**18,623**	**15,639**	**14,284**	**22,297**	**(1,380)**	**(457)**	**668**	**341,159**

Reconciliation of Portfolio Income and Expenditure to Cost of Services in Comprehensive Income and Expenditure Statement

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

		£'000
Net Expenditure in the Portfolio Analysis		341,159
Net Expenditure of Services (Trading Account) not included in the net cost of services		1,379
Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis		
• Pension Adjustments in accordance with IAS 19	(51,553)	
• PP Adjustments for Interest and Principal	(16,794)	
• Adjustments for Depreciation and Revaluation	62,573	
• Miscellaneous Adjustments	942	(4,832)
Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Statement		
• Appropriation to Earmarked General Fund Reserves	(3,917)	
• Miscellaneous Adjustments	143	(3,774)
Cost of Services		**333,932**

Reconciliation to Subjective Analysis

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

	Portfolio Analysis	Not in net cost of Services	Not reported to Management	Not included in CIES	Allocation of Recharges	Allocation of Supp Services	Net Cost of Services	Corporate Amounts	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Income	(239,524)	39,011	2,702	371	48,043	-	(149,397)	(67,956)	**(217,353)**
Interest and investment income	-	-	-	-	-	-	-	(478)	**(478)**
Government grants and contributions	-	-	-	-	-	-	-	(296,166)	**(296,166)**
Income from council tax	-	-	-	-	-	-	-	(59,643)	**(59,643)**
Total Income	**(239,524)**	**39,011**	**2,702**	**371**	**48,043**	-	**(149,397)**	**(424,243)**	**(573,640)**
Employee Expenses	207,699	(16,419)	(52,573)	243	(8,293)	14,340	144,997	16,419	**161,416**
Property Expenses	46,904	(391)	(668)	-	(823)	1,373	46,395	391	**46,786**
Transport Expenses	16,717	(3,957)	-	-	(5,194)	29	7,595	3,957	**11,552**
Supplies & Services	42,016	(7,460)	(53)	(4,388)	(1,411)	3,144	31,848	9,321	**41,169**
Third Party Expenses	141,722	(8,021)	(16,915)	-	(2,515)	274	114,545	8,021	**122,566**
Transfer Payments	43,258	-	-	-	(53)	-	43,205	-	**43,205**
Support Service recharges	48,852	(1,241)	102	-	(28,553)	(19,160)	-	-	-
Depreciation, amortisation and impairment	29,886	(143)	62,573	-	(1,201)	-	91,115	143	**91,258**
Interest Payments	-	-	-	-	-	-	-	58,748	**58,748**
Exceptional Item	3,629	-	-	-	-	-	3,629	-	**3,629**
Total Expenditure	**580,683**	**(37,632)**	**(7,534)**	**(4,145)**	**(48,043)**	**-**	**483,329**	**97,000**	**580,329**
(Surplus) or Deficit on the Provision of Services	**341,159**	**1,379**	**(4,832)**	**(3,774)**	**-**	**-**	**333,392**	**(327,243)**	**6,689**

4(b). Amounts Reported for Resource Allocation Decisions 2009/10

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

- The cost of retirement benefits is based on cash flows (payment of employer's pensions contributions) rather than current service cost of benefits accrued in the year.

The income and expenditure of the Council's principal portfolios recorded in the budget reports for the year is as follows:-

Portfolio Income and Expenditure 2009/10	Education £'000	Social Work £'000	General Fund Housing £'000	Development Services £'000	Community Services £'000	Corporate & N'Hood Services £'000	Misc. Services £'000	Joint Boards £'000	Trading Accounts £'000	HRA £'000	Other Costs £'000	Total £'000
Income	(13,224)	(30,610)	(38,878)	(8,698)	(16,220)	(14,038)	(5,236)	-	-	(48,069)	(503)	**(175,476)**
Total Income	**(13,224)**	**(30,610)**	**(38,878)**	**(8,698)**	**(16,220)**	**(14,038)**	**(5,236)**	**-**	**-**	**(48,069)**	**(503)**	**(175,476)**
Employee Expenses	97,162	37,111	1,374	11,882	17,057	11,575	2,926	-	-	6,529	-	**185,616**
Property Expenses	11,908	1,928	673	1,723	5,776	837	196	-	-	21,648	-	**44,689**
Transport Expenses	3,274	1,082	50	466	312	6,731	-	-	-	64	-	**11,979**
Supplies & Services	9,513	2,903	2,084	5,088	4,750	1,937	1,464	-	-	3,635	-	**31,374**
Third Party Expenses	28,257	59,498	490	10,401	4,103	203	1,609	25,079	(1,353)	1,031	-	**129,318**
Transfer Payments	885	3,379	36,485	-	-	-	-	-	-	-	-	**40,749**
Support Costs	9,646	6,843	1,161	3,087	2,998	2,418	5,299	-	-	3,761	(379)	**34,834**
Capital Charges	12,229	491	78	2,275	4,113	1,705	52	-	-	12,010	(3,399)	**29,554**
Total Expenditure	**172,874**	**113,235**	**42,395**	**34,922**	**39,109**	**25,406**	**11,546**	**25,079**	**(1,353)**	**48,678**	**(3,778)**	**508,113**
Net Expenditure	**159,650**	**82,625**	**3,517**	**26,224**	**22,889**	**11,368**	**6,310**	**25,079**	**(1,353)**	**609**	**(4,281)**	**332,637**

Reconciliation of Portfolio Income and Expenditure to Cost of Services in Comprehensive Income and Expenditure Statement

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

	£'000	£'000
Net Expenditure in the Portfolio Analysis		332,637
Net expenditure of services and support services not included in the Analysis		-
Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis		
• Pension Adjustments re IAS 19	(2,089)	
• PFI Entries for Finance Lease Interest & Principal plus Lifecycle Maintenance within Unitary Charge	(16,674)	
• Capital Funded from Current Revenue	(402)	
• Devolved Schools Management Adjustment	1,116	
• Miscellaneous	5,578	(12,471)
Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Statement		
• Trading Accounts shown in Analysis but not in Cost of Services	1,353	
• Capital Costs shown in Analysis but not in Cost of Services	3,399	
• IAS 18 Costs shown in Analysis but not in Cost of Services	503	
• Miscellaneous	1,484	6,739
Cost of Services		**326,905**

Reconciliation to Subjective Analysis

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

	Portfolio Analysis £'000	Services not in Analysis £'000	Not reported to management £'000	Not included In CIES £'000	Allocation of Recharges £'000	Allocation of Supp Services £'000	Net Cost of Services £'000	Corporate Amounts £'000	Total £'000
Income	(174,044)	-	420	503	33,287	-	(139,834)	(65,151)	**(204,985)**
Interest and investment income	-	-	-	-	-	-	-	(527)	**(527)**
Government grants and contributions	-	-	1,267	-	-	-	1,267	(291,374)	**(290,107)**
Income from council tax	-	-	-	-	-	-	-	(59,364)	**(59,364)**
Total Income	**(174,044)**	**-**	**1,687**	**503**	**33,287**	**-**	**(138,567)**	**(416,416)**	**(554,983)**
Employee Expenses	184,184	-	(1,519)	1,419	(5,846)	6,442	184,680	3,004	**187,684**
Property Expenses	44,689	-		-	(1,116)	1,229	44,802	-	**44,802**
Transport Expenses	11,979	-		-	(4,566)	5,030	12,443	-	**12,443**
Supplies & Services	31,374	-	642	-	(1,707)	1,880	32,189	-	**32,189**
Third Party Expenses	129,318	-	(16,959)	1,430	(3,222)	3,549	114,116	41,010	**155,126**
Transfer Payments	40,749	-		-	(150)	165	40,764	-	**40,764**
Support Service recharges	34,834	-	258	(12)	(15,642)	(19,438)	-	-	**-**
Depreciation, amortisation and impairment	29,554	-	3,420	3,399	(1,038)	1,143	36,478		**36,478**
Interest Payments	-	-	-	-	-	-	-	50,749	**50,749**
Gain or Loss on Disposal of Non-Current Assets	-	-	-	-	-	-	-	(3,004)	**(3,004)**
Total Expenditure	**506,681**	**-**	**(14,158)**	**6,236**	**(33,287)**	**-**	**465,472**	**91,759**	**557,231**
(Surplus) or Deficit on the Provision of Services	**332,637**	**-**	**(12,471)**	**6,739**	**-**	**-**	**326,905**	**(324,657)**	**2,248**

NOTES TO THE CORE FINANCIAL STATEMENTS

5. Related Party Transactions

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

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

		Receipts £'000	Payments £'000
Falkirk and District Business Park Ltd	Income and expenses from rental of commercial premises	173	49
Falkirk and District Town Centre Management Ltd	Promotion of Town Centres	-	199
Falkirk Council Pension Fund	Charge for Support Services (Also see Note 9 – Defined Benefit Pension Schemes)	520	-
Falkirk Community Stadium Ltd	Repayment of expenses and Professional Fees	291	-
Fairer Scotland Fund	Contribution to project costs per funding agreements	-	1,102
Family Centres	Funding provided per Service Level Agreement	-	722

Amounts due to or from related parties were as follows:

2009/10 Amount Due From £'000	2009/10 Amount Due to £'000		2010/11 Amount Due From £'000	2010/11 Amount Due To £'000
104	38	Joint Boards	71	36
118	62	Falkirk and District Business Park Ltd	-	-
1,160	2	Falkirk Community Stadium Ltd	1,309	16
-	2	Falkirk and District Town Centre Management Ltd	-	-
43	-	Helix Trust	-	-

6. External Audit Fee

The agreed external audit fee for Falkirk Council for 2010/11 was £359,000 (£368,000 in 2009/10). A further £25,000 (£15,000 in 2009/10) is included as the agreed external audit fee for the Pension Fund Audit. These fees were for work undertaken in accordance with the Code of Audit Practice. No other services were provided by Audit Scotland.

7.(a) Statutory Trading Accounts

Section 10 of the Local Government in Scotland Act 2003 requires that each Statutory Trading Account should at least break-even over a rolling 3 year period. The figures for 2008/09 and 2009/10 are based on UK Generally Accepted Accountancy Practices in line with the legislative requirements for those years. The figures for 2010/11 are based on International Financial Reporting Standards as specified in the Code of Practice for Local Authority Accounting. For this reason, the figures quoted are not suitable for trend analysis. For the purposes of determining whether or not the Statutory Trading Account has met the financial objective, interest payable and receivable should be included.

Falkirk Council operates 2 Statutory Trading Accounts, one for Building Maintenance and one for Roads Maintenance.

BUILDING MAINTENANCE TRADING ACCOUNT

Actual Year to 31/03/09 £'000	Actual Year to 31/03/10 £'000		Actual Year to 31/03/11 £'000	3 Year Total £'000
23,517	25,507	Turnover	27,007	76,031
22,617	24,070	Expenditure	26,878	73,565
900	1,437	Surplus per CIES	129	2,466
(79)	(56)	Interest	(59)	(194)
821	1,381	Surplus for Financial Return Purposes	70	2,272

The Building Maintenance Division is primarily responsible for providing a repairs and maintenance service for the Council's housing stock, which at 31 March 2011 amounted to 16,103 houses. The Division also includes a Joinery Manufacturing Unit which manufactures doors as part of the Council's Door Replacement Programme and is responsible for providing a repairs and maintenance service for the Council's operational and administrative buildings.

The surplus has come down from 2009/10 because of the effect of the IAS 19 pensions adjustment which was a credit of £0.618m in 2009/10, but a charge of £0.365m in 2010/11. In addition under IFRS an accrual has now to be made for untaken annual leave as at the year end. This added £0.386m to expenditure in 2010/11 as follows:

	£'000
Accrued Annual Leave to 31 March 2010	186
Additional Accrual for 2010/11	63
Accrual for Departmental Administrative Staff	137
	386

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

ROADS MAINTENANCE TRADING ACCOUNT

Actual Year to 31/03/09 £'000	Actual Year to 31/03/10 £'000		Actual Year to 31/03/11 £'000	3 Year Total £'000
10,048	10,517	Turnover	12,022	32,587
9,244	9,705	Expenditure	11,615	30,564
804	812	Surplus per CIES	407	2,023
(72)	(47)	Interest	(53)	(172)
732	765	Surplus for Financial Return Purposes	354	1,851

The Roads Division is primarily responsible for providing a maintenance service for the non-motorway roads and footpaths in the Council area. In addition, the Division is also responsible for providing a winter maintenance service for the roads and footpaths, various small works on behalf of other Council Services and the construction of new roads and footpaths. The total length of roads maintained is 943.8 kilometres.

The surplus has come down from 2009/10 because of the IAS 19 pensions adjustment which was a credit of £0.200m in 2009/10, but a charge of £0.128m in 2010/11. In addition, under IFRS an accrual has now to be made for untaken annual leave as at the year end. This added £0.094m to expenditure in 2010/11 as follows:-.

	£'000
Accrued Annual Leave to 31 March 2010	54
Additional Accrual for 2010/11	(32)
Accrual for Departmental Administrative Staff	72
	94

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

7.(b) Other Trading Accounts

The Council discontinued the operation of trading accounts for Schools & Welfare Catering and Building Cleaning during the year. These are now simply accounted for as recharge allocation accounts.

8. Agency Arrangements

The Council has an agreement with Scottish Water whereby it collects water and waste charges in conjunction with collection of Council Tax. The income received from this service in 2010/11 was £422,616 (£467,440 in 2009/10).

9. Members Allowances

Remuneration paid to Members in 2010/11 was:

2009/10 £'000		**2010/11 £'000**
602	Salaries	604
12	Allowances (Mileage)	12
3	Expenses	7
617		623

The annual return of Councillors' salaries and expenses for 2010-2011 is available for any member of the public to view at all Council libraries and public offices during normal working hours and is also available on the Council's website at www.falkirk.gov.uk. Please follow the "Councillors" quick link on the Council's website.

10. Defined Benefit Pension Schemes

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

The Council participates in two pension schemes:

- The Local Government Pension Scheme

  The scheme provides defined benefits for non-teaching employees. The scheme is funded which means that the Council and the scheme members pay contributions into a fund, calculated at a level that is intended to balance the pensions liabilities with investment assets. The contribution rate for the majority of employees is between 5.5% and 8.5% of pensionable pay based on a system of tiered contributions. Employer contributions are set every three years following a valuation of the Fund by an independent actuary.

For the purposes of the Local Government Pension Scheme (Administration) (Scotland) Regulations 2008 as amended, Falkirk Council is an Administering Authority for the Local Government Pension Scheme (LGPS) and is required to operate and maintain a pension fund (i.e. the Falkirk Council Pension Fund).

The fund is used to pay pension and lump sum benefits to scheme members and their dependants. Contributions to the fund are made by active (i.e. employee) members and by participating employers.
Income also flows into the fund by virtue of the various assets held by the fund, including equities, property and bonds.

Scheme membership is made up of active members, deferred members and pensioner members.
Participating employers include Clackmannanshire, Falkirk and Stirling Councils, Central Scotland Police, Central Scotland Fire and Rescue Service, Central Scotland Joint Valuation Board, the Scottish Environment Protection Agency (SEPA), the Scottish Children's Reporter Administration (SCRA), Forth Valley College and a number of non-profit making charitable bodies in Central Scotland.

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

The report must contain the following items:

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

The annual report of the Falkirk Council Pension Fund in respect of year 2010/11 can be inspected at the offices of the Council or online at www.falkirk.gov.uk by following the links to local government pension scheme.

- The Teachers Pension Scheme

  The scheme is administered by the Scottish Public Pensions Agency (SPPA) and provides defined benefits for teaching employees. The employee contribution is 6.4%. The Council contributes towards the costs of the scheme by making contributions based on a percentage of members' pensionable salaries. Although the scheme is unfunded, the Government Actuary uses a notional fund as a basis for calculating the employers' contribution rate.

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

During the year, the Council paid requisitions to Central Scotland Joint Police Board and Central Scotland Joint Fire and Rescue Board. These requisitions have been used to meet, inter alia, the costs arising from the Police Pensions Schemes and the Firefighters Pension Schemes.

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

The assets and liabilities of the Council's pension arrangements as at 31 March 2011 have been calculated by Hymans Robertson a firm of independent Consulting Actuaries.

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

Comprehensive Income and Expenditure Statement

Year Ended:	**31/03/10**	**31/03/11**
	£'000	**£'000**
Current Service Cost	10,954	20,720
Interest Cost	28,608	35,624
Expected Return on Employer Assets	(18,348)	(28,796)
Past Service Costs/(Gains)	7,011	(54,323)
Losses/(Gains) on Curtailments and Settlements	-	-
Total	28,225	**(26,775)**

Reconciliation of defined benefit obligation

Year Ended:	**31/03/10**	**31/03/11**
	£'000	**£'000**
Opening Defined Benefit Obligation	**410,684**	**684,982**
Current Service Cost	10,954	20,720
Interest Cost	28,608	35,624
Contributions by Members	5,782	5,824
Actuarial Losses/(Gains)	237,704	(63,871)
Past Service Costs/(Gains)	7,011	(54,323)
Estimated Unfunded Benefits Paid	(2,587)	(3,335)
Estimated Benefits Paid	(13,174)	(14,734)
Closing Defined Benefit Obligation	684,982	**610,887**

Reconciliation of fair value of employer assets

Year Ended:	31/03/10 £'000	31/03/11 £'000
Opening Fair Value of Employer Assets	286,577	**395,729**
Expected Return on Assets	18,348	28,796
Contributions by Members	5,782	5,824
Contributions by the Employer	16,924	17,558
Contributions in respect of Unfunded Benefits	2,587	3,335
Actuarial Gains/(Losses)	81,272	5,845
Estimated Unfunded Benefits Paid	(2,587)	(3,335)
Estimated Benefits Paid	(13,174)	(14,734)
Closing Fair Value of Employer Assets	395,729	**439,018**

Amounts for the current and previous accounting periods

Year Ended:	31/03/07 £'000	31/03/08 £'000	31/03/09 £'000	31/03/10 £'000	31/03/11 £'000
Fair Value of Employer Assets	365,463	364,555	286,577	395,729	439,018
Present Value of Defined Benefit Obligation	(476,934)	(423,666)	(410,684)	(684,982)	(610,887)
Surplus/(Deficit)	(111,471)	(59,111)	(124,107)	(289,253)	(171,869)
Experience Gains/(Losses) on Assets	(2,965)	(36,383)	(110,957)	81,272	5,845
Experience Gains/(Losses) on Liabilities	501	2,988	2,378	(2,223)	4,028
Experience Gains/(Losses) as % of Schemes Assets	(0.81)%	(9.98)%	(38.72)%	20.54%	1.33%
Experience Gains/(Losses) as % of Schemes Liability	(0.11)%	(0.71)%	(0.58)%	0.32%	(0.66%)

Teachers

During the year, the Council paid £8.804m (£8.787m in 2009/10) to the Scottish Government in respect of teachers' pension costs. This represents 14.9% of teachers' pensionable pay (14.9% in 2009/10).

