

# Falkirk Council

## Annual report on the 2012/13 audit



Prepared for Members of Falkirk Council and the Controller of Audit  
October 2013

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. We help the Auditor General for Scotland and the Accounts Commission check that organisations spending public money use it properly, efficiently and effectively.

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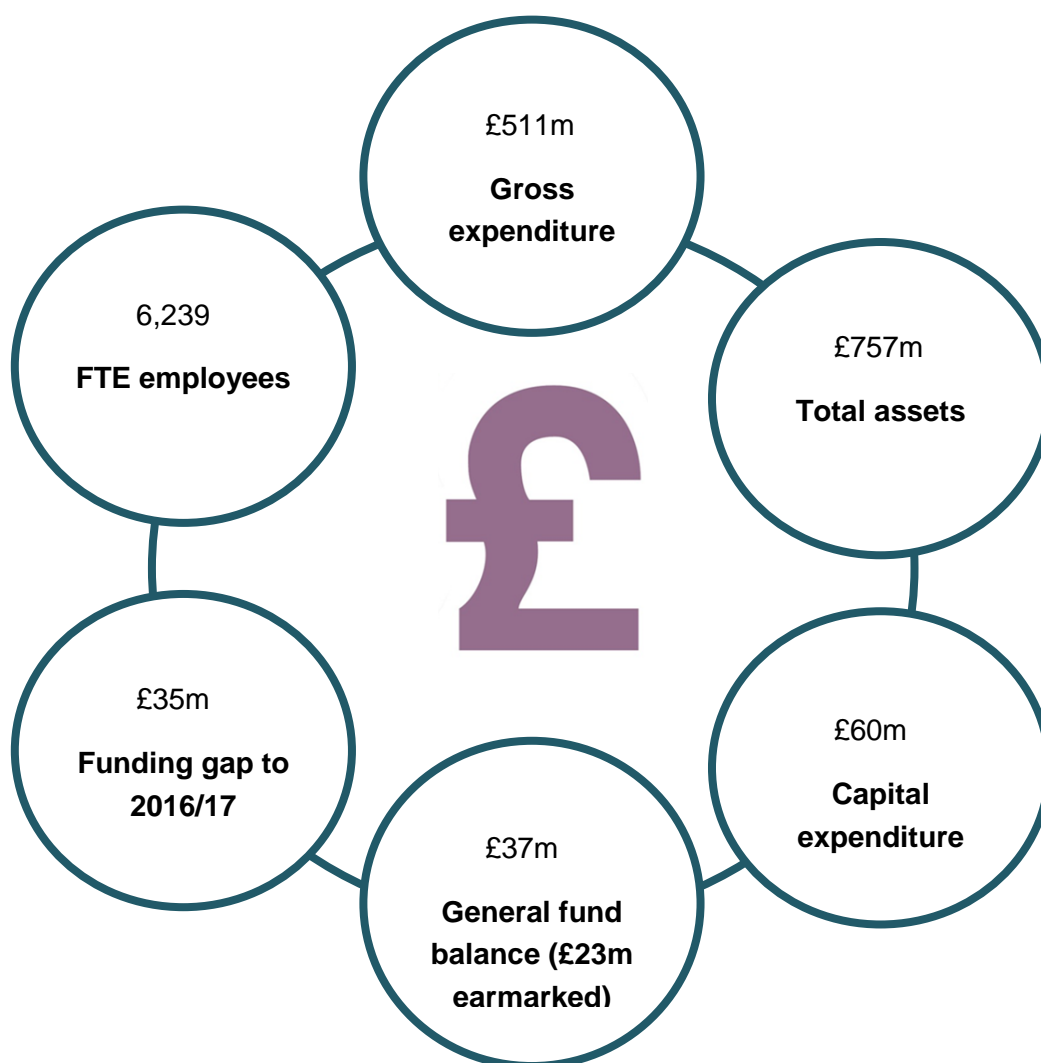
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# Key messages

## 2012/13 audit findings

This report summarises the findings from our 2012/13 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 2012/13. In our opinion they give a true and fair view of the financial transactions for the year to 31 March 2013 and the financial position at that date.



## Financial position

The financial position is more favourable than was anticipated when the original 2012/13 budget was set. The explanatory foreword to the accounts reports a general fund surplus for the year of £5.194 million and an overall underspend of £11.216 million against budget. The council has approved the transfer of £6.715 million to earmarked reserves for future use. Significant over or underspends can undermine the effectiveness of financial management. Finance officers recognise this and are reviewing the base budget to ensure that it is aligned with future spending requirements.

The general fund balance of £37.428 million as at 31 March 2013 includes earmarked commitments of £23.311 million and an unallocated general fund balance of £14.117 million. Fund balances held by the council are discussed and approved by members as part of the regular budget monitoring processes. The unallocated general fund balance of £14.117 million is above the council's target of £7-10 million. The council plans to use £2.3 million of unallocated funds to balance the 2013/14 budget.

## Governance arrangements

Overall the council's governance arrangements in 2012/13 were adequate. No material weaknesses were identified in the accounting and internal control systems during our audit, although we agreed some areas for improvement with management. We also highlighted the need for the council's fraud prevention measures to be updated for the requirements of the Bribery Act 2010.

New decision making structures were approved by council in 2012/13 with the first meetings under the new arrangements taking place in May 2013. These new arrangements have only recently been implemented and not all members are participating in every aspect of the new decision making structures. It is important that this issue is resolved timeously as continuation of the current situation could undermine local governance and scrutiny arrangements and cause reputational damage to the council. We will monitor the effectiveness of the new arrangements as part of our 2013/14 audit work.

## Performance and best value

The council acknowledges that its performance management arrangements require further development. The council has revised its performance management framework to include peer scrutiny performance reviews. In addition, Service Performance Plans for 2013-16 have been prepared incorporating performance outcomes and these will be subject to regular scrutiny by a Performance Panel. These arrangements are relatively new and it is too early to state how effective they will be although they are a move in the right direction.

At the same time performance management could be strengthened through robust performance target setting to support continuous improvement. Also, a more structured approach could be taken to the review and scrutiny of national performance reports published by Audit Scotland, including an assessment of their local impact.

As part of the arrangements for members to scrutinise performance, the Best Value Forum has recently been replaced by a Performance Panel. During the transitional period when the new governance structure was introduced in May 2013 and the decision to establish a Performance Panel was taken in August 2013, performance reports have not been presented to members for scrutiny. The Performance Panel will scrutinise the 2012 annual performance report for each service in November 2013 and this will be closely followed by a six-monthly update. Thereafter, services will report performance to the panel 3 times a year.

## Outlook

Scotland's public bodies will continue to face increasing demand and cost pressures for their services in the foreseeable future. Falkirk, as with other councils, will have to review its future priorities and consider decisions on future service provision which they had previously ruled out just to balance the budgets in future years. The council recognises this and is planning a business transformation project which will deal with fundamental issues such as the basis for delivering services (statutory or discretionary), the mode of delivery (provider or enabler) and the resources required.

These developments are planned at a time when the council is faced with a significant funding gap forecast at £35 million over the next three years. For longer term financial sustainability the council will have to identify recurring savings rather than rely on short term fixes such as using reserves to bridge gaps.

In addition, there is the public reform agenda including the Welfare Reform Act which is resulting in the biggest changes in the UK welfare system in 60 years. The council have been proactive in informing the local population of the changes to the welfare system and providing advice. However, management have advised us that rent arrears are expected to increase as a result of welfare reform and there are similar concerns about council tax arrears.

The council is embarking on a major investment project through the tax incremental finance initiative (TIF) to boost economic development in the Falkirk area. TIF is a funding mechanism being piloted in Scotland that uses future anticipated non-domestic rates (NDR) revenues to finance infrastructure developments within a designated area. The project carries significant risk in that the investment may not generate the anticipated NDR income to finance the project.

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

# Introduction

1. This report is the summary of our findings arising from the 2012/13 audit of Falkirk Council. 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 the audit committee as soon as possible after, the formal completion of the audit of the financial statements. Audit is an essential element of accountability and the process of public reporting. Reports should be available to the other stakeholders and the public, where appropriate.
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 2012/13 give a true and fair view of the state of affairs of the council and its group as at 31 March 2013 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 corporate 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 to be brought to members' attention.

## Going concern and group accounts

12. The council has prepared the financial statements on the assumption that both the council and its group can continue to operate as a going concern in future.
13. 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. For the purpose of consolidation and incorporation within the group accounts the council has 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 Funds.
14. 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 both reserves and net assets by £351.1 million.



