

# Falkirk Council

## Annual report on the 2011/12 audit



Prepared for Members of Falkirk Council and the Controller of Audit  
October 2012

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

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# Key messages

## 2011/12 audit findings

This report summarises the findings from our 2011/12 audit of Falkirk Council. As part of the audit we assessed the key financial and strategic risks being faced by the council. We audited the financial statements and reviewed the council's financial position and aspects of governance, best value, the use of resources and performance. This report sets out our key findings.

We have given an unqualified opinion on the financial statements of the council and its group for 2011/12. In our opinion they give a true and fair view of the financial transactions for the year to 31 March 2012 and the financial position at that date.

The 2011/12 financial position is less favourable than was anticipated in the council's budget. The council's total usable reserves have decreased by £3.124 million in 2011/12. A reduction in the general fund of £4.482 million has been reported compared to a planned deficit of £1.224 million.

The general fund movement was £3.258 million more than planned. This was made up of revenue savings of £8.742 million, which were offset by a planned payment of £12 million to a non-profit distributing organisation, for the council's new schools project. This payment had not been included in the budget. Despite it not being included in the budget, the council has built up its general fund balance in previous years to facilitate the payment.

The general fund balance of £32.234 million as at 31 March 2012 includes earmarked commitments of £16.677 million and an unallocated general fund balance of £15.557 million, an increase of £4.227 million. The balances held are discussed by members as part of the regular budget monitoring processes. The use of balances for earmarked purposes has been agreed with the members. The unallocated general fund balance of £15.557 million is above the council's target of between £6.9 million and £9.9 million. The council plans to use £3.4 million of this to balance the 2012/13 budget.

Whilst the council still has usable reserves in excess of its target, over the longer term the use of reserves to support expenditure is not sustainable, and the council must ensure that its financial plans reflect this.

General services capital expenditure for 2011/12 was £23.359 million, £4.6 million less than planned. The housing capital outturn was £27.359 million, in line with budget. The underspend in the general services capital programme was largely due to slippage in external works programmes.

Overall the council's governance arrangements in 2011/12 were sound and operated effectively. No material weaknesses in the accounting and internal control systems were identified during the audit.

Following the May 2012 elections, the new council has reviewed the outcomes in the Single Outcome Agreement (SOA) following the approval of the Strategic Community Plan and a new Corporate Plan was approved in September 2012 to align with the SOA.

The council has introduced new structures to support its challenge and improvement agenda including improvements in its performance management arrangements. The council now needs to demonstrate that these arrangements are effective at identifying areas for improvement, and that they have an impact on service delivery and outcomes.

## Outlook

The outlook for public spending remains very challenging. The council shows a good awareness and understanding of the financial challenges it faces and has made progress in addressing them. A corporate working group has been established to develop a medium term strategy clearly linked to the Community, Corporate and Service Plans and the Workforce and Asset Management Strategies. However, the council will have some difficult decisions to face in developing its medium term financial plan to meet the spending gaps currently forecast of £10.421 million in 2013/14 and a further £7.521 million in 2014/15. The council needs to ensure that the level of its reserves strikes a balance between meeting current obligations and preparing for future commitments or reductions in funding.

In this environment, there are a number of changes in the public sector that will change the way that the council works with its partners. These include proposals for the integration of health and social care services, the single national agencies for police and fire services and the Welfare Reform Act 2012. The Welfare Reform Act will bring about the biggest reform of the UK welfare system for 60 years. The council recognises it will face challenges in understanding and acting upon the changes and communicating these to local residents. The introduction of the Universal Credit will have a significant impact on councils' strategies and plans in areas such as housing, asset management, finance, ICT and customer services.

The co-operation and assistance given to us by officers is gratefully acknowledged.

# Introduction

1. This report is the summary of our findings arising from the 2011/12 audit of Falkirk Council. The nature and scope of the audit were outlined in the Audit Plan presented to the Audit Committee on 12 March 2012, and follow the requirements of the Code of Audit Practice prepared by Audit Scotland in May 2011. The purpose of the annual audit report is to summarise the auditor's opinions (i.e. on the financial statements) and conclusions, and to report any significant issues arising. The report is divided into sections which reflect the 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 we focus on the financial statements and any significant findings from our wider review of the 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 action and have a mechanism in place to assess progress.
4. This report is addressed to members and the Controller of Audit and should form a key part of discussions with audit committees, either prior to, or as soon as possible after, the formal completion of the audit of the financial statements. Reports should be available to the 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 Accounts Commission's annual overview report on local authority audits. The overview report is published and presented to the Local Government and Regeneration 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. The auditor is responsible for auditing and expressing an opinion on the financial statements. Weaknesses or risks identified by auditors are only those which have come to their attention during their normal audit work, and may not be all 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 annual governance statement and the remuneration report. Auditors also review and report on the Whole of Government Accounts return. This section summarises the results of our audit on the financial statements.

## Audit opinion

10. We have given an unqualified opinion that the financial statements of Falkirk Council for 2011/12 give a true and fair view of the state of affairs of the council and its group as at 31 March 2012 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.

## Group financial statements & the going concern assumption

12. 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 two subsidiary organisations (Falkirk Community Trust and Falkirk Community Stadium Limited), three associates (Central Scotland Joint Police, Fire and Rescue and Valuation Boards) and the Common Good Fund into the group financial statements.
13. 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 £288.904 million. The group balance sheet as at 31 March 2012 discloses an excess of liabilities over assets of £119

million (2010/11 £55 million) due to the accrual of pension liabilities in accordance with International Accounting Standards. The group net worth reflects both the liability for the council and for the unfunded pension schemes in its associate bodies, Central Scotland Joint Police Board, 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. We concur with this approach.

## Annual governance statement

14. We are satisfied with the disclosures 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 were also generally satisfied with the adequacy of the process put in place to obtain the necessary assurances for the Statement.
15. In previous years, declarations to support the Annual Governance Statement were not all signed by Chief Officers. Whilst there has been a marked improvement we noted that the declarations for 2011/12 were not all received. We would continue to encourage that future declarations are completed and signed by all Chief Officers to demonstrate ownership of their assessment of the governance arrangements in place in their services.
16. Progress continues to be made in assessing the wider governance arrangements of group entities which require to be brought within the scope of the Statement. Annual Governance Statements are also prepared for Central Scotland Fire and Rescue Service and Central Scotland Valuation Joint Board, which assisted in the assessment of the wider group governance arrangements. At present no direct assurances are sought from the management of the subsidiary organisations, Falkirk Community Trust and Falkirk Community Stadium.

**Refer to Action Plan No. 1**

## Remuneration report

17. We are satisfied that the remuneration report has been prepared in accordance with the relevant legislation. The disclosures within the 2011/12 financial statements include all eligible remuneration for the relevant council officers and elected members under a number of categories including pension benefits.

## Accounting issues

18. Local authorities in Scotland are required to follow the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 (the 2011/12 Code). Overall we are satisfied that the council prepared the 2011/12 financial statements in accordance with the 2011/12 Code.

## Accounts submission

19. 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 prior to the target date of 30



September 2012. The financial statements are now available for presentation to members and publication.

## Presentational and monetary adjustments to the unaudited accounts

20. A number of adjustments have been made to the 2011/12 unaudited financial statements in accordance with normal practice. These adjustments have not had any impact on the general fund balance of the council. A number of presentational amendments have also been made to improve disclosures within the financial statements. As is normal practice immaterial unadjusted errors have been reported to the Chief Finance Officer.

## Prior year adjustments

21. The 2011/12 financial statements incorporate a prior year adjustment made to correctly reflect the timing of a significant payment of £14.4 million, made on 1 April 2011 to Falkirk Schools Gateway. Corresponding corrections were also required to the Cash Flow Statement.

## Pension costs

22. Falkirk Council is a member of the Falkirk Council Pension Fund which is a multi employer defined benefit scheme. In accordance with pension 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 as at 31 March 2012 provided by the scheme's actuaries increased the council's share of the deficit from £171.9 million in last year to £214.5 million this year. This has a significant impact on the council's balance sheet.
23. The large increase in the pension liability in 2011/12 is due to financial assumptions about the cost of pension payments being less favourable at March 2012 than they were at March 2011 which has the effect of increasing the overall cost of pensions. In addition, the level of assumptions applied by the actuary to the expected return on pension fund assets was more favourable than actual returns in most cases. Both these factors have contributed to the increase in the net liability faced by the council. The scale of the movements in the council's pension liability, arising from the annual valuation, can be seen in exhibit 1 below.