The Council is also required to meet the costs of benefits arising from compensatory added years, as well as the costs arising from the early release of benefits in the Teachers Pension Scheme. In 2010/11, these amounted to £1.101 million, representing 1.86% of pensionable pay (£0.93 million, representing 1.6% of pensionable pay in 2009/10).

NOTES TO THE CORE FINANCIAL STATEMENTS

Disclosure of Net Pensions Asset/Liability

Local Government Pension Schemes

The underlying assets and liabilities for retirement benefits attributable to the Council at 31 March 2011 are as follows:

	31/03/10 £'000	31/03/11 £'000
Net asset/(liability)	(289,253)	(171,869)

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels etc.

There has been a significant decrease in IAS19 liabilities as at 31 March 2011 compared with the liabilities as at 31 March 2010. This is principally due to the fact that the financial assumptions at 31 March 2011 are more favourable than they were at 31 March 2010. In the June 2010 Emergency Budget the Chancellor announced that public sector pension increases would now be linked to the Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI). CPI is estimated to be 0.8% approximately below RPI on average and this reduction in the pension increase assumption has resulted in a fall in liabilities being shown as a past service credit.

The real discount rate has increased significantly from 1.6% per annum as at 31 March 2010 to 2.7% per annum as at 31 March 2011. This is due to the change in the pensions increase assumption. All else being equal, a higher real discount rate leads to a lower value being placed on the liabilities. Therefore, the change in real discount rate between March 2010 and March 2011 has a substantial positive impact on the IAS19 balance sheet, decreasing the value of the liabilities by around 10% to 15% typically depending on the average age of membership.

In summary, the IAS19 balance sheet this year has improved from last year with IAS19 liabilities smaller in monetary terms. This is because of the impact of the change in pension increases from RPI to CPI.

Fair Value of employer assets

Year Ended:	**31/03/10 £'000**	**31/03/11 £'000**
Equities	304,711	333,654
Bonds	51,445	57,072
Property	27,701	35,121
Cash	11,872	13,171
Total	395,729	**439,018**

The main assumptions used in the calculations have been: -

Financial assumptions

Year Ended:	**31/03/10 % p.a.**	**31/03/11 % p.a.**
Inflation/Pension Increase Rate	3.8	2.8
Salary Increase Rate	5.3	5.1
Expected Return on Assets	7.2	6.9
Discount Rate	5.5	5.5

Breakdown of the expected return on assets by category

Year Ended:	**31/03/10**	**31/03/11**
	% p.a.	**% p.a.**
Equities	7.8	7.5
Bonds	5.0	4.9
Property	5.8	5.5
Cash	4.8	4.6

Mortality

Life expectancy is based on the PFA92 and PMA92 mortality tables published by the Institute of Actuaries and the Faculty of Actuaries. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	**Females**
Current Pensioners	21.6 years	25.0 years
Future Pensioners	23.1 years	26.6 years

Current pensioners life expectancy shown is based on age 65 as at formal valuation, i.e. Year of Birth 1943. Future pensioners are assumed to be age 50 as at 31 March 2011.

Commutation

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

Projected pension expense for the year to 31 March 2012

The following table sets out the estimation of the pension cost for 2011/12, based on the assumptions as at 31 March 2011 (the start of the period).

Analysis of projected amount to be charged to operating profit for the year to 31 March 2012

Year Ended:	**£'000**
Projected Current Service Cost	19,028
Interest on Obligation	33,757
Expected Return on Plan Assets	(30,583)
Past Service Cost	-
Total	22,202

The estimated Employer's contributions for the year to 31 March 2012 will be approximately £18.427m.

1 April 2009 marked the introduction of the new Local Government Pension Scheme and with it some new benefits have been applied retrospectively. The estimated projected past service cost for 2011/12 incorporates the impact of these changes.

Teachers' Pension Scheme

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

The Scheme is a defined benefit scheme, administered by the Scottish Public Pensions Agency (SPPA). Although the scheme is unfunded, SPPA uses a notional fund as the basis for calculating the employers' contributions rate to be paid by local authorities. However, it is not possible for the Council to identify a share of the underlying liabilities in the scheme attributable to its own employees. For the purposes of this statement of accounts, it is therefore accounted for on the same basis as a defined contribution scheme. This is a departure from UK GAAP.

The Council is responsible for the costs of any additional benefits awarded upon early retirement outside the terms of the Teachers' Scheme. These benefits are fully accrued in the pensions liability described above.

NOTES TO THE CORE FINANCIAL STATEMENTS

11. Leases

a) Council as Lessee

(i) Finance Leases

The Council has paid for the replacement of windows in its housing stock by way of a finance lease.

The assets acquired under these leases are included in the Council Dwellings Valuation within Property, Plant and Equipment in the Balance Sheet. It is impossible to place a separate value on these leases as the valuation of Council Dwellings provided by the District Valuer is an all inclusive figure.

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

	31 March 2010 £'000	31 March 2011 £'000
Finance lease liabilities (net present value of minimum lease payments):		
• Current	1,786	1,462
• Non-Current	3,658	2,196
Finance costs payable in future years	301	148
Minimum lease payments	5,745	3,806

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

	Minimum Lease Payments		Finance Lease Liabilities	
	31 March 2010 £'000	31 March 2011 £'000	31 March 2010 £'000	31 March 2011 £'000
Not later than one year	1,938	1,549	1,786	1,462
Later than one year and not later than 5 years	3,807	2,257	3,658	2,196
Later than five years	-	-	-	-
TOTAL	5,745	3,806	5,444	3,658

There are no contingent rentals on these leases.

(ii) Operating Leases

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

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

	31 March 2010 £'000	31 March 2011 £'000
Not later than one year	2,328	2,276
Later than one year and not later than 5 years	8,708	8,491
Later than five years	6,922	4,938
TOTAL	17,958	15,705

The total of future minimum sub-lease payments expected to be received as at 31 March 2011 is £2.409m (£2.551m as at 31 March 2010).

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

	2009/10 £'000	2010/11 £'000
Minimum lease payments	2,344	2,273
Contingent rents	27	54
(Sub-lease payments receivable)	(729)	(647)
TOTAL	1,642	1,680

b) Council as Lessor

(i) Finance Leases

The Council leases out Northfield Quarry to Tillicoultry Quarries Ltd on a finance lease with a remaining term of 17 years.

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

	31 March 2010 £'000	31 March 2011 £'000
Finance lease debtor (net present value of minimum lease payments);		
o Current	28	31
o Non-Current	1,058	1,027
Unearned finance income	849	771
Unguaranteed residual value of property	-	-
Gross investment in the lease	1,935	1,829

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

	Gross Investment in the Lease		Minimum Lease Payments	
	31 March 2010 £'000	31 March 2011 £'000	31 March 2010 £'000	31 March 2011 £'000
Not later than one year	105	105	28	31
Later than one year and not later than 5 years	528	528	180	194
Later than five years	1,302	1,196	878	833
TOTAL	1,935	1,829	1,086	1,058

(ii) Operating Leases

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

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

	31 March 2010 £'000	31 March 2011 £'000
Not later than one year	4,348	4,509
Later than one year and not later than five years	11,311	11,311
Later than five years	32,785	30,775
TOTAL	48,444	46,595

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2010/11 £0.054m contingent rents were receivable by the Council (2009/10 £0.027m).

12. Intangible Assets

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

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

	Internally Generated Assets	Other Assets
3 years	-	Benefit & Rates Software
3 years	-	Remote Access Software
3 years	-	Application Server Software

The carrying amount of intangible assets is amortised on a straight-line basis. The amortisation of £0.112m was charged to revenue in 2010/11.

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

	2009/10 Other Assets £'000	2010/11 Other Assets £'000
Balance at start of year:		
• Gross carrying amounts	455	514
• Accumulated amortisation	(196)	(323)
Net carrying amount at start of year		
Additions:		
• Internal development	-	-
• Purchases	59	-
Amortisation for the period	(127)	(112)
Net carrying amount at end of year	191	79
Comprising:		
• Gross carrying amounts	514	514
• Accumulated amortisation	(323)	(435)
	191	79

There are two items of capitalised software that are individually material to the financial statements:

	Carrying Amount		
	31 March 2010 £000	31 March 2011 £000	Remaining Amortisation Period
Benefit & Rates Software	96	48	1 year
Remote Access Software	59	29	1 year

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

13. Impairment Losses

The Council's Housing Stock was revalued as at 1 April 2010 by the District Valuer. The revaluation resulted in an impairment of £33.952m, the main reason for the impairment being the unforeseen reduction in the number of "Right to Buy" sales in addition to a reduced level of stock numbers. This impairment was written out to the Provision of Services in the Comprehensive Income and Expenditure Statement as was impairment of £16.771m for non-enhancing capital expenditure.

The Council's Property portfolio of retail and industrial units was also revalued as at 1 April 2010 together with some other assets within Education Services. The total impairment for the assets was £34.656m, of which £10.949m was written out to the Revaluation Reserve and £23.707m to the Provision of Services in the Comprehensive Income and Expenditure Statement. In addition, there was a further impairment of £1.978m for non-enhancing capital expenditure, £0.274m being written out to the Revaluation Reserve and £1.704m to the Provision of Services.

14. Capitalisation of Borrowing Costs

The Council applied to the Scottish Government for consent to borrow for Equal Pay Costs and Teachers Pension Payments. The consent was granted and the costs that were capitalised are as follows:-

	Consent Granted £'000	Costs Capitalised £'000
Equal Pay Costs	5,633	3,629
Teachers Pension Payments	120	120

15.(a) Property, Plant & Equipment Movements in 2010/11

	Council Dwellings £'000	Other Land and Buildings £'000	Vehicles, Plant and Equipment £'000	Infra-Structure £'000	Community Assets £'000	Assets under Construction £'000	Surplus Assets £'000	Total £'000
Cost or Valuation as at 1 April 2010	88,309	600,127	17,816	88,903	1,980	4,947	29,525	831,607
Additions	16,815	7,031	3,331	7,805	-	6,074	-	41,056
Revaluations:-								
❒ Recognised in Revaluation Reserve	-	6,725	-	-	-	-	3,723	10,448
❒ Recognised in Provision of Services	(33,952)	1,331	-	-	-	-	-	(32,621)
De-recognition:-								
❒ Disposals	(205)	(7,626)	(448)	-	-	-	(199)	(8,478)
Assets reclassified to/from Held for Sale	-	(479)	-	-	-	-	-	(479)
Other Movements in Cost or Valuation	-	3,511	-	-	300	(3,811)	-	-
As at 31 March 2011	70,967	610,620	20,699	96,708	2,280	7,210	33,049	841,533
<u>Accumulated Depreciation Impairment</u>								
As at 1 April 2010	-	27,529	7,298	12,368	396	-	4,609	52,200
Depreciation:								
❒ Charge for Year	-	15,880	2,592	2,973	66	-	490	22,001
Impairment:								
❒ Written Out to Revaluation Reserve	-	3,303	-	-	-	-	7,916	11,219
❒ Written Out to Provision of Services	16,771	14,647	-	-	-	13	10,751	42,182
De-recognition:-								
❒ Disposals	-	(4,502)	(364)	-	-	-	-	(4,866)
As at 31 March 2011	16,771	56,857	9,526	15,341	462	13	23,766	122,736
Net Book Value								
31 March 2010	88,309	572,598	10,518	76,535	1,584	4,947	24,916	779,407
31 March 2011	54,196	553,763	11,173	81,367	1,818	7,197	9,283	718,797

NOTES TO THE CORE FINANCIAL STATEMENTS

15.(b) Property, Plant & Equipment Movements in 2009/10

	Council Dwellings £'000	Other Land and Buildings £'000	Vehicles, Plant and Equipment £'000	Infra-Structure £'000	Community Assets £'000	Assets under Construction £'000	Surplus Assets £'000	Total £'000
Cost or Valuation as at 1 April 2009	88,762	638,240	13,927	85,557	2,610	4,077	340	833,513
Additions	13,855	71,992	3,921	8,637	-	4,332	-	102,737
Revaluations:-								
❒ Recognised in Revaluation Reserve	-	3,978	-	-	-	-	41	4,019
De-recognition:-								
❒ Disposals	(453)	(202)	(32)	-	-	-	-	(687)
Assets reclassified to/from Held for Sale	-	(24,535)	-	-	-	-	24,535	-
Other Movements in Cost or Valuation	-	3,462	-	-	-	(3,462)	-	-
As at 31 March 2010	102,164	692,935	17,816	94,194	2,610	4,947	24,916	939,582
Accumulated Depreciation Impairment								
As at 1 April 2009	-	81,512	5,567	14,983	961	-	-	103,023
Depreciation:								
❒ Charge for Year	-	17,405	1,763	2,676	65	-	-	21,909
Impairment:								
❒ Written Out to Revaluation Reserve	-	19,555	-	-	-	-	-	19,555
❒ Written Out to Provision of Services	13,855	1,865	-	-	-	-	-	15,720
De-recognition:-								
❒ Disposals	-	-	(32)	-	-	-	-	(32)
As at 31 March 2010	13,855	120,337	7,298	17,659	1,026	-	-	160,175
Net Book Value								
31 March 2009	88,762	556,728	8,360	70,574	1,649	4,077	340	730,490
31 March 2010	88,309	572,598	10,518	76,535	1,584	4,947	24,916	779,407

16. Other Capital Notes

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

Council Dwellings. There has been no depreciation charged on Council Dwellings. The District Valuer has confirmed that the 'Existing Use Value' (Social Housing) valuation method adopted in terms of the 2010 Code of Practice results in a particularly high residual value, which in turn renders depreciation immaterial.

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

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

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

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

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

Assets Under Construction - these are not depreciated.

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

(b) Assets owned by the Council include:

2009/10			2010/11	Estimated Life (Buildings)
16,164	Council Dwellings		16,103	30 years
20	Other Land & Buildings	Surface Car Parks	20	Investment
10		Depots	10	3 – 33 years
2		Strategic Business Parks	2	Investment
11		Nursery Schools/Day Nurseries	11	13 – 33 years
49		Primary Schools	49	3 – 38 years
12		Secondary Schools	8	1 – 39 years
4		Special Schools	4	8 – 39 years
6		Homes for the Elderly	6	8 – 33 years
9		Sports Centres	11	13 – 38 years
8		Libraries	8	3 – 38 years
3		Museums	3	17 – 97 years
3		Town Halls	3	18 – 28 years
35		Community Halls/Social Halls	35	3 – 38 years
1		Crematorium	1	28 years
173			171	
279	Community Assets		279	
786	Non-Operational Properties		751	4 – 64 years

(c) Valuation Disclosure

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

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

Land and Buildings owned by Community Services and Social Work (excluding offices) have been valued as at 1 April 2007. Other feuhold and leasehold properties which comprise the Council's property portfolio, have been valued as at 1 April 2008. Land and Buildings which were revalued either as at 1 April 2007 or 1 April 2008, were valued on the basis of open market value for existing use, or where this could not be assessed, because there was no market for the subject asset, depreciated replacement cost. Plant and Machinery within buildings is included in the valuation of those buildings.

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

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

Assets Under Construction have been valued at cost.

Vehicles, Plant and Equipment are valued on basis of open market value by the Council's technical staff.