The group balance sheet as at 31 March 2013 discloses an excess of liabilities over assets of £195 million (2011/12 £119 million) due to the accrual of pension liabilities in accordance with International Accounting Standards.

15. For a number of years the group financial statements have reported a net liability due to the impact of accounting for Central Scotland Police and Fire Pensions. The council has given consideration to this and deem it appropriate to prepare the accounts on a going concern basis and we concur with this assessment. Whilst the deficit funding policy 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.
16. Police and Fire functions transferred to the Scottish Police Authority and the Scottish Fire and Rescue Service on 1 April 2013. By way of illustration, the group balance sheet as at 31 March 2013, without the inclusion of the Central Scotland Police and Fire financial statements, would disclose an excess of assets over liabilities of £155 million.

## Annual Governance Statement

17. As part of our annual audit we review the disclosures made in the Annual Governance Statement, included in the financial statements, and the process for obtaining sufficient assurances to inform the content of the statement.
18. We are satisfied that the disclosures in the Annual Governance Statement are in line with the guidance contained in the CIPFA publication *Delivering Good Governance in Local Government*. Also, we are satisfied with the adequacy of the process put in place to obtain the necessary assurances for the Annual Governance Statement.
19. The Annual Governance Statement refers in outline to a number of areas where improvements are being progressed :
  - the performance monitoring and reporting peer review process
  - the work on the role and accountability of all working groups
  - the continued implementation and embedding of revised decision-making structures
  - the control framework within a customer centred framework
  - the continued provision of relevant training and development opportunities to Members and Officers of the council.
20. Annual Governance Statements are also prepared for Central Scotland Fire and Rescue Service, Central Scotland Police and Central Scotland Valuation Joint Board, which assisted in the assessment of the wider group governance arrangements. Assurances were also obtained from the management of the subsidiary organisations, Falkirk Community Trust and Falkirk Community Stadium.

## Remuneration report

21. We are satisfied that the remuneration report has been prepared in accordance with the relevant legislation. The disclosures within the 2012/13 financial statements include all

eligible remuneration for the relevant council officers and elected members under a number of categories including pension benefits.

## Accounting issues

22. Local authorities in Scotland are required to follow the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 (the 2012/13 Code). Overall we are satisfied that the council prepared the 2012/13 financial statements in accordance with the 2012/13 Code.

## Accounts submission

23. The council's unaudited financial statements were submitted to the Controller of Audit by the deadline of 30 June 2013. A comprehensive working papers package was available soon after this date. In 2013/14 we will work with officers to ensure that there is a process in place to provide audit with a complete working papers package on the date the unaudited financial statements are received. The working papers package for 2012/13 was of a good standard and finance staff dealt with audit queries promptly thereby enabling us to complete our on-site fieldwork by 6 September 2013.

## Presentational and monetary adjustments to the unaudited accounts

24. A number of presentational amendments were made at the request of audit. These adjustments were aimed at improving disclosures within the financial statements.
25. A number of immaterial unadjusted errors were also identified. As is normal practice these errors were reported to the Chief Finance Officer and included within our ISA 260 Report submitted to Audit Committee on 23 September 2013.

## Pension costs

26. 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 2013 provided by the scheme's actuaries increased the council's share of the deficit from £214.510 million last year to £222.953 million this year.
27. There has been an increase in pension liabilities of £8.4 million as at 31 March 2013 compared with the liabilities at 31 March 2012, which is much less than the £43 million increase in 2011/12. This reflects a better than expected return on assets offset by an increase in liabilities resulting from a fall in the discount rate. The scale of the movements in the council's pension liability over the last 5 years, arising from the annual valuation, can be seen in Exhibit 1 below:

**Exhibit 1: Movement in Pension liability 2008/09 - 2012/13**

	2008/09	2009/10	2010/11	2011/12	2012/13
	£ million	£ million	£ million	£ million	£ million
Net pension liability	124.107	289.253	171.869	214.510	222.953

Source: Falkirk Council audited financial statements

28. 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.

### Equal pay

29. 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 £4.168 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 Point No. 1**

### Asset de-commissioning costs - landfill site

30. The council owns Kinneil Kerse (an inactive landfill site) and is responsible for the restoration and aftercare costs of the site. As at 1 April 2012, the District Valuer placed a value of £1.773 million on these remedial works over the next 60 years. In terms of IAS 37 *Provisions, contingent liabilities and contingent assets*, the council should have recognised these costs as a provision in its balance sheet through a prior year adjustment. Finance officers decided not to amend the accounts because in their judgement the amount was immaterial. As restoration and aftercare work is capital in nature the adjustment would have no impact on the council's general fund balance at the year end. We accept the council's view on the basis that the amount is immaterial and finance officers have agreed to apply the correct accounting treatment in 2013/14.

### Council house valuations

31. As reported in previous years the council values its council dwellings using a discounted cash flow approach. This is not consistent with the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 (the Code). It states that the fair value of council house

dwellings shall be measured using the existing use value social housing method of valuation. Current practice results in a significantly lower valuation of housing stock. Management have reiterated their plans to revise the method of housing stock valuation in line with the Code at the next valuation in 2015/16.

### Non-depreciation of council house dwellings

32. The council does not charge depreciation on its council house stock. Finance management advised that this is due to the fact that the residual value of its housing stock is equivalent to its current value. Management provided us with advice from the District Valuer that corroborated this and as a result we are satisfied with the council's accounting treatment.

### Related party transactions

33. The Code requires the council to disclose all significant related party transactions in a note to the financial statements. The council disclosures were adequate and we concluded that to the best of our knowledge they were complete. However, it is good practice for the council to have a process in place to obtain formal assurances from both members and senior officers on related party transactions occurring during the year. This would support the accountant responsible for preparing the note and provide both the Chief Finance Officer and auditors with further assurance that the disclosures are complete.

**Refer to Action Point No. 2**

### Whole of government accounts

34. 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 2012/13 WGA return to the Scottish Government prior to the deadline of 7 August 2013. The WGA return is being audited at present and we will submit it to the Scottish Government in early course.

### Outlook

35. CIPFA/LASAAC guidance on significant trading operations (June 2013) states that where services are provided internally, the decision to operate a trading account is at the discretion of the local authority. Any internal trading is subject to the legislative duty of local authorities to secure best value. The council approved the decision to disband the roads maintenance trading account with effect from 1 April 2013 on this basis. The council plans to demonstrate best value in roads services using a number of measures including benchmarking, service review and performance management.
36. A consultation exercise is currently underway in terms of the Local Authority Accounts (Scotland) Regulations. It is likely that for 2013/14 local authorities, the Audit Committee will be required to approve the accounts by 30 September 2013.

# Financial position

37. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.
38. 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.
39. This section of our report summarises the financial position and outlook for the organisation.

## Financial results

40. As recorded in the comprehensive income and expenditure statements, the council spent £511.207 million on the provision of public services and had an accounting deficit of £11.119 million in 2012/13. However, this includes certain elements of income and expenditure that are accounted for to comply with the Code of Practice on Local Authority Accounting, which are then adjusted to show their impact on statutory council reserves. Following these adjustments there was an increase in the general fund balance of £5.194 million.

## Budgetary control

41. The explanatory foreword reported a general fund revenue account surplus of £5.194 million in the year against a budgeted deficit of £6.022 million. This equates to an underspend of £11.216 million in the year, of which £7.160 million is service related. The main reasons for the service underspends are as follows:
- **Education Services:** reduced employee costs (primarily teachers) combined with savings in operational costs and residential school expenditure contributed to a net underspend of £1.200 million against budget.
  - **Social Work Services:** pressure in children's residential care and adult community care was offset by savings in staff costs and additional income from residential homes and the National Health Service. Overall there was a net underspend of £2.091 million against the Social Work budget. Of this amount £1.122 million relates to revenue grants received in the year that have been earmarked for expenditure in 2013/14.
  - **Central Support Services:** savings of £0.612 million were achieved primarily due to reduced staff and lower property costs.
  - **Corporate & Neighbourhood Services:** there were significant savings in the cost of purchasing bed and breakfast places combined with a range of savings in employee

costs, administration of housing benefit, property costs and transport expenses. As a result a net underspend of £1.591 million against budget was achieved.