### Exhibit 1: Movement in Pension liability 2007/08 - 2011/12

|           | 2007/08   | 2008/09   | 2009/10   | 2010/11   | 2011/12   |
|-----------|-----------|-----------|-----------|-----------|-----------|
|           | £ million | £ million | £ million | £ million | £ million |
| Liability | 59.111    | 124.107   | 289.253   | 171.869   | 214.510   |

Source: Falkirk Council audited financial statements

24. It is important to note however that this additional liability does not have any immediate impact on the council's financing requirements. The council will continue to make annual contributions to the Pension Fund, through employer contributions, in accordance with triennial valuations carried out by the actuaries.

## Post balance sheet events

25. The 2011/12 financial statements contain post balance sheet event disclosures relating to the introduction of the Police and Fire Reform (Scotland) Act 2012. This act provides for the introduction of single Scottish Police and Fire and Rescue authorities from 1 April 2013. The implications of this change will need to be considered for both the group and single entity financial statements in 2012/13.

## Equal pay

26. The Equal Pay Act 1970 makes it unlawful for employers to discriminate between men and women in terms of their pay and conditions where they are doing the same or similar work, work rated as equivalent, or work of equal value. Employees who consider that they have been discriminated against in terms of pay and are dissatisfied with the council's proposed resolution or compensation can elect to have a case heard before an employment tribunal. Falkirk Council has received a significant number of claims for compensation and the council currently has a provision of £5.216 million included in its accounts to cover these costs. The ultimate cost to the council remains uncertain and it is likely that resolution of the issue will take some time. As the tribunal process unfolds the extent of the council's eventual liability will become clearer.

**Refer to Action Plan No. 2**

## Heritage assets

27. The 2011/12 Code requires local authorities, for the first time, to separately account for heritage assets. Heritage assets include historical buildings, archaeological sites, scientific equipment of historical importance, civic regalia, museum and gallery collections and works of art.
28. The council has identified that it holds six different categories of heritage assets: the museums collection, the arts collection, the archives collection, the libraries local history collection, war memorials and town clocks and civic regalia. With the exception of civic regalia these assets are not recognised in the council's Balance Sheet either because the council does not consider that reliable cost or valuation information can be obtained or because it considers that the cost of obtaining valuations for these is disproportionate in terms of the benefits to the users of the accounts. Civic regalia is carried in the balance sheet at insurance valuation based on market values.

## Whole of government accounts

29. The whole of government accounts (WGA) are the consolidated financial statements for all branches of government in the UK. The council submitted the consolidation pack to support its 2011/12 WGA return to the Scottish Government prior to the deadline of 29 July. This has now been audited and the audited return submitted.

# Financial position

30. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.
31. 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.
32. These are key areas in the current economic circumstances. This section summarises the financial position and outlook for the organisation.

## Financial results

33. In 2011/12 Falkirk Council spent £491.821 million on the provision of public services resulting in an income and expenditure account surplus on provision of services of £1.734 million. However, this includes certain elements of income and expenditure that are accounted for to comply with the Code, which are then adjusted to show their impact on statutory council reserves. Following these adjustments there is a reduction in total usable reserves of £3.124 million (general fund reduction £4.482 million). The original budget set in February 2011 assumed the use of £1.224 million from uncommitted general reserves; £0.300 million to support the revenue budget and £0.924 million to support additional investment in the Housing Revenue Account.

## Budgetary control

34. The annual budget is a key tool in delivering the council's priorities while simultaneously planning a closing financial position which provides a sound basis for future years. The council sets an annual budget to meet its service and other commitments for the forthcoming financial year. The setting of the annual budget impacts directly on residents as it determines council tax charges, rents and other fees and charges. Regular monitoring of expenditure and income against agreed budgets is central to effective financial management. Overspends against the annual budget may indicate that the current level of services is not sustainable into the future.
35. In February 2011 the council approved a general fund revenue budget totalling £338.829 million. A final out-turn budget of £341.322 million was reported to the Policy and Resources Committee in August 2012, an increase of £2.793 million (0.825%). In year the council managed its budget through a series of virements to support service delivery. The main areas of change were the Education Service which saw its budget rise by £11.015 million (7%) and Development Services which saw an increase of £2.323 million (8%). These movements

arose due to mid-year adjustments to bring budgets for capital charges in line with actual charges. The final reported net service expenditure across the council was £337.889 million, a net underspend of £3.433 million.

36. The general fund movement was a reduction of £4.482 million, £3.258 million more than the planned movement of £1.224 million. This was made up of revenue savings of £8.742 million which were then offset by a legally committed payment to the Non-Profit Distributing Organisation of £12 million for the new schools project which was not included in the budget.
37. The Housing Revenue Account made savings in employee costs, support services and capital charges, and increased income from property which, together with a one-off insurance receipt, resulted in an underspend of £2.244 million, compared to a budgeted deficit of £0.924 million.

## Financial position

38. In setting its 2011/12 budget the council identified a range of measures to deliver savings. These were arrived at through individual departmental reviews to examine both where immediate savings could be achieved and where further savings could be made in the medium term through revised ways of working and/or delivering services. Public consultation on spending priorities was undertaken through questionnaires distributed with Council Tax bills and through the local press. Consultation was also undertaken with Trades Unions and partner and voluntary bodies associated with the council.
39. Exhibit 2 shows the balance on the council's funds as at 31 March 2012 compared to the previous year. The 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 maintaining, repairing and replacing fixed assets. At 31 March 2012, the council had total funds of £49.589 million a reduction of £3.124 million on the previous year.

**Exhibit 2: Usable reserves**

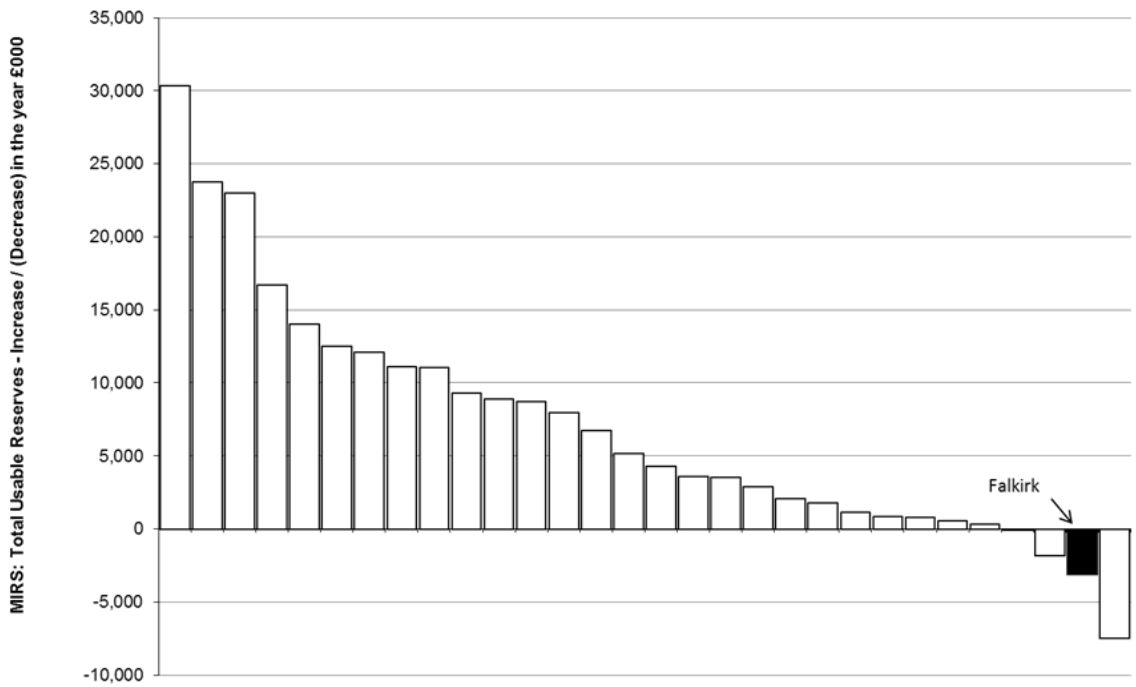
| Description              | 31 March 2010 | 31 March 2011 | 31 March 2012 |
|--------------------------|---------------|---------------|---------------|
|                          | £ million     | £ million     | £ million     |
| General Fund             | 37.950        | 36.716        | 32.234        |
| Capital Fund             | 4.899         | 5.342         | 5.172         |
| Capital Grants Unapplied | 4.943         | 5.067         | 4.737         |
| Other Usable Reserves    | 4.308         | 5.588         | 7.446         |
| <b>Total</b>             | <b>52.100</b> | <b>52.713</b> | <b>49.589</b> |

Source: Falkirk Council 2011/12 financial statements

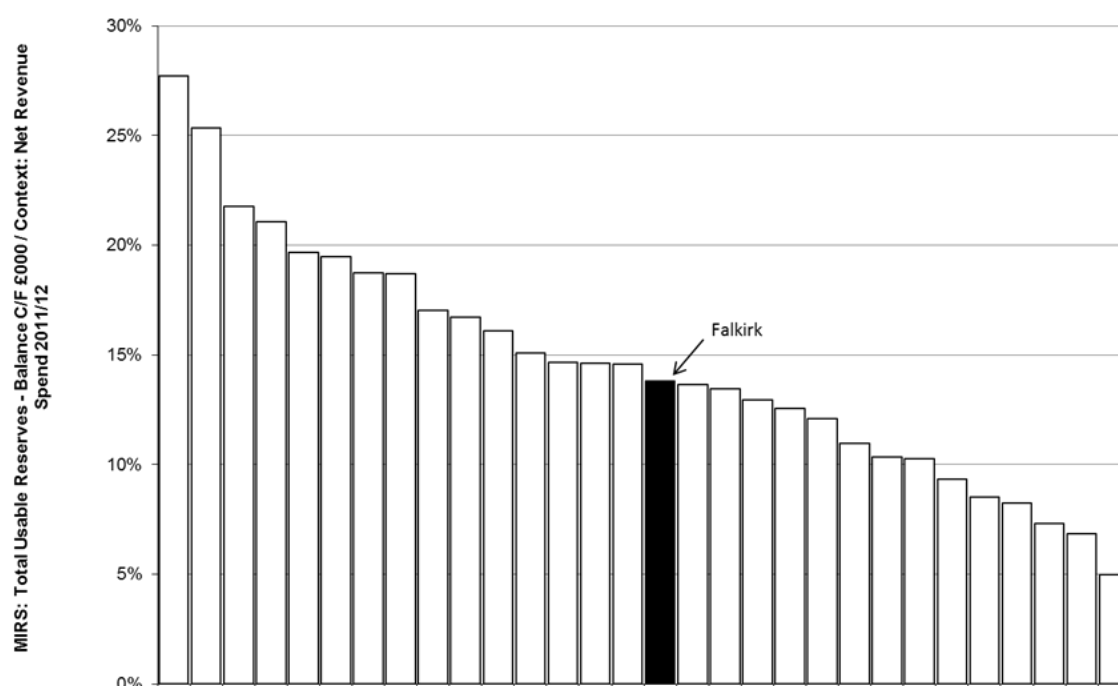
40. The general fund balance has decreased by £4.482 million during 2011/12, to £32.234 million as at 31 March 2012. This balance includes earmarked commitments of £16.677 million (2010/11 - £25.386 million), leaving an unallocated general fund balance of £15.557 million (2010/11 - £11.330 million). This is above the target range of between £6.9 million and £9.9 million set out in the council's reserves strategy to meet unforeseen circumstances or risks. The council plans to use around £3.4 million of this balance to balance the 2012/13 budget.
41. The earmarked commitments include: housing funds to limit the impact of future rent increases (£7.7 million), devolved schools management balances held by individual schools (£7.4 million), economic development balances for the development of strategic business parks (£1.2 million), and central energy efficiency funds to improve energy efficiency in council buildings (£0.4 million). The amounts previously set aside (£10.4 million) to fund a payment to Falkirk Schools Gateway were utilised in year.
42. Exhibit 3 shows the movement in usable reserves for the year for the council in comparison with the movements in other Scottish local authorities. The council is one of only three in Scotland which has seen its usable reserves decline in 2011/12. This, however, should not be viewed in isolation and in part reflects the build up of those reserves in recent years, to facilitate its payment of £12 million to the Non-Profit Distributing Organisation funding its new schools project. This can be demonstrated by Exhibit 4. The council still has usable reserves in excess of its target. However over the longer term the use of reserves to support expenditure is not sustainable, and the council must ensure that its medium term financial plans reflect this.

**Refer to Action Point 3**

**Exhibit 3: Movement in usable reserves in year**



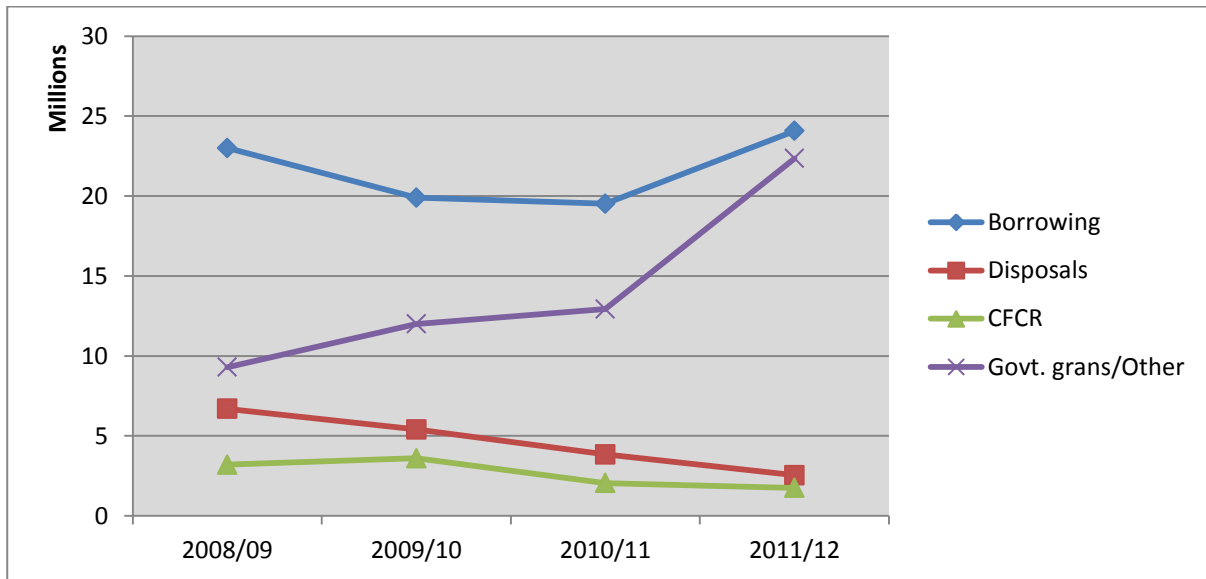
#### Exhibit 4: Total usable reserves carried forward as a proportion of net revenue spend



### Capital investment and performance 2011/12.

44. The 2011/12 financial statements include capital expenditure of £50.718 million, split between the housing and general services programmes. General services capital expenditure was £23.359 million some £4.6 million less than planned. This arose because of delays in commencing some projects and the lengthy supplier lead times for some vehicle acquisitions. The slippage in these projects has been incorporated into the 2012/13 general fund capital programme. The housing capital outturn for 2011/12 was £27.359 million against the budget of £25.200 million. This was due to the decision in year to negotiate a buy-out of a window leasing agreements and the additional costs of buying tenants houses under the Rent to Mortgage scheme.
45. Exhibit 5 shows the sources of finance for capital expenditure in 2011/12. The graphical presentation shows the continuing downward trend in funding from disposals and capital financed from current revenue. Despite a significant increase in funding from government grants and other contributions the council has also needed to increase its borrowing, albeit by less than planned due to slippage in some capital projects. The recent increases in government grant funding cannot be relied upon to continue as the Scottish Government faces the challenges of reductions in its own budget.