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

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

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

(d) Capital Commitments

As at 31 March 2011 the Council has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2011/12 and future years budgeted to cost £21.2m. Similar commitments at 31 March 2010 were £6m. The major commitments are:-

Antonshill Primary School	£5.7m
High Rise Flats	£4.0m
New Build Housing	£4.4m
Helix	£3.0m

(e) Effects of Changes in Estimates

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

17. Assets held for sale

	Current		Non-Current	
	2009/10 £'000	**2010/11 £'000**	**2009/10 £'000**	**2010/11 £'000**
Balance at start of year	56	225	201	-
Assets newly classified as held for sale:				
• Property, Plant & Equipment	22	301	-	178
Revaluation losses	-	(4)	-	-
Revaluation gains	-	219	-	-
Assets Sold	(54)	(22)	-	-
Transfers from/to non-current/current	201	(329)	(201)	329
Balance outstanding at year-end	225	390	-	507

NOTES TO THE CORE FINANCIAL STATEMENTS

18. Capital Expenditure and Capital Financing

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

	2009/10 £'000	2010/11 £'000
Opening Capital Financing Requirement	338,559	395,537
Capital Investment		
Property, Plant and Equipment	97,872	38,342
Intangible Assets	59	-
Revenue Expenditure Funded from Capital under Statute	641	1,262
Sources of finance		
Capital receipts	(3,346)	(3,696)
Government grants and other contributions	(14,761)	(14,435)
Sums set aside from revenue:		
Direct revenue contributions	(3,600)	(1,955)
MRP/loans fund principal	(19,887)	(32,948)
Closing Capital Financing Requirement	395,537	382,107
Explanation of movements in year		
Increase in underlying need to borrow (unsupported by government financial assistance)	3,662	2,898
Assets acquired under finance leases	55,330	(2,024)
Assets acquired under PFI/PPP contracts	(2,014)	(14,304)
Increase/(decrease) in Capital Financing Requirement	56,978	(13,430)

NOTES TO THE CORE FINANCIAL STATEMENTS

19. PFI Schemes and Similar Contracts

		Class 98 £'000	Falkirk Schools Gateway Ltd £'000	2010/11 £'000
(a)	**Movement in Assets**			
	Balance as at 1 April 2010	102,103	119,389	221,492
	Net Additions during year	-	-	-
	Revaluation	-	-	-
	Depreciation	(2,465)	(2,833)	(5,298)
	Net Book Value 31 March 2011	99,638	116,556	216,194
(b)	**Movement in Liabilities**			
	Balance as at 1 April 2010	52,291	112,936	165,227
	Additions during year	-	-	-
	Repaid during year	(1,746)	(12,474)	(14,220)
	Balance as at 31 March 2011	50,545	100,462	151,007
	of which			
	Current	1,648	13,578	15,226
	Long Term	48,897	86,884	135,781
		50,545	100,462	151,007

		Service Charges £'000	Interest £'000	Finance Lease Repayment £'000	2010/11 £'000
(c)	**Estimated Future Unitary Payment Obligations**				
	Basic Annual Payments – Class 98				
	Within one year	3,686	7,513	1,648	12,847
	In the second to fifth years inclusive	14,974	28,237	8,645	51,856
	In the sixth to tenth years inclusive	18,886	30,913	16,677	66,476
	In the eleventh to fifteenth years inclusive	14,084	20,662	23,575	58,321
		51,630	87,325	50,545	189,500

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

	Service Charges £'000	Interest £'000	Finance Lease Repayment £'000	2010/11 £'000
Basic Annual Payments – Falkirk Schools Gateway Ltd				
Within one year	3,245	6,019	13,578	22,842
In the second to fifth years inclusive	14,791	23,337	8,021	46,149
In the sixth to tenth years inclusive	21,226	30,748	12,506	64,480
In the eleventh to fifteenth years inclusive	29,119	31,070	12,765	72,954
In the sixteenth to twentieth years inclusive	36,530	31,493	14,517	82,540
In the twenty first to twenty fifth years inclusive	43,379	32,076	17,932	93,387
In the twenty sixth to twenty ninth year inclusive	21,045	26,852	21,143	69,040
	169,335	181,595	100,462	451,392

The figures shown above for the Basic Annual Payment assume an indexation rate of 2.5% as per the operator's financial model.

20. Contingent Assets and Liabilities

Contingent Assets

(i) In terms of a contract for the sale of land, a clawback provision was included in relation to the treatment of any savings on the assumed remediation costs for the land in question. Following a dispute the matter was assessed through third party determination at £0.930m. To date, some £0.326m has been received and the matter is ongoing. There is therefore, the potential for the Council to receive further sums in the event of the dispute being determined in favour of the Council.

Contingent Liabilities

(ii) Falkirk Schools Project – Falkirk Council has entered into a Public Private Partnership with Class 98 Ltd to provide five schools. In terms of the Project Agreement, the Council is liable for outstanding senior debt following termination of a Class 98 Ltd event of default. At 31 March 2011, this totalled £54m (£58m as at March 2010).

(iii) Note 24 includes provision of £5m in respect of potential expenditure arising from outstanding equal pay claims. A recent legal judgement (Bainbridge) on pay protection means the Council could be at risk in respect of further potential equal pay obligations. However, this is dependent on case law development and cannot be quantified at this time. The Council has been given permission to carry forward borrowing consent of £1m in respect of the estimated total liability likely to arise from equal pay claims.

(iv) Prior to local government reorganisation in 1996 the extant councils, Central Regional Council and Falkirk District Council, entered into a solvent run-off arrangement with their insurer, MMI, with aim of having sufficient assets to meet outstanding insurance claims. This essentially means that liabilities, as they arise, can be met from available resources. The outcome of current litigation may create a financial liability for Falkirk Council as successor Council. A robust estimate of this potential liability will result once the litigation has completed due process.

21. Net Assets

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

2009/10 £'000		2010/11 £'000
68,387	General Fund	174,703
69,687	Housing Revenue Account	30,706
138,074		205,409

22. Long-Term Investments in Associates and Joint Ventures

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

FCSL was reconstructed on 28th May 2009 through a solvent liquidation pursuant to Section 110 of The Insolvency Act 1986. In effect, the assets and liabilities of the company have been split between FFAC and the Council. The loans advanced by the Council and the Long Term Investment have been replaced by Property, Plant & Equipment of £3.850m and a Long Term Investment of £9.340m. The newly acquired assets comprise Ground Leases of £0.250m and Development Sites of £3.600m.

This heading includes an advance of £6.200m to Central Scotland Joint Fire & Rescue Board to finance the Board's debt (2009/10 £6.571m).

NOTES TO THE CORE FINANCIAL STATEMENTS

23. Loans Outstanding

These loans were raised to finance the capital expenditure of the Council. The source of these loans as at 31 March 2011 was as follows:-

2009/10 £'000		2010/11 £'000
	BORROWING REPAYABLE ON DEMAND OR WITHIN 12 MONTHS	
13,787	Temporary Borrowing	10,600
503	Other Loans	534
14,290		11,134
2,155	Accrued Interest	2,132
16,445	Total	13,266
	LONG TERM	
111,630	Public Works Loan Board	121,630
1,116	European Investment Bank	581
26,000	Market Bonds	26,000
138,746		148,211
1,733	Accrued Interest	1,711
140,479	Total	149,922

24. Insurance Fund

An updated independent actuarial valuation of the Insurance Fund was undertaken in September 2009. This has established that there are sufficient funds to meet its outstanding liabilities in respect of Property, Liability and Motor Insurance claims. There is no material risk which remains unfunded. The balance of the Fund as at 31 March 2011 is £3.683m. (£3.018m as at 31 March 2010).

25. Provisions

At the year end, there were a significant number of equal pay claims being considered in conjunction with the Council's legal advisers. The actual cost of these claims is unknown at this time, however, provision of £5m has been made in the 2010/11 accounts.

26. Long-Term Debtors

	Balance 01/04/10 £'000	Advanced 2010/11 £'000	Repaid 2010/11 £'000	Balance 31/03/11 £'000
Northfield Quarry	1,087	-	(29)	1,058
Loan Arrears	4	1	-	5
Housing Loans	89	-	(23)	66
Car Loans	130	85	(117)	98
Total	1,310	86	(169)	1,227

NOTES TO THE CORE FINANCIAL STATEMENTS

27.(a) Inventories

An analysis of stocks as at 31 March 2011 is shown below with the basis of valuation:-

Stocks	2010/11 Opening Stock £'000	Purchases/ Additions £'000	Stock Write Downs £'000	Recognition as an expense £'000	Closing Stock £'000	Basis of Valuation
Corporate & Neighbourhood Services						
Building Maintenance	236	1,967	-	(1,863)	340	latest invoice price
Transport	59	1,547	-	(1,557)	49	average cost
Cleansing	75	137	-	(128)	84	lower of cost and net realisable value/average cost
Grounds Maintenance	60	78	-	(79)	59	lower of cost and net realisable value
Catering	63	1,433	-	(1,433)	63	lower of cost and net realisable value/ average cost
Street Lighting	44	12	-	(11)	45	latest invoice price
Sign Factory	94	80	-	(83)	91	lower of cost and net realisable value
Pest Control	10	18	-	(18)	10	lower of cost and net realisable value
Community Services						
Leisure Facilities	44	398	(6)	(402)	34	lower of cost and net realisable value/ latest invoice price
Museums	17	89	-	(88)	18	lower of cost and net realisable value/latest invoice price
Parks	1	3	-	(3)	1	latest invoice price
Development Services						
Strategic Waste	51	198	-	(201)	48	latest invoice price
Housing	3	6	-	(3)	6	latest invoice price
Central Support Services	9	169	-	(165)	13	latest invoice price
TOTAL STOCKS	766	6,135	(6)	(6,034)	861	The use of other than lower of cost and net realisable value is a departure from the Code but is not considered material.
Work in Progress						
Sign Factory	5	11	-	(5)	11	
TOTAL WORK IN PROGRESS	5	11	-	(5)	11	
TOTAL STOCKS & WORK IN PROGRESS	771	6,146	(6)	(6,039)	872	

NOTES TO THE CORE FINANCIAL STATEMENTS

27.(b) Inventories

An analysis of stocks as at 31 March 2010 is shown below with the basis of valuation:-

Stocks	2009/10 Opening Stock £'000	Purchases/ Additions £'000	Stock Write Downs £'000	Recognition as an expense £'000	Closing Stock £'000	Basis of Valuation
Corporate & Neighbourhood Services						
Building Maintenance	280	1,133	-	(1,177)	236	latest invoice price
Transport	45	1,184	-	(1,170)	59	average cost
Cleansing	108	130	-	(163)	75	lower of cost and net realisable value/average cost
Grounds Maintenance	63	96	-	(99)	60	lower of cost and net realisable value
Catering	54	1,526	-	(1,517)	63	lower of cost and net realisable value/ average cost
Street Lighting	43	49	-	(48)	44	latest invoice price
Sign Factory	97	76	-	(79)	94	lower of cost and net realisable value
Pest Control	15	15	-	(20)	10	lower of cost and net realisable value
Community Services						
Leisure Facilities	39	332	-	(327)	44	lower of cost and net realisable value/ latest invoice price
Museums	18	62	-	(63)	17	lower of cost and net realisable value/latest invoice price
Parks	1	6	-	(6)	1	latest invoice price
Development Services						
Strategic Waste	61	202	-	(212)	51	latest invoice price
Housing	5	-	-	(2)	3	latest invoice price
Central Support Services	8	130	-	(129)	9	latest invoice price
TOTAL STOCKS	837	4,941	-	(5,012)	766	The use of other than lower of cost and net realisable value is a departure from the Code but is not considered material.
Work in Progress						
Sign Factory	9	5	-	(9)	5	
TOTAL WORK IN PROGRESS	9	5	-	(9)	5	
TOTAL STOCKS & WORK IN PROGRESS	846	4,946	-	(5,021)	771	

28. Construction Contracts

As at 31 March 2011, the Council had several construction contracts in progress. The value of work completed at 31 March 2011 was established using a stage of completion methodology based on architects certificates obtained at the year end. There were no sums due as at 31 March 2011.

29. Debtors

	2008/09 £'000	2009/10 £'000	2010/11 £'000
Central government bodies	4,303	4,316	3,383
Other local authorities	477	273	1,025
NHS Bodies	978	1,034	1,036
Public corporations and trading funds	39	38	45
Other entities and individuals	19,881	24,372	22,653
	25,678	30,033	28,142
Provision for Bad Debts	(10,089)	(11,050)	(11,810)
Total Debtors	15,589	18,983	16,332

30. Creditors

	2008/09 £'000	2009/10 £'000	2010/11 £'000
Central government bodies	7,917	5,287	8,560
Other local authorities	61	189	111
NHS Bodies	28	235	131
Public corporations and trading funds	-	512	297
Other entities and individuals	46,664	56,729	66,681
Total Creditors	54,670	62,952	75,780

31. Trust & Third Party Funds

The Council administers and acts as trustees, where applicable, to a number of Third Party Funds. Whilst each fund has specific objectives and conditions, most were gifted into the trust of the Council to provide assistance to the poor and needy and to pay for the maintenance and upkeep of lairs.

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

Provost's Fund for Necessitous Poor (£54,188) - to provide donations to residents of the former Burgh of Falkirk at the sole discretion of the Provost.
Scottish Veterans' Garden City Association (SVGCA) (£52,082) - to manage the Association's housing in the Falkirk Council area.
Shank's Bequest (£27,239) - to provide donations to the needy of Denny.
Grangemouth Childrens' Day Committee (£22,431) - to provide a donation to the annual cost of the Grangemouth Childrens' Day.
Candyend Trust (£70,036) - to provide donations to specific organisations assisting the elderly in the Muiravonside area.
Odenwald Trust (£27,225) - to foster twinning exchanges between the Council and the Odenwald region in Germany.
Alexander Douglas King Bequest (£35,201) – new bequest for the promotion and advancement of education of art at Bo'ness Academy.

NOTES TO THE CORE FINANCIAL STATEMENTS

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

2009/10 £'000	Income and Expenditure Account	2010/11 £'000
	Income	
(43)	Investment Income	(5)
	Expenditure	
19	Awards and Other Expenses	18
(24)	**(Surplus)/Deficit for the Year**	13
	Balance Sheet	
	Fixed Assets	
19	External Investments	6
364	Internal Investments	364
383	**Net Assets**	370
(359)	Fund Balance at 1April 2010	(383)
(24)	(Surplus)/Deficit for Year	13
(383)	**Fund Balance at 31 March 2011**	(370)

NOTES TO THE CORE FINANCIAL STATEMENTS

32. Grant Income

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

2009/10 £'000	Credited to Services	2010/11 £'000
2,400	Criminal Justice	2,773
491	Council Tax DWP Subsidy	497
35,235	Housing DWP Subsidy	38,203
598	Education Maintenance Allowances	554
532	Determined to Succeed	501
1,955	Fairer Scotland Fund	-
880	Improvement Repair Grant	621
663	Hostels Grant	663
2,614	Other Grants	2,087
45,368	TOTAL	45,899

2009/10 £'000	Credited to Taxation and Non-Specific Grant Income	2010/11 £'000
10,209	Scottish Government – General Capital Grant	6,292
275	Scottish Government – Specific Capital Grants	267
894	Scottish Government – Other Grants	2,314
457	Other Grants	434
1,898	Developers Contributions	1,811
-	Other Contributions	1,936
3,850	Donations – Falkirk Stadium Assets	-
17,583		13,054

2009/10 £'000	Capital Grants Received in Advance	2010/11 £'000
	The Council has received a number of grants, contributions and donations that have yet to be recognised as income as they have conditions attached to them which require the monies to be returned to the giver. The balances at the year end are as follows:	
1,542	Scottish Government	1,146
1,460	Developers Contributions	1,380
3,002		2,526

33.(a) Financial Instruments Adjustment Account

	2009/10 £'000	2010/11 £'000
De-recognition of Premiums from Debt Restructuring	5,994	5,678
Annual Amortisation	(316)	(316)
	5,678	5,362
De-recognition of Discounts from Debt Restructuring	(296)	(288)
Annual Amortisation	7	7
	(289)	(281)
Re-measurement of Market LOBO's	2,023	1,999
Annual Amortisation	(23)	(24)
	2,000	1,975
	7,389	7,056

Disclosure of Financial Assets and Liabilities from 1 April 2010

33.(b)(i) Financial Instruments Balances

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

	Long-Term		Current	
	31/03/10 £'000	31/03/11 £'000	31/03/10 £'000	31/03/11 £'000
Financial liabilities (principal amount)	138,746	148,211	14,290	11,134
Financial liabilities at amortised cost	140,479	149,922	16,445	13,266
Loans and receivables (principal amount)	-	-	7,558	10,352
Loans and receivables at amortised cost	-	-	7,558	10,355
Unquoted investments at cost	9,340	9,340	-	-

33.(b)(ii) Financial Instruments Gains/Losses

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

	Financial Liabilities	Financial Assets	
	Liabilities Measured at Amortised Cost £'000	Loans and Receivables £'000	Total £'000
Interest Expense	(8,399)	-	(8,399)
Interest Income	-	478	478
Net gain/(loss) for the year	(8,399)	478	(7,921)

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

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

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

The fair values calculated are as follows:

	31/03/10		31/03/11	
	Carrying amount £'000	Fair value £'000	Carrying amount £'000	Fair value £'000
PWLB debt	113,483	150,004	123,485	163,726
Non-PWLB debt	43,441	43,376	39,438	41,943
Total debt	156,924	193,380	162,923	205,669
Trade creditors	5,069	5,069	5,621	5,621
Total Financial Liabilities	161,993	198,449	168,544	211,290

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

	31/03/10		31/03/11	
	Carrying amount £'000	Fair value £'000	Carrying amount £'000	Fair value £'000
Money market deposits < 1 year	7,567	7,567	10,355	10,355
Long-Term Investments	9,340	9,340	9,340	9,340
Trade debtors	8,529	8,529	8,112	8,112
Loans and receivables	-	-	-	-
Total Loans and Receivables	25,436	25,436	27,807	27,807

Nature and Extent of Risk Arising from Financial Instruments

33.(c)(i) Key Risks

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

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

NOTES TO THE CORE FINANCIAL STATEMENTS

Overall Procedures for Managing Risk

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

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

These items are required to be reported and approved before the start of the year to which they relate. They are reported in the Annual Treasury Management Strategy which outlines the detailed approach to managing risk in relation to the Council's financial instruments exposure. Actual review of Treasury Management Strategy is reported semi-annually to Members.

Both the General Capital Programme 2010/11 – 2012/13, incorporating the suite of prudential indicators (10/02/10) and the Annual Treasury Management Strategy 2010/11 (09/03/10) were approved by Council prior to the start of the financial year and are available on the Council website. The key 2010/11 controls and treasury issues arising were:-

- o The Authorised Limit for 2010/11 was set at £335m. This is the maximum limit of external borrowings or other long term liabilities;
- o The Operational Boundary for 2010/11 was set at £330m. This is the expected level of debt and other long term liabilities during the year;
- o The maximum amounts of fixed and variable interest rate exposure were set at 100% and 40% respectively based on the Council's net debt;
- o The maximum and minimum exposures to the maturity structure of debt are shown at Note (iv) Refinancing and Maturity Risk;
- o An estimated total longer term borrowing requirement of £6.2m.

These policies are implemented by a central treasury team. The Council maintains written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk, and the investment of surplus cash through Treasury Management Practices (TMP's). These TMP's are a requirement of the Code of Practice and are reviewed periodically.

33.(c)(ii) **Credit risk**

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers. This risk is minimised through compliance with the Council's TMP's which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria in accordance with Fitch and equivalent rating agencies. The TMP's also impose a maximum amount and time to be invested with any particular financial institution.

The key components of the lending criteria include:

- Financial institutions with credit ratings of Short Term – F1; Long Term – A; Support – C; Individual – 3 (Fitch or equivalent rating), with the lowest available rating being applied to the criteria;
- UK financial institutions provided with support from the UK Government;
- Other UK local authorities;
- Maximum monetary limit of £5m per individual institution;
- Maximum time limit of 1 month per individual institution.