- **Development Services:** a net underspend of £0.858 million was achieved in the year primarily due to reduced staff and waste management costs.
  - **Miscellaneous Services:** an underspend of £0.808 million against budget was achieved due to additional income from interest received from revenue balances and lower costs within the local tax collection and registration functions.
42. The Housing Revenue Account (HRA) made savings in employee costs, support services and capital charges while increased property costs were offset by insurance receipts. Also, there was increased income from commercial properties. The HRA reported an in year surplus of £0.661 million and a total underspend of £3.292 million when compared to a budgeted deficit of £2.631 million. At the year end £0.742 million of the HRA balance was transferred to a general fund earmarked reserve for expenditure in 2013/14.
43. The council recognise that the significant underspends during 2012/13 indicate that the underlying base budget needs to be reviewed. The budget has traditionally been compiled on an incremental basis which means that inherent weaknesses have not been investigated and budget lines revised. A budget rebasing exercise was carried out as part of the 2013/14 budget setting process which resulted in £2 million being removed from base budgets. Management have advised that this exercise is being repeated as part of the 2014/15 budget process.

**Refer to Action Point No. 3**

## Financial position

44. The general fund reported a net surplus for 2012/13 of £5.194 million, increasing the general fund balance to £37.428 million as at 31 March 2013. This balance is made up of earmarked commitments of £23.311 million leaving an unallocated general fund balance of £14.117 million, which exceeds the council's stated reserves strategy to retain uncommitted reserves of between £7 million and £10 million.
45. This is in contrast to the 2011/12 financial position where the council reported a decrease in the general fund balance of £4.482 million, which was £3.258 million more than planned. This was attributable to a £12 million one-off payment to the Non Profit Distributing Organisation for the news schools project which was not included in the budget, offset by revenue savings of £8.742 million. The council approved the use of £1.2 million and £3.4 million of reserves to fund expenditure in 2011/12 and 2012/13 respectively, although the underspend in 2012/13 meant that a contribution from reserves was not required.
46. In addition, the council reported cash efficiency savings of £4.011 million in 2012/13 against a target of £3.515 million.
47. Exhibit 2 shows the balances in the council's funds at 31 March 2013 compared to the previous year. The council's funds at 31 March 2013 totalled £54.986 million, an increase of £5.397 million on the previous year.

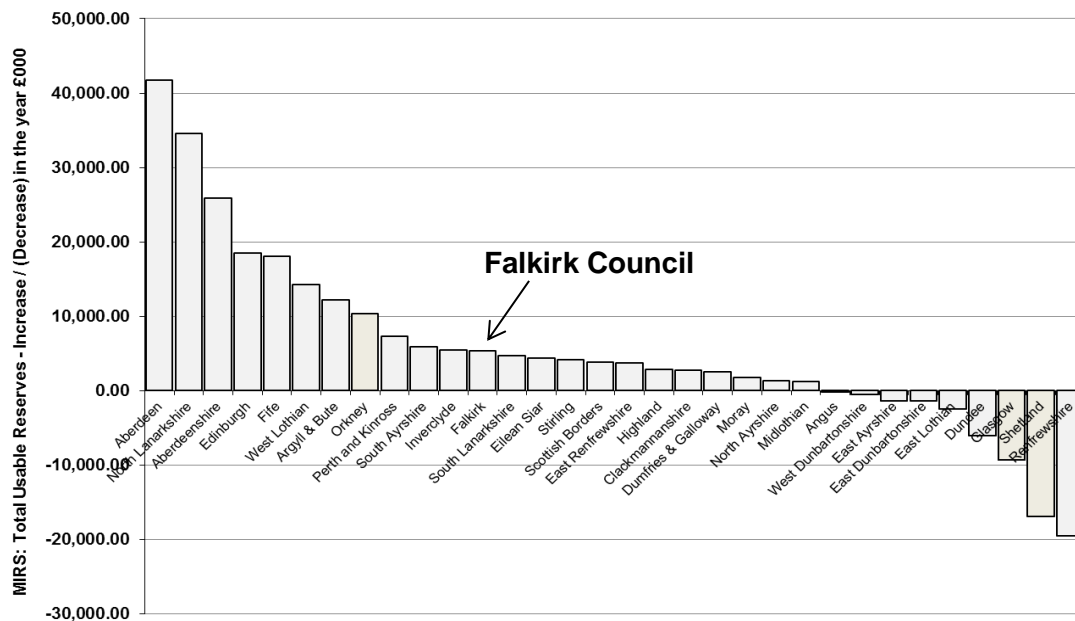
**Exhibit 2: Usable reserves**

Description	31 March 2011 £ million	31 March 2012 £ million	31 March 2013 £ million
General Fund	36.716	32.234	37.428
Capital Receipts Reserve	5.342	5.172	4.428
Capital Grants Unapplied	5.067	4.737	5.501
Other Usable Reserves	5.588	7.446	7.629
<b>Total Usable Reserves</b>	<b>52.713</b>	<b>49.589</b>	<b>54.986</b>

Source: Falkirk Council 2012/13 financial statements

48. The overall increase in total usable reserves in 2012/13 is consistent with the picture across the majority of Scottish local authorities, as demonstrated in Exhibit 3 overleaf. Falkirk Council's usable reserves have increased by 10.8% on the previous year, which lies close to the median for all Scottish local authorities. This indicates a stable financial position going forward into 2013/14. The balances held by the council are reviewed by members as part of the regular budget monitoring processes. The use of balances for earmarked purposes has been agreed with members.

**Exhibit 3: Movement in total usable reserves including earmarked, uncommitted and capital funds**

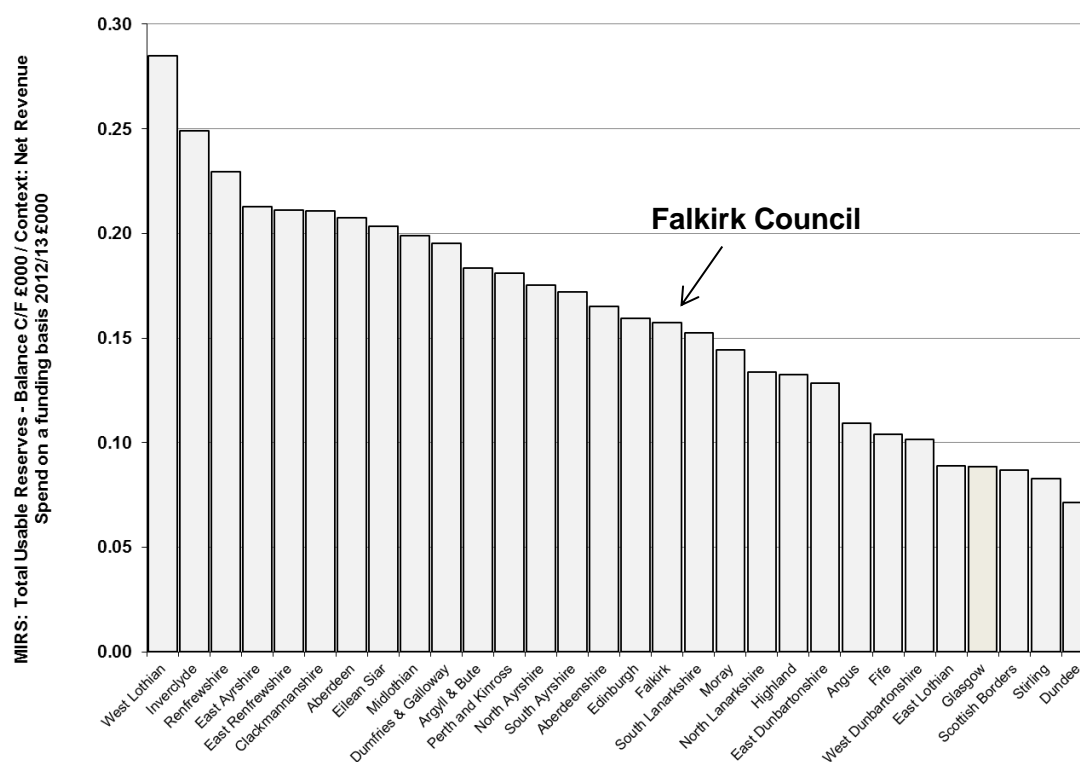


Source: Audit Scotland - 2012/13 analytical review of council accounts

- 49. Exhibit 4 overleaf presents the council's usable reserves position in relation to net revenue spend for the year in comparison to other Scottish local authorities. The graph demonstrates that Falkirk Council lies just below the median point in relation to this financial ratio. The council needs to continue to ensure that it strikes a balance between meeting current obligations and preparing for future commitments and or reductions in funding.
- 50. In 2012/13 the council approved the transfer of £3.5 million of the general fund balance to a 'spend to save' earmarked fund. Members have since approved the use of this money for the following:
  - Various lease buyouts
  - Security alarms in Municipal Buildings
  - Reducing the wattage in highest rated street lamps
  - Refreshing the Teaching Profession - phase II.
- 51. In addition, £1.186 million has been transferred to the economic development fund to assist with the delivery of economic development such as Falkirk Townscape Heritage Initiative, business support and tourism signs.