**Exhibit 5: Sources of finance for capital expenditure 2008/09 - 2011/12**

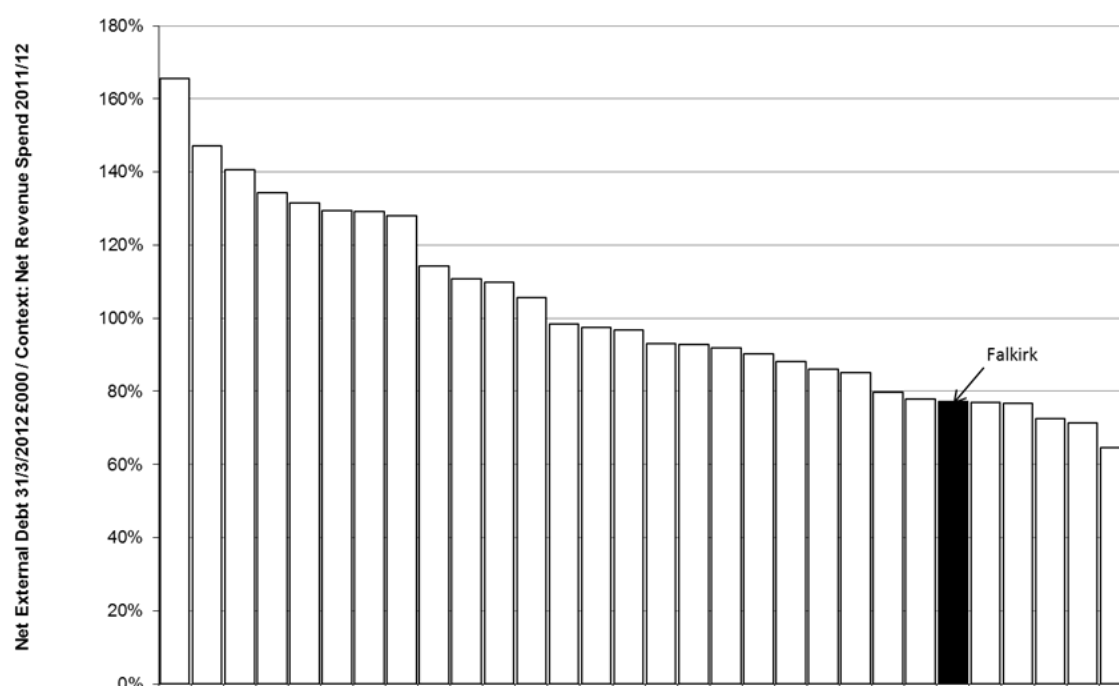


Source: Falkirk Council 2011/12 financial statements

46. Whilst the level of borrowing has increased in 2011/12 the council has been prudent in managing debt levels and the impact of financing costs, as measured by net external debt as a proportion of net revenue spend remains relatively low compared to other councils, as demonstrated in Exhibit 6. At 31 March 2012 the Council has total borrowings of £158.745 million (2010/11 £175.034 million), a significant proportion of which is at fixed rate.

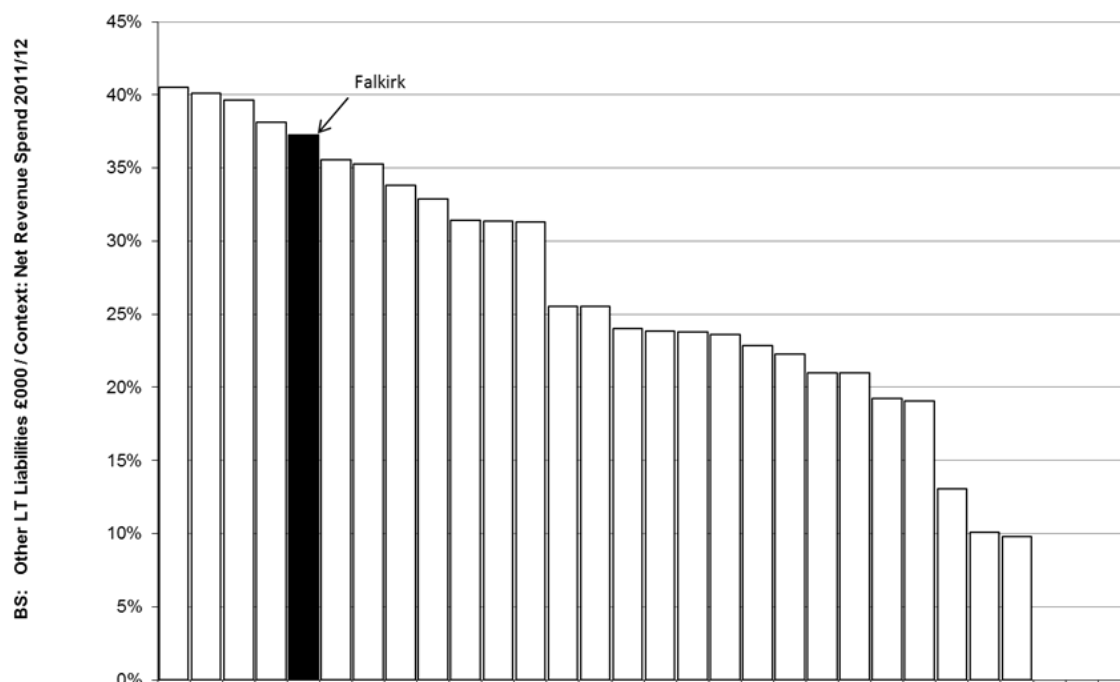


### Exhibit 6: Net external debt as a proportion of net revenue spend



47. External borrowing does not, however, paint the whole picture. In considering the impact of capital financing decisions on revenue expenditure there are other sources of financing that should be considered met annually from revenue.
48. Exhibit 7 shows that, in contrast to external borrowing the council's relative exposure to other long term liabilities, its PFI schemes, is greater.
49. Falkirk Council has two schools projects (Class 98 and Falkirk Schools Gateway) which have been delivered under PFI contracts. Under IFRS requirements, the council must recognise both the asset acquired under the PFI scheme and the related liability in its balance sheet. Through making two payments of £12 million in both 2010/11 and 2011/12 to Falkirk Schools Gateway the council has, in effect repaid an element of this debt early, thus reducing the long-term debt outstanding. This will be reflected in a reduction to the unitary charge met annually from revenue.

**Exhibit 7: Other long term liabilities as a proportion of net revenue spend**



- 50. Going forward the council approved a three year general capital programme for 2012/13 to 2014/15 with £63.311 million of investment. This will be principally funded by borrowing, government grants and capital receipts. Major investment is aligned to the council's corporate priorities and includes significant projects such as the new St Bernadette's Primary School, the Helix Project, the completion of the Glenberrie Slip Road, the Corporate and Neighbourhood vehicles replacement programme and the on-going programme of roads and lighting improvements.

**Treasury management**

- 51. The Prudential Code is a professional code of practice designed to support local authorities in taking capital investment decisions. The Code's objectives aim to ensure that, within a clear framework, the capital investment plans of local authorities are prudent and sustainable. The Chief Finance Officer reviews the capital financing requirement on an annual basis and reports to the council on a series of prudential indicators as recommended by the Prudential Code. The performance against these indicators is reported to council and to the public via the financial statements. This helps the council to plan its capital investment prudently and to demonstrate to the public that it is doing so.
- 52. In the continuing period of economic instability interest rates on investments remain low, the council received £0.6 million in investment income this year (2010/11 £0.5 million).

## Financial planning to support priority setting and cost reductions

### Asset management

53. The council has in place a strategic approach to capital planning underpinned by the '*Better Assets, Better Services*' Corporate Asset Management Strategy 2011/14. Specific asset management strategies and plans are in place for different asset classes e.g. Roads Infrastructure, Housing, Open Spaces, Vehicles and ICT. The council and its Forth Valley partners have prepared an area wide strategic asset management plan.

### Infrastructure assets

54. Improving the roads network is a priority action for all councils and is likely to be a considerable challenge against the backdrop of reducing levels of funding and competing pressures on services. The operation of a comprehensive roads asset management planning process and agreement of a long term investment strategy are both essential requirements if this challenging priority is to be met.
55. *Maintaining Scotland's roads: a follow-up report* was published by the Auditor General and the Accounts Commission in February 2011. The report examined progress by Scotland's 32 councils and the responsible central government agency, Transport Scotland, in implementing recommendations contained in a previous report on road maintenance published in 2004. It reviewed changes in the condition of the road network since 2004, how much was being spent on road maintenance and how road maintenance was being managed.
56. As part of our 2011/12 audit work we undertook a follow-up exercise to assess the council's response to *the follow-up report* and reported our findings in July of this year. The council, like others in Scotland has a backlog of road maintenance and maintaining and improving road infrastructure in the area is challenging in the face of competing spending priorities and the damage caused by recent hard winter conditions. The road infrastructure is however, integral to the maintenance of a healthy and thriving economy and the deferral of investment not only leads to increased repair and maintenance costs in the future but can damage the economy and its prospects.

**Refer to Action Plan No. 4**

57. The council's initial Road Asset Management Plan 2010/13 was approved in January 2011. This recognises the importance of lifecycle planning and the council has adopted this approach, however, there are currently weaknesses in the road management information held locally by the council. National road maintenance condition survey information is being used to develop forward work programmes and will help inform future funding decisions along with the Maintenance Strategy approved by the Environment and Community Safety Committee in May 2011.

### Procurement

58. 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 three rounds of PCA assessment have been completed. In 2011 the council scored 35% which is classed as 'conformance' and demonstrates improvement on the 2010 score of 30%.

59. The Scottish Government has set an expectation that councils will achieve a 50% 'improved performance' rating in the 2012 PCA. This requires to be achieved by March 2013. The next assessment is due to take place in December 2012.
60. Following a review of existing procurement structures and resources the council has recruited additional temporary procurement staff to help drive forward improvements in procurement. The council estimates that this will deliver net savings (after staff costs) of £300,000 per annum. Work is on-going to deliver further improvements and efficiencies under 5 core areas:
  - awareness, training and guidance
  - purchase to pay processes
  - consumption and compliance analysis
  - contract management
  - commodity strategies

## Workforce reduction

61. As part of the programme of savings, the council has sought to reduce the workforce via early retirements, voluntary severance schemes etc. These decisions need to be affordable, fully funded and demonstrate value for money.
62. A significant number of requests to be considered for voluntary severance were received by the council in 2011/12. The number of employees who satisfied the voluntary severance requirements and who applied and were accepted for voluntary severance was 96 with total potential net savings of £5.5 million over a five year period.
63. Whilst these schemes are designed to save the council substantial sums we note that whilst elected members have been advised of the cost of compensatory payments through budget monitoring reports, they have not been informed of the most recent numbers, costs and savings attached to the voluntary severance arrangements. Elected members should be kept regularly informed of the numbers, costs and savings attached to voluntary severance arrangements.

### **Refer to Action Plan No. 5**

64. As part of its senior management re-structuring process the number of Services was reduced from six to four and the council has reduced the number of senior management posts by 30% and is continuing to review and reduce its workforce. This is of particular relevance where high profile chief officer retirements are involved. We will continue to monitor the savings achieved and the council's arrangements to ensure that workforce reductions do not impact severely on service performance.

## Partnership working

65. The 'Assurance and Improvement Plan - Update 2012-15' published in May 2012 by the local area network of scrutiny bodies identified that there were no significant risks with the council's approach to community planning and engagement. However, it did identify that SOA outcome measures for health and wellbeing continue to show mixed performance. This is an area where the council is dependent on the performance of partner organisations and cannot achieve improvements in these areas by itself.
66. In response to a request from the Cabinet Secretary for Finance, Employment and Sustainable Growth the Accounts Commission has led development work, with scrutiny partners, on how audit and inspection can support the delivery of better outcomes by Community Planning Partnerships. This will continue to evolve in 2012/13.

## Outlook

### 2012/13 budget

67. The council continues to show a good understanding of the financial challenges it faces and is making further progress in addressing these. In setting its 2012/13 budget the council agreed to freeze its council tax. The net revenue expenditure budget set for the year of £344.824 million shows an increase of 1.8% on that set for 2011/12 (£338,829 million).
68. A budget gap of £11.661 million has been identified to meet known spending pressures and planned growth. In setting the budget the council identified that these pressures would be met through savings of £6.687 million, additional government grant funding of £2.204 million and the use of £3.391 million from reserves.

### 2012/13 budget reporting

69. The most recently reported financial position for 2012/13 anticipates an underspend of £2.399 million for the year. At this stage there are no significant overspends identified and most services are reporting underspends. The council continues to manage its spending and ensure planned savings levels are delivered.

### Financial forecasts beyond 2012/13

70. Now that the Scottish Government has restored the 3 year financial settlement the council has looked to the future and has prepared indicative budgets for the years 2013/14 and 2014/15 to aid forward planning by identifying medium-term spending pressures and funding constraints. At present the council forecasts further spending gaps of £10.421 million in 2013/14 and a further £7.521 million in 2014/15. A corporate working group has been established to develop a medium term strategy clearly linked to the Community, Corporate and Service Plans and the Workforce and Asset Management Strategies.
71. The council has refreshed the public consultation exercise on service standards and customer priorities in March 2012 and the outcome from that exercise and the revision of the Corporate

Plan will feed into the 2013/14 budget setting process. The council is also exploring shared service opportunities with West Lothian Council and, whilst this is still in the early stages, progress has been made in the areas of HR and Education with savings being built into the 2012/13 budget to reflect this.

### Significant financial risks

72. Looking ahead it is clear that the outlook for public spending remains challenging for the foreseeable future. At the same time the demand for public services is rising as the economy feels the effects of uncertainties in the world's financial markets, questions about the sustainability of the eurozone and Scotland's changing population demographic. Continuing to deliver vital public services with a reducing budget will remain a significant challenge for the council.

**Refer to Action Plan No. 3**

# Governance and accountability

73. 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.
74. 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, in monitoring these arrangements.
75. 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.
76. In this part of the report we comment on key areas of governance.

## Corporate governance

### Processes and committees

77. 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.
78. 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 and plans, 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. The chairperson of this committee is a lay member who was previously a public sector internal auditor.
79. Overall, the council's governance arrangements in 2011/12 were soundly based and operated effectively.
80. Council elections took place in May 2011 which resulted in 7 new councillors being elected to the council. The membership of the council is now:
- conservative - 2

- independent - 3
  - labour - 14
  - SNP - 13
81. The Administration is labour controlled with the support of the 2 conservative and 1 independent councillors.
82. There was no significant loss of experience or leadership as a consequence of the election as both the Council Leader and Provost remain unchanged and apart from one committee which has a new member as the convenor, the convenors of the other committees are senior councillors from the previous council.
83. The council is committed to providing training to all its members and training sessions will be held during the lifetime of the council aimed at providing members with the information and skills they need to undertake their duties. A number of training events took place in May and June including :
- Members induction training
  - ICT training
  - Public protection training
  - Licensing Board training
  - Standards Commission training, and
  - Civic licensing training.
84. A new development is that within the council's Intranet is a section titled "Elected Members Development Area" which provides a series of "elected member induction notebooks", designed by the Improvement Service in consultation with elected members and officers across Scotland, to provide elected members with the information, support and guidance needed to effectively fulfil their role as an elected member.
85. At the September, 2012 council meeting, the council agree to widen the scope of the current Learning and Development Policy to include elected members, ensuring that members have access to the range of learning and development opportunities currently available to employees. Officers have been asked to consider how best to apply the current Learning and Development Policy to members and report back to the next meeting of the council.

## Roles and relationships

86. In 2011/12 the council completed its senior management re-structuring and the number of Services was reduced from six to four. One consequence of this exercise was that both the Director of Finance and Director of Law & Administration posts were deleted from the establishment. A Chief Finance Officer, i.e. the S95 officer and a Chief Governance Officer, both responsible to the Chief Executive and both members of the Corporate Management Team, were appointed. This restructuring also included the transfer of leisure and other services to the Falkirk Community Trust from 1 July 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.

## Internal control

87. 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.
88. 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.
89. 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 July 2012. 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.
90. 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 2012". 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.

## Data handling and security

91. The council continues to maintain good progress in establishing a sound information management environment. Sound management is being achieved through the implementation of policies, guidance, standards and training needed to maintain and improve information governance. The information security policy complies with the British Standard on information security BS7799-2 which is acknowledged as the appropriate industry standard for information security. The policy is the subject of regular review to ensure the maintenance of the security and confidentiality of information, information systems, applications and networks owned by the council.

## ICT

92. The council makes effective use of information communications technology (ICT) to support and deliver services and its strategic vision sees ICT as an integral part of the council's service delivery activities. The strategy recognises the need for continuing capital investment in the ICT infrastructure to ensure its continued effective operation and in this context

investment is being provided to upgrade infrastructure including improving and upgrading the quality and efficiency of the council's Wide Area Network (WAN). This substantial investment is subject to a contract with Virgin Media Business Ltd and covers the next 5 years.

93. To ensure good governance to oversee the priorities and service targets set by the ICT strategy covering the period to 2013 are achieved, a new strategy with associated governance arrangements is being developed and this has been reported to the Corporate Management Team. The new strategy will take account of the developing national strategy and new governance arrangements will follow.
94. The council in line with all public service bodies is looking to provide best value in the delivery of services and the ICT service is part of a programme of continuous service improvement. As part of this programme there has been restructuring within the service to produce necessary savings while seeking to maintain service levels needs to ensure there are adequate staffing and skills available going forward.
95. Increasingly the council and its customers require access to information and services outside of normal working hours. The delivery of such extended services is being delivered in a number of ways including enhanced home and working solutions for staff and elected members allowing greater flexibility in accessing business information.
96. To support the greater reliance by services on ICT systems and infrastructure the council has plans in place to address business continuity planning disaster / recovery relating specifically to information technology and ICT services. In addition 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 recognising that business continuity planning is an important operational process especially with the regular changes to technology and service priorities is committed to regular testing and review of plans.
97. Going forward the effects of the McClelland review of public sector ICT are still to filter through to every public sector organisation and it will likely take some time before the results can be fully appreciated. The council in line with other authorities recognises this and will remain alert to developments as their implications can be quantified.