The following analysis summarises the Council's potential maximum exposure to credit risk. The table as assessed by the ratings agencies gives details of global corporate finance average cumulative default rates (including financial organisations) for the period since at least 1990 to 2009. Defaults shown are by long term rating category on investments not exceeding 1 year.

	Amount at 31/03/11	**Historical experience of default**	**Adjustment for market conditions at 31/03/11**	**Estimated maximum exposure to default**
	£'000	**%**	**%**	**£'000**
Deposits with banks and financial institutions	(a)	(b)	(c)	(a) x (c)
AAA rated counterparties	-	0.00	0.00	-
AA rated counterparties	10,352	0.03	0.03	3
A rated counterparties	-	0.08	0.08	-
Trade debtors	8,112	5.00	5.00	406
	18,464			409

Whilst the current credit crisis in international markets has raised the overall possibility of default, the Council maintains strict credit criteria for investment counterparties.

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

The Council does not generally allow credit for its trade debtors, such that £5.3m of the £8.1m balance is past its due date for payment. The past due amount can be analysed by age as follows:

	£'000
Less than 28 days	1,112
29 – 56 days	159
57 – 84 days	133
More than 85 days	3,920
	5,324

The Council initiates a deferred charge on property in circumstances where clients, requiring the assistance of Social Work Services, are unable to meet their immediate financial liabilities. The total collateral at 31 March 2011 was £0.4m.

33.(c)(iii) Liquidity risk

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

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

The maturity analysis of financial assets is as follows:

	31/03/10 £'000	31/03/11 £'000
Less than one year	7,558	10,352

All trade and other payables are due to be paid in less than one year are not shown in the table above.

33.(c)(iv) Re-financing and Maturity Risk

The Council maintains a significant debt and investment portfolio. Whilst the cash flow procedures above are considered against the refinancing risk procedures, longer term risk to the Council relates to managing the exposure to replacing financial instruments as they mature. This risk relates to both the maturing of longer term financial liabilities and longer term financial assets.

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

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

The maturity analysis of financial liabilities is as follows:

	Approved Maximum Limits		Approved Minimum Limits		31/03/10	31/03/11
	%	£'000	%	£'000	£'000	£'000
Less than one year	25	38,259	0	-	14,290	11,135
Between one and two years	25	38,259	0	-	534	20,581
Between two and five years	50	76,518	0	-	20,581	10,000
Between five and ten years	75	114,777	0	-	3,465	7,429
More than ten years	100	153,036	25	38,259	114,166	110,202
					153,036	159,347

33.(c)(v) Market risk

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

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

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

The Council has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws on the Council's prudential and treasury indicators and its expected treasury operations, including an expectation of interest rate movements. From this Strategy a treasury indicator is set which provides maximum limits for fixed and variable interest rate exposure. The central treasury team will monitor market and forecast interest rates within the year to adjust exposures appropriately. For instance, during periods of falling interest rates, and where economic circumstances make it favourable, fixed rate investments may be taken for longer periods to secure better long term returns, similarly the drawing of longer term fixed rates borrowing would be postponed. The risk of interest rate loss remains fully with the Council. In the longer term, the Scottish Government reviews the grant support it provides for local authority borrowing every three years. At this review stage, the government may, at its discretion, provide more, or less, support to recognise underlying changes in interest rates.

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

	£'000
Increase in interest payable on variable rate borrowings	206
Increase in interest receivable on variable rate investments	(104)
Impact on Other Comprehensive Income and Expenditure	102
Share of overall impact debited to the HRA	20
Decrease in fair value of fixed rate investment assets	-
Impact on Other Comprehensive Income and Expenditure	-
Decrease in fair value of fixed rate borrowings liabilities (no impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure)	22,726

The approximate impact of a 1% fall in interest rates would be as above but with the movements being reversed. These assumptions are based on the same methodology as used in the Note 32(b)(iii).

Price risk - The Council, excluding the pension fund, does not generally invest in equity shares.

Foreign exchange risk - The Council has no financial assets or liabilities denominated in foreign currencies. It therefore has no exposure to loss arising from movements in exchange rates.

34. Other Long Term Liabilities

2008/09 £'000	**2009/10 £'000**		**2010/11 £'000**
110,050	152,780	PFI Finance Lease Liabilities	137,471
5,444	3,744	HRA Window Leasing Finance Lease Liability	2,196
115,494	156,524		139,667

35. Events After the Balance Sheet Date

The Council has agreed to establish Falkirk Community Trust Ltd and its trading subsidiary, Falkirk Community Trading Ltd to deliver Leisure, Arts, Libraries and Heritage services on behalf of the Council, with effect from 1 July 2011.

The Audited Accounts were authorised by the Chief Finance Officer for issue on 30 September 2011. There were no events that occurred between 1 April and 30 September 2011 that would have an impact on the 2010/11 financial statements.

NOTES TO THE CORE FINANCIAL STATEMENTS

36. Housing Revenue Account Income and Expenditure Statement

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

2009/10 £'000		2010/11 £'000
(40,995)	Dwelling Rents	(42,482)
(1,539)	Non-Dwelling Rents	(1,558)
(624)	Hostels	(625)
(662)	Housing Support Grant	(663)
(1,654)	Other Income	(1,450)
(45,474)	**TOTAL INCOME**	(46,778)
19,087	Repairs and Maintenance	19,149
13,925	Supervision and Management	11,260
14,492	Depreciation and Impairment of Non-Current Assets	53,812
912	Other Expenditure	643
110	Increase/(Decrease) in Bad Debts Provision	180
48,526	**TOTAL EXPENDITURE**	85,044
3,052	Net Expenditure of HRA Services as included in the Comprehensive Income and Expenditure Statement	38,266
254	HRA Services Share of Corporate and Democratic Core	265
3,306	Net Expenditure of HRA Services	38,531
	HRA Share of Operating Income and Expenditure included in the Comprehensive Income and Expenditure Statement:	
(2,899)	(Gain)/Loss on Sale of HRA Non-Current Assets	(2,262)
1,633	Interest Payable and similar charges	1,562
(66)	Interest and Investment Income	(72)
523	Pensions Interest Cost and Expected Return on Pension Assets	348
-	Recognised Capital Grant Income	(933)
2,497	**(SURPLUS)/DEFICIT FOR THE YEAR**	37,174

37. Movement on the Housing Revenue Account Statement

2009/10 £'000		2010/11 £'000
(6,544)	Balance on the HRA at the end of the previous year	(5,935)
2,497	(Surplus) or Deficit for the year on HRA Income and Expenditure Statement	37,174
(1,888)	Adjustments between Accounting Basis and Funding Basis under Statute	(37,631)
609	Net (Increase) or Decrease before transfers to or from Reserves	(457)
-	Transfers (to) or from Reserves	-
609	(Increase) or Decrease in Year on the HRA	(457)
(5,935)	**Balance on the HRA at the end of the Current Year**	(6,392)

38. Housing Revenue Account Disclosures

a) Adjustments between Accounting Basis and Funding Basis under Statute:-

2009/10 £'000		2010/11 £'000
2,899	Gain or loss on sale of HRA non-current assets	2,262
2,155	Capital expenditure charged to the HRA	1,955
1,700	Statutory Repayment of Debt (Finance Lease Liabilities)	1,786
(14,522)	Depreciation and Impairment	(53,812)
6,404	Statutory Repayment of Debt (Loans Fund Advances)	6,925
(563)	HRA share of contributions to or from the Pensions Reserve	2,256
(25)	HRA Share of Transfer to/from earmarked Reserves required by legislation	-
64	Difference between any other item of income and expenditure determined in accordance with the Code and determined in accordance with statutory HRA requirements	64
-	Recognised Capital Grant Income	933
(1,888)	**Total**	(37,631)

b) Housing Stock

The Council Housing Stock at 31 March 2011 was 16,103 properties in the following categories:-

2009/10 Number		2010/11 Number
87	One apartment	86
2,529	Two apartments	2,524
8,466	Three apartments	8,432
4,620	Four apartments	4,601
457	Five apartments	456
5	Six apartments or larger	4
16,164	**TOTAL**	16,103
£49.77	**Average Weekly rent (52 week basis)**	£51.57

c) Rent Arrears

Rent Arrears at 31 March 2011 were £1,830,004 (£1,616,563 in 2009/10).

d) Impairment of Debtors

A impairment of £1,430,000 has been provided in the Balance Sheet for irrecoverable rents, an increase of £180,000 from the provision in 2009/10

e) Losses on Void Properties

2009/10 £'000		2010/11 £'000
421	Dwelling Rents	409
73	Non-Dwelling Rents	64
494		473

39. Council Tax Income Account

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

2009/10 £'000	2009/10 £'000	EXPENDITURE	2010/11 £'000	2010/11 £'000
	1,545	Exemptions		1,592
	6,046	Discounts		6,191
8,552		Council Tax Benefit	8,777	
(8,668)	(116)	Less: Government Subsidy	(8,899)	(122)
	69	Relief (Persons with a Disability)		70
	126	Prior Year Adjustments		191
	922	Provisions Against Bad and Doubtful Debts		957
	8,592	**TOTAL EXPENDITURE**		8,879
		INCOME		
	67,956	Gross Council Tax Levied		68,522
	67,956	**TOTAL INCOME**		68,522
	59,364	SURPLUS FOR YEAR		59,643
		APPROPRIATED AS FOLLOWS		
	59,364	General Fund		59,643

40. Council Tax Account Disclosures

a) Background

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

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

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

b) Calculation of the Council Tax Base (Per 2010/11 Budget)

	Band A *	Band A	Band B	Band C	Band D	Band E	Band F	Band G	Band H	TOTAL
No. of Dwellings	-	22,446	18,861	6,292	8,142	8,010	4,664	2,059	59	70,533
Exempt Dwellings	-	820	344	107	93	70	21	8	1	1,464
Chargeable Dwellings	-	21,626	18,517	6,185	8,049	7,940	4,643	2,051	58	69,069
Disabled Reduction	-	104	102	56	64	72	34	7	1	440
Adjusted Chargeable Dwellings	104	21,624	18,471	6,193	8,057	7,902	4,616	2,045	57	69,069
Discounts (25%)	32	12,350	6,640	2,356	2,195	1,484	594	204	6	25,861
Discounts (due to being second homes)	-	204	140	71	52	57	22	9	3	558
Discount (long term empty properties)	-	194	76	36	30	26	7	16	1	386
Discount (occupied by disregarded adults)	-	81	54	15	7	12	3	3	-	175
Not entitled to Discount	72	8,795	11,561	3,715	5,773	6,323	3,990	1,813	47	42,089
Effective Dwellings	96	18,297	16,676	5,543	7,464	7,484	4,452	1,980	54	62,046
Ratio to Band D	5/9	6/9	7/9	8/9	1	11/9	13/9	15/9	2	
No. of Band D Equivalents	53	12,198	12,970	4,927	7,464	9,147	6,430	3,300	108	56,597
Add: Estimated Growth in tax base										372
										56,969
Less: Dwellings for which collection of Council Tax is considered to be doubtful – 97.5% collection										1,424
BUDGETED COUNCIL TAX BASE										55,545

c) The Council Tax Charge

The actual Council Tax is levied according to the Base Band 'D' charge and weighted in accordance with ratios detailed above. The charges set for each Band for 2010/11 are as follows:

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

41. Non-Domestic Rates Account

Non-Domestic Rates are a tax levied by local authorities on the occupiers of commercial, industrial and other non-domestic properties within their area, as distinct from a charge for their use of services. The rates charge for each property is determined by the rateable value placed upon it by the Assessor, multiplied by the National Rate Poundage which is set by Scottish Ministers. The Rate Poundage was set at 40.7 pence. The small business bonus scheme provides relief ranging from 25% to 100% for properties with rateable values of £18,000 and less. The cost of the small business bonus scheme was met from a supplement of 0.7 pence on properties with rateable values in excess of £35,000. Although councils bill and collect the sums due, these are paid into the National Non-Domestic Rate Pool and allocated back to councils by the Scottish Government.

2009/10 £'000	EXPENDITURE	2010/11 £000
25	Small Business Relief (Excludes Small Property Relief)	4
2,804	Small Business Bonus Scheme	2,978
1,158	Rating (Disabled Persons) Relief	1,377
1,542	Mandatory Relief	1,685
202	Discretionary Relief	209
95	Sports Club Relief	92
3,365	Voids and Empty Periods	3,281
625	Write-Off of Uncollectable Debts	806
72	Interest on Overpaid Rates	-
9,888	**TOTAL EXPENDITURE**	10,432
	INCOME	
65,727	Rate Levied (Net of Small Property Relief)	70,730
65,727	**TOTAL INCOME**	70,730
55,839	**NET NON-DOMESTIC RATE INCOME**	60,298
7,362	Contribution (to)/from National Non-Domestic Rate Pool	354
63,201	**NET NON-DOMESTIC RATE INCOME TRANSFERRED TO GENERAL FUND**	60,652

42. Non-Domestic Rates Account Disclosures

a) Analysis of Rateable Values as at 1 April, 2010

	No. of Premises	Rateable Value £'000	%
Shops	1,315	38,723	23.4
Hotels and Public Houses	142	4,895	3.0
Offices	874	13,460	8.1
Industrial – Factories, Warehouses, Stores and Workshops	1,269	37,795	22.9
Sports, Leisure, Cultural, Entertainment, Caravans, Holiday Sites	189	4,715	2.9
Garages and Petrol Stations	80	2,388	1.4
Education and Training	88	11,922	7.2
Public Service Subjects	165	6,359	3.9
Quarries and Mines	17	464	0.3
Petrochemical	15	29,505	17.8
Religious	158	1,167	0.7
Health/Medical and Care Facilities	157	6,264	3.8
Utilities	17	6,651	4.0
Communications, Advertising and Other	229	993	0.6
Total	4,715	165,301	100.0

b) National Non-Domestic Rates Pool

The contributions to and from the National Non-Domestic Rates Pool shown above represent the rates collected by the Council and paid over to the Government and the sum received from the Government from the National Rates Pool, distributed through the Local Government Finance Settlement.

43. Common Good Funds

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

2009/10 £’000	Income and Expenditure Account	Former Bo’ness Town Council 2010/11 £’000	Former Denny Town Council 2010/11 £’000	Former Grangemouth Town Council 2010/11 £’000	Former Falkirk Town Council 2010/11 £’000	TOTAL £’000
	Income					
(21)	Rents Received	(1)	-	-	(21)	(22)
(4)	Interest	-	-	-	(4)	(4)
(25)		(1)	-	-	(25)	(26)
4	**Expenditure**	-	-	-	25	25
(21)	**(Surplus)/Deficit for Year**	(1)	-	-	-	(1)
	Balance Sheet					
235	Fixed Assets	-	-	-	235	235
842	Investments	59	6	26	752	843
1,077	Net Assets	59	6	26	987	1,078
	Financed by:-					
235	Asset Revaluation Reserve	-	-	-	235	235
842	Revenue Reserve	59	6	26	752	843
1,077		59	6	26	987	1,078

Bryan Smail

Bryan Smail, CPFA
Chief Finance Officer
30 September 2011

FALKIRK COUNCIL

GROUP COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

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

2009/10 Gross Expenditure £'000	2009/10 Gross Income £'000	2009/10 Net Expenditure £'000		2010/11 Gross Expenditure £'000	2010/11 Gross Income £'000	2010/11 Net Expenditure £'000
158,311	(6,633)	151,678	Education Services	168,149	(6,675)	161,474
90,815	(84,352)	6,463	Housing Services	129,602	(87,784)	41,818
26,657	(8,270)	18,387	Cultural and Related Services	25,064	(6,368)	18,696
16,765	(928)	15,837	Environmental Services	19,995	(3,475)	16,520
9,414	-	9,414	Fire Services	8,053	-	8,053
16,646	(1,516)	15,130	Roads & Transport Services	18,548	(1,893)	16,655
14,331	-	14,331	Police Services	12,879	-	12,879
13,766	(8,986)	4,780	Planning and Development Services	22,423	(8,089)	14,334
100,298	(22,417)	77,881	Social Work	108,193	(24,208)	83,985
8,812	(5,288)	3,524	Central Services to the Public	15,673	(11,404)	4,269
3,085	(134)	2,951	Corporate & Democratic Core	3,217	-	3,217
7,212	(482)	6,730	Non-Distributed Costs	(51,380)	-	(51,380)
-	-	-	Exceptional Items	3,629	-	3,629
466,112	**(139,006)**	**327,106**	**Cost of Services**	**484,045**	**(149,896)**	**334,149**
			Other Operating Expenditure			
-	(3,004)	(3,004)	Gains or Losses on disposal of Fixed Assets	-	(131)	(131)
			Financing and Investment Income and Expenditure			
41,010	(43,799)	(2,789)	Surplus or deficit on trading undertakings	38,252	(39,029)	(777)
22,156	-	22,156	Interest Payable and Similar Charges	23,142	-	23,142
-	(527)	(527)	Interest & Investment Income	-	(478)	(478)
28,608	(18,348)	10,260	Pensions interest cost & expected return on pensions assets	35,624	(28,796)	6,828
557,886	**(204,684)**	**353,202**		**581,063**	**(218,330)**	**362,733**
			Taxation and Non-Specific Grant Income			
-	(59,364)	(59,364)	Council Tax	-	(59,643)	(59,643)
-	(210,590)	(210,590)	Government Grants	-	(222,460)	(222,460)
-	(17,583)	(17,583)	Capital Grants, Contributions & Donations	-	(13,054)	(13,054)
-	(63,201)	(63,201)	Non-Domestic Rate redistribution	-	(60,652)	(60,652)
-	**(350,738)**	**(350,738)**		**-**	**(355,809)**	**(355,809)**
557,886	**(555,422)**	**2,464**	**(Surplus) or Deficit on Provision of Services**	**581,063**	**(574,139)**	**6,924**
		13,946	Associates and Joint Ventures accounted for on an equity basis			(19,513)
		16,410	**Group Surplus or Deficit**			**(12,589)**
		16,314	Surplus or deficit on revaluation of non-current assets			(2,160)
		156,432	Actuarial gains/losses on pension assets/liabilities			(69,716)
		(4,691)	Other unrealised gains/losses			(2,148)
		106,868	Share of Other Comprehensive Expenditure & Income of associates & joint ventures			(29,254)
		274,923	**Other Comprehensive Income and Expenditure**			**(103,278)**
		291,333	**Total Comprehensive Income and Expenditure**			**(115,867)**

GROUP BALANCE SHEET

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

2008/09 £’000	2009/10 £’000		2010/11 £’000	Notes
		Long Term Assets		
730,726	787,527	Property, Plant & Equipment	726,645	
258	190	Intangible Assets	79	
201	-	Assets Held for Sale	507	
3,110	9,340	Long Term Investments	3,106	
7,006	337	Investments in Associates and Joint Ventures	6,200	
7,505	1,310	Long Term Debtors	1,227	
748,806	798,704		737,764	
		Current Assets		
844	771	Inventories	872	
15,589	17,852	Short Term Debtors	15,182	
2,560	7,432	Cash and Cash Equivalents	21,642	
55	225	Assets Held for Sale	390	
19,048	26,280		38,086	
		Current Liabilities		
(37,513)	(28,045)	Short Term Borrowing	(24,269)	
(55,258)	(63,091)	Short Term Creditors	(74,879)	
-	(5,000)	Provisions	(5,000)	
(92,771)	(96,136)		(104,148)	
		Long Term Liabilities		
(5,000)	-	Provisions	-	
(118,863)	(140,946)	Long Term Borrowing	(151,416)	
(124,107)	(289,253)	Defined Benefit Pension Scheme Liability	(171,869)	
(115,494)	(156,524)	Other Long Term Liabilities	(139,667)	
(990)	(3,002)	Capital Grants Received in Advance	(2,526)	
(190,116)	(309,943)	Liabilities in Associates	(261,177)	
(554,570)	(899,668)		(726,655)	
120,513	(170,820)	**NET ASSETS**	(54,953)	
		Usable Reserves		
4,932	4,899	Capital Receipts Reserve	5,342	
3,254	4,943	Capital Grants Unapplied Account	5,067	
30,663	32,015	General Fund Balance (excluding HRA)	30,324	
6,543	5,935	Housing Revenue Account	6,392	
5,244	4,308	Other Usable Reserves	5,588	
50,636	52,100		52,713	
		Unusable Reserves		
231,453	243,492	Capital Adjustment Account	197,745	
(7,721)	(7,389)	Financial Instruments Adjustment Account	(7,057)	
169,486	149,254	Revaluation Reserve	144,375	
(124,107)	(289,253)	Pensions Reserve	(171,869)	
(9,586)	(10,130)	Accumulated Absences Account	(10,498)	
259,525	85,974		152,696	
(189,648)	(308,894)	**Reserves (Group Entities)**	(260,362)	2
120,513	(170,820)	**TOTAL RESERVES**	(54,953)	

Bryan Smail

Bryan Smail, CPFA
Chief Finance Officer

The unaudited accounts were issued on 30 June 2011 and the audited accounts were authorised for issue on 30 September 2011.

GROUP CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 MARCH 2011

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

2009/10 £'000		2010/11 £'000
15,477	Net (surplus) or deficit on the provision of services	(12,589)
(10,121)	Adjust net surplus or deficit on the provision of services for non-cash movements	(41,510)
(13,552)	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	13,054
(8,196)	**Net cash flows from operating activities**	(41,045)
	Investing Activities	
39,948	Purchase of property, plant & equipment, investment property and intangible assets	36,758
117	Other payments for investing activities	-
(6,728)	Proceeds from the sale of property, plant & equipment, investment property and intangible assets	(5,804)
(14,946)	Other receipts and investing activities	(13,835)
18,391	**Net cash flows from investing activities**	17,119
	Financing Activities	
(96,720)	Cash receipts of short and long-term borrowing	(23,617)
2,057	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	3,984
79,595	Repayments of short and long-term borrowing	29,350
(15,068)	**Net cash flows from financing activities**	9,717
(4,873)	**Net (increase) or decrease in cash and cash equivalents**	(14,209)
	Cash and cash equivalents	
(2,559)	Cash and cash equivalents at the beginning of the reporting period	(7,433)
	Cash and cash equivalents at the end of the reporting period	
(99)	Cash held by Officers	(42)
233	Bank Current Accounts	(11,245)
(7,566)	Short-term deposits	(10,355)
(7,432)		(21,642)

The cash flows for operating activities include interest paid of £23.124m (2009/10 £22.141m) and interest received of £0.478m (2009/10 £0.527m).

FALKIRK COUNCIL

GROUP MOVEMENT IN RESERVES STATEMENT 2010/11

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

	Usable Reserves						Unusable Reserves									
	General Fund Balance (excl HRA) £’000	**HRA Balance £‘000**	**Capital Receipts Reserve £’000**	**Capital Grants Unapplied Account £’000**	**Other Reserves £’000**	**Total Usable Reserves £’000**	**Capital Adjustment Account £’000**	**Revaluation Reserve £’000**	**Pension Reserve £’000**	**Accumu-lated Absences Account £’000**	**Financial Instru-ments Adjust. Account £’000**	**Total Unusable Reserves £’000**	**Total Council Reserves £’000**	**Council's Share of Subsidiaries, Associates and Joint Ventures £’000**	**Total Group Reserves £’000**	**Notes shown below**
Balance at 31 March 2010	**32,015**	**5,935**	**4,899**	**4,943**	**4,308**	**52,100**	**243,492**	**149,254**	**(289,253)**	**(10,130)**	**(7,389)**	**85,974**	**138,074**	**(308,894)**	**(170,820)**	
Surplus or (deficit) on provision of services (accounting basis)	30,485	(37,174)	-	-	-	(6,689)	-	-	-	-	-	-	(6,689)	19,279	12,590	
Other Comprehensive Expenditure and Income	(9,883)	(3,195)	5,804	124	-	(7,150)	12,309	(851)	69,716	-	-	81,174	74,024	29,253	103,277	1
Total Comprehensive Expenditure and Income	**20,602**	**(40,369)**	**5,804**	**124**	**-**	**(13,839)**	**12,309**	**(851)**	**69,716**	**-**	**-**	**81,174**	**67,335**	**48,532**	**115,867**	
Adjustments between Group Accounts and Council Accounts	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Net Increase/Decrease before Transfers	**20,602**	**(40,369)**	**5,804**	**124**	**-**	**(13,839)**	**12,309**	**(851)**	**69,716**	**-**	**-**	**81,174**	**67,335**	**48,532**	**115,867**	
Adjustments between accounting basis and funding basis under regulations	(22,434)	40,826	(3,840)	-	(100)	14,452	(58,056)	(4,028)	47,668	(368)	332	(14,452)	-	-	-	2
Net Increase/Decrease before Transfers to Other Statutory Reserves	**(1,832)**	**457**	**1,964**	**124**	**(100)**	**613**	**(45,747)**	**(4,879)**	**117,384**	**(368)**	**332**	**66,722**	**67,335**	**48,532**	**115,867**	
Transfers to/from Other Statutory Reserves	141	-	(1,521)	-	1,380	-	-	-	-	-	-	-	-	-	-	3
Increase/Decrease in Year 2010/11	**(1,691)**	**457**	**443**	**124**	**1,280**	**613**	**(45,747)**	**(4,879)**	**117,384**	**(368)**	**332**	**66,722**	**67,335**	**48,532**	**115,867**	
Balance at 31 March 2011 carried forward	**30,324**	**6,392**	**5,342**	**5,067**	**5,588**	**52,713**	**197,745**	**144,375**	**(171,869)**	**(10,498)**	**(7,057)**	**152,696**	**205,409**	**(260,362)**	**(54,953)**	

GROUP MOVEMENT IN RESERVES STATEMENT – 2010/11

NOTES

	Usable Reserves						Unusable Reserves								
	General Fund Balance (excl HRA)	**HRA Balance**	**Capital Receipts Reserve**	**Capital Grants Unapplied Account**	**Other Reserves**	**Total Usable Reserves**	**Capital Adjustment Account**	**Revaluation Reserve**	**Pension Reserve**	**Accumu-lated Absences Account**	**Financial Instr-uments Adjust. Account**	**Total Unusable Reserves**	**Total Council Reserves**	**Council's Share of Subsidiaries, Associates and Joint Ventures**	**Total Group Reserves**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
1. Analysis of Other Comprehensive Expenditure and Income															
Net Gain on Sale of Assets	2,131	(2,262)	-	-	-	(131)	-	-	-	-	-	-	(131)	-	(131)
Capital Receipts Received	-	-	5,804	-	-	5,804	-	-	-	-	-	-	5,804	-	5,804
Capital Grants Received	(12,121)	(933)	-	124	-	(12,930)	12,930	-	-	-	-	12,930	-	-	-
Net Book Value of Asset Disposals	-	-	-	-	-	-	(3,336)	(296)	-	-	-	(3,632)	(3,632)	-	(3,632)
Long Term Debtor	107	-	-	-	-	107	-	-	-	-	-	-	107	-	107
Deficit on Revaluation of Fixed Assets	-	-	-	-	-	-	2,715	(555)	-	-	-	2,160	2,160	(964)	1,196
Actuarial Loss on Pension Fixed Assets and Liabilities	-	-	-	-	-	-	-	-	69,716	-	-	69,716	69,716	30,217	99,933
Total	**(9,883)**	**(3,195)**	**5,804**	**124**	**-**	**(7,150)**	**12,309**	**(851)**	**69,716**	**-**	**-**	**81,174**	**74,024**	**29,253**	**103,277**
2. Analysis of Adjustments between accounting basis and funding basis under regulations															
2a. Reversal of items debited or credited to the CIES															
Depreciation and impairment of non-current assets	42,993	53,812	-	-	-	96,805	(96,805)	-	-	-	-	(96,805)	-	-	-
Amortisation of intangible assets	113	-	-	-	-	113	(113)	-	-	-	-	(113)	-	-	-
2b. Insertion of items not debited or credited to the CIES															
Statutory Repayment of Debt (Loans Fund Advances)	(9,673)	(6,925)	-	-	-	(16,598)	16,598	-	-	-	-	16,598	-	-	-
Capital expenditure charged to the General Fund Balance (CFCR)	-	(1,955)	-	-	-	(1,955)	1,955	-	-	-	-	1,955	-	-	-

FALKIRK COUNCIL

GROUP MOVEMENT IN RESERVES STATEMENT – 2010/11

	Usable Reserves						Unusable Reserves								
	General Fund Balance (excl HRA) £'000	**HRA Balance £'000**	**Capital Receipts Reserve £'000**	**Capital Grants Unapplied Account £'000**	**Other Reserves £'000**	**Total Usable Reserves £'000**	**Capital Adjustment Account £'000**	**Revaluation Reserve £'000**	**Pension Reserve £'000**	**Accumu-lated Absences Account £'000**	**Financial Instru-ments Adjust. Account £'000**	**Total Unusable Reserves £'000**	**Total Council Reserves £'000**	**Council's Share of Subsidiaries, Associates and Joint Ventures £'000**	**Total Group Reserves £'000**
Statutory Repayment of Debt (Finance Lease Liabilities)	-	(1,786)	-	-	-	(1,786)	1,786	-	-	-	-	1,786	-	-	-
Statutory Repayment of Debt (PFI)	(14,304)	-	-	-	-	(14,304)	14,304	-	-	-	-	14,304	-	-	-
Borrowing Consent	3,749	-	-	-	-	3,749	(3,749)	-	-	-	-	(3,749)	-	-	-
2c. Adjustments involving the Capital Receipts Reserve															
Capital Receipts applied to fund Capital Expenditure	-	-	(3, 840)	-	-	(3,840)	3,840	-	-	-	-	3,840	-	-	-
2d. Adjustments involving the Repairs and Renewals Fund															
Use of the Repairs and Renewals Fund to Finance new capital expenditure	-	-	-	-	(100)	(100)	100	-	-	-	-	100	-	-	-
2e. Adjustments involving the Financial Instruments Adjustment Account															
Amount by which finance costs calculated in accordance with the Code are different from the amount of finance costs calculated in accordance with statutory requirements	(268)	(64)	-	-	-	(332)	-	-	-	-	332	332	-	-	-
2f. Adjustments involving the Pensions Reserve															
Amount by which finance costs calculated in accordance with the Code are different from the amount of finance costs calculated in accordance with statutory requirements	(45,412)	(2,256)	-	-	-	(47,668)	-	-	47,668	-	-	47,668	-	-	-

GROUP MOVEMENT IN RESERVES STATEMENT – 2010/11

	Usable Reserves						Unusable Reserves								
	General Fund Balance (excl HRA) £'000	**HRA Balance £'000**	**Capital Receipts Reserve £'000**	**Capital Grants Unapplied Account £'000**	**Other Reserves £'000**	**Total Usable Reserves £'000**	**Capital Adjustment Account £'000**	**Revaluation Reserve £'000**	**Pension Reserve £'000**	**Accumu-lated Absences Account £'000**	**Financial Instru-ments Adjust. Account £'000**	**Total Unusable Reserves £'000**	**Total Council Reserves £'000**	**Council's Share of Subsidiaries, Associates and Joint Ventures £'000**	**Total Group Reserves £'000**
2g. Adjustments involving the Accumulated Absences Account															
Net transfer to or from earmarked reserves required by legislation	368	-	-	-	-	368	-	-	-	(368)	-	(368)	-	-	-
2h. Other Adjustments															
Adjustment between CAA and Revaluation Reserve for depreciation that is related to the revaluation balance rather than Historic Cost	-	-	-	-	-	-	4,028	(4,028)	-	-	-	-	-	-	-
Total	**(22,434)**	**40,826**	**(3,840)**	**-**	**(100)**	**14,452**	**(58,056)**	**(4,028)**	**47,668**	**(368)**	**332**	**(14,452)**	**-**	**-**	**-**
3. Analysis of transfers to/from Other Statutory Reserves															
Transfer to Insurance Fund	(665)	-	-	-	665	-	-	-	-	-	-	-	-	-	-
Transfer from Repairs and Renewals Fund	(615)	-	-	-	615	-	-	-	-	-	-	-	-	-	-
Other Transfers	1,521	-	(1,521)	-	-	-	-	-	-	-	-	-	-	-	-
Total	**241**	**-**	**(1,521)**	**-**	**1,280**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

FALKIRK COUNCIL

GROUP MOVEMENT IN RESERVES STATEMENT 2009/10

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

	Usable Reserves						Unusable Reserves									
	General Fund Balance (excl HRA) £’000	**HRA Balance £’000**	**Capital Receipts Reserve £’000**	**Capital Grants Unapplied Account £’000**	**Other Reserves £’000**	**Total Usable Reserves £’000**	**Capital Adjustment Account £’000**	**Revaluation Reserve £’000**	**Pension Reserve £’000**	**Accumu-lated Absences Account £’000**	**Financial Instru-ments Adjust. Account £’000**	**Total Unusable Reserves £’000**	**Total Council Reserves £’000**	**Council's Share of Subsidiaries, Associates and Joint Ventures £’000**	**Total Group Reserves £’000**	**Notes shown below**
Balance at 31 March 2009	**30,663**	**6,544**	**4,932**	**3,253**	**5,244**	**50,636**	**231,453**	**169,486**	**(124,107)**	**(9,586)**	**(7,721)**	**259,525**	**310,161**	**(189,648)**	**120,513**	
Surplus or (deficit) on provision of services (accounting basis)	249	(2,497)	-	-	-	(2,248)	-	-	-	-	-	-	(2,248)	(14,162)	(16,410)	
Other Comprehensive Expenditure and Income	(3,004)	-	6,728	-	-	3,724	(763)	(16,368)	(156,432)	-	-	(173,563)	(169,839)	(105,084)	(274,923)	1
Total Comprehensive Expenditure and Income	**(2,755)**	**(2,497)**	**6,728**	**-**	**-**	**1,476**	**(763)**	**(16,368)**	**(156,432)**	**-**	**-**	**(173,563)**	**(172,087)**	**(119,246)**	**(291,333)**	
Adjustments between Group Accounts and Council Accounts	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Net Increase/Decrease before Transfers	**(2,755)**	**(2,497)**	**6,728**	**-**	**-**	**1,476**	**(763)**	**(16,368)**	**(156,432)**	**-**	**-**	**(173,563)**	**(172,087)**	**(119,246)**	**(291,333)**	
Adjustments between accounting basis and funding basis under regulations	1,833	1,888	(5,423)	1,690	-	(12)	12,802	(3,864)	(8,714)	(544)	332	12	-	-	-	2
Net Increase/Decrease before Transfers to Other Statutory Reserves	**(922)**	**(609)**	**1,305**	**1,690**	**-**	**1,464**	**12,039**	**(20,232)**	**(165,146)**	**(544)**	**332**	**(173,551)**	**(172,087)**	**(119,246)**	**(291,333)**	
Transfers to/from Other Statutory Reserves	2,274	-	(1,338)	-	(936)	-	-	-	-	-	-	-	-	-	-	3
Increase/Decrease in Year 2009/10	**1,352**	**(609)**	**(33)**	**1,690**	**(936)**	**1,464**	**12,039**	**(20,232)**	**(165,146)**	**(544)**	**332**	**(173,551)**	**(172,087)**	**(119,246)**	**(291,333)**	
Balance at 31 March 2010 carried forward	**32,015**	**5,935**	**4,899**	**4,943**	**4,308**	**52,100**	**243,492**	**149,254**	**(289,253)**	**(10,130)**	**(7,389)**	**85,974**	**138,074**	**(308,894)**	**(170,820)**	