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



Source: Audit Scotland - 2012/13 analytical review of council accounts

## Capital investment and performance 2012/13.

52. The Prudential Code is a professional code of practice designed to support local authorities in taking capital investment decisions and aims to ensure that capital investment plans 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 outlined in 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 its capital plans are sustainable.
53. In 2012/13 the council spent £60 million on capital projects split between the housing revenue account (£28 million) and the general services programme (£32 million).
54. The planned general services capital expenditure for the year was £41 million. This takes into account £12.8 million of Big Lottery funding for the Helix project. Significant capital developments in 2012/13 included the opening of part of the Helix and completion of the new St Bernadette's Primary School and the Glenberrie Slip Road.
55. The council incurred slippage of £9.16 million against the general services capital budget in the year, £2.6 million of which relates to the Helix project. The remainder of the slippage relates to a variety of projects including the upgrade of the Camelon Education Centre and flood prevention. The slippage has been carried forward to 2013/14.

56. The housing revenue account capital expenditure in 2012/13 was £28 million against a budget of £30 million. A substantial proportion of this (£20 million) was invested in bringing the condition and energy efficiency of the housing stock in line with the Scottish Housing Quality Standards (SHQS). A further £4 million was spent on new build housing.
57. Looking forward the council has approved a three year general capital programme for 2013/14 to 2015/16 with £75.47 million of investment. Major investments include the new Carrongrange School, Flood Prevention and infrastructure projects under the tax incremental finance (TIF) scheme. Exhibit 5 below sets out the sources of finance for the programme.

**Exhibit 5: Three Year Capital Programme 2013/14 to 2015/16: sources of finance**

Source of finance	£m	%
Prudential borrowing	16.69	22
Scottish Government capital grants	34.56	46
Capital receipts	8.65	11
Other funding (e.g. planning gains)	5.33	7
Prudential borrowing for TIF projects	10.24	14
<b>Total</b>	<b>75.47</b>	<b>100</b>

Source: Falkirk Council Three Year General Capital Programme - Full Council 13 February 2013

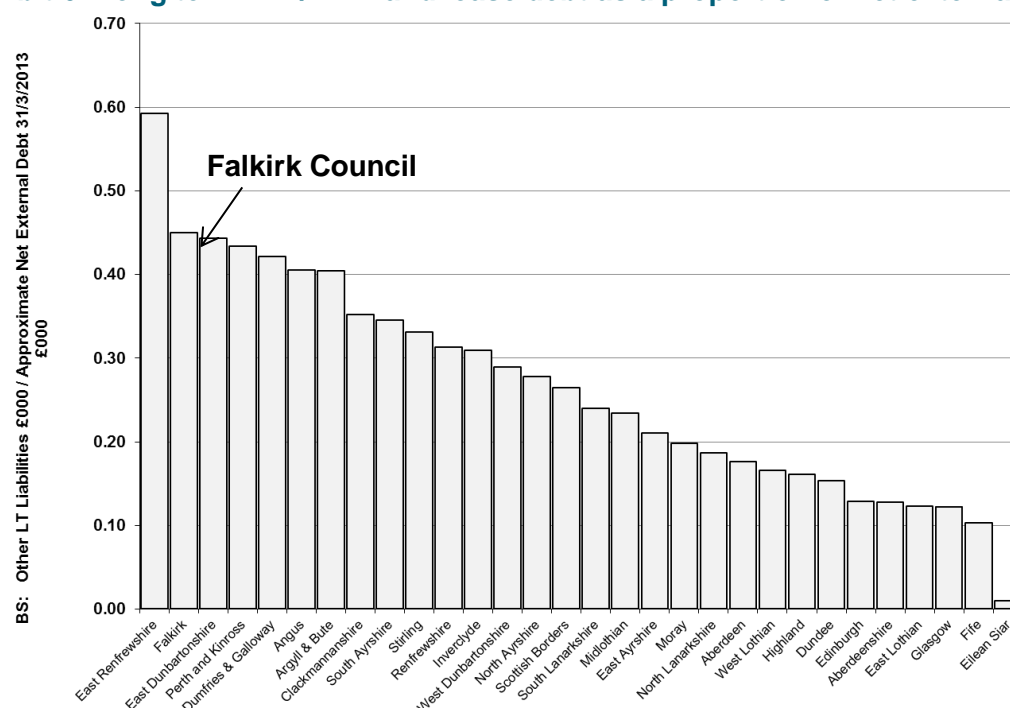
58. In addition, the council has approved a further £13 million investment in new build housing in 2013/14 to address the shortage of affordable housing in the area. The council's housing need and demand assessment identified an annual shortfall of 233 affordable homes of which 100 should be met through new build affordable housing from a variety of sources including the council, registered social landlords (RSLs) and developers through the council's affordable housing policy. The council has approved investment of £45 million in new build housing within its capital programme over the next 3 years. In addition, the council has approved £10 million to acquire homes previously purchased under right to buy to help meet the need for affordable houses. This forms part of the £115.5 million housing investment programme covering 2013/14 to 2015/16. Most of the remaining investment programme is made up of Scottish Housing Quality Standards (SHQS) works aimed at all houses meeting SHQS by 2015.

**Treasury management**

59. The council's level of borrowing in 2012/13 has increased, however the council's net external debt as a proportion of net revenue spend continues to remain low relative to other Scottish councils. This was identified by an analytical review carried out by Audit Scotland on Scottish local authority accounts. At 31 March 2013 the council had total borrowings of £182.237 million (2011/12 £158.475 million), a significant proportion of which is at a fixed rate.

60. Following professional advice the council took out short term borrowing of £22 million to meet cash flow requirements in the year. Under normal circumstances the council would have opted for long term borrowing. However, the Public Works Loan Board (PWLB) interest rates were much higher and by borrowing short term the council has the opportunity to make savings on future borrowing requirements when the interest rates drop. This approach should be kept under review to ensure that it continues to represent best value.
61. The council's exposure to other long term liabilities is much greater, as illustrated by Exhibit 6 below. Falkirk Council has two schools projects (Class 98 and Falkirk Schools Gateway) which have been delivered under private finance initiative (PFI) contracts. Under IFRS requirements, the council has recognised both the asset acquired under the PFI scheme and the related liability in its balance sheet.

### Exhibit 6: Long term PFI / PPP and lease debt as a proportion of net external debt



Source: Audit Scotland - 2012/13 analytical review of council accounts

## Resource planning to support priority setting and cost reductions

### Procurement

62. 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. In 2012 the council achieved a PCA score of 56%, which is classed as 'improved' and demonstrates a significant improvement on the 2011 score of 35%. The council has reported procurement-related

efficiency savings of £1.724 million in 2012/13, achieved by renegotiating existing contracts and more effective contract monitoring.

### Workforce reduction

63. As part of the programme of savings, the council has continued to reduce the workforce through an early severance scheme resulting in a further 27 applications being approved in 2012/13. The number of approved applications represents a significant reduction on previous years. The decision to approve applications is becoming tougher as the workforce shrinks and the potential impact on service delivery is amplified. The council needs to ensure that these decisions demonstrate value for money and must carefully consider the impact on service delivery.
64. The council's 2012/13 efficiency return clearly states that effective vacancy management has been on going with no detriment to service provision. Services have attributed £0.997 million of £4.011 million cash efficiency savings to workforce planning in the year.
65. In 2011/12 we noted that members were not kept informed of the numbers, costs and savings associated with the voluntary severance scheme. Members are now updated through an annual report on voluntary severance taken to the Joint Consultative Committee. The next update will be submitted in November 2013.

### Partnership working

66. The Scottish Government and COSLA reviewed community planning and Single Outcome Agreements in 2012 following which they published their 'Statement of Ambition'. It makes clear that significant changes to improve community planning are needed to respond to the challenges of reducing public finances while demand for services increases.
67. The Director of Social Work Services in her report to the Executive on 18 June 2013 highlighted a number of initiatives that are planned or are already underway to strengthen integrated working with partner organisations. These include the approval of the Forth Valley Integrated Carers Strategy. Most of these initiatives are at an early stage in their development.
68. The Audit Scotland report *Improving community planning in Scotland (March 2013)* concluded that partnerships have not been able to show that they have had a significant impact on delivering improved outcomes across Scotland. It is too early to determine whether some of the new initiatives being implemented in Falkirk will help deliver efficiencies to support the council's financial position.

## Outlook

### 2013/14 budget and beyond

69. The council is facing a funding gap of £35 million over the next three years and needs to make efficiencies and costs savings to sustain its financial position in the longer-term. Many of the more readily achievable savings have already been made and it will be a significant challenge

for the council to identify recurring savings going forward. There are difficult decisions ahead about prioritising services and allocating resources. The council have a number of initiatives to address this.

**Refer to Action Point No. 4**

70. The council's 2013/14 revenue budget identified a funding gap of £10.7 million to meet known spending pressures and planned growth. In setting the budget the council identified that these pressures would be met using a range of measures as outlined in Exhibit 7 below:

#### Exhibit 7: Summary of measures used to close the 2013/14 funding gap

Measures	£ million
Review of base budget	2.0
Corporate initiatives (procurement, efficiencies, asset management)	1.0
Savings identified by services	4.9
Application of reserves to balance 2013/14 budget	2.8
<b>Total</b>	<b>10.7</b>

Source: Falkirk Council Revenue Budget 2013/14 (Falkirk Council meeting papers 13/02/13)

71. As indicated above the council has approved the use of an element of the general fund uncommitted reserves to balance the budget. This approach is not sustainable and the council will need to ensure that action is taken to identify other ways to balance the budget and avoid depleting reserves in the long term.

**Refer to Action Point No. 5**

72. The projected revenue outturn statement to 31 August 2013 reported a deficit of £0.847 million at 31 March 2014, representing an underspend of £1.434 million against the approved budget for the year. At this stage all services are reporting an underspend. The most significant area of underspend is in development services due to reduced rental costs as a result of the 'spend to save' lease buy outs. The budget will be adjusted in 2014/15 to take account of this.
73. The council is in the very early stages of a business transformation project which is designed to support the budget setting process. The project will involve a review of each service to identify services that may no longer be required or where a different method of service delivery could be adopted. Each service review will consider the basis for delivering services (statutory or otherwise), the mode of delivery (provider or enabler), the resources utilised and opportunities and barriers to change and improvement.

#### Tax Incremental Finance

74. Scottish Government approval has been received for the council to go ahead with a £67 million tax incremental financing (TIF) investment programme. TIF is a funding mechanism

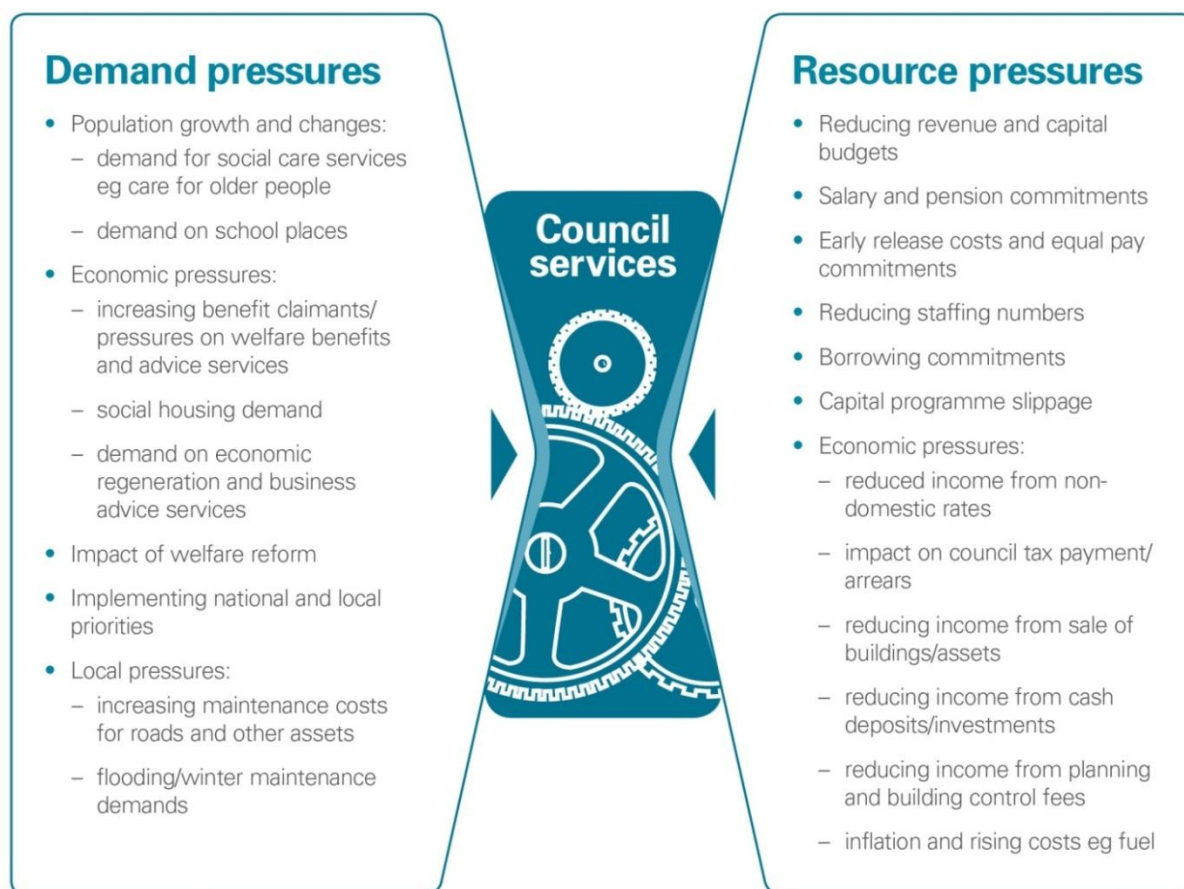
being piloted in Scotland that uses future anticipated non-domestic rates (NDR) revenues to finance infrastructure developments within a designated area.

75. The council's TIF programme aims to help realise the council's ambition to be a major national hub for manufacturing, chemicals and distribution activities, with plans for M9 junction upgrades, site specific enabling works to stimulate development and a contribution towards Grangemouth flood defences and completion of the A801 Avon Gorge upgrade. The project carries significant risk in that the investment may not generate the anticipated NDR income to finance the project.

**Refer to Action Point No. 6**

76. The Audit Scotland report Responding to challenges and change: An overview of local government in Scotland 2013 (March 2013) highlights the pressures faced by councils in terms of resources and demands on services (see Exhibit 8 below). These pressures are not going to abate and this means that councils may have to consider decisions, which they had previously ruled out to balance their budgets. This is linked to the council's business transformation project as outlined in paragraph 73 above.

**Exhibit 8: Demand and resource pressures on local government in Scotland**



Source: Responding to challenges and change: An overview of local government in Scotland 2013

# Governance and accountability

77. 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.
78. 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.
79. 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.
80. In this part of the report we comment on key areas of governance.

## Corporate governance

### Processes and committees

81. In 2012/13 Falkirk Council had a well-established corporate governance framework in place focused on a Full Council supported by a number of standing committees which were accountable to it including, for example, the Policy and Resources Committee.
82. The Audit Committee is also a key part of the council's governance framework. Its remit includes risk management and consideration of audit plans and reports. The committee is chaired by a lay member who previously was a senior audit manager within the public sector.
83. On 19 March 2013, the Council approved a new decision-making structure replacing the traditional committee model although the Audit Committee was retained. The new structure is based on an Executive model with the first meetings held in May 2013. Within this new approach there are two main decision-making bodies:
- The Executive
  - Education Executive.
84. The Executive has overall responsibility for the development of policy and has the power to establish Policy Development Panels to consider any agreed policy area. The Executive comprises members of the Administration and the Opposition. In addition to the Leader of the

council and three Opposition members it consists of eight portfolio holders, covering a range of services such as health and social care, development and housing. Portfolio holders take an active lead on policy developments having due regard to the council's corporate plans.

85. The Education Executive has the exclusive power to take decisions on behalf of the council in the discharge of its functions as an education authority which are not delegated to council or officers. The Education Executive's membership consists of all members of the Executive and representatives from religious, parent, teacher and pupil groups.
86. The new decision-making structure is underpinned by a ten member Scrutiny Panel. Its remit is to develop and oversee the implementation of an Annual Scrutiny Plan for the council. Detailed scrutiny will be carried out by Scrutiny Panels with the membership and direction of each determined by the Scrutiny Committee.
87. The Annual Governance Statement recognises that there will inevitably be a period of re-acclimatisation while the new decision-making structure beds in. However not all members are participating in the new structure. This is evidenced by non-attendance of some members at the executive and scrutiny committee meetings and scrutiny and policy development panels. This is in protest about these councillors' concerns at the lack of effective scrutiny. This poses a significant risk to the effectiveness of the council's new governance arrangements. The councillors who are not attending meetings should consider whether in these circumstances they are meeting their responsibilities in not participating in the scrutiny of council performance. We will monitor the effectiveness of scrutiny arrangements as part of our on going audit work.

**Refer to Action Point No. 7**

## Internal control

88. 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. The extent of this work is informed by their assessment of risk and the activities of internal audit.
89. As part of our audit we reviewed the high level controls in a number of the council's financial systems. Our work covered several systems including general ledger, cash and cash equivalents, council tax, non domestic rates and housing rents as well as aspects of the payroll and trade payable systems. The findings from this work were reported to management in June 2013 and action plan of improvements agreed.
90. 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.
91. Also, the Annual Assurance Report presented by the Internal Audit Manager to the Audit Committee concluded that substantial assurance can be placed on the council's overall framework of controls for the year to 31 March 2013.



## Internal audit

92. A key element of our work on internal controls is the extent of reliance that we place on the work of internal audit in terms of International Standards on Auditing 610 (Considering the work of internal audit). The findings from our review of internal audit were reported in February 2013 and we concluded that the internal audit service operates in accordance with the CIPFA Code of Practice for Internal Audit in Local Government and has sound documentation standards and reporting procedures in place.
93. We placed formal reliance on aspects of the work of internal audit in several areas for the purposes of our financial statement audit responsibilities including payroll, trade receivables and trade payables. This not only avoided duplication of effort but also enabled us to focus on other areas of risk.
94. Internal audit monitor progress made by management in implementing outstanding audit recommendations. Concerns had previously been raised about the high number of audit recommendations that had not been implemented. The Audit Committee of 23 September 2013 received a report from the Internal Audit Manager advising that the number of outstanding audit recommendations had reduced from 122 in October 2012 to 59 in September 2013. This represents good progress although a number of the 59 remaining outstanding recommendations date back several years. In terms of good practice, senior management should be held to account for lack of progress and the Audit Committee requested revised plans and timescales for clearing outstanding actions.

**Refer to Action Point No. 8**

## ICT Service Review

95. As part of our 2012/13 audit work we carried out an ICT service review using a standard methodology developed by Audit Scotland. This includes completing a Computer Services Review Client Questionnaire in consultation with ICT management and reviewing relevant documentary evidence. We reported our findings to management in August 2013.
96. Our report highlighted a number of good practice areas including:
- effective procedures are in place to manage ICT infrastructure and data centres
  - sound arrangements exist for managing user access to council controlled systems
  - a service desk process is in place to ensure effective control over support calls.
97. We also identified some areas where the council is exposed to a degree of risk, including:
- the updated ICT strategy has yet to be approved
  - the council's Information Security Policy needs updating to reflect current British Standards on information security
  - an information asset register covering important datasets has yet to be established
  - not all services have completed business impact analysis worksheets to identify business critical systems.

98. An action plan of improvements has been discussed and agreed with management.

### Public Services Network

99. The council exchanges data with many other public bodies and in so doing makes use of Cabinet Office sponsored arrangements to share electronic data with other public sector bodies. For example, the council shares benefits information with the Department of Works and Pensions while social work and education departments exchange information with the police, Criminal Justice Partnership and Children's Hearings.
100. The Government Secure Intranet (GSI) is the mechanism that allows the council to share data and services. The council must re-apply annually to the Cabinet Office to be allowed to connect to the government secure network. This year the government is replacing GSI with the Public Services Network (PSN).
101. From November 2012 all applicants had to apply to connect to PSN which means complying with the stricter PSN Code of Connection. The new code of connection is challenging and uncompromising about security measures and aims to provide a substantial level of trust between organisations.
102. The council's initial application was not successful and it continues to work with Cabinet Officer Assessors to progress the transition to PSN. The council have also engaged a specialist consultant to help with this work. As there is a risk of interruption to the existing data-sharing arrangements, we would suggest that the council carefully considers business continuity arrangement.

**Refer to Action Point No. 9**

### Prevention and detection of fraud and irregularities

103. Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. We noted that Falkirk Council has a range of measures in place to prevent and detect fraud including Standing Orders, Financial Regulations and a Code of Conduct for members and staff. Also, a number of other policies are available to staff via the intranet including a whistleblowing policy. The latter is addressed through the council's Confidential Reporting Policy which includes detailed guidance on how to report suspicions of fraud and irregularities.
104. The council's internal audit function has a formal programme of work which, although not designed to detect fraud, does provide assurance on the operation of the control systems which are designed to prevent fraud.
105. Overall, we have concluded that the council's arrangements were adequate in relation to the prevention and detection of fraud and irregularities, although it should be noted that no system can eliminate the risk of fraud entirely.

## NFI in Scotland

106. Falkirk Council participates in the National Fraud Initiative (NFI). The NFI 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.
107. NFI allows public bodies to investigate these matches and, if fraud or error has taken place, to stop payments and attempt to recover the amounts involved. It also allows auditors to assess the arrangements that the bodies have put in place to prevent and detect fraud, including how they approach the NFI exercise itself.
108. NFI is co-ordinated by internal audit although services are responsible for the initial investigation of data matches. The most recent data matching exercise collected data from participants in October 2012 with matches identified for follow-up in February 2013.
109. The current NFI data exercise identified 9,330 data matches of which 3,081 are considered high quality and recommended for investigation. Good progress has been made in the investigation of these data matches with 1,630 high quality matches investigated to date. To date there have been no identified cases of fraud.
110. Also, the Internal Audit Manager completed a self-appraisal checklist which accompanied the national report on NFI. Our review of the completed checklist confirmed that the council is proactive in investigating data matches. Additionally, members of the Audit Committee receive bi-annual reports on NFI activity.
111. Overall, we concluded that the council has satisfactory arrangements in place for investigating and reporting data matches identified by the NFI.

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

112. 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 regulations. Auditors consider whether bodies have adequate arrangements in place.
113. The council has a Code of Conduct for both members and officers with specific sections for each group. This Code covers a number of areas including gifts and hospitality, expenses and allowances, use of council resources and tendering.
114. The council also has an Anti-Fraud and Corruption Policy which includes reference to all relevant policies and procedures aimed at preventing fraud and corruption. The policy has not been updated since August 2002. Whilst much of the policy remains relevant it does not include specific reference to the requirements of the Bribery Act 2010 which came into force in July 2011. Any update to the council's fraud prevention policy should be communicated to all staff so that they are aware of how the requirements of the Act apply in the work place.

115. We have concluded that the arrangements for the prevention and detection of corruption in Falkirk Council are adequate, subject to the Anti-Fraud and Corruption Policy being updated to include reference to the requirements of the Bribery Act.

**Refer to Action Plan No. 10**

## Welfare Reform

116. The Welfare Reform Act 2012, as reported last year represents the biggest reform of the UK welfare system for 60 years. The council has been proactive in planning for welfare reform. Members also receive regular updates on welfare reform and its likely impact on citizens of Falkirk.
117. The council as part of a communications strategy has published a number of leaflets to help people understand the changes. The *Welfare Reform - Big Benefit Changes leaflet* provides details of:
- Under occupancy and reductions in benefit as a result (effective April 2013)
  - A cap on benefits (effective from September 2013 in Falkirk)
  - Replacement of Disability Living Allowance by Personal Independence Payment with a medical assessment needed to qualify for this benefit (from June 2013 for new claimants)
  - Replacement of Council Tax Benefit with a Council Tax Reduction scheme (from April 2013)
  - Scottish Welfare Fund - the Department of Works and Pensions no longer deals with Crisis and Community Care Grants. The council has put a scheme in place for dealing with payments covered by the Scottish Welfare Fund (details on the council's website).