## Prevention and detection of fraud and irregularities

98. Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. Auditors review and report on these arrangements.
99. 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. We are not aware of any specific issues that should be brought to your attention in this report.

## NFI in Scotland

100. Audit Scotland has coordinated another major counter-fraud exercise working together with a range of Scottish public bodies, external auditors and the Audit Commission to identify fraud and error. These exercises, known as the National Fraud Initiative in Scotland (NFI), are undertaken every two years as part of the statutory audits of the participating bodies. The latest exercise started in October 2010 and was reported upon in May 2012. The next round of NFI commenced in June 2012, and seeks to expand the range of data sets and bodies.
101. The NFI works by using data matching to compare a range of information held on bodies' systems to identify potential inconsistencies or circumstances that could indicate fraud or error which are called 'matches'. Where matches are identified these are made available to bodies to investigate via a secure web application. Bodies investigate these and record appropriate outcomes based on their investigations.
102. Falkirk Council was assessed as part of the 2010/11 NFI exercise and managed its role to the satisfaction of Audit Scotland. The council is proactive in preventing and detecting fraud and has good systems in place to review NFI data matches for further investigation with progress reported bi-annually to members.
103. The council involvement in the latest NFI includes the review and potential investigation of 69 reports with 9,956 data matches of which 1,160 are considered high quality. As at October 2012, good progress has been made in the investigation of these data matches. Investigated outcomes have uncovered 15 cases of fraud and 46 errors totalling £259,189 with £82,658 currently under recovery. The majority of these cases relate to housing benefit payments.

## Housing and council tax benefits performance audit

104. A risk assessment was previously carried out in Falkirk Council's benefits service 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 was reviewed as part of Audit Scotland's 2010/11 programme of benefits performance audit work.
105. The Risk Assessment Report published by Audit Scotland in March 2011 recognised 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.
106. Of the nineteen risks identified in the 2009 risk assessment exercise, apart from one risk, agreed actions to address these risks have been fully completed. The action to address the final risk, i.e. the introduction of a housing benefits overpayments policy, documenting the council's approach and setting out its aims and objectives, performance management and key indicators was put on hold when the Welfare Reform announcements were made in 2010/11 as these reforms will have a significant impact on all collection procedures.
107. The Risk Assessment Report published in March 2011 identified new risks which would require to be addressed to ensure that the council continues to deliver continuous

improvement across all aspects of the service. Of the nineteen risks identified in the 2011 report

- 13 actions have been completed
- 2 are partially complete
- 3 are outstanding, and
- 1 is no longer being progressed.

108. The partially addressed risks relate to the risk referred to above and one in relation to the reporting of overpayments recovery which will be fully addressed by the implementation of the new benefits system in December 2012. The three outstanding risks relate to

- routinely consulting with landlords to determine the level and type of services they require
- halting the decline in the recovery of Housing Benefits Overpayments in year, and
- the formalisation of agreements with legal services.

109. Management accepts these risks and is taking action to address them. We note that a new target date of March 2013 has been set for the latter risk due to internal restructuring in both services. Individual press releases publicising the outcomes of successful prosecutions are not issued as this is against council policy; the responsibility for this will transfer to the DWP in April 2013, so this risk is not being addressed.

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

110. 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.

111. During 2011/12, the council's financial regulations and standing orders relating to contracts were reviewed and updated. Council officers across all services received training on the revised policies. These steps should help to ensure that the council has satisfactory arrangements in place for the prevention of bribery and corruption. We have concluded that the arrangements in Falkirk Council are satisfactory and we are not aware of any specific issues that we need to identify in this report.

## Complaints Handling Procedures

112. Following the Public Services Reform Act the Scottish Public Services Ombudsman (SPSO) published model complaints handling procedures (CHPs) on which all public service complaints procedures should be based from 2012/13. In addition, every local authority was expected to provide the SPSO with copies of its CHP and confirm it complies with the published local authority CHP by 14 September 2012. The council complied with this requirement within the timescale and compliance with the model CHP will be monitored by

Audit Scotland in conjunction with the SPSO and in line with the principles of the Shared Risk Assessment arrangements.

## Outlook

113. The Welfare Reform Act 2012 received royal assent in March 2012. This is the biggest reform of the UK welfare system for 60 years and promises to change the lives of millions of households by creating a new "Universal Credit" for working age claimants. The introduction of a Universal Credit will replace a range of existing means-tested benefits and tax credits for people of working age, starting from 2013. Councils will face challenges in understanding and acting upon welfare reform changes, and communicating these accurately and effectively to local residents. The introduction of Universal Credit will also have a significant impact on councils' strategies and plans in areas such as housing, asset management, finance, ICT and customer service. Councils will be challenged during this period of change to maintain service delivery and performance around housing benefit claims.
114. A "Welfare Reform" report was presented to the council at its meeting on 26 September, 2012 which identified some of the issues associated with welfare reform as well as considering the council's approach to the impact of delivery of Universal Credits on claimants and some of the issues associated with providing a flexible, holistic service that will support claimants.
115. The council has been aware for some time of the potential impact of welfare reform on its communities and on its services. As more information and details are released, it is clear that the impact is significant and should not be underestimated. Not only will there be a significant increase in levels of demand for key services, but there is also the potential for real confusion.
116. It is therefore important that a strategic approach is taken to the way services are delivered to help mitigate the impact of these changes on the council's communities and services. As part of our work on the 2012/13 audit, we will consider the council's preparedness for the introduction of these changes, and how it is developing and taking forward its strategies and plans to address the risks arising.

**Refer to Action Plan No. 6**

# Best Value, use of resources and performance

117. Audited bodies have a specific responsibility to ensure that arrangements have been made to secure Best Value.
118. 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 specified audited bodies have made to prepare and publish performance information in accordance with directions issued by the Accounts Commission.
119. As part of their statutory responsibilities, the Auditor General and 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.
120. Auditors may also consider the use of resources in services or functions, where the need for this is identified through local audit risk assessments.
121. 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.
122. 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 and the council's response to these.

## Management arrangements

### Best Value

123. 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 the improvement plan which it compiled in response to this report. The timing of the council's next Best Value audit (BV2) will be determined by the shared risk assessment performed by the Local Area Network (LAN).

124. The Local Area Network of scrutiny partners for the council, conducted a Shared Risk Assessment (SRA), and produced an Assurance and Improvement Plan 2012 to 2015 (AIP). This AIP recognised improvements in the council's new structures are in place to support its challenge and improvement agenda. The next shared risk assessment will consider to what extent the council can demonstrate the effectiveness of the improvements and will determine the need for and timing of any future BV2 audit work.

## Performance management

125. The council has a corporate performance management framework in place which is embedded throughout the organisation. The framework makes use of a good balance of local and statutory performance information.
126. The Single Outcome Agreement (SOA) provides the performance management framework for the Falkirk Community Planning Partnership, established to lead and manage community planning in the Falkirk area. The Partnership comprises the council and key partners such as NHS Forth Valley, Scottish Enterprise and Central Scotland Police and is headed up by a Leadership Board.
127. The council has reviewed the outcomes contained within the SOA following the approval of the Strategic Community Plan and the council's new Corporate Plan now aligns more closely with the SOA. The new Corporate Plan for the period 2012 - 2017 was approved by the Council in September 2012. The Strategic Community Plan sets out the group's high level outcomes and priorities for the five year period to 2015. It draws a focus on the importance of community action if the area is to achieve its vision. Each strategic priority has been linked to National Outcomes so that performance can be monitored through the Single Outcome Agreement.
128. Service Performance Plans have been developed from the council's Strategic Planning and Management System. Service objectives must relate to the corporate goals and outcomes set out in the Corporate Plan and which are linked to the local outcomes in the SOA, and issues such as risk management, efficiency, resources, consultation planning and performance measurement are addressed. The plans reflect on prior year performance and include action plans that outline service objectives. They also include performance indicators used for quarterly performance reporting to the BV forum. These performance reports are also made available on the 'performance zone' on the council's website.
129. As noted above in 2012/13 the LAN will consider how effective the council's new challenge and improvement processes have been at challenging services and demonstrating improvements in outcomes.