GROUP MOVEMENT IN RESERVES STATEMENT – 2009/10

NOTES

	Usable Reserves						Unusable Reserves								
	General Fund Balance (excl HRA) £'000	**HRA Balance £'000**	**Capital Receipts Reserve £'000**	**Capital Grants Unapplied Account £'000**	**Other Reserves £'000**	**Total Usable Reserves £'000**	**Capital Adjustment Account £'000**	**Revaluation Reserve £'000**	**Pension Reserve £'000**	**Accumu-lated Absences Account £'000**	**Financial Instru-ments Adjust. Account £'000**	**Total Unusable Reserves £'000**	**Total Reserves £'000**	**Council's Share of Subsidiaries, Associates and Joint Ventures £'000**	**Total Group Reserves £'000**
1. Analysis of Other Comprehensive Expenditure and Income															
Net Gain on Sale of Assets	(3,004)	-	-	-	-	(3,004)	-	-	-	-	-	-	(3,004)	(12)	(3,016)
Capital Receipts Received	-	-	6,728	-	-	6,728	-	-	-	-	-	-	6,728	37	6,765
Net Book Value of Asset Disposals	-	-	-	-	-	-	(657)	(54)	-	-	-	(711)	(711)	-	(711)
Long Term Debtor	-	-	-	-	-	-	(106)	-	-	-	-	(106)	(106)	-	(106)
Deficit on Revaluation of Fixed Assets	-	-	-	-	-	-	-	(16,314)	-	-	-	(16,314)	(16,314)	588	(15,726)
Increase in Surplus as a result of increase in holding	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,639)	(1,639)
Increase in Share Capital	-	-	-	-	-	-	-	-	-	-	-	-	-	3,423	3,423
Actuarial Loss in Injury Benefits Reserve	-	-	-	-	-	-	-	-	-	-	-	-	-	(3,368)	(3,368)
Actuarial Loss on Pension Fixed Assets and Liabilities	-	-	-	-	-	-	-	-	(156,432)	-	-	(156,432)	(156,432)	(104,113)	(260,545)
Total	**(3,004)**	**-**	**6,728**	**-**	**-**	**3,724**	**(763)**	**(16,368)**	**(156,432)**	**-**	**-**	**(173,563)**	**(169,839)**	**(105,084)**	**(274,923)**
2. Analysis of Adjustments between accounting basis and funding basis under regulations															
2a. Reversal of items debited or credited to the CIES															
Depreciation and impairment of non-current assets	22,307	14,522				36,829	(36,950)	121				(36,829)	-	-	-
Amortisation of intangible assets	127	-	-	-	-	127	(127)	-	-	-	-	(127)	-	-	-
Capital grants and contributions that have been applied to capital financing	(13,733)	-	-	1,690	-	(12,043)	12,043	-	-	-	-	12,043	-	-	-
Movement in Donated Assets A/C	(3,850)	-	-	-	-	(3,850)	3,850	-	-	-	-	3,850	-	-	-
Revenue expenditure funded from capital under statute	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

GROUP MOVEMENT IN RESERVES STATEMENT – 2009/10

	Usable Reserves						Unusable Reserves								
	General Fund Balance (excl HRA) £'000	**HRA Balance £'000**	**Capital Receipts Reserve £'000**	**Capital Grants Unapplied Account £'000**	**Other Reserves £'000**	**Total Usable Reserves £'000**	**Capital Adjustment Account £'000**	**Revaluation Reserve £'000**	**Pension Reserve £'000**	**Accumu-lated Absences Account £'000**	**Financial Instru-ments Adjust. Account £'000**	**Total Unusable Reserves £'000**	**Total Reserves £'000**	**Council's Share of Subsidiaries, Associates and Joint Ventures £'000**	**Total Group Reserves £'000**
2b. Insertion of items not debited or credited to the CIES															
Statutory Repayment of Debt (Loans Fund Advances)	(9,738)	(6,404)	-	-	-	(16,142)	16,142	-	-	-	-	16,142	-	-	-
Capital expenditure charged to the General Fund Balance (CFCR)	(1,445)	(2,155)	-	-	-	(3,600)	3,600	-	-	-	-	3,600	-	-	-
Statutory Repayment of Debt (Finance Lease Liabilities)	(106)	(1,700)	-	-	-	(1,806)	1,806	-	-	-	-	1,806	-	-	-
Statutory Repayment of Debt (PFI)	(2,015)	-	-	-	-	(2,015)	2,015	-	-	-	-	2,015	-	-	-
Statutory Charge for Lifecycle Capital (PFI)	(1,015)	-	-	-	-	(1,015)	1,015	-	-	-	-	1,015	-	-	-
2c. Adjustments involving the Capital Receipts Reserve															
Capital Receipts applied to fund Capital Expenditure	-	-	(5,423)	-	-	(5,423)	5,423	-	-	-	-	5,423	-	-	-
2d. Adjustments involving the Capital Grants Unapplied Account															
Reversal of unapplied capital grants and contributions credited to the CIES	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Application of grants to capital financing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2e. Adjustments involving the Financial Instruments Adjustment Account															
Amount by which finance costs calculated in accordance with the Code are different from the amount of finance costs calculated in accordance with statutory requirements	(268)	(64)	-	-	-	(332)	-	-	-	-	332	332	-	-	-

GROUP MOVEMENT IN RESERVES STATEMENT – 2009/10

	Usable Reserves						Unusable Reserves								
	General Fund Balance (excl HRA) £'000	**HRA Balance £'000**	**Capital Receipts Reserve £'000**	**Capital Grants Unapplied Account £'000**	**Other Reserves £'000**	**Total Usable Reserves £'000**	**Capital Adjustment Account £'000**	**Revaluation Reserve £'000**	**Pension Reserve £'000**	**Accumu-lated Absences Account £'000**	**Financial Instru-ments Adjust. Account £'000**	**Total Unusable Reserves £'000**	**Total Reserves £'000**	**Council's Share of Subsidiaries, Associates and Joint Ventures £'000**	**Total Group Reserves £'000**
2f. Adjustments involving the Pensions Reserve															
Amount by which pension costs calculated in accordance with the Code (i.e. in accordance with IAS 19) are different from the contributions due under the pension scheme regulations	8,151	563	-	-	-	8,714	-	-	(8,714)	-	-	(8,714)	-	-	-
2g. Adjustments involving the Accumulated Absences Account															
Net transfer to or from earmarked reserves required by legislation	519	25	-	-	-	544	-	-	-	(544)	-	(544)	-	-	-
2h Other Adjustments															
Adjustment between CAA and Revaluation Reserve for depreciation that is related to the revaluation balance rather than Historic Cost	-	-	-	-	-	-	3,985	(3,985)	-	-	-	-	-	-	-
Other Transfers	2,899	(2,899)	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	**1,833**	**1,888**	**(5,423)**	**1,690**	**-**	**(12)**	**12,802**	**(3,864)**	**(8,714)**	**(544)**	**332**	**12**	**-**	**-**	**-**
3. Analysis of transfers to/from Other Statutory Reserves															
Transfer to Insurance Fund	(108)	-	-	-	108	-	-	-	-	-	-	-	-	-	-
Transfer from Repairs and Renewals Fund	1,044	-	-	-	(1,044)	-	-	-	-	-	-	-	-	-	-
Use of Capital Receipts to Repay Debt	1,338	-	(1,338)	-	-	-	-	-	-	-	-	-	-	-	-
Total	**2,274**	**-**	**(1,338)**	**-**	**(936)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

NOTES TO THE GROUP ACCOUNTS

1. Group Accounting Policies

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

2. Analysis of Resources (Group Entities)

Total 2009/10 £'000		Fire and Rescue Board £'000	Police Board £'000	Valuation Board £'000	Falkirk Community Stadium £'000	Common Good Funds £'000	Total 2010/11 £'000
(640)	Accumulated Absences Account	(68)	(487)	(14)	-	-	(569)
295	Other Usable Reserves	438	20	-	-	-	458
(320,175)	Pensions Reserve	(61,238)	(209,969)	(1,801)	-	-	(273,008)
(12,298)	Employee Statutory Adjustment Account (Injury Benefits)	(3,086)	(6,980)	-	-	-	(10,066)
3,423	Share Capital	-	-	-	3,423	-	3,423
3,811	Revaluation Reserve	1,725	1,068	-	-	-	2,793
17,590	Capital Adjustment Account	5,205	12,168	13	-	235	17,621
392	Capital Receipts Reserve	396	75	-	-	-	471
(1,292)	Revenue Account Surplus	706	506	146	(3,686)	843	(1,485)
(308,894)		(55,922)	(203,599)	(1,656)	(263)	1,078	(260,362)

The total Pensions Liability relating to Central Scotland Joint Fire and Rescue Board is £122.992m, as per the latest valuation.

The total Pensions Liability relating to Central Scotland Joint Police Board is £419.628m, as per the latest valuation.

3. Disclosure of Interest in Other Entities

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

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

The Financial Statements in the Group Accounts have been prepared in accordance with the Accounting Policies set out in the Accounting Policies on pages 10 to 27.

4. Group Entities

For the purpose of consolidation and incorporation within the Group Accounts, the Council has one Subsidiary Company (Falkirk Community Stadium Limited) and three Associates (Central Scotland Joint Fire and Rescue Board, Central Scotland Joint Police Board and Central Scotland Joint Valuation Board).

Central Scotland Joint Fire and Rescue Board
This Board is jointly administered by the Councils of Clackmannanshire, Falkirk and Stirling and provides fire and rescue services to the constituent authorities. The accounting period is to 31 March. Falkirk Council is requisitioned for 52.3% of expenditure, based on adjusted population. The accounts are available on the Board's website (www.centralscotlandfire.gov.uk).

Central Scotland Joint Police Board
This Board is jointly administered by the Councils of Clackmannanshire, Falkirk and Stirling and provides police services to the constituent authorities. The accounting period is to 31 March. Falkirk Council is requisitioned for 51.7% of expenditure, based on Grant Aided Expenditure. The accounts are available on the Board's website (www.centralscotland.police.uk).

Central Scotland Joint Valuation Board
This Board is jointly administered by the Councils of Clackmannanshire, Falkirk and Stirling and appoints an Assessor for the valuation area who also acts as Electoral Registration Officer. The accounting period is to 31 March. Falkirk Council is requisitioned for 49.2% of expenditure, based on adjusted population. The accounts are available from Clackmannanshire Council.

FCSL (Holdings) Ltd and Falkirk Community Stadium Limited (FCSL)
The Council owns 100% of the share capital of FCSL (Holdings) Ltd, which in turn owns all of the share capital of Falkirk Community Stadium Ltd. The principal activity of both companies is the operation of a stadium at Westfield, Falkirk. The accounts are available from the FCSL Company Secretary, Municipal Buildings, Falkirk. The accounting period is to 31 March.

NOTES TO THE GROUP ACCOUNTS

Common Good Funds
Falkirk Council administers the Common Good Account for the four former Town Councils of Bo'ness, Grangemouth, Falkirk and Denny. These funds can only be used for a limited range of purposes. They are not assets of the Council and are not included in the Council's Balance Sheet, however, they have been included in the Group Account Statements and consolidated in full. The accounting period is to 31 March.

5. Nature of Combination

The Council has accounted for its interest in each Associate by the merger method of accounting.

With regard to the three Joint Boards, the Council's interest reflects the requisition share paid by the Council. Goodwill has not arisen as no consideration was paid for such interests.

The Council has accounted for its interest in its Subsidiary using the acquisition method of accounting. In all instances, the consideration paid by the Council equalled the fair value of the assets and liabilities acquired and, therefore, no goodwill arose on acquisition.

All intra-group transactions have been eliminated from the Group Accounts as part of the consolidation process.

6. Financial Impact of Consolidation

By including the associate bodies (details of which are shown in Note 4 above), the effect on the Group Balance Sheet is a reduction in both Reserves and Net Assets of £260.362m. This represents the Council’s share of the net liabilities in those entities.

7. Falkirk Community Trust

Falkirk Council has agreed to establish Falkirk Community Trust Ltd and its trading subsidiary, Falkirk Community Trading Ltd to deliver services on behalf of the Council. From 2012/13 the Trust will require to be considered for incorporation into the Group Accounts.

7(a). Amounts Reported for Resource Allocation Decisions 2010/11

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

- the cost of retirement benefits is based on cashflows (payment of employer's pensions contributions) rather than current service cost of benefits accrued in the year.

The income and expenditure of the Council's principal portfolios recorded in the budget reports for the year is as follows:-

Portfolio Income and Expenditure	Education	Social Work	Development Services	Community Services	Corporate & N'hood Services	Miscell. Services	Joint Boards	Trading Accounts	HRA	Other Costs	Total
2010/11	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Income	(22,733)	(32,172)	(19,352)	(9,628)	(62,725)	(4,472)	-	(39,011)	(49,431)	-	**(239,524)**
Total Income	**(22,733)**	**(32,172)**	**(19,352)**	**(9,628)**	**(62,725)**	**(4,472)**	**-**	**(39,011)**	**(49,431)**	**-**	**(239,524)**
Employee Expenses	97,351	37,665	15,161	13,270	17,400	3,951	-	16,418	6,483	-	**207,699**
Property Expenses	11,973	2,265	3,062	4,731	1,620	707	-	391	22,155	-	**46,904**
Transport Expenses	3,132	1,116	666	180	7,632	-	-	3,957	34	-	**16,717**
Supplies & Services	12,618	2,923	5,429	3,784	5,334	1,276	-	7,460	3,192	-	**42,016**
Third Party Expenses	29,853	59,318	15,374	557	1,307	3,707	22,297	8,021	1,288	-	**141,722**
Transfer Payments	757	3,371	446	-	38,684	-	-	-	-	-	**43,258**
Support Costs	19,166	7,058	4,827	3,702	4,325	5,471	-	1,241	3,528	(466)	**48,852**
Capital Charges	8,026	584	3,601	2,027	2,062	15	-	143	12,294	1,134	**29,886**
Exceptional Item	-	-	-	-	-	3,629	-	-	-	-	**3,629**
TOTAL EXPENDITURE	**182,876**	**114,300**	**48,566**	**28,251**	**78,364**	**18,756**	**22,297**	**37,631**	**48,974**	**668**	**580,683**
NET EXPENDITURE	**160,143**	**82,128**	**29,214**	**18,623**	**15,639**	**14,284**	**22,297**	**(1,380)**	**(457)**	**668**	**341,159**

Reconciliation of Portfolio Income and Expenditure to Cost of Services in Comprehensive Income and Expenditure Statement

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

	£'000
Net Expenditure in the Portfolio Analysis	341,159
Net expenditure of services and support services not included in the Analysis	1,379
Amount of Subsidiaries consolidated on a line by line basis	217
Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis	(4,832)
Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Statement	(3,774)
Cost of Services	**334,149**

NOTES TO THE GROUP ACCOUNTS

Reconciliation to Subjective Analysis

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

	Portfolio Analysis £'000	Services not in Analysis £'000	Not reported to Management £'000	Not included in CIES £'000	Allocation of Recharges £'000	Allocation of Supp Services £'000	Effect of Including Group Accounts £'000	Net Cost of Services £'000	Corporate Amounts £'000	Total £'000
Income	(239,524)	39,011	2,702	371	48,043	-	(503)	(149,900)	(67,956)	**(217,856)**
Surplus or (Deficit) on associates and joint ventures	-	-	-	-	-	-	(19,513)	(19,513)	-	**(19,513)**
Interest and investment income	-	-	-	-	-	-	-	-	(478)	**(478)**
Government grants and contributions	-	-	-	-	-	-	-	-	(296,166)	**(296,166)**
Income from council tax	-	-	-	-	-	-	-	-	(59,643)	**(59,643)**
Total Income	**(239,524)**	**39,011**	**2,702**	**371**	**48,043**	**-**	**(20,016)**	**(169,413)**	**(424,243)**	**(593,656)**
Employee Expenses	207,699	(16,419)	(52,573)	243	(8,293)	14,340	120	145,117	16,419	**161,536**
Property Expenses	46,904	(391)	(668)	-	(823)	1,373	213	46,608	391	**46,999**
Transport Expenses	16,717	(3,957)	-	-	(5,194)	29	5	7,600	3,957	**11,557**
Supplies & Services	42,016	(7,460)	(53)	(4,388)	(1,411)	3,144	101	31,949	9,321	**41,270**
Third Party Expenses	141,722	(8,021)	(16,915)	-	(2,515)	274	-	114,545	8,021	**122,566**
Transfer Payments	43,258	-	-	-	(53)	-	-	43,205	-	**43,205**
Support Service recharges	48,852	(1,241)	102	-	(28,553)	(19,160)	-	-	-	**-**
Depreciation, amortisation and impairment	29,886	(143)	62,573	-	(1,201)	-	281	91,396	143	**91,539**
Interest Payments	-	-	-	-	-	-	18	18	58,748	**58,766**
Gain or Loss on Disposal of Non-Current Assets	3,629	-	-	-	-	-	-	3,629	-	**3,629**
Total Expenditure	**580,683**	**(37,632)**	**(7,534)**	**(4,145)**	**(48,043)**	**-**	**738**	**484,067**	**97,000**	**581,067**
(Surplus) or Deficit on the Provision of Services	**341,159**	**1,379**	**(4,832)**	**(3,774)**	**-**	**-**	**(19,278)**	**314,654**	**(327,243)**	**(12,589)**

NOTES TO THE GROUP ACCOUNTS

7(b). Amounts Reported for Resource Allocation Decisions 2009/10

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

- the cost of retirement benefits is based on cashflows (payment of employer's pensions contributions) rather than current service cost of benefits accrued in the year.

The income and expenditure of the Council's principal portfolios recorded in the budget reports for the year is as follows:-

Portfolio Income and Expenditure	Education	Social Work	General Fund Housing	Development Services	Community Services	Corporate & N'hood Services	Miscell. Services	Joint Boards	Trading Accounts	HRA	Other Costs	Total
2009/10	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Income	(13,224)	(30,610)	(38,878)	(8,698)	(16,220)	(14,038)	(5,236)	-	-	(48,069)	(503)	**(175,476)**
Total Income	**(13,224)**	**(30,610)**	**(38,878)**	**(8,698)**	**(16,220)**	**(14,038)**	**(5,236)**	**-**	**-**	**(48,069)**	**(503)**	**(175,476)**
Employee Expenses	97,162	37,111	1,374	11,882	17,057	11,575	2,926	-	-	6,529	-	**185,616**
Property Expenses	11,908	1,928	673	1,723	5,776	837	196	-	-	21,648	-	**44,689**
Transport Expenses	3,274	1,082	50	466	312	6,731	-	-	-	64	-	**11,979**
Supplies & Services	9,513	2,903	2,084	5,088	4,750	1,937	1,464	-	-	3,635	-	**31,374**
Third Party Expenses	28,257	59,498	490	10,401	4,103	203	1,609	25,079	(1,353)	1,031	-	**129,318**
Transfer Payments	885	3,379	36,485	-	-	-	-	-	-	-	-	**40,749**
Support Costs	9,646	6,843	1,161	3,087	2,998	2,418	5,299	-	-	3,761	(379)	**34,834**
Capital Charges	12,229	491	78	2,275	4,113	1,705	52	-	-	12,010	(3,399)	**29,554**
TOTAL EXPENDITURE	**172,874**	**113,235**	**42,395**	**34,922**	**39,109**	**25,406**	**11,546**	**25,079**	**(1,353)**	**48,678**	**(3,778)**	**508,113**
NET EXPENDITURE	**159,650**	**82,625**	**3,517**	**26,224**	**22,889**	**11,368**	**6,310**	**25,079**	**(1,353)**	**609**	**(4,281)**	**332,637**

Reconciliation of Portfolio Income and Expenditure to Cost of Services in Comprehensive Income and Expenditure Statement

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

		Adj. for Trading	
	£'000	**£'000**	**£'000**
Net Expenditure in the Portfolio Analysis	332,637	-	332,637
Net expenditure of services and support services not included in the Analysis	-	-	-
Amount of Subsidiaries consolidated on a line by line basis	201	-	201
Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis	(12,400)	(71)	(12,471)
Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Statement	6,739	-	6,739
Cost of Services	**327,177**	**(71)**	**327,106**

NOTES TO THE GROUP ACCOUNTS

Reconciliation to Subjective Analysis

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

	Portfolio Analysis £'000	Services not in Analysis £'000	Not reported to management £'000	Not included In CIES £'000	Allocation of Recharges £'000	Allocation of Supp Services £'000	Effect of Including Group Accounts £'000	Net Cost of Services £'000	Corporate Amounts £'000	Total £'000
Income	(174,044)	-	420	503	33,287	-	(444)	(140,278)	(65,151)	**(205,429)**
Surplus or Deficit on associates and joint ventures	-	-	-	-	-	-	13,951	13,951	-	**13,951**
Interest and investment income	-	-	-	-	-	-	-	-	(527)	**(527)**
Government grants and contributions	-	-	1,267	-	-	-	-	1,267	(291,374)	**(290,107)**
Income from council tax	-	-	-	-	-	-	-	-	(59,364)	**(59,364)**
Total Income	**(174,044)**	**-**	**1,687**	**503**	**33,287**	**-**	**13,507**	**(125,060)**	**(416,416)**	**(541,476)**
Employee Expenses	184,184	-	(1,519)	1,419	(5,846)	6,442	139	184,819	3,004	**187,823**
Property Expenses	44,689	-	-	-	(1,116)	1,229	178	44,980	-	**44,980**
Transport Expenses	11,979	-	-	-	(4,566)	5,030	4	12,447	-	**12,447**
Supplies & Services	31,374	-	642	-	(1,707)	1,880	90	32,279	-	**32,279**
Third Party Expenses	129,318	-	(16,959)	1,430	(3,222)	3,549	-	114,116	41,010	**155,126**
Transfer Payments	40,749	-	-	-	(150)	165	-	40,764	-	**40,764**
Support Service recharges	34,834	-	258	(12)	(15,642)	(19,438)	-	-	-	**-**
Depreciation, amortisation and impairment	29,554	-	3,420	3,399	(1,038)	1,143	229	36,707	-	**36,707**
Interest Payments	-	-	-	-	-	-	15	15	50,749	**50,764**
Gain or Loss on Disposal of Non-Current Assets	-	-	-	-	-	-	-	-	(3,004)	**(3,004)**
Total Expenditure	**506,681**	**-**	**(14,158)**	**6,236**	**(33,287)**	**-**	**655**	**466,127**	**91,759**	**557,886**
Group Surplus or Deficit	**332,637**	**-**	**(12,471)**	**6,739**	**-**	**-**	**14,162**	**341,067**	**(324,657)**	**16,410**

GLOSSARY OF TERMS

While much of the terminology used in this report is intended to be self-explanatory, the following additional definitions and interpretation of terms may be of assistance.

1. **Accumulated Absences Account**
The account holds the monetary value of annual leave accrued but untaken by employees as at the balance sheet date. The majority of the balance in this account will be in respect of teachers' annual leave as their leave is fixed and the majority of it falls in July and August each year.

2. **Administration**
This includes printing, stationery, advertising, postages, telephone costs and central/departmental support allocations for administration.

3. **Associate**
This is an entity other than a subsidiary or joint venture in which the reporting Council has a participating interest and over whose operating and financial policies the Council is able to exercise significant influence.

4. **Available For Sale Financial Instruments Reserve**
This fund is a store of gains on the revaluation of investments not yet realised through sales. This reserve is a technical accounting presentation and is not available for distribution.

5. **Capital Adjustment Account**
The Capital Adjustment Account is the store of capital resources set aside to meet past expenditure. This account is a technical accounting presentation and is not available for distribution.

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

7. **Capital Expenditure**
This is expenditure incurred in creating, acquiring or improving assets where the expenditure is normally financed by borrowing with repayment over a period of years, or by utilising the income from the sale of existing assets.

8. **Capital Financed from Current Revenue**
This heading covers the costs of creating, acquiring or improving assets where the expenditure is charged directly to the Revenue Account.

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

10. **Capital Receipts Reserve**
This represents the capital receipts that are available to finance capital expenditure in future years, after setting aside the statutory amounts for the repayment of external loans.

11. **Corporate & Democratic Core**
This includes the costs of policy making and all other Councillor based activities together with costs which relate to the general running of the Council. The Service Reporting Code of Practice stipulates that such costs are to be excluded from the "total cost" relating to service activity.

12. **Employee Costs**
This includes salaries, wages, overtime, bonus, enhancements, employer's pension and national insurance contributions, travelling and subsistence expenses in addition to other employee allowances.

13. **Entity**
A body corporate, partnership, trust, unincorporated association, or statutory body that is delivering a service, or carrying on a trade or business, with or without a view to profit. It should have a separate legal persona and is legally required to prepare its own single-entity accounts.

14. Financial Instruments Adjustment Account
This is a balancing account to allow for differences in statutory requirements and proper accounting practices for borrowing and lending. This account is a technical accounting presentation and is not available for distribution.

15. Financing Costs
This includes the costs of financing the sums borrowed by the Council to cover the capital repayment of loans, interest charges and debt management expenses, as well as external repayments for operational leases.

16. Fixed or Non-Current Assets
These are created by capital expenditure incurred by the Council. They include property, vehicles, plant, machinery, roads, computer equipment, etc.

17. Generally Accepted Accounting Practice in the UK (UK GAAP)
This is the overall body of regulation that established how company and local authority accounts had to be prepared in the United Kingdom (prior to the transition to International Financial Reporting Standards).

18. Gross Expenditure
This includes all expenditure attributable to the service and activity including employee costs, expenditure relating to premises and transport, supplies and services, third party payments, support services and capital charges.

19. Gross Income
This includes the charges to individuals and organisations for the direct use of the Council's services.

20. Joint Venture
This is an entity in which the Council has an interest on a long-term basis and is jointly controlled by the Council and one or more entities under a contractual or other binding agreement.

21. Non-Distributable Costs
These costs cannot be allocated to specific services and are, therefore, excluded from the total cost relating to service activity in accordance with the Service Reporting Code of Practice. Charges for added pension years and early retirement are examples of these costs.

22. Payments to Other Bodies
This includes grants to individuals and organisations, bursaries as well as payments to other local authorities, Health Boards, Joint Boards and organisations providing services that complement or supplement the work of the Council.

23. Pension Reserve
This represents the difference between accounting for pension costs in line with UK Accounting Standards, and the funding of pension costs from taxation in line with statutory requirements, and is equal to the change in the pension liability (i.e. the commitment to provide retirement benefits).

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

25. Revaluation Reserve
This fund is a store of gains on the revaluation of fixed assets not yet realised through sales. This reserve is a technical accounting presentation and is not available for distribution.

26. Specific Government Grant
This includes grants received from Central Government in respect of a specific purpose or service (e.g. housing benefit, education, community regeneration, or community services).

27. Supplies & Services
This includes food, materials, books, uniforms, protective clothing, the purchase of equipment, the purchase of tools, the maintenance of equipment or tools, and various services that are conducted by external contractors.

28. Transfer Payments
This includes the cost of payments to individuals for which no goods or services are received in return by the local authority e.g. Housing Benefit.

29. Transport Costs
This includes the costs of operating vehicles and plant such as fuel, repairs, maintenance, tyres, licences, insurance and the procurement of transport for school children.

30. Various Other Costs
This relates to items of expenditure that do not fall into any of the other categories.

INDEPENDENT AUDITOR'S REPORT

Independent auditor's report to the members of Falkirk Council and the Accounts Commission for Scotland
I certify that I have audited the financial statements of Falkirk Council and its group for the year ended 31 March 2011 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the group and authority-only Comprehensive Income and Expenditure Statements, Movement in Reserves Statements, Balance Sheets and Cash-Flow Statements, and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 (the 2010/11 Code).

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 123 of the Code of Audit Practice approved by the Accounts Commission for Scotland, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Respective responsibilities of the Chief Finance Officer and auditor
As explained more fully in the Statement of Responsibilities, the Chief Finance Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

Opinion on financial statements
In my opinion the financial statements:

- give a true and fair view in accordance with applicable law and the 2010/11 Code of the state of the affairs of the group and Falkirk Council as at 31 March 2011 and of the income and expenditure of the group and Falkirk Council for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2010/11 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973 and the Local Government in Scotland Act 2003.

Opinion on other prescribed matters
In my opinion:

- the part of the remuneration report to be audited has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 1985; and

- the information given in the Foreword by the Chief Finance Officer for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I am required to report by exception
I am required to report to you if, in my opinion:

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

I have nothing to report in respect of these matters.

Mark Taylor CPFA
Assistant Director
Audit Scotland
Osborne Terrace
1/5 Osborne House
Edinburgh EH12 5HG

30 September 2011

AGENDA ITEM 3

FALKIRK COUNCIL

Subject:	**CORPORATE GOVERNANCE ARRANGEMENTS – KEY FINANCIAL SYSTEMS CONTROLS**
Meeting:	**AUDIT COMMITTEE**
Date:	**31 October 2011**
Author:	**CHIEF FINANCE OFFICER**

1. INTRODUCTION

1.1 I attach a report from the Council's Auditor following his 2010/11 review of the Systems of Internal Control.

2. FINDINGS

2.1 The External Auditor has commented that high level controls were operating satisfactorily in overall terms. However, there is some scope for improvement and the report includes an Action Plan which contains 13 points for action which are being followed-up by senior management.

3. RECOMMENDATION

3.1 Members are invited to note the External Auditor's report and the proposed management actions.

Chief Finance Officer

Date: 1 September 2011

Contact Officer: Dougie McGregor

LIST OF BACKGROUND PAPERS

NIL

AGENDA ITEM 4

FALKIRK COUNCIL

Subject: INTERNAL AUDIT PROGRESS REPORT
Meeting: AUDIT COMMITTEE
Date: 31 October 2011
Author: INTERNAL AUDIT MANAGER

1. INTRODUCTION

1.1 The purpose of this paper is to update Members on progress with completing the agreed 2011/12 Internal Audit Plan (the Plan), as presented to the Audit Committee on 21 March 2011. The report also includes information on Continuous Auditing work and the Section's performance against established performance indicators.

2. AUDIT PROGRESS

2.1 Good progress is being made with planned 2011/12 Internal Audit work, with 10 audits complete to final or draft report stage and a further 6 in progress. The following tables summarise the year to date position, with more detail provided at **Appendix 1**.

Status	Number	%
Final Reports Issued	9	38%
Draft Reports Issued	1	4%
Audits In Progress	6	25%
Audits Not Started	8	33%
Total	**24** [1]	**100%**

Adjustments to Plan During 2011/12	
Audits Added During Year	3
Audits Deferred During Year	0

2.2 It is normal for changes to be made to the Internal Audit Plan over the course of the year as new risks emerge and priorities change. To that end, work has been completed, or is underway, on three additional reviews (One Stop Shop Administrative Procedures and Cash Counts, Performance Indicator Validation, and Senior Officer Financial Information). These reviews are being undertaken either at the request of, or in agreement with, senior managers.

[1] NOTE this does not include Continuous Auditing work – reported separately at Section 3.

2.3 At present, it is my intention to complete this additional work within existing resource (utilising an element of the ad hoc / contingency allowance included in our 2011/12 Plan). Members should note, however, that further requests on Internal Audit resource may require adjustments to be made to the Plan for the remainder of the year, with the possibility of deferral of work into 2012/13. For example, separate audit / review work on contract management and procurement is likely to require input from Internal Audit, and the impact of any call on Internal Audit resource will be reported to Audit Committee in due course.

2.4 As normal, for each of the reviews completed to draft or final report stage, Internal Audit has provided an assurance in respect of arrangements for risk management, governance, and control (see **Appendix 2** for definitions and **Appendix 3** for key findings arising from each review completed to final report stage).

2.5 In overall terms, it has been pleasing to note that the level of control being applied by Officers remains reasonable and proportionate, and that the priority afforded to risk, governance, and control matters remains appropriate, particularly as the Council moves through a period of change.

2.6 We were, however, able to provide only limited assurance in relation to arrangements for Corporate Data Security and Transfer. In particular, there was a need to ensure that all flows of information and data in to and out of the Council, as well as between Council Services, are known, documented, and subject to the appropriate level of security. The Corporate Risk Register recognises 'Information Risk' as a key risk category and, in order to ensure that information and data is subject to the proper level of risk assessment and security, IT Strategy Group has agreed to take a central role in monitoring Services' progress with creating and maintaining comprehensive Data Handling Registers.

2.7 Related to that, we raised a concern in our Payment Card Industry Data Security Standard report on the extent to which credit and debit card details are included on receipts printed by point of sale terminals. We have been advised that the implementation of the corporate payment system, which is to be undertaken on a phased basis over the coming months, will address this risk (and area of non-compliance with the Standard).

2.8 In addition, I am pleased that recommendations made previously by Internal Audit relating to the development of a System Security Statement (SSS) and Access Control Policy (ACP) for all key corporate systems have been accepted, with these now in place for a number of systems. The SSS/ACP provide a framework for documenting and managing system (and, therefore, information and data) security and should, in our view, form a necessary and routine element the Council's system security framework.

3. CONTINUOUS AUDITING

3.1 Continuous Auditing arrangements commenced in November 2010 and, initially, the focus of this work was on the accuracy and validity of creditors payments. Although the review of creditors payments remains ongoing, work has also been undertaken on the following areas:

- overtime (various Services);
- travel expenses (various Services);
- car park income;
- car leases; and
- roads inspections.

3.2 The work on car park income and car leases provided assurance that controls were operating effectively. We did, however, note some scope for ensuring that roads inspections and required repairs are undertaken in line with agreed inspection and repair schedules / timescales.

3.3 Overtime and Travel arrangements have been subject to significant recent Internal Audit coverage (main audits undertaken in 2009/10 and 2010/11 respectively, as well as Continuous Audit work). In our view, the application of controls in both areas appears to be improving, although there remains a need to ensure that the checking and authorisation of claims is carried out robustly and consistently across all Council Services.

3.4 Finally, since April 2011 our work on creditors payments has identified 27 duplicate payments totalling c£27k. Recovery action has been taken and, in every case, monies have either been repaid or credit notes issued.

4. INTERNAL AUDIT PERFORMANCE AND COLLABORATION

4.1 Internal Audit continues to monitor its performance against a set of 5 Key Performance Indicators. The table below sets out performance to date.

Key Performance Indicator	2011/12 Performance to October 2011	2010/11 Performance
Complete **85%** of main audit programme	40%	100%
Have **90%** of recommendations accepted	100%	100%
Spend **75%** of time on direct audit work	79%	78%
Issue **75%** of draft reports within 3 weeks of completion of fieldwork	100%	88%
Complete (to issue of final report) **75%** of main audits within budget	89%	88%

4.2 Performance is largely consistent with 2010/11, with audit reports drafted and issued promptly and reviews, in general, completed within budget. I am content that Internal Audit is on target to meet or exceed all five performance measures.

4.3 With regard to joint working and collaboration, it is likely that the peer review of Falkirk Council's Internal Audit section by West Lothian Council's Internal Audit Manager will be undertaken during November / December 2011. The results of this peer review, which will independently measure our compliance with relevant CIPFA Internal Audit guidance, will be reported to Members at the March Meeting of the Audit Committee.

4.4 Continued membership of the Scottish Local Authorities Chief Internal Auditors Group (SLACIAG) allows wider discussion on national issues, and I have attached, for information, a copy of the 2010/11 SLACIAG Annual Report at **Appendix 4**. This provides a summary of the Group's activity over the course of the year, and hopefully demonstrates the benefits of continued involvement with the Group.

4.5 Finally, the Section's approach to auditing the risks relating to the potential and actual impact of Serious Organised Crime on public authorities has generated interest across various public sector Internal Audit groups. In particular, representatives of Falkirk Council Internal Audit have recently delivered presentations to the CIPFA Scottish Audit Group and to the CIPFA Procurement and Contract Audit Conference, with a further presentation to be made to the London Audit Group in November.

5. RECOMMENDATIONS

5.1 Members are invited to note that:

5.1.1 progress being made in completing planned work is as reported at paragraph 2.1;

5.1.2 work in relation to Continuous Auditing is as set out at Section 3;

5.1.3 performance against KPIs is as reported at paragraph 5.1.

…..

Internal Audit Manager

Date: 21 October 2011

2011/12 INTERNAL AUDIT PLAN – PROGRESS AT OCTOBER 2011

No.	Service/Status	Audit	Level of Assurance
	Final Reports Issued		
1.	Development	Food and Safety Regulation Unit	Comprehensive
2.	All Services	Payment Card Industry Data Security Standards	Limited
3.	Chief Executive Office - Finance	Pension Fund – Governance Compliance Statement	Substantial
4.	Chief Executive Office - Finance	Integra System Management and Security	Substantial
5.	All Services	Statutory Performance Indicators	Substantial
6.	All Services	Corporate Data Security and Transfer	Limited
7.	Corporate and Neighbourhood	IT Contract Management	Substantial
8.	Education	Carrongrange School (Administrative Procedures and Cash Count)	Substantial
9.	Chief Executive Office - Finance	One Stop Shop Visits (Administrative Procedures and Cash Count) [2]	N/A
	Draft Reports Issued		
10.	Social Work	Non-Residential Social Care Services Charging Policy – Post Implementation Review	N/A
	Audits In Progress		
11.	Education / Development	Commissioning and Monitoring of Major School Improvement Projects	TBC
12.	Corporate and Neighbourhood	Procon System Security and Management	TBC
13.	All Services	National Fraud Initiative	TBC
14.	CSFRS	Property Maintenance and Business Continuity Management	TBC
15.	All Services	Performance Indicator Validation [2]	TBC
16.	All Services	Senior Officer Financial Information [2]	TBC
	Continuous Auditing		
17.	All Services	Complete: Overtime, Duplicate Payments, Car Park Income, Car Leases, Roads Inspections	N/A
18.	All Services	On-going: Duplicate Payments, Short Term Vehicle Hire, Travel Expenses	N/A

[2] Additional Audits – undertaken at the request of, or in agreement with, senior managers.

No.	Service/Status	Audit	Level of Assurance
	Audits Not Started		
19.	Development	Corporate Risk Management Arrangements	TBC
20.	Development	Roads Maintenance	TBC
21.	Chief Executive Office - Finance	Redundancy and Severance Arrangements	TBC
22.	Corporate and Neighbourhood	IHMS System Security and Management	TBC
23.	Development	Tax Incremental Finance Scheme	TBC
24.	West Lothian Council	Peer Review of Internal Audit Section	TBC
25.	West Lothian Council	Reciprocal Audit Review	TBC
26.	Falkirk Community Trust	Set Up Arrangements, Service Level Agreements, and Cash Counts	TBC

DEFINITION OF INTERNAL AUDIT ASSURANCE CATEGORIES

Level of Assurance	Definition
Comprehensive assurance	Sound systems for risk, control, and governance are in place and should be effective in mitigating risks to the achievement of business and control objectives. Some improvements to existing controls in a few, relatively minor, areas may be required.
Substantial assurance	The systems for risk, control, and governance are largely satisfactory, but there is some scope for improvement as the present arrangements could undermine the achievement of business and/or control objectives and/or leave them vulnerable to some risk of error/abuse.
Limited assurance	The systems for risk, control, and governance have some satisfactory aspects, but contain a number of significant weaknesses that are likely to undermine the achievement of business and/or control objectives and leave them vulnerable to an unacceptable risk of error/abuse.
No assurance	The systems for risk, control, and governance are ineffectively designed and/or are operated ineffectively such that business and/or control objectives are not being achieved and the risk of serious error/abuse is unacceptable. Significant improvements are required.

FINAL REPORTS ISSUED - SUMMARY OF KEY FINDINGS 2011/12

No	Audit Area and Service	Assurance and Key Findings
1.	Food Hygiene and Safety Inspection Arrangements Development Services	**Comprehensive Assurance** Covered roles, responsibilities, policies, guidance, and training, systems for planning and undertaking inspections, enforcement arrangements, and the adequacy of management information. Sound systems of control were in place, with staff clear about their roles and responsibilities. A robust inspection programme had been established, with regular audits undertaken by the Food Standards Agency. Some scope for improving food sampling arrangements.
2.	Payment Card Industry Data Security Standards All Services	**Limited Assurance** Internal Audit visited a sample of sites where card payments are received and processed to determine local compliance with the PCI DSS. We found in all areas visited that there was scope for improving arrangements, particularly in relation to the receipts produced by point of sale terminals. The implementation of the Corporate Payments Strategy will ensure that no cardholder data is held by the Council (and, therefore, compliance with the PCI DSS).
3.	Pension Fund – Governance Compliance Statement Chief Executive Office - Finance	**Substantial Assurance** Internal Audit reviewed and validated the information set out in the Compliance Statement to confirm whether the reported status was accurate and appropriate. We concluded that the Statement had been prepared in line with the relevant Scottish Public Pensions Agency guidance. We did, however, make recommendations relating to the content and structure of the Governance Framework Document, in particular relating to the documentation of pension fund risks and the inclusion of details relating to the roles and responsibilities of Pension Fund stakeholders.

No	Audit Area and Service	Assurance and Key Findings
4.	Integra System Management and Security Chief Executive Office - Finance	**Substantial Assurance** Covered security roles and responsibilities, systems documentation, physical and environmental controls, access management at operating system, database, and application levels, and arrangements for ensuring the continuity of service provision. In general, we found controls to be sound, with clarity around roles and responsibilities and close working between the relevant Officers in Accountancy and ICT. We did, however identify areas for improvement, particularly around the need for a System Security Statement and Access Control Policy. There was also scope for improving elements of operational system security, and for enhancing business continuity planning arrangements.
5.	Statutory Performance Indicators All Services	**Substantial Assurance** Reported on Internal Audit's role in collecting and validating SPI returns prepared by Services. For each of the SPIs falling within Internal Audit's remit, we found that the information gathered for publication was accurate and complete.
6.	Corporate Data Security and Transfer All Services	**Limited Assurance** Covered roles and responsibilities, compliance with the Council's Information Security Policy, arrangements for documenting the type and volume of data held, and for the identification and documentation of internal and external data flows and transfers. We found there to be scope for improving information management arrangements. The exercise to create Data Handling Registers has yet to be completed, and governance and accountability arrangements relating to responsibilities for overseeing corporate information security management require to be clarified. In addition, further consideration requires to be given to the need for information sharing protocols for each separate data sharing instance (building on the existing Forth Valley ISP).

No	Audit Area and Service	Assurance and Key Findings
7.	IT Contract Management Corporate and Neighbourhood Services	**Substantial Assurance** Covered roles and responsibilities, documented contract management arrangements, financial control and risk management, and contingency arrangements. We found that, in general, sound systems of control were in place, with the need to properly and actively manage IT contracts well understood. There was, however, scope for improving consistency in the management of corporate systems, for example by ensuring that a System Security Statement, Access Control Policy, and Contract Monitoring Form is in place for each. There was also some scope for further improving license monitoring and business continuity planning arrangements.
8.	Administrative Procedures and Cash Count – Carrongrange School Education Services	**Substantial Assurance** Internal Audit reviewed cash and general administration arrangements at Carrongrange School. We made a number of recommendations relating to local arrangements but, in general, found controls to be reasonable and proportionate.
9.	Administrative Procedures and Cash Count – One Stop Shops Chief Executive Office - Finance	Internal Audit reviewed cash and general administration arrangements at Bo'ness, Bonnybridge, Callendar Square, Camelon, Denny, Grangemouth and Stenhousemuir One Stop Shops, and the Dawson Centre Cash Office. While arrangements were generally sound, there was scope for improving arrangements across all One Stop Shops, particularly in relation to security and record keeping.

No	Audit Area and Service	Assurance and Key Findings
10.	Continuous Auditing All Services	**N/A – Ongoing Reporting and Assurance** Work has focussed on: • duplicate creditors payments; • overtime; • travel expenses; • car leases; • car park income; • roads inspections. Findings arising from continuous audit work have allowed us to conclude that: • the Council's Car Contract Hire Scheme is being properly controlled and applied; • security and administrative arrangements around the collection of car park income are robust. We identified a number of duplicate creditors payments, with subsequent recovery action taken and monies repaid / credit notes issued in every case. There remains a need to ensure the more rigorous application of controls in relation to the checking and authorisation of overtime and travel claims, with some evidence of erroneous payments. In addition, our work on roads inspections confirmed that there is scope for improving the extent to which inspections are undertaken in line with the agreed schedule.

SCOTTISH LOCAL AUTHORITIES
Chief Internal Auditors' Group

ANNUAL REPORT FROM THE CHAIRMAN – 2010/2011

The production of an annual report on the work of SLACIAG was identified as an improvement action which would allow the Group to communicate more effectively on its workings. This second annual report has been prepared to inform relevant stakeholders and other interested parties of the work carried out by SLACIAG during the year to 30 June 2011.

Purpose
The purpose of SLACIAG is to develop and improve the practice of Internal Audit in Scottish Local Authorities, Police, Fire and Public Transport bodies by providing a forum for Chief Internal Auditors to meet and discuss issues of common concern. The Group seeks to further this objective by a range of activities including inviting external speakers to attend meetings of the Group, commissioning work to develop audit approaches and methodologies on new and emerging issues, facilitating the sharing of good practice, working in partnership with other professions / governing bodies, and promoting SLACIAG more generally as the representative body for Internal Audit in Scottish public authorities.

Membership
Membership of SLACIAG comprises the Chief Internal Auditor from each Scottish Council, together with Chief Internal Auditors from Strathclyde Police and Strathclyde Partnership for Transport. A management committee is elected every two years comprising four office bearers and a number of ordinary committee members. The committee membership during the year comprised Kenneth Ribbons, West Lothian Council (Chairman), Janine Wilson, Angus Council (Vice Chairman), Jill Stacey, Scottish Borders Council (Secretary) and Hugh McLaughlin, South Ayrshire Council (Treasurer) and five appointed others.

Meetings
SLACIAG held three formal meetings during the year to 30 June 2011 at various venues hosted by its members (a fourth was scheduled but due to adverse weather condition had to be cancelled). Meetings are generally well-attended (see below) but attendance does fluctuate and the Committee will continue to actively seek members' views to ensure that the frequency, structure and content of future meetings meet members' needs. Members of SLACIAG are reminded that they may nominate a substitute attendee for any meeting of the Group who may act in decisions at that meeting as if they were a full member and I would encourage members to do so where this is practical.

The attendance at the SLACIAG meetings throughout the year to 30 June 2011 was as follows:

Meeting	June 2010	September 2010	December 2010	March 2011
Venue	Falkirk	Irvine	Glasgow	Dundee
Attendees	20	22	cancelled	24

One of the meetings (June 2010) also served the purpose of the Annual General Meeting to approve the accounts and appoint the following year's auditor.

A key part of every meeting is the opportunity provided by the attendance of a range of external speakers to present on subjects of interest and relevance to Chief Internal Auditors. The table overleaf summarises the presentations that have been made at meetings for the purpose of discussing issues of common interest and sharing good practice:

Presenter	Date	Topic
Chief Supt Alan Moffat and Detective Chief Inspector Ronnie Megaughin, Scottish Crime and Drug Enforcement Agency	June 2010	The role of SCDEA, an overview of SCDEA interventions strategy and the initiatives underway, the risks presented by serious organised crime to functions in Local Authorities, and the experience of SCDEA collaborative work with Internal Audit at Falkirk Council.
Campbell McLundie of Scott-Moncrieff and Jonathan Fallis of Zero Waste Scotland	June 2010	The environmental impacts affecting Local Authorities, the recent increase in policy and regulation around energy efficiency, case study examples, and the role of Internal Audit.
Billy McGilvray, Scotland Excel	June 2010	The role of Scotland Excel and its development, some of the collaborative procurement that is underway, Procurement Reform including the learning and development programme, and the Procurement Capability Assessment process.
Alan Geddes, Depute Chief Executive and Director of Finance at The Highland Council	September 2010	A Director of Finance perspective on how Internal Audit should respond within the context of challenging financial circumstances facing Councils to best support a Director of Finance in their statutory Section 95 Finance Officer role at this challenging time.
Jackie Cain, Policy Director at the Institute of Internal Auditors and a member of the CIPFA Steering Group on the Consultation on the role of the Head of Internal Audit	September 2010	In regard to the CIPFA consultation document on the 'Role of the Head of Internal Audit (HIA) in Public Service Organisations' an outline of the dimensions of the role of the (HIA) and the 5 principles of championing best practice, independent opinion, senior manager, fit for purpose Internal Audit service, and professional.
Dave Reynolds, Managing Director of Reynolds Audit and Risk Consulting and Deputy Director Institute of Internal Auditors	September 2010	The context of changing operating environment in which Internal Audit is delivering its service and the importance of ongoing communication with management and staff on Internal Audit's role and demonstrating added value through resource deployment in areas of key risk and of strategic importance.
Kenneth MacDonald, Assistant Commissioner (Scotland and Northern Ireland) at Information Commissioner's Office	March 2011	Overview of the Data Protection Act and Freedom of Information rights of access to information subject to privacy and exemptions.
Peter English, Information Security Manager at East Dunbartonshire Council	March 2011	Outline of key risks relating to information security, causation and risk control model, and the role of Internal Audit providing assurance on key security controls.
Pat Kenny, Deloitte	March 2011	Outline of the principles of the Internal Audit delivery model Deloittes have been involved with in London (known as the 'Croyden Model').

Collaboration

The following table summarises the areas in which the Group are working in partnership with other professions / governing bodies and promoting SLACIAG as the representative body for Internal Audit in Scottish public authorities:

Organisation	Topic
Chartered Institute of Internal Auditors (CIIA)	The Group have started to develop relations with CIIA through the collaboration on the design and delivery of bespoke training modules for SLACIAG on Leadership, Performance and Quality in an Internal Audit context. The Group continues to build on this relationship.
CIPFA	CIPFA Procurement and Contract Audit Forum, which is seeking to improve the auditing of this increasingly complex and challenging topic.
	Responding to consultations on relevant publications, eg the Role of the Head of Internal Audit in Public Service Organisations.

Training and Development

SLACIAG is committed to the improvement of Internal Audit practice through the development of the skills and competencies of its members and their potential successors. The Group commissioned business consultant Phil Atkinson from 'Atkinson Consulting' and Internal Audit executive Dave Reynolds from 'Reynolds Audit and Risk Consulting' (also Deputy Director Institute of Internal Auditors) to deliver high quality and workshop based Leadership, Performance, and Quality training. The training was delivered to 35 delegates from 24 Authorities in three sessions during winter 2010 in Edinburgh and Glasgow at good value rates to the Group. The purpose of the training was to assess and establish how the Head of Internal Audit can: demonstrate influential *leadership* to the team and be an ambassador of assurance covering risk, control and governance in the organisation including Audit Committee, Council and operations management; monitor the *performance* of the function and the team; and exercise control over the *quality* of team performance and outputs. Feedback from those attending was extremely positive.

Sub-Groups and Working Groups

SLACIAG has a well established Computer Audit Sub-group which operates as a specialist group with membership of computer auditors or their equivalent across the SLACIAG Authorities. This sub-group has developed computer audit programmes common to SLACIAG and information security issues have also figured prominently in its work, which is regularly reported to SLACIAG.

SLACIAG has also established a short-life working group (see table below) during the year to develop ideas and produce materials for the benefit of the wider membership. Participation in working groups is voluntary but there is an expectation that all members will contribute in turn to this.

Participants	Topic
Lead Officer Joan Allan (South Lanarkshire Council)	Development of methodology for Internal Audit on Single Outcome Agreements - output from the sub-group included an agreed set of SOA audit control objectives (governance and accountability; planning; collection, validation and monitoring; and improvement), and an SOA audit test programme covering all areas. Completed June 2010 and toolkit published on the SLACIAG website.

Conference 2011

The SLACIAG bi-annual Conference was held on 09 and 10 June 2011 with the theme broadly based on HIAs and SLACIAG progressing leadership, performance, and quality in Internal Audit. The conference included a planned programme of presentations and workshop sessions utilising some of the project output material arising from the Leadership, Performance, and Quality training commissioned by SLACIAG and delivered by CIIA.

Topic	Objective
Vision and Values Janine Wilson, Angus Council	To endorse and set direction for the way forward for SLACIAG in the leadership imperative to incorporate vision, values, and attitude, and delivery and objectives through strategic objectives.
Stakeholders Jill Stacey, Scottish Borders Council	To identify who are stakeholders of SLACIAG through analysis, what role for SLACIAG in consultation and engagement with those stakeholders, and how should SLACIAG implement this.
7 S's Kenneth Ribbons, West Lothian Council	To capture outputs that will feed into an action plan using toolkit on 7 S's (Hard S's: strategy, structure, systems; Soft S's: style, skills, staff, shared values).
Other Presentations	
Midlothian Council Cliff Nicholson Award 2010 Highly Commended 'Improving Assurance': Gerald Tait, Risk and Audit Manager, Midlothian Council, outlined the watershed moment in 2008 identifying the need for smarter working and efficiency in Midlothian Council Internal Audit, their journey and results, and the key ingredients to improving assurance.	
Assurance Mapping and Lean Auditing: James Paterson, Director of Risk and Assurance Insights Ltd, outlined the assurance mapping exercise involving mapping assurance coverage against key risks in an organisation and lean auditing entailing more relevant and proactive fieldwork and testing to ensure audit findings are focussed on more significant business issues.	
Data Protection Case Studies: Maureen Falconer, Information Commissioner's Office, invited the Group to evaluate four case studies and to put into practice the Data Protection principles.	
Internal Audit Performance Measures: Andi Priestman, Inverclyde Council, presented a proposal to utilise the balanced scoreboard approach (stakeholder; customer; internal processes; innovation, learning and growth; vision and strategy) to develop Internal Audit performance measures. The approach was agreed by the Group and a sub-group established.	

Summary

This report summarises the work carried out by SLACIAG during the year to 30 June 2011. I hope that it has provided a useful overview of the work of the Group and that those who attend meetings and actively participate continue to enjoy real benefit from the work of the Group.

Finally, I would like to acknowledge that the success of SLACIAG as an effective Internal Audit forum is dependent on the efforts and contributions of its Committee and wider group members. While the current difficult financial climate may persist for some years, I believe that the commitment of its members will ensure that SLACIAG meets those challenges, and that the group will continue to develop over the coming year.

Kenneth Ribbons (Internal Audit Manager, West Lothian Council)
Chairman of SLACIAG
30 June 2011