## Outlook

118. Welfare reform will continue for several years to come and from October 2013 the Universal Credit will start to be rolled-out nationally. Welfare reform is expected to lead to rising rent and council tax arrears and potentially to a growing homelessness problem. This is also likely to increase the demand for social work services and put greater pressure on the council's resources. It is important therefore that the council continues to monitor the situation closely and develop efficient and effective strategies to address any emerging issues.
119. Rent arrears have been increasing in Falkirk. In 2011/12 arrears totalled £2,136,935 and these had increased to £2,516,231 in the current year (an increase of 17.7%). Revenue officers estimate that welfare reform could result in a further net increase in arrears of £400,000 during 2013/14. Finance and Corporate & Neighbourhood Services are actively exploring ways of tackling the problem through prevention (awareness and education), intervention (support) and sanctions (using all appropriate recovery actions).
120. The council has approved a 12 month moratorium on evictions for tenants where arrears are as a direct result of the impact of size criteria and where the council is satisfied the tenants have taken reasonable action to prevent these arrears.

**Refer to Action Plan No. 11**

# Best Value, use of resources and performance

121. Audited bodies have a specific responsibility to ensure that arrangements have been made to secure Best Value. 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.
122. Additionally, auditors of local government bodies 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.
123. Furthermore, 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.
124. This section includes a commentary on the Best Value and 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

125. The first Best Value report in 2008 noted that the council demonstrated a clear commitment to Best Value and community planning. Since then the council has implemented the improvement plan to address the findings included within the 2008. The nature and timing of any future Best Value audit work will be determined by the outcome of the shared risk assessment performed by the Local Area Network (LAN).

### Performance management

126. During the 2012/13 shared risk assessment process it was agreed with our scrutiny partners that Audit Scotland would monitor the development of performance management arrangements within the council. We have had regular meetings with the Head of Policy, Technology and Improvement to keep abreast of on going improvements. There have been a number of developments in this area, which include:

- Performance management training sessions have been held with service unit managers covering topics such as the importance of performance management.
- A peer scrutiny performance review process has been introduced at director level to promote challenge and improvement across council services.
- A Performance Panel has been established under the new decision making structure that is responsible for scrutinising service performance on a regular basis.
- A Covalent site license has been purchased, although the plan to roll this out is still in development.
- The council and its community planning partners have revised the Single Outcome Agreement (SOA) for the area to reflect the joint Statement of Ambition issued by COSLA and the Scottish Government in 2012. The SOA has been approved and received largely positive feedback from the quality assurance team.

127. The developments noted above demonstrate a commitment to improving performance management arrangements. The improvements are in the very early stages of development and the challenge for the council is to maintain the momentum and ensure that the new arrangements are effective in practice.

## Overview of performance in 2012/13

### Falkirk Council performance measurement outcomes

128. The council maintains a 'performance zone' on its website. The site contains a number of documents, and links to information, which can be used to gauge the council's performance. This site includes details of customer surveys, statutory performance indicators, service performance plans and local performance indicators.
129. The council's Best Value Forum has recently been replaced by a Performance Panel. During the transitional period when the new governance structure was introduced in May 2013 and the decision to establish a Performance Panel was taken in August 2013, performance reports have not been presented to members for scrutiny. The Performance Panel will scrutinise the 2012 annual performance report for each service in November 2013 and this will be closely followed by a six-monthly update. Thereafter, services will report performance to the panel 3 times a year.
130. Each council service has published a performance statement as part of their service performance plan 2013-16. As reported in 2011/12 there is evidence that improved performance has not been reflected in some performance targets. In addition, education and social work services report on a number of performance indicators (PIs) without a specific performance target. Instead, the target is described as either 'improve', 'reduce' or 'maintain'.
131. Our review also highlighted 3 indicators relating to the processing of planning applications where performance was reported as 'green'. However, the performance targets were not met in the year. Officers advised that these PIs have a 5% tolerance level built into them before they go amber to allow for large movements in the PIs that can occur due to relatively small

changes in data. The council needs to ensure that performance information delivers the correct message to the reader and that all performance targets continue to be reviewed in the interest of promoting continuous improvement across the council.

**Refer to Action Plan Point No. 12**

132. The Single Outcome Agreement (SOA) monitoring statement is in the process of being compiled for publication in November 2013. At this time we are unable to comment on progress against the SOA outcomes.

### Statutory performance indicators

133. In 2012/13, a total of 25 statutory performance indicators (SPIs) were required and submitted by the council. These indicators provide a mixed picture of performance for the year.
134. Some performance indicators that have declined in 2012/13 include:
- Sickness absence - average days lost per employee (excluding teachers) increased to 11.5 days (10.2 days in 2011/12). This includes Falkirk Community Trust employees. The council's human resources department is providing targeted support in problem areas. Also, a council-wide absence management information system is being launched to support managers by providing live absence information.
  - Council tax collection - the cost of collection per dwelling increased by £1.43 (or 14.5%). This increase was caused largely by the introduction of a new revenues system in 2012/13. This should be evidenced by improved performance in 2013/14.
  - Use of libraries and museums - library and museum visits have fallen by 16.2% and 5% respectively.
135. Some performance indicators that have improved in 2012/13 include:
- Attendance at indoor sports and leisure facilities and pools - attendance has risen by 13.5% and 6.9% respectively. This reflects well on the performance of the leisure trust.
  - Total dwellings meeting the Scottish Housing Quality Standard (SHQS) - 80.9% (70.5% in 2011/12) of council dwellings meet SHQS. The council's housing investment programme 2013/14 to 2015/16 includes allocations for future SHQS works to ensure the council's stock meets the SHQS by 2015.
  - Refuse recycling - the percentage of municipal waste collected by the council that was recycled or composted increased by 2% in the year to 55.3% (53.3% in 2011/12). The council continues to perform well in this area.
  - Carriageway condition - the percentage of the road network that should be considered for treatment has fallen to 36.5% (37.7% in 2011/12). Officers have advised that additional funding; asset management tools and a change in the RCI calculation in 2012 have all contributed to an improving picture.

## Local performance reporting

136. In July 2013 we issued Scotland's Public Finances: addressing the challenges a targeted follow-up report. This report looked at the way that the council is responding to the challenges of public sector budget constraints and its efforts to achieve financial sustainability.
137. Our report highlighted a number of good practices including the ongoing work to strengthen the link between the budget and the council's corporate plan and the council's participation in the SOLACE benchmarking project. Also, members regularly scrutinise the council's financial position through budget monitoring reports and reserve strategy updates.
138. Additionally, we identified a number of areas of challenge and improvement for the council including the need to :
- Ensure that officers regularly consult with members on the adequacy of the financial information they receive in making decisions on service delivery and outcomes.
  - Identify and obtain early approval for savings plans aimed at addressing the council's medium term funding gap.
  - Ensure that members review and monitor the delivery of specific savings.
  - Carry out more focused engagement with the public and stakeholders to support the budget setting process going forward.
139. We have agreed an action plan of improvements with management to address the issues outlined above. We will assess progress against the action plan at a future date.

## National performance reporting

140. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland reports of direct interest in 2012/13 are outlined in Exhibit 9 below.

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### Exhibit 9: A selection of National performance reports 2012/13

- |   |   |
|---|---|
| • Responding to challenge and change - An overview of local government in Scotland 2013 | • Protecting consumers  |
| • Improving community planning in Scotland  | • Using cost information to improve performance - are you getting it right? |
| • Major capital investment in councils.   | • Health inequalities in Scotland   |
|   | • Reducing reoffending in Scotland.   |

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

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141. Audit Scotland encourages local authorities to review national reports, consider key findings and assess local performance against them to identify local improvement actions where appropriate. The national reports are often accompanied by a checklist that members and officers can use to carry out a self-assessment of performance. The expectation is that Audit



Scotland's national reports are presented to an audit or scrutiny committee for members to consider and hold management to account for local performance.

142. From our discussions with management and review of council minutes we have concluded that officers are aware of national reports and on occasions reference is made to them in committee. However, there is no formal arrangement in place for the council's response to Audit Scotland reports to be scrutinised by members.
143. In terms of good practice appropriate committees should receive a paper from the relevant manager outlining the local position against national findings. Any areas with scope for improvement should be identified and supported by an action plan. Managers should also attend the committee to answer points raised by members. This approach has been adopted successfully by a number of public sector bodies.

**Refer to Action Point No. 13**

## **Assurance and improvement plan update 2013-16**

144. The Local Area Network (LAN) of scrutiny partners for the council conducted a Shared Risk Assessment (SRA) and produced an Assurance and Improvement Plan (AIP) update covering the period 2013 to 2016. This was published on Audit Scotland's website and was submitted to the Audit Committee on 24 June 2013 for information and consideration by members.
145. The AIP identified three main areas - corporate risk management, performance management and rent arrears - requiring further information or scrutiny by the LAN. Rent arrears and performance management arrangements have been considered at paragraph 118 and paragraph 125 respectively.

## **Risk management**

146. There is evidence that the council has taken positive steps towards developing corporate risk management arrangements. Improvements include the appointment of a corporate risk manager, a revised risk policy and framework and training for unit managers. The corporate risk management group is also utilising a risk management maturity model to assess the adequacy of the arrangements in place and to identify areas for improvement. Management recognise that there is still work to do in some areas to bring the council's risk management arrangements up to a 'working' level. The council's recent progress is encouraging; however, it is still too early for us to conclude on the effectiveness of the new risk management arrangements.

## **Housing and council tax benefits risk assessment**

147. The AIP also drew attention to a forthcoming housing and council tax benefits risk assessment audit which is scheduled for late autumn 2013. This assessment is in progress and should also provide an indication of the impact of welfare reform on the processing and payment of benefits.

## Equality Act 2010

148. 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. The council's equality outcomes and mainstreaming report entitled "Ane for A" was developed in consultation with community planning and other public sector partners.
149. The council also has a number of initiatives to embed the equality agenda in its work. These include, for example, an elected member has been allocated portfolio responsibilities for equalities while a senior officer has been nominated as equality champion. In addition, the council has developed a number of policies to support equality and promote awareness of issues within the community including dignity at work and equal opportunities.
150. Overall, we concluded that the council is proactive in promoting the equality agenda and is well placed to mainstream equality within its everyday work.

## Outlook

151. Falkirk Council, in agreement with partners, has been selected as one of four sites for the second round of Community Planning Partnership (CPP) audits. The other CPP sites are Moray, West Lothian, Orkney and Glasgow City Council. Audit Scotland met with the CPP leadership board on 5 September 2013 to discuss the nature of the audit and local themes. The audit is currently at the scoping stage with a formal report to be published in spring 2014.

# Appendix A: audit reports

## External audit reports and audit opinions issued for 2012/13

Title of report or opinion	Date of issue	Date presented to Audit Committee
Review of the Adequacy of Internal Audit	1 February 2013	25 March 2013
Annual Audit Plan	22 February 2013	25 March 2013
Assurance and Improvement Plan	21 March 2013	24 June 2013
Internal controls management letter	6 June 2013	24 June 2013
Scotland's Public Finances - local follow-up audit	11 July 2013	16 December 2013*
ICT services review	26 August 2013	16 December 2013*
Report on financial statements to those charged with governance (ISA260)	11 September 2013	23 September 2013
Audit opinion on the 2012/13 financial statements	23 September 2013	23 September 2013
Audit opinion on the 2012/13 Whole of Government accounts consolidation pack	31 October 2013*	N/A
Report to Members on the 2012/13 audit	31 October 2013*	16 December 2013*

\* Planned date for submission

# 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	29	<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 £4.2m 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 level of provision will be subject to review as part of the final accounts process for 2013/14.</p>	Chief Finance Officer/Head of HR & Customer First	May 2014
2	33	<p><b>Related party transactions</b></p> <p>The council does not have a process in place for obtaining formal assurance from members and senior officers on related party transactions.</p> <p><b><i>Risk: the related party transaction disclosures are incomplete.</i></b></p>	<p>This will be embedded within the 2013/14 Annual Governance Statement process.</p>	Internal Audit Manager	June 2014

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
3	43	<p><b>2012/13 outturn</b></p> <p>The council reported a revenue underspend of £11.216 million in 2012/13.</p> <p><b><i>Risk: significant over or underspends may undermine effective financial management.</i></b></p>	<p>Although this figure includes a sum of £2.1m in respect of revenue grants earmarked for future use and includes HRA the Council has recognised the level of underspend by carrying out a budget rebasing exercise for 2013/14, which has resulted in a figure of £2m being removed from Service budgets. A similar exercise is being carried out as part of the 2014/15 budget exercise and the level of underspend will be kept under review.</p>	Chief Finance Officer	February 2014
4	69	<p><b>Funding gap</b></p> <p>The council are facing a significant challenge in bridging a funding gap of £35 million over the next three years.</p> <p><b><i>Risk: the council may not be able to generate sufficient efficiencies and cost savings to bridge the funding gap.</i></b></p>	<p>The Council has a medium term financial strategy to address the budget gap over the next 3 years.</p> <p>This is subject to continual review as circumstances change.</p>	Chief Finance Officer	Ongoing

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
5	71	<p><b>Use of reserves</b></p> <p>The council have applied £2.8 million of the uncommitted general fund to balance the 2013/14 budget. This approach is not sustainable in the long term.</p> <p><b><i>Risk: the council are unable to balance the budget in future years.</i></b></p>	<p>The Council has a reserves strategy and a medium term financial strategy which addresses the future usage of reserves. These strategies are subject to monitoring and review as circumstances change.</p>	Chief Finance Officer	Ongoing
6	75	<p><b>Tax Incremental Finance (TIF)</b></p> <p>The council has embarked on a major investment project under the TIF scheme.</p> <p><b><i>Risk: the investment may not generate the anticipated NDR income to finance the project.</i></b></p>	<p>The Council has a balanced programme and strict monitoring arrangements will be put in place to ensure any risks are identified at an early stage.</p>	Chief Finance Officer	March 2014
7	87	<p><b>Governance</b></p> <p>Not all members are participating in the new decision-making structures that have been approved by council.</p> <p><b><i>Risk: governance and scrutiny arrangements are not fully effective.</i></b></p>	<p>We will continue to encourage participation by all members in the decision making process and will facilitate discussions among Groups where possible. A review of the experience of the first year of the new</p>	Chief Executive/Chief Governance Officer	October 2014

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		<b><i>Councillors may not be meeting their responsibilities.</i></b>	structure will be carried out.		
8	94	<p><b>Internal audit recommendations</b></p> <p>A significant number of internal audit recommendations remain outstanding including some dating back several years.</p> <p><b><i>Risk: senior management are not being fully held to account for failure to implement outstanding internal audit recommendations.</i></b></p>	Reports on recommendations that remain outstanding are periodically provided to CMT and Audit Committee. Good progress has been made and revised reporting arrangements will be put in place to focus on high risk recommendations which have still to be implemented.	All Directors/Internal Audit Manager	March 2014
9	102	<p><b>Public Services Network (PSN)</b></p> <p>The council has yet to have its application to connect to PSN approved.</p> <p><b><i>Risk: the council may not be able to share or access data held by other public sector bodies.</i></b></p>	The Council is working with an external approved adviser to prepare an action plan which will be used to ensure the Council undertakes the necessary actions to achieve PSN approval.	Head of Policy, Technology & Improvement	October 2014
10	115	<p><b>Fraud prevention</b></p> <p>The council's current arrangements have not been updated to reflect the Bribery Act 2010.</p> <p><b><i>Risk: staff are not</i></b></p>	The Council's Anti Fraud and Corruption Strategy will be updated during 2013/14 to reflect this.	Chief Finance Officer/Internal Audit Manager	March 2014

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		<i>aware of the requirements of the Bribery Act and how these would apply in the work place.</i>			
11	120	<p><b>Rent arrears</b></p> <p>Council rent arrears are continuing to rise and this is exacerbated by welfare reform.</p> <p><b>Risk: the council may not be able to prevent arrears from increasing further leading to a significant loss of income.</b></p>	<p>The Council has corporately introduced a range of measures including very early intervention, enhanced advisory services and maximising capital discretionary housing payment support. A corporate working group has been established which will monitor the effectiveness of these measures.</p>	Chief Finance Officer/Director of Corporate & Neighbourhood	Ongoing
12	131	<p><b>Performance indicators</b></p> <p>There is evidence that some performance targets still need to be reviewed to ensure that they are specific and challenging in the interest of promoting continuous improvement.</p> <p><b>Risk: the council may fail to deliver continuous improvement.</b></p>	<p>Targets will be reviewed as part of scrutiny peer review process and service plan reviews and will also be subject to scrutiny by the newly established Performance Panel.</p>	All Directors	April 2014



Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
13	143	<p><b>Scrutiny of Audit Scotland's national performance reports</b></p> <p>From our observations, national performance reports could be used more effectively by the Council. While these reports are generally submitted to committees, members are often only asked to note their content.</p> <p><b><i>Risk: Members are not able to assess local performance against national reports effectively. Also, they are not able to gauge whether appropriate improvement actions are being taken locally and progress monitored.</i></b></p>	CMT will meet to determine how best to take this action forward.	All Directors	December 2013