**Refer to Action Plan No. 7**

## Community/user engagement

130. The council carried out their biennial customer satisfaction survey during 2012. Over 80% of respondents reported feeling 'quite', 'well' or 'very well' informed about the council's services and the number rating themselves uninformed, 11%, was down on the 2010 figure of 13%.

85% said they were satisfied or very satisfied with the helpfulness and courtesy of council staff over the phone, consistent with 2010. 74.5% of respondents who had contacted the council during the year were satisfied with the service and had been treated well, a marked improvement on 2010 when the figure was 60%.

131. The council operates a Citizens Panel which has been running for over two years and has over 1,500 members. The panel provides the council with views on a range of services and issues via regular survey questionnaires. In addition, the council regularly consults with community councils, registered tenant organisations and parent councils.

## Overview of performance in 2011/12

### Falkirk Council performance measurement outcomes

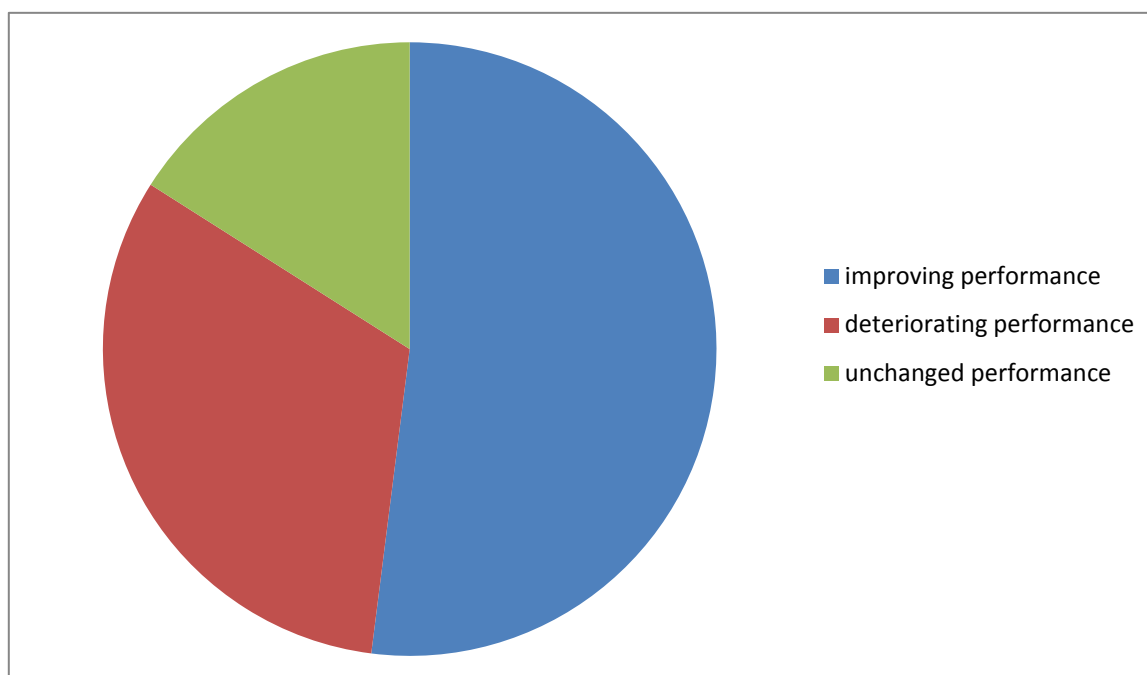
132. Service performance reports are reviewed every quarter by the Best Value Forum. The reports employ a traffic light system to enable members to see at a glance how services have performed against target and against the previous year. The council's main vehicle for reporting performance is the "performance zone" on its website. This provides details of the Accounts Commission's Statutory Performance Indicators as well as reporting against the council's own indicators.
133. The council has undertaken a full review of all performance indicators used across its services. A second phase of development is underway to fill the identified gaps. Most of the service indicators have improved over the year, but we would comment that the targets have often been set in previous years and are in some instances now being met by a large margin; we would therefore recommend that the council re-assesses targets in the interests of promoting continuing improvement across services.
134. We also noted some examples of indicators where targets have been met or exceeded and recorded as green but performance this year has declined e.g. user satisfaction levels in regard to housing repairs has fallen from 93% to 90%. The council should continue to monitor such instances through service performance plans and the Best Value Forum to ensure that they are not indicative of a trend of declining performance.

**Refer to Action Plan No.8**

### Statutory performance indicators

135. In 2011/12 a total of 25 Statutory Performance Indicators (SPIs) were required. Exhibit 7 below illustrates the council's overall performance in relation to these performance indicators.



**Exhibit 7: Summary of Statutory Performance Indicator outcomes 2011/12**

Source: *Falkirk Council SPI data returns*

136. The improved indicators include sickness absence levels, council tax collection cost per dwelling, timeliness of invoice payment, the processing of planning applications, housing quality and waste recycling. Declines were observed in levels of rent arrears, the number of council buildings with disabled access, the number of operational buildings considered suitable for their current use, the number of housing repairs completed within target time and the number of visits to museums and libraries. Whilst most measures indicate improved performance this year, there are areas which require close monitoring if service performance is to continue to improve.

## National performance reports

137. 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 below:

## Exhibit 8: A selection of National performance reports

- |   |  |
|---|--|
| <ul style="list-style-type: none"><li>• Commissioning social care</li><li>• The National Fraud Initiative in Scotland</li><li>• An overview of local government in Scotland - challenges and change in 2012</li><li>• Scotland's public finances - addressing the challenges</li><li>• Managing performance - are you getting it right?</li></ul> | <ul style="list-style-type: none"><li>• The role of community planning partnerships in economic development</li><li>• Community Health Partnerships</li><li>• Modernising the planning system</li><li>• Transport for Health and Social Care</li><li>• Reducing greenhouse gas emissions</li></ul> |
|---|--|

Source: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)

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## Scotland Public Finances - Addressing the challenges

- 138.** The 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.
- 139.** The council acknowledged the issues highlighted in the report in terms of the financial context and demand pressures that are integral to its budget strategy which was subject to members' scrutiny. The context of the challenges is well understood by senior management and elected members. A number of initiatives including workforce rationalisation and reduction, service expenditure reviews and opportunities for shared services are being used to drive down costs.

## Community Health Partnerships (CHPs)

- 140.** The report examined whether CHPs are achieving what they were set up to deliver, including their contribution to moving care from hospital settings to the community and improving the health and quality of life of local people. The report also assessed CHPs' governance and accountability arrangements and whether CHPs are using resources efficiently. Given the move to integrate services, the report highlights issues for both NHS boards and councils to address.
- 141.** The report was considered by the Falkirk Partnership Board and it was agreed that a review would be undertaken to identify areas for improvement that could be made to planning and delivery mechanisms within the council area. A workshop was scheduled for October 2012 to help identify key areas for development and improvement. However this has been postponed as a consequence of the review of Health and Social Work which will involve a reform of the Community Health Partnerships which will be replaced by Health and Social Care Partnerships.

## Transport for health and social care

142. Older people, those with long-term health or social care needs and people who live in remote and rural areas may need support to get to a hospital appointment or to access services such as their local day centre. This includes help with paying for transport or getting to their appointment in transport provided by the ambulance service, councils, NHS boards or the voluntary sector. If transport is not well planned it can result in unnecessary journeys, missed or late appointments, people staying in hospital longer than they need to and reliance on unplanned options such as taxis.
143. The council has had discussions with the Forth Valley Health Board in relation to transport for social care. It has been working closely with the new Forth Valley Royal Hospital to plan how staff, visitors and patients would access the hospital. The council is contributing to the cost of providing one of the three bus services linking Clackmannanshire and Falkirk to the new hospital location.

## Modernising the planning system

144. The report assessed whether recent reform and modernisation of the planning system is making it more economic, efficient and effective, and evaluated the overall progress made by the public sector in modernising the planning system and the impact that modernisation is having on councils' performance in managing planning applications. Although there was no formal consideration of this report, the council acknowledges that the report summarises and addresses a number of relevant and current issues within the Scottish Planning system.

## Managing performance: are you getting it right?

145. The report is the fourth in the How Councils Work series. This series draws on audit work in all councils to highlight concerns, issues and good practice.
146. The report offers practical pointers and support to help councillors and officials with performance management. Effective management of performance is everyone's business from the chief executive down and in well-run councils, it is embedded throughout the organisation as part of the day job and not seen as a burden. A key element is getting the culture right with councillors and officials sharing a common purpose and vision and setting clear priorities.
147. The council has yet to consider this report as it was published in October 2012. We will consider any impact and influence the report has on the council as part of our on-going review of its performance management arrangements.

## Progress against audit risks identified in the SRA

148. As reported above the Local Area Network of scrutiny partners for the council, conducted a Shared Risk Assessment (SRA), and produced an Assurance and Improvement Plan 2012 to 2015 (AIP).

149. No significant scrutiny risks were identified by the LAN as part of this shared risk assessment process. A number of corporate arrangements, service and outcome areas were reported as areas of uncertainty for the LAN:
- improvements in the council's self evaluation and improvement agenda were acknowledged and are reflected earlier in this report. The impact on service delivery and outcomes will be considered by the LAN as part of the next AIP update.
  - members' training and the how the council is responding to the challenging financial environment are considered in earlier sections of this report.
  - the protection and welfare of vulnerable people (children and adults) including access to opportunities. The Care Inspectorate 'Joint inspection of services to protect children and young people in Falkirk Council area' highlighted a number of strengths and areas of good practice but also highlighted the need to improve the quality of assessment of risks and needs and individual children's plans. The updated position will be reviewed by the LAN as part of the next AIP update.
  - Social work services: an initial scrutiny level assessment had been conducted by the care inspectorate but the results were not published at the time of the last AIP. The results of this work will be considered by the LAN as part of the next AIP update.
  - Community services: the council established Falkirk Community Trust on 1 July 2011 to provide a range of community and leisure services; the impact of the transfer to the Trust will be considered by the LAN as part of the next AIP update.
  - Economy: continuing uncertainty in the global and national economies and the challenges this poses means that this outcome area remains one of uncertainty. The updated position will be reviewed by the LAN as part of the next AIP update.
  - Health and well-being: SOA outcome measures reviewed at the time of the AIP showed mixed performance. The updated position will be reviewed by the LAN as part of the next AIP update.

## Outlook

150. As reported above, the timing and scope of any Best Value audit work will depend on how effectively the council's self evaluation processes demonstrate that it's new improvement agenda is driving improvements in services and outcomes.
151. The Accounts Commission has developed an audit approach for the audit of Community Planning Partnerships. This approach is being piloted in the autumn of 2012 and rolled out across the sector thereafter.
152. In April 2011, the Equality Act 2010 introduced a new public sector 'General Duty' which encourages equality to be mainstreamed into public bodies' core work so that it is not a marginal activity but part and parcel of how public bodies operate. Following on from this the Scottish Government consulted on a set of 'Specific Duties' which came into force in May 2012. There are nine specific duties listed which aim to support public bodies to better perform against the 'General Duty,' including the duty to assess the impact of equalities in all

policies and decisions as well as the requirement to publish a set of equality outcomes (and reporting requirements) no later than 30 April 2013. Progress made by the council in implementing these requirements will be monitored in 2012/13.

# Appendix A: audit reports

## External audit reports and audit opinions issued for 2011/12

| Title of report or opinion   | Date of issue     | Date presented to Audit Committee |
|--|-------------------|-----------------------------------|
| Annual Audit Plan  | 9 February 2012   | 24 March 2012                     |
| Shared Risk Assessment/Assurance and Improvement Plan                        | 3 June 2012       | 16 June 2012                      |
| Internal controls management letter  | 16 June 2012      | 24 September 2012                 |
| Maintaining Scotland's roads - follow-up review                              | 26 July 2012      | 29 October 2012                   |
| Report on financial statements to those charged with governance              | 17 September 2012 | 24 September 2012                 |
| Audit opinion on the 2011/12 financial statements                            | 24 September 2012 | 24 September 2012                 |
| Audit opinion on the 2011/12 Whole of Government accounts consolidation pack | 11 October 2012   | 29 October 2012                   |
| Report to Members on the 2011/12 audit                                       | 24 October 2012   | 29 October 2012                   |

# 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            | 16            | <p><b>Annual Governance Statement</b></p> <p>At present no direct assurances are sought from the management of subsidiary organisations as to the governance arrangements in place locally.</p> <p><b><i>Risk: governance arrangements may not be consistent across the council's group. The governance statement may not reflect this.</i></b></p> | Will be carried out for the 2012/13 Annual Accounts.   | Internal Audit Manager          | 30 April 2013 |
| 2            | 26            | <p><b>Equal Pay</b></p> <p>Falkirk Council has received a significant number of claims for compensation and the ultimate cost to the council remains uncertain.</p> <p><b><i>Risk: the liabilities may have an adverse impact on the council's financial position.</i></b></p>  | <p>The council has set aside a provision of £5.216m to deal with Equal Pay Claims. This sum is based on the best evidence available at this time. In addition, the council has a level of Reserves which can be used to further increase the provision, if so required. The position will be subject to continual review and the adequacy of the provision assessed accordingly.</p> | CFO/Head of HR & Customer First | Ongoing       |
| 3            | 42 & 72       | <p><b>Budget savings and financial pressures</b></p>  | A corporate working group has been   | Chief Finance Officer           | Ongoing       |

| Action Point | Refer Para No | Risk Identified  | Planned Management Action  | Responsible Officer              | Target Date   |
|--------------|---------------|--|--|----------------------------------|---------------|
|              |               | <p>At present the council forecasts spending gaps of £10.421 million in 2013/14 and a further £7.521 million in 2014/15.</p> <p><b>Risk: the council may fail to achieve the necessary savings without impacting upon the level of service provision.</b></p>                          | <p>established to develop a medium term strategy clearly linked to the Community, Corporate and Service Plans and the Workforce and Asset Management Strategies.</p>   |                                  |               |
| 4            | 56            | <p><b>Road maintenance</b></p> <p>The council has a backlog of road maintenance.</p> <p><b>Risk: lack of adequate financing to address the backlog will allow it to increase further and harm the local economy.</b></p>   | <p>The council has a Roads Asset Management Plan in place which is used to prioritise carriageway repairs. In the last 2 years an additional £1m has been invested in the Roads Service. Any bids for additional funds are however being made in a climate of constrained resources and members will make investment decisions based on their relative priorities.</p> | Director of Development Services | Ongoing       |
| 5            | 63            | <p><b>Workforce reductions</b></p> <p>Elected members should be kept regularly informed of the numbers, costs and savings attached to voluntary severance arrangements.</p> <p><b>Risk : members are not fully aware of the impact on employee numbers and potential impact on</b></p> | <p>A report will be submitted to the next available Joint Consultative Committee in accordance with arrangement for previous years.</p>  | Head of HR and Customer First    | February 2013 |



| Action Point | Refer Para No | Risk Identified  | Planned Management Action   | Responsible Officer | Target Date |
|--------------|---------------|--|---|---------------------|-------------|
|              |               | <i>service delivery of voluntary severance arrangements or whether the council is achieving its targets for workforce reductions.</i>  |   |                     |             |
| 6            | 116           | <p><b>Welfare Reform</b></p> <p>It is important that a strategic approach is taken to the way services are delivered to help mitigate the impact of these changes on the council's communities and services.</p> <p><b><i>Risk: the council may fail to meet the challenges of supporting the delivery of welfare reform</i></b></p> | Following a report to Council on 26/09/12, we have established several corporate working groups to take forward specific aspects of Welfare Reform. CMT is regularly kept up to date on this work with reports also being scheduled for Council in the near future. | All Directors       | Ongoing     |
| 7            | 129           | <p><b>Self evaluation processes</b></p> <p>The council need to demonstrate that its new performance management arrangements are effective.</p> <p><b><i>Risk: the arrangements may not identify service areas for improvement, and they may not have an impact on service delivery and outcomes.</i></b></p>                         | Regular reports are presented to CMT updating them on the specific improvements being taken following self assessment. In addition, the programme for reviews is consistently under scrutiny and review to ensure its relevance and appropriateness.                | All Directors       | Ongoing     |
| 8            | 134           | <p><b>Local Performance Indicators</b></p> <p>Some performance targets are being exceeded by a wide margin but targets have not yet been</p>   | Targets will be reviewed as part of Services' Service Plan Reviews and they are also subject to regular scrutiny by the Best  | All Directors       | Ongoing     |

| Action Point | Refer Para No | Risk Identified  | Planned Management Action | Responsible Officer | Target Date |
|--------------|---------------|--|---------------------------|---------------------|-------------|
|              |               | <p>reviewed; others are being met but weakening trends in performance are not being identified and addressed.</p> <p><b><i>Risk: the council may fail to deliver continuous improvement and may fail to recognise declines in service quality.</i></b></p> | Value Forum.              |                     |             |