Falkirk Council

2015/16 Annual audit report to Members and the Controller of Audit

Date **26 September 2016**

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The Accounts Commission is a statutory body which appoints external auditors to Scottish local government bodies (www.audit-scotland.gov.uk/about/ac/). Audit Scotland is a statutory body which provides audit services to the Accounts Commission and the Auditor General (www.audit-scotland.gov.uk/about/).

The Accounts Commission has appointed Fiona Mitchell Knight as the external auditor of Falkirk Council for the period 2011/12 to 2015/16.

This report has been prepared for the use of Falkirk Council and no responsibility to any member or officer in their individual capacity or any third party is accepted.

The information in this report may be used for the Accounts Commission's annual overview report on local authority audits published on its website and presented to the Local Government and Regeneration Committee of the Scottish Parliament.

Contents

Key messages

Audit of financial statements	• Unqualified auditor's report on the 2015/16 financial statements. • Unqualified auditor's report on the Falkirk Temperance Trust administered by the council.
Financial management and sustainability	• The council has managed its spending broadly within budget in 2015/16 but there are a number of significant over and underspends within this. The council needs to focus on effective remedial action in areas of overspend and minimise unbudgeted costs. • The 2016/17 budget was approved by the council in February 2016. The 2016/17 budget was set at £329.632 million with a budget gap of £25 million. Part of the strategy to bridge this budget gap includes the use of the uncommitted general fund. This approach is not sustainable in the long term. • A budget gap of £36 million over the next 2 years to 2018/19 has been identified by the council. This presents a considerable challenge and the council will need to do things differently if it is to achieve a balanced budget. There should be a clear link between savings plans and strategic priorities. We found little evidence of this. • Medium and long term financial planning is not well developed. The council should prepare for a range of scenarios due to the uncertainty over future funding and income.
Governance and transparency	• The council's scrutiny arrangements have improved, with members participating across a range of scrutiny activities. • The council has governance arrangements in place that support openness and transparency. • Effective systems of internal control were in place during 2015/16. • Arrangements for the prevention and detection of fraud are adequate and have been strengthened by the establishment of a corporate fraud team.
Best Value	• In the 2015 Best Value report the Accounts Commission raised significant concerns about the council's approach to Best Value and, in particular, the approach to addressing the financial challenges. A follow-up report was requested by the end of 2016. • The Best Value follow-up audit has found that despite a significant amount of activity taking place in response to the recommendations in the report, the pace of change at the council is still slow. The council has a number of improvement activities working in parallel but it is not clear how these relate to the council's strategic priorities and the budget setting process. The recruitment of a change manager demonstrates an awareness of the need to do more but this person will need to be supported at the highest level.

	• The council needs to agree clear priorities. The corporate management team needs to work differently and lead a coordinated approach to deliver them. • Performance reporting processes have improved but there is little evidence to suggest that performance management drives improvement within the council.
Outlook	• The financial challenges facing the council have continued to increase with a 3 year budget gap of £46 million between 2015/16 and 2017/18 increasing to £61 million over the same timeframe between 2016/17 and 2018/19. This is in the context of a rising demand for services. • Falkirk Council will need to increase its pace of improvement and change the way it delivers services to respond to these pressures. Reliance on small-scale savings and workforce reductions will not be sufficient. • The council's response to the findings of the Best Value follow-up audit will be critical to driving change and improvement in the future.

Introduction

1. This report is a summary of our findings arising from the 2015/16 audit of Falkirk Council. The report is divided into sections which reflect our public sector audit model.

2. The management of Falkirk Council is responsible for:
   - preparing financial statements which give a true and fair view
   - implementing appropriate internal control systems
   - putting in place proper arrangements for the conduct of its affairs
   - ensuring that the financial position is soundly based
   - demonstrating Best Value in how it delivers its services .

3. Our responsibility, as the external auditor of Falkirk Council, is to undertake our audit in accordance with International Standards on Auditing, the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011 and the ethical standards issued by the Auditing Practices Board.

4. An audit of financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor's responsibility to form and express an opinion on the financial statements; this does not relieve management of their responsibility for the preparation of financial statements which give a true and fair view.

5. A number of reports, both local and national, have been issued by Audit Scotland during the course of the year. These reports, summarised at Appendix II and Appendix III, include recommendations for improvements.

6. Appendix IV is an action plan setting out our recommendations to address the high level risks we have identified during the course of the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "Management action/response". We recognise that not all risks can be eliminated or even minimised. What is important is that Falkirk Council understands its risks and has arrangements in place to manage these risks. The council and corporate management team should ensure that they are satisfied with proposed action and have a mechanism in place to assess progress and monitor outcomes.

7. We have included in this report only those matters that have come to our attention as a result of our normal audit procedures; consequently, our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

8. The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.

9. 2015/16 is the final year of the current five year audit appointment. From 2016/17 the auditor of Falkirk Council will be Ernst and Young LLP. In accordance with agreed protocols and International Standards on Auditing we will be liaising with the incoming auditors as part of this transition.

Audit of the 2015/16 financial statements

Audit opinion	• We have completed our audit of the council and its group and issued an unqualified independent auditor's report.
Going concern	• The financial statements of the council, its group and the associated charitable trust have been prepared on the going concern basis. We are unaware of any events or conditions that may cast significant doubt on the council, its group and charitable trust's ability to continue as a going concern.
Other information	• We review and report on other information published with the financial statements, including the management commentary, annual governance statement and the remuneration report. We have nothing to report in respect of these statements.
Charitable trusts	• We have completed our audit of the 2015/16 financial statements of the Falkirk Temperance Trust administered by Falkirk Council and issued an unqualified independent auditor's report.
Group accounts	• Falkirk Council has accounted for the financial results of two subsidiaries and two associates in its group accounts for 2015/16. The overall effect of consolidating these balances on the group balance sheet is to decrease total reserves and net assets by £1.481 million.
Whole of government accounts	• The council submitted a consolidation pack for audit on the 30 August 2016. This has been audited and the certified return will be submitted to the NAO by the statutory deadline.

Submission of financial statements for audit

10. We formally received the unaudited financial statements on 20 June 2016, in accordance with the agreed timetable. The working papers were of a good standard and council staff provided good support to the audit team which assisted the delivery of the audit to deadline.

11. In 2015/16, for the first time, local government group accounts are required to include the financial results of the Health and Social Care Integration Joint Boards (IJBs) in their area, where material. The Falkirk IJB was established on 3 October 2015 but did not become fully operational until 1 April 2016. IJB financial transactions for 2015/16 are not material and therefore have not been consolidated into the council's group accounts.

Overview of the scope of the audit of the financial statements

12. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in our Annual Audit Plan presented to the Audit Committee on 18 April 2016.

13. As part of the requirement to provide full and fair disclosure of matters relating to our independence, we can confirm that we have not undertaken non-audit related services. The 2015/16 agreed fee for the audit was set out in the Annual Audit Plan and, as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.

14. The concept of audit risk is of central importance to our audit approach. During the planning stage of our audit we identified a number of key audit risks which involved the highest level of judgement and impact on the financial statements and consequently had the greatest effect on the audit strategy, resources and effort. We set out in our Annual Audit Plan the audit work we proposed to undertake to secure appropriate levels of assurance. Appendix I sets out the significant audit risks identified during the course of the audit and how we addressed each risk in arriving at our opinion on the financial statements.

15. Our audit involved obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.

Materiality

16. Materiality can be defined as the maximum amount by which auditors believe the financial statements could be misstated and still not be expected to affect the decisions of users of financial statements. A misstatement or omission, which would not normally be regarded as material by amount, may be important for other reasons (for example, an item contrary to law).

17. We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting our audit programme. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.

18. We summarised our approach to materiality in our Annual Audit Plan. Based on our knowledge and understanding of Falkirk Council we set our planning materiality for 2015/16 at £6.415 million (1% of gross expenditure). Performance materiality was calculated at £3.208 million, to reduce to an acceptable level the probability of uncorrected and undetected audit differences exceeding our planning materiality level.

19. On receipt of the financial statements and following completion of audit testing we reviewed our materiality levels and revised materiality to £5.948 million. This was based on 1% gross expenditure excluding a one off transaction associated with the revaluation of council houses. Performance materiality was calculated at £2.974m.

Evaluation of misstatements

20. All misstatements identified during the audit, which exceeded our clearly trivial threshold of £59,000, have either been amended in the financial statements or recorded as an unadjusted error.

21. A number of presentational and monetary adjustments were identified within the financial statements during the course of our audit. These were discussed with relevant officers who agreed to amend the unaudited financial statements in most instances. The effect of these adjustments is to reduce net assets by £6.430 million and the general fund balance by £2.900 million. Significant findings have been outlined in Table 1 below.

22. Unadjusted errors, if corrected, in the financial statements would have the cumulative effect of increasing net assets by £0.070 million. This is not material in respect of our audit.

The Local Authority Accounts (Scotland) Regulations 2014

23. Paragraph 9 of the 2014 Regulations requires a local authority to publish on its website a public notice detailing the period for inspecting and objecting to the accounts. This must remain on the website throughout the inspection period. Although the public inspection notice was published in the local press, it was not placed on the council's website. This is a breach of the Regulations and although it does not impact on our audit opinion we are required to bring this to your attention. The council should ensure that this requirement is met in future years.

Significant findings from the audit

24. International Standard on Auditing 260 requires us to communicate to you significant findings from the audit, including:
    - The auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures.
    - Significant difficulties encountered during the audit.
    - Significant matters arising from the audit that were discussed, or subject to correspondence with management.
    - Written representations requested by the auditor.

- Other matters which, in the auditor's professional judgment, are significant to the oversight of the financial reporting process.

25. The following table details those issues that, in our view, require to be communicated to those charged with governance.

Table 1: Significant findings from the audit

Significant findings from the audit in accordance with ISA260

Falkirk Community Stadium Limited Investment

The council holds a long term investment in Falkirk Community Stadium Limited (FCSL) that was valued at £9.340 million in the unaudited accounts. This relates to outstanding loans of c£6m and an original investment of c£3m, which following a de-merger of the company in 2009 were backed by FCSL's assets. These assets were revalued in May 2016 by the District Valuer but the results were not reflected in the unaudited accounts. The valuation provides evidence of conditions that would have existed before the balance sheet date and therefore this is classified as an adjusting post balance sheet event. The Code requires investments to be reviewed for impairment and written down to their recoverable cost at the balance sheet date. The valuation of this investment as indicated by the recent valuation of FCSL is £5.810 million. Officers have agreed to reflect this in the accounts. The overall impact is a reduction in the 'surplus on the provision of services' on the comprehensive income and expenditure statement of £3.530 million and an equal reduction in 'long term investments' on the balance sheet. The charge is reversed out through the statutory adjustments between the accounting and funding basis so there is no impact on the general fund balance.

Resolution: Officers have agreed to amend the accounts to reflect the recent valuation of this investment.

Employee related claims

As reported in previous years, the ultimate cost to the council of the claims made under the Equal Pay Act 1970 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. The council's Equal Pay provision at 31 March 2016 is considered to adequately reflect the potential liability at this time. Actual settlements are subject to the outcome of several national test legal cases. The council have disclosed a contingent liability for further liabilities that may arise pending the outcome of the test legal cases.

Resolution: The potential equal pay liability will continue to be reviewed on an annual basis.

Significant findings from the audit in accordance with ISA260

Valuation of council house dwellings

The valuation of council house dwellings has featured in our Annual Audit Reports over the five years of our audit appointment. The council's housing stock was revalued at 1 April 2015. The valuation method introduced is the existing use value – social housing (EUV-SH) based on the Beacon method of valuation. Previously, the council had used the discounted cash flow valuation methodology. As a result of the change in valuation methodology the value of council housing stock increased significantly from £55 million at 31 March 2015 to £337.2 million at 31 March 2016. We reviewed the valuation report prepared by the District Valuer (DV) and the accounting treatment in the 2015/16 accounts presented for audit. We discussed our conclusions with the council, and recommended a change for the full revaluation to go through the revaluation reserve rather than distort the cost of services in the year, as was the council's original treatment. The council agreed a number of audit adjustments to effect this change. The overall impact on the comprehensive income and expenditure statements is a £115.114 million reduction in the 'surplus on the provision of services' offset by an equal increase in 'other comprehensive income'. This is reflected in the balance sheet as a £115.114 million increase on the revaluation reserve and an equal reduction on the capital adjustments account balance. There is no impact on the bottom line of the financial statements.

Resolution: Officers have agreed to amend the accounting treatment of the revaluation of council dwellings.

Significant findings from the audit in accordance with ISA260

Treatment of non-enhancing capital expenditure

Following the adoption of the EUV-SH Beacon method the council has had to reconsider its approach to accounting for non-enhancing capital expenditure in relation to council dwellings. This is expenditure that is necessary to preserve the life of the asset but does not add to its value. For new builds and buy backs the new average value of a dwelling for the relevant housing management area has been used, with any expenditure above this value being classified as non-enhancing. In the case of most other works (e.g. roofing, roughcasting, kitchen/bathroom replacements) 90% of the expenditure has been capitalised. There are also instances where the full cost is treated as non-enhancing, where there is clearly no value added (e.g. carbon monoxide detectors, isolator switches). The rationale for this approach is to recognise expenditure that is maintaining the value of the council dwellings and offsets some of the depreciation charge for the year.

Resolution: A full revaluation of council dwellings will be carried out at least every 5 years. We are satisfied that the council has taken a reasonable approach to accounting for non-enhancing expenditure in the intervening years and has applied this consistently in 2015/16. This is an area subject to a significant amount of judgement and so it has been disclosed in Note 4 to the accounts (critical judgements in applying accounting policies).

International Accounting Standard (IAS) 19 pension liability

The pension liability represents the difference between the expected future payments to be made to former employees of the council and their spouses in the form of pension payments and the underlying value of pension fund assets to meet this cost. The calculation of the liability is assessed by professional actuaries each year and is an estimated figure. There has been a £78.243 million reduction in the net pension liability from £381.288 million at 31 March 2015 to £303.045 million at 31 March 2016. This is largely due to rising bond yields, which have been partially offset by a lower than expected return on assets. The rising bond yields leads to a higher discount rate (i.e. the net price of inflation) which leads to a lower value being placed on liabilities. The next triennial valuation will take place in 2017 with new contribution rates in place from 1st April 2018. It is expected that new contribution rates will reduce the difference between the pension liability and the underlying assets.

Resolution: The triennial valuations of the pension fund inform future decisions to help ensure that the pension fund remains adequately funded. We rely on the work of the council's actuaries, Hymans Robertson, to obtain our assurances on the IAS 19 accounting entries.

Future accounting and auditing developments

Health and social care integration

26. From 1 April 2016 all IJBs will be accountable for the provision of health and social care. IJBs will be required to produce financial statements in compliance with the Code of Practice on Local Authority Accounting in the United Kingdom. Where material the financial results of the local IJB will need to be reflected in the council's group accounts in 2016/17. The council will need to include the IJB in its plans for the preparation and audit of the 2016/17 group accounts, including consideration of assurance arrangements relating to the annual governance statement.

Highways network assets

27. The 2016/17 local government accounting Code will adopt a new measurement requirement for the valuation of the highways network asset. It will be measured on a depreciated replacement cost basis. This will have a significant impact on the value of local authority balance sheets.

28. Finance staff have been working alongside the council's roads service to ensure that this information is in place. Falkirk Council has adopted the Society of Chief Officers in Transportation in Scotland (SCOTS) reporting tool to calculate the value of its highways network assets. Officers have taken action to minimise the amount of estimation used to measure these assets. In particular, polygonisation techniques have been adopted to get an accurate measurement of the length of the council's roads network. Estimation is now only used for land and in part for footways and cycle pathways. The aim is to reduce this even further.

29. The 2015/16 management commentary that forms part of the council's annual accounts outlines the changes in valuation and the anticipated impact on the 2016/17 balance sheet. Overall, we have concluded that the council appears to be adequately prepared to comply with the accounting treatment set out in the 2016/17 Code in respect of highways network assets.

Code of Audit Practice

30. A new Code of Audit Practice applies to public sector audits for financial years commencing on or after 1 April 2016. It replaces the previous code issued in May 2011. It outlines the objectives and principles to be followed by auditors and is part of the overall framework for the conduct of public audit in Scotland.

31. The new code increases the transparency of our work by making more audit outputs available on Audit Scotland's website. In addition, as well as the annual audit report, other significant outputs, such as the annual audit plan, will be published on Audit Scotland's website. This is irrespective of whether the body meets in public or makes documents such as Audit Committee papers routinely available on its own website.

Financial management and sustainability

Net service budgeted expenditure £338.182m	Original planned capital expenditure £57.618m	Usable reserves	Uncommitted general fund
Outturn service expenditure £340.417m	Outturn capital spend £51.821m	Outturn usable reserves 42.706m	Balance at 31 March 2016 £8.562m
Service expenditure overspend £2.235m	Capital slippage £5.797m	Decrease in usable reserves £0.537m	Increase in uncommitted reserves £0.193

Financial management

32. 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 and other fees and charges. Effective budget setting is crucial to good financial management.

Financial outcomes

33. Overall the council reported a net overspend of £0.557 million against the 2015/16 budget. This position comprises a number of significant over and underspends.

34. The main areas of overspend are summarised as follows:

- **Employee Related Expenses -** £5.047 million relating to voluntary severance costs and equal pay claims. As in previous years the council has not included these costs in the annual budget, therefore the full amount contributes to an overspend against budget. We would expect an estimate of these costs to be included in future budgets.
- **Social Work (Children and Families**) - £0.961 million over budget due to continued uncertainty around fostering and residential placements.
- **Social Work Adult Services** - £1.373 million over budget caused by demand pressures in adult 24 hour care and home care.

35. The scrutiny committee has received a number of reports, the latest in June 2016, outlining the action being taken to address the recurring overspends in the Children and Families budget. While an improved financial position has been reported it is recognised that further action is required to bring the budget under control. Remedial actions have been taken to address the Social Work Adult Services overspend but their impact is not yet evident and more needs to be done.

36. A number of services underspent against their budgets in 2015/16 which helped offset overspends described above. Some of the more significant areas include:

- **Education** – the £1.906 million underspend was largely a result of employee and property savings as well as a one-off saving in Early Years.
- **Council Tax Income** – this was £1.678 million higher than expected primarily due to an improvement in collection rates and the reduced cost of the council tax reduction scheme.
- **Provision for budget pressures** – a contingency of £2 million was included in the 2015/16 budget to absorb anticipated overspends in the year.

37. The overall financial position of the council at the year end did not vary significantly from budget. However, there is a trend over several years of large under and overspends in different areas of the budget. There are a number of areas within the budget that require attention to minimise the risk of uncertainty going forward. The council has demonstrated a good awareness of the underlying problems in social work services and it is now essential that the planned remedial action is carried out effectively.

Recommendation 1

38. The council is required by legislation to maintain a separate housing revenue account and to ensure that rents are set to at least cover the costs of its social housing provision. Rent levels are therefore a direct consequence of the budget set for the year. HRA expenditure in 2015/16 was broadly in line with budget and a balance on the HRA reserve of £4.781 million has been carried forward into 2016/17. The council considers this to be a prudent level to cover the cost of future investment in housing. The approved budget for 2016/17 does not assume any use of this reserve but the longer

term approach is being considered as part of the 2017/18 budget setting process.

Financial management arrangements

39. As auditors, we need to consider whether councils have established adequate financial management arrangements. We do this by considering a number of factors, including whether:

- the proper officer has sufficient status within the council to be able to deliver good financial management
- financial regulations are comprehensive, current and promoted within the council
- reports monitoring performance against budgets are accurate and provided regularly to budget holders
- monitoring reports do not just contain financial data but are linked to information about performance
- members provide a good level of challenge and question budget holders on significant variances.

40. In March 2015, the council agreed to revise its service structure which reduced the number of service departments from four to three. It also removed the need for a separate operational Chief Executive Office, which included Finance and Governance. The aim of the new structure was to support the council through the challenges which lie ahead in delivering effective services with reducing budgets and to provide a strong core leadership team at officer level, whilst aligning a number of different functions within single structures. This resulted in the Chief Finance Officer (CFO) no longer reporting directly to the Chief Executive but to the Director of Corporate and Housing Services instead. This structure does not comply with the CIPFA Statement on the role of the Chief Finance Officer in Local Government.

41. As the section 95 officer, the CFO has a crucial role in providing advice on all aspects of finance and is central to effective governance. The CFO needs to be able to deliver strong financial management and offer strategic direction for the council. Members should satisfy themselves that the CFO has appropriate access and influence to perform this role effectively.

Recommendation 2

42. The council's financial regulations, approved in June 2013, are under review. A number of changes will be required to reflect the restructuring that has taken place following the introduction of health and social care integration. We were previously advised by officers that this review would be completed during 2015/16. As this has not been done, the council should progress the review as a priority to ensure clarity around financial management arrangements.

43. Financial monitoring reports (both revenue and capital) are submitted to the executive and full council on a quarterly basis. These reports provide an overall picture of the budget position at service level and include narrative to outline the main reasons for any significant variances. There is evidence that these budget monitoring reports are supplemented with more detailed information for members on request.

44. In particular, officers have been challenged by members on the recurring overspends within social work services. The council's scrutiny committee has received reports on a regular basis detailing the reasons for the areas of overspend and proposed remedial actions. Refer to paragraph 35.

Conclusion on financial management

45. We have concluded that the council has adequate financial management arrangements in place but there is scope for improvement as set out above.

Financial sustainability

46. The council delivers a broad range of services, both statutory and discretionary, to its communities. Financial sustainability means that the council has the capacity to meet the current and future needs of its communities.

47. In assessing financial sustainability we are concerned with whether:

- there is an adequate level of reserves
- spending is being balanced with income in the short term
- long term financial pressures are understood and planned for
- investment in services and assets is effective.

48. Effective long-term financial planning, asset management and workforce planning are crucial to sustainability.

Reserves

49. The overall level of usable reserves held by the council decreased by £0.537 million compared to the previous year and totalled £42.706 million, refer Exhibit 1. The General Fund balance includes £8.562 million of unallocated general fund reserves. Planned commitments from the general fund balance amounted to £10.037 million and include devolved schools management, economic development, unspent revenue grants, energy efficiency and spend to save initiatives.

Exhibit 1: Usable reserves

Description	31 March 2015 £ million	31 March 2016 £ million
General fund	18.933	18.599
Housing revenue reserve	5.093	4.781
Repair and renewal fund	4.744	4.022
Capital grants unapplied	3.869	3.626
Capital receipts reserve	5.778	6.498
Insurance fund	4.826	5.180
Total usable reserves	**43.243**	**42.706**

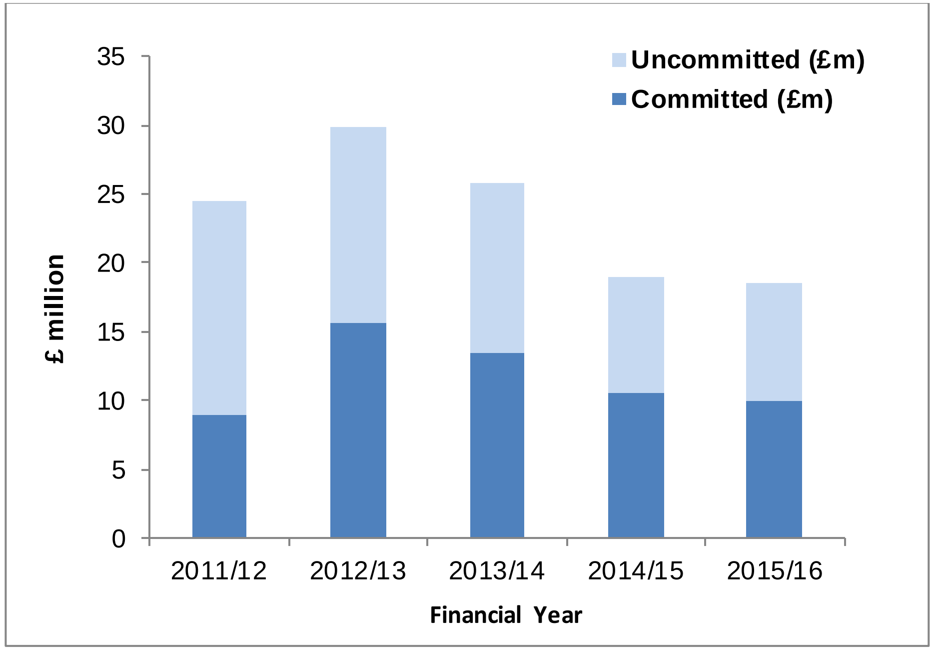
Source: Falkirk Council 2015/16 financial statements

50. The general fund reserve has no restrictions on its use. The principal purpose of holding a general fund reserve is to provide a

contingency fund to meet unexpected events and as a working balance to help cushion the impact of uneven cash flows.

51. Exhibit 2 provides an analysis of the council's general fund balance over the last 5 years split between committed and uncommitted reserves. This shows a notable fall in reserves from 2012/13 to 2014/15 with a slight deterioration in the position in 2015/16.

Exhibit 2: Analysis of general fund over last 5 years



Source: Falkirk Council 2011//12 - 2015/16 financial statements

52. The council's approved reserves strategy specifies that unallocated general fund reserves of between £6.6 million and £10 million should be held. The council's unallocated reserves at 31 March 2016 are £8.562 million, which is in the middle of the range. However there are a number of factors that will influence the balance on this reserve in the coming year. Firstly, members have approved the use of this reserve to cover the cost of outstanding equal pay claims that have not been provided for in the accounts. This could be a significant sum. Also, the 2016/17 budget that was approved in February 2016 assumes the use of £2.200 million of this reserve. The use of reserves in this way is not sustainable.

Accounting deficit

53. The Comprehensive Income and Expenditure Statement for the year reported a deficit on the provision of services of £14.521 million. After applying the statutory adjustments between the accounting and funding basis to reflect the true amount to be charged to the taxpayer, the council reported a deficit, or decrease in the general fund balance, of £0.334 million. There were a number of subsequent transfers to/from earmarked reserves in the year leading to an overall increase in the uncommitted general fund balance of £0.193 million. This included a transfer of £1.009 million from the devolved schools management reserve to the uncommitted general fund balance. The original budget included a transfer of only £0.200 million from this fund.

Financial planning

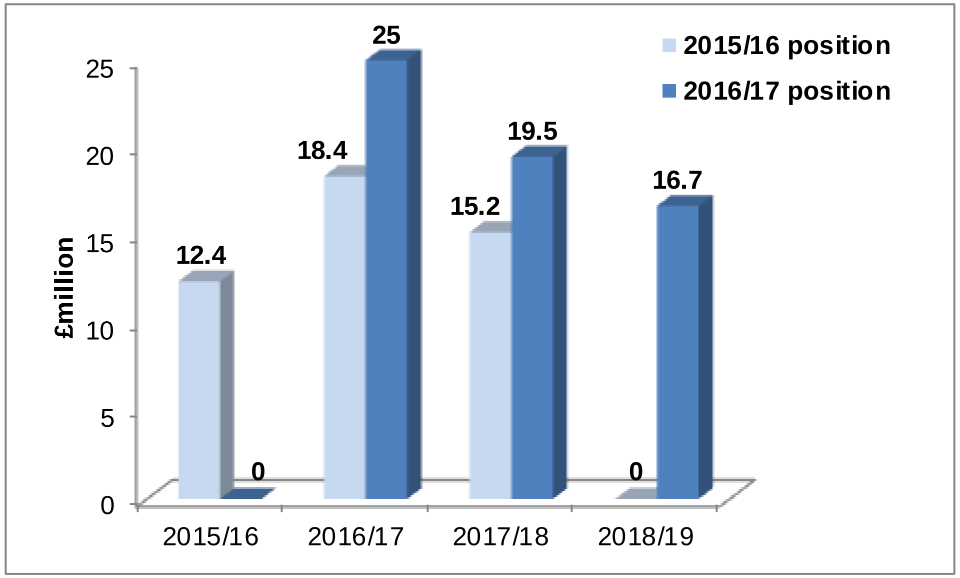
54. The council approved its 2016/17 budget in February 2016. The 2016/17 budget was set at £329.632 million with a budget gap of

£25 million. Plans to bridge this gap include £11 million services savings, £7.200 million budget rebasing, £2.200 increase in the council tax yield and an application of £2.200 million from the general fund as described at paragraph 52.

55. A Cross Party Budget Working Group (CPBWG) was established in October 2015 to support the budget setting process. This includes representatives from members across all parties. While group members worked well together, political disagreements remained when the overall council came to discuss and agree the 2016/17 budget. Members of the group recognise that they need to work more openly and collaboratively to ensure the group adds maximum value to the budget setting process in the future.

56. Falkirk Council has identified that it needs to make savings of £36 million over the next two years to 2018/19. To manage this effectively the council will need to identify clear priorities and develop long term financial planning. Exhibit 3 demonstrates that the forecast financial challenges facing the council have worsened in the last year, with a 3 year budget gap of £61 million to 2018/19 now forecast. This is significantly higher than the £46 million budget gap forecast over the 3 years to 2017/18 at the same time last year.

Exhibit 3: 3 year budget gaps identified in 2015/16 and 2016/17



Source: Falkirk Council 2015/16 and 2016/17 Budget Papers and Medium Term Financial Strategy

57. In the Best Value improvement plan, the council committed to developing medium and long-term financial plans. These plans have not progressed and following what the council described as an 'exceptionally challenging budget cycle', a one-year budget of £330 million was agreed in February 2016. The council have said that the late, one-year financial settlement from the Scottish Government prevented planning beyond a single year.

58. The Accounts Commission recommend that when future Scottish Government funding is not known, councils should plan for a range

of possible scenarios so they are prepared for different levels of funding and income. In July 2016, Cabinet Secretary for Finance and the Constitution announced that the Scottish Government would not be publishing a three-year spending review in Autumn 2016 due to current uncertainty and volatility.[1] Nonetheless, councils need to continue to plan for the longer term, using scenario planning based on the best available information.

Recommendation 3

Business Transformation

59. In the 2015 Best Value report, the Accounts Commission (the Commission) said that the council needed to make a step-change in its pace to transform and improve services. It was reported that the council's reliance on small-scale savings projects, service reductions and service charge increases was not sufficient to address the financial challenges ahead. It also said the council's business transformation project needed to be more strategic and stronger leadership was needed for this to happen.

60. The Business Transformation Board (BTB) is responsible for overall delivery of the council's business transformation agenda. This includes monitoring key projects and holding lead officers to account for agreed savings, timescales and planned outcomes. Following a recommendation in the Best Value report, membership of the BTB was revised to ensure elected member involvement, with the leaders of both the administration and opposition parties now participating. Elected members have provided a good level of scrutiny and challenge, with a focus on the pace of progress and a request for a programme of updates and savings to date. Despite this, there is a lack of detailed reporting on the anticipated or achieved outcomes of projects, with no process in place for providing members with updates on all projects. This means that members are unable to scrutinise and challenge progress and senior officers do not have good oversight of performance.

61. As well as business transformation projects, the council has developed a number of other improvement activities which include:

- Strategic reviews – approved by members as part of the 2016/17 budget process, the results of these reviews are intended to feed into the 2017/18 budget process. The reviews cover the council's property portfolio, social work services, alternative delivery models, external funding, income generation and trust service delivery and property portfolio.
- Revised self-assessment and service review programme – a prioritisation tool was used to create a targeted service review programme over the next 3 years.
- Improvement groups - aim to identify improvements and savings within a particular service and can vary from short-life groups to groups that run for several years. These groups include staff from across grades.

[1] Evidence to Scottish Parliament Finance Committee, 29 June 2016.

- Top 20 areas of spend – these have been highlighted to enable services to focus on areas where there is scope to make significant savings.
- External engagement - officers are engaging with other councils to learn lessons from their improvement journeys, leadership and culture.

62. The activities described above are running in parallel but it is not clear how they are aligned and managed as a whole or how they are integrated with the budget planning process and the council's strategic priorities. We also found overlap between some of the projects, groups and reviews. There is no overarching framework to monitor improvement activity within the council. The council should review the arrangements for the management and integration of this activity.

Recommendation 4

63. The council is aware of the need for better management of improvement activity to increase the pace of change. In August 2016, the council recruited a change manager for its change programme. This is a joint post with the Improvement Service. This is a positive step to ensure a focus on the delivery of improvement activity across the council as a whole. The change manager will have day-to-day responsibility for the project, but senior officers will remain responsible for strategic leadership and direction. Senior officers will need to ensure that this person is supported at the highest level to deliver the change required.

Capital programme 2015/16

64. The council approved its general services and housing capital programme for 2015/16 in February 2015. As outlined in Exhibit 4 below, capital budgets were revised during the year. Total planned expenditure increased by £2.435 million.

Exhibit 4: Capital Expenditure 2015/16

Capital Programme 2015/16	Approved budget £million	Revised budget £million	Expenditure in year £million	Variance against revised £million %
General	22.106	27.529	25.492	(2.037) 7.4%
Housing	29.323	30.650	25.384	(5.266) 17.2%
TIF	6.189	1.874	0.945	(0.929) 49.6%
Total	**57.618**	**60.053**	**51.821**	**(8.232) 13.7%**

Source: Capital Programmes Outturn 2015/16, Executive, 16 August 2016

65. The general services programme was concentrated on the new build, refurbishment and repair of schools, town centre regeneration, ICT projects, roads and transport infrastructure and vehicle replacement. The housing programme focused on elemental improvements, energy efficiency, new house builds and property buy backs.

66. Key areas of slippage include:

- Economic development (£1.537 million) – this is made up of slight slippage on a number of projects including Denny Town Centre (£0.497 million), Arnotdale House (£0.469 million), Falkirk Townsgate Heritage Initiative (£0.440 million) and Abbotsford Business Park (£0.131 million). The council plans to undertake all this work in 2016/17.
- New build housing (£3.588 million) – delays with design consultations and planning considerations. This work will be carried out during 2016/17. Officers have advised that the council has continued to increase the supply of homes to meet demand despite this delay with the conclusion of 97 buy backs in the year.

67. The council should ensure that slippage or re-profiling on the capital programme does not have a significant impact on the council's strategic priorities and service delivery.

68. Expenditure in the year of £0.945 million on the Tax Incremental Finance (TIF) project included additional parking at Falkirk Community Stadium and site enabling works at Abbotsford Business Park, as well as a small amount of work on the M9 Junction 6 and Westfield Roundabout. This was significantly less than planned as work has been re-scheduled to take account of the results of the Falkirk Gateway Preliminary Development Framework and the Crossing proposals set out below:

- Falkirk Gateway Preliminary Development Framework – the council appointed an external consultant to support the development of this site to boost economic growth in the area. The site includes the Gateway, the Helix and Kelpies, Falkirk Community Stadium and Forth Valley College. The vision is for the development to be a focus on low carbon technologies and a leading light for sustainable living and working in Scotland. Key success factors that have been identified include connectivity (enhancing links), character (using the water to add value) and community (mixing commercial, business, residential and leisure).
- The Crossing – proposals to create a pedestrian and cycle crossing connecting the four Gateway sites. The council will continue to investigate options for design and funding.

69. Total expenditure to 31 March 2016 on the TIF project is £3.444 million. Despite re-profiling of works to prioritise Falkirk Gateway there have been no changes to the overall approved project.

Asset Management

70. As part of the 2016/17 budget process it was agreed that a strategic property review should be carried out. The scope of the review was approved by the Executive Committee in May 2016. The council is aware that the existing property portfolio is not sustainable, with a

maintenance backlog of over £36 million and significant financial challenges ahead. The aim of the review is to identify efficiency savings and options for members to consider. For example, co-location, rationalisation, operating cost savings and potential closures. Target savings have not been specified but the review covers the whole of the operational property portfolio which incurred revenue costs of £21.98 million and capital costs of £7.04 million in 2015/16.

71. Officers recognise that this is a corporate wide initiative and as such it is linked to a number of other on going reviews, including the redesign of service delivery models. Officers have committed to phasing the review in line with related service reviews to tie in with the budget planning process and service planning for 2017/18 and beyond.

72. We have been advised that the strategic property review has delayed the refresh of the council's corporate asset management strategy and the property asset management plan as the findings from the review will need to be reflected in these plans. Officers should ensure that the council's asset management strategies and plans are refreshed as soon as possible.

Workforce Management

73. Effective workforce management is essential to ensure that the council maximises the effectiveness of its employees. A workforce strategy is key to setting out how the council will ensure it has appropriately skilled people in place to deliver its services.

74. In its 2015 Best Value report the Accounts Commission recommended that workforce changes should be fully informed by improvement activity and should be considered within the context of comprehensive workforce strategies and plans. As part of the Best Value follow-up audit we noted that a revised *Workforce Strategy 2016-20: One Council One Workforce* was approved by the Executive in March 2016.

75. The council's workforce strategy is supported by revised workforce planning guidance. This guidance requires a longer-term consideration of workforce needs to meet future service delivery plans. The council is currently developing service workforce plans and aims to have a council wide workforce plan in place by the end of 2016. The council should ensure these plans are used to identify opportunities for more joined-up planning across services and ensure that the impact of changes in one area do not have unplanned effects on other services.

76. As financial pressures continue, the council needs to ensure that it retains staff with the skills needed to deliver its priorities. 179 exit packages were approved in the year at a cost of £3.846 million. The council's workforce has fallen by 449 full time equivalents (FTEs), or 7%, between June 2014 and June 2016 and there are a significant number of voluntary severance applications awaiting a decision. The council should ensure that these decisions are aligned with improvement activity and relevant strategies and plans as reported in the 2015 Best Value report.

77. Overall, we have concluded that the council has taken steps to develop workforce planning arrangements but these are still in the early stages and much work is still to be done.

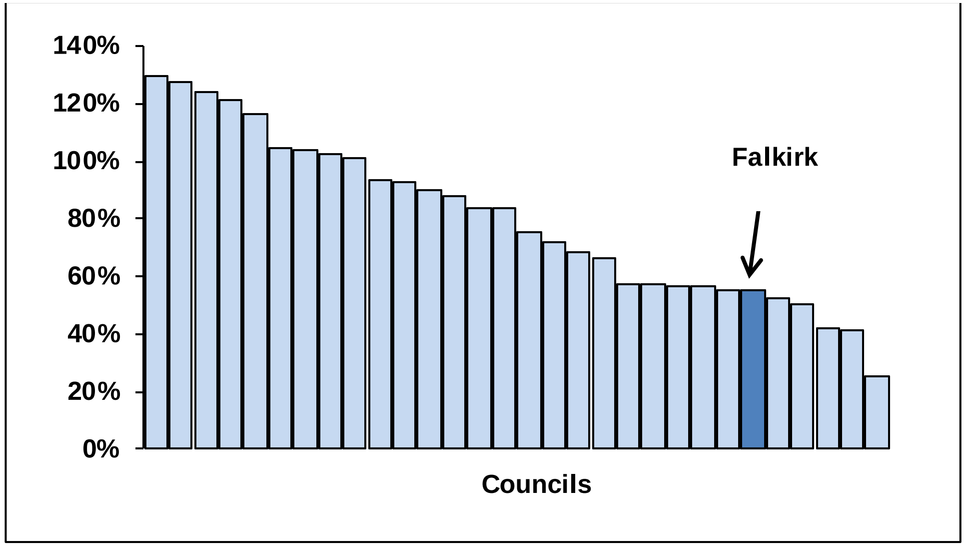
Recommendation 5

Treasury Management

78. At 31 March 2016, long term borrowing stood at £214.2 million, an increase of £10 million on the 2015 level of £204.2 million. During the same period, short term borrowing increased from £28.8 million to £31.8 million. In line with the councils Treasury Management Strategy for 2015/16, borrowing undertaken during the year combined both short term and long term, with the emphasis on short term due to the lower relative interest rates in force. Interest payable and similar charges rose by £0.463 million in 2015/16 to £23.796 million.

79. High levels of debt may reduce a council's budget flexibility going forward because of the need to set aside revenue resource to service that debt. Exhibit 5 shows long term borrowing as at 31 March 2016 as a proportion of net revenue streams plus HRA dwelling rents for all mainland councils in Scotland. This gives an indication of the indebtedness of the council relative to its size. This indicates that despite an increase in borrowing in the year, Falkirk Council's borrowing levels remain on the lower side of the median compared with other Scottish councils.

Exhibit 5: Scottish councils' long term borrowing as a percentage of net revenue streams plus HRA dwelling rents



Source: Scottish councils' unaudited accounts 2015/16 (excluding Orkney and Shetland Island councils)

80. The council borrowed £10 million less than planned in the year due to slippage on the capital programme and continues to sit in an under-borrowed position against budget. Total external debt (which includes the council's long term liabilities) was within the authorised limit and operational boundary set by the treasury management strategy. The current borrowing position is prudent and the council will continue to consider the affordability of future borrowing.

Pension liability

81. Net assets per the council's balance sheet have increased by £370.455 million from 2014/15 level due mainly to asset revaluations and a reduction in the pension liability. There has been a £78.243 million reduction in the pension liability from £381.288 million to £303.045 million. This is also reflected in the balance sheet for the group.

82. The pension liability represents the difference between expected future pension payments and the underlying value of pension fund assets available to meet this cost. At the last triennial valuation the Falkirk Council Pension Fund was 84.8% funded and had net assets of £1.577 billion. The next valuation will take place in 2017 with new contribution rates in place from 1st April 2018. It is expected that new contribution rates will reduce the difference between the pension liability and the underlying assets.

Conclusion on financial sustainability

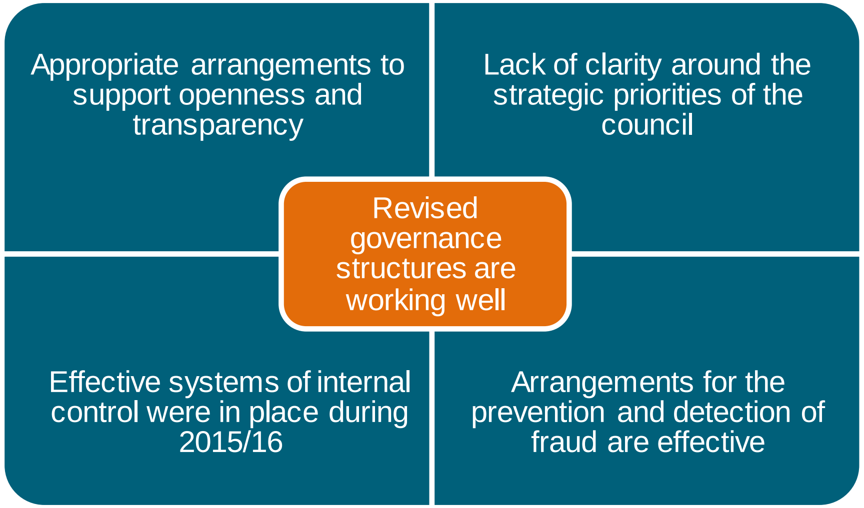
83. We have concluded that the council has an adequate level of reserves at the year end. However, the council faces significant financial challenges over the coming years and the current approach to addressing these challenges is not sufficient. Medium and long term financial plans should be developed as a priority despite the uncertainty over future funding and income. The council also needs to ensure that asset management and workforce management arrangements are well developed to support the changes that will be required going forward.

Outlook

84. In common with other Scottish councils, Falkirk Council faces increasingly difficult financial challenges in the foreseeable future, with a budget gap of £61 million over the period to 2018/19. There is no doubt that all councils face tough decisions in order to balance the budget going forward. These decisions must be based on a clear understanding of the current financial position and the longer-term implications of decisions on services and finances in line with clear corporate priorities.

85. Further cost pressures such as pay progression and the adoption of the living wage together with the scale of the financial challenge means the council is likely to make further workforce changes. However, without a step-change to improve how services are delivered it is unlikely this will deliver the savings needed.

Governance and transparency



86. Members and management of the council are responsible for establishing arrangements to ensure that its business is conducted in accordance with the law and proper standards, that public money is safeguarded and for monitoring the adequacy and effectiveness of these arrangements.

Corporate governance

87. The 2015 Best Value report concluded that the council's previous governance arrangements had not been working effectively. New scrutiny arrangements were implemented by the council in May 2015, and the Commission stated that the council needed to demonstrate that scrutiny is now effective.

88. Two scrutiny committees are now in operation, each chaired by a member of the opposition. One committee scrutinises external organisations and the other looks at internal service issues. Opposition members are now participating fully in both the scrutiny committees and the executive. The 2016 Best Value follow-up audit found a good level of discussion, scrutiny and challenge taking place within the new arrangements.

89. Feedback from members also confirmed that the new governance and scrutiny arrangements are working well. Overall, the revised scrutiny arrangements seem to be operating effectively and members should continue to build on this.

Strategic planning

90. The council's Strategic Planning and Management System (SPMS) framework aims to link the council's strategic activity with its priorities and key objectives. This includes the community plan, corporate plan, single outcome agreement, service plans and budgets which are underpinned by the council's corporate goals and values.

91. The council's strategic planning is currently in a period of transition. A revised Strategic Outcomes and Delivery Plan (SOLD) covering the period 2016-2020 was agreed by the Community Planning Leadership Board in June 2016. This has replaced the Strategic Community Plan 2010-15. The existing corporate plan runs until

2017 and will be revised following council elections in 2017. This plan has not been refreshed during its lifetime.

92. The Best Value follow-up audit found that while the council has a number of strategies and plans in place, there is not a clear understanding of priorities across the council. Well focussed priorities are needed to ensure that the council can target its limited resources effectively. The council should identify and clearly communicate its priorities as a matter of urgency to drive improvement.

Recommendation 6

Internal control

93. As part of our audit we reviewed the high level controls in a number of systems fundamental to the preparation of the financial statements. Our objective was to obtain evidence to support our opinion on the council's financial statements.

94. No material weaknesses in the accounting and internal control systems were identified 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.

95. We concluded that effective systems of internal control were in place during 2015/16 although we identified some areas where controls could be strengthened. Our findings and agreed action plan were reported to the Audit Committee on 20 June 2016.

Internal audit

96. Internal audit provides members and management of the council with independent assurance on risk management, internal control and corporate governance processes. We are required by international auditing standards to make an annual assessment of internal audit to determine the extent to which we can place reliance on its work. To avoid duplication, we place reliance on internal audit work where possible.

97. We concluded that internal audit operates in compliance with Public Sector Internal Audit Standards (PSIAS) and has appropriate documentation and reporting procedures in place. We placed formal reliance on internal audit's work in relation to investments (non-pension). This allowed us to concentrate on other areas of higher risk.

ICT audit

98. As part of our audit planning process we carried out a high level review of the council's ICT arrangements including the technology strategy, information security, business continuity arrangements and cyber security. Our key findings are summarised below:

- The council's annual submission for a Public Services Network (PSN) connection compliance certificate was successful. This provides the council will authority to access the PSN until January 2017, at which point a further submission will need to be made.

- The risk of cyber attacks features prominently on the council's corporate risk register. Internal audit have arranged a number of lunchtime seminars to raise awareness on this subject. This included, amongst other things, a seminar on social media risks (delivered by Police Scotland) and cyber crime (delivered by Scottish Business Resilience Centre and Police Scotland). PSN accreditation also provides a measure of assurance on the council's arrangements for dealing with cyber attacks.
- A key part of the council's Technology Strategy is the introduction of mobile and flexible working. This is a 3 year project that was started in 2015. It has involved the procurement of Citrix platforms to replace PC desktops. This software enables server, application and desktop virtualisation. It also allows each user secure access, from any device over any network, to access the councils systems.

99. Overall, we concluded that the council has adequate ICT arrangements in place and did not identify any significant risks that would require us to undertake any additional audit work in the year.

Arrangements for the prevention and detection of fraud

100. We assessed the council's arrangements for the prevention and detection of fraud during the planning phase of the audit. The council has a number of measures in place for preventing and detecting fraud. These include an anti-fraud and corruption strategy, a fraud hotline for suspected council tax fraud and a separate hotline for benefits fraud.

101. Also, a corporate fraud team was formally established in February 2016 with reporting lines to the Internal Audit Manager. The team consists of two members who previously had responsibility for benefits fraud investigation before that function transferred from the council to the Department of Works and Pensions.

102. The corporate fraud team have been developing new fraud prevention publicity materials with the council's design team. In addition, the team are planning to work with departmental managers to undertake investigation in a number of areas including blue badge fraud. This was flagged as an area for improvement in previous external audit reports.

103. We concluded that current arrangements for the prevention and detection of fraud are adequate and have been strengthened by the establishment of a corporate fraud team.

National Fraud Initiative in Scotland

104. The National Fraud Initiative (NFI) in Scotland is a biennial counter-fraud exercise led by Audit Scotland and overseen by the Cabinet Office for the UK as a whole. It uses computerised techniques to compare information about individuals held by different public bodies and on different financial systems.

105. Matching data obtained from the systems of participating bodies allows the identification of potentially fraudulent claims on the public purse including housing benefit fraud, occupational pension fraud and payroll fraud. If fraud or overpayments are not identified in a body, and the NFI exercise has been undertaken properly,

assurances may be taken about internal arrangements for preventing and detecting fraud. The current NFI exercise identified a total of 6,314 matches of which 1,320 have been investigated to date with outcomes totalling £6,033.

106. In addition to the core NFI exercise, the council participates in a related exercise which matches council tax and electoral roll data. This exercise aims to detect council tax single person discount wrongly claimed. During 2015/16, 191 frauds or errors were detected totalling £120,000 with recovery action undertaken or underway.

107. The internal audit manager also provides updates on NFI activity to both the corporate management team and the audit committee to keep them apprised of investigations.

108. We concluded that the council is committed to NFI and takes a proactive approach to the review and investigation of data matches identified.

Arrangements for maintaining standards of conduct and the prevention and detection of corruption

109. The council has a number of arrangements in place to prevent and detect corruption. These include an anti-fraud and corruption strategy, standing orders and financial regulations. Also, the council has a code of conduct for both officers and members which cover amongst other things the accepting of gifts and hospitality and the maintenance of a register of interests.

110. The arrangements for the prevention and detection of corruption in Falkirk Council are satisfactory and we are not aware of any specific issues that we need to record in this report.

Transparency

111. Members of the public can attend meetings of the full council, executive and other committees. Minutes of all these meetings and supporting papers are readily available on the council's website.

112. The council's performance panel is responsible for scrutinising performance but its meetings are held in private. However, transparency has improved as minutes of panel meetings, and key reports, are now included on the council's website. The council has taken the decision to continue to hold these meetings in private on the basis that it aids the discussions.

113. The council's website allows the public to access a wide range of information including the register of members' interests, current consultations and surveys and how to make a complaint. In addition, the website provides details of the citizens panel and how to join it. The panel provides information and feedback on services as well as information on the needs of local communities.

114. The council also makes its annual accounts available on its website. These include a management commentary which provides details of performance against budget, information on the use of reserves and risks and uncertainties facing the council.

115. We have concluded that the council has appropriate arrangements in place that support openness and transparency.

Integration of health and social care

116. The Public Bodies (Joint Working) (Scotland) Act received royal assent on 1 April 2014. The Act provides the framework for the integration of health and social care services in Scotland. The Scottish Government sees health and social care integration as a key element of its 2020 Vision which allows everyone to live longer, healthier lives at home or in a homely setting.

117. The Falkirk Integration Joint Board (FIJB) was formally established on 3 October 2015. This followed the approval of the Integration Scheme submitted by Falkirk Council and NHS Forth Valley. However, the FIJB did not become fully operational until 1 April 2016 when delegated functions were transferred.

118. During this period between the establishment of the FIJB and its 'go live' date of 1 April 2016, the council worked with the health board to develop an integration plan. The plan set out the key deliverables that would allow the FIJB to meet its statutory obligations by 1 April 2016.

119. The FIJB approved a Strategic Plan (incorporating budgets) on 24 March 2016. It was developed in line with the outcomes described in the Falkirk Integration Scheme. The Strategic Plan sets out the priorities for FIJB over the next three years.

120. A number of work streams, with representatives from the council and the health board, were established to support integration. The work streams included those dealing with planning, governance, finance, workforce, performance management, data sharing and risk management. With this support the FIJB was able to develop its governance arrangements in the period running up to 1 April 2016. These arrangements are subject to refinement as the FIJB evolves.

121. We concluded that the council, working with the health board, made good progress in its preparations for integration. However, significant challenges lie ahead for health and social care integration, not least delivering on the Scottish Government's 2020 Vision.

Housing and council tax benefits performance audit

122. A risk assessment of the housing benefit service was carried out by Audit Scotland's specialist benefits team earlier this year with findings reported to management in January 2016. The report was submitted to the Audit Committee on the 18 April 2016 for consideration. The key objective of the risk assessment was to determine the extent to which the benefit service is meeting its obligations to achieve continuous improvement in all its activities.

123. The report noted that good progress had been made in addressing previously reported risks. Indeed, four out of five risks had been addressed and this had resulted in:

- significant improvement in the time taken to process new claims and change events
- reduction in the number of non-financial errors and maintenance of a high level of financial accuracy
- a decline in the level of local authority and administrative error payments
- significant improvement in the recovery of housing benefit overpayments.

124. The report also identified four new risks and one risk outstanding from a previous risk assessment which is being addressed. Management have agreed an action plan to deal with these risks. This will be followed-up at a future date to confirm progress in implementation.

125. Overall, we concluded that the council's benefit service has made good progress in meeting its obligations to achieve continuous improvement in all its activities.

Local scrutiny plan

126. The 2016/17 Local Scrutiny Plan (LSP) prepared by the Local Area Network of scrutiny partners for the council was submitted to Falkirk Council on 30 March 2016. It was also presented to the Audit Committee on 18 April 2016. The LAN did not identify any new scrutiny risks in the year which would require specific scrutiny work during 2016/17. The council will be subject to a range of nationally driven scrutiny activity as set out in the LSP.

127. Upon the request of the Accounts Commission, Audit Scotland has carried out a follow-up to the 2015 audit of Best Value arrangements. The findings from this review have been reflected in this report and will be taken to the Accounts Commission by the end of 2016. This piece of work was highlighted in the LSP.

Outlook

128. Falkirk Council faces increased financial pressures in a changing public sector landscape. The council will need to consider the delivery of services by different means. Good governance will be particularly important where council resources and services are delivered through partnerships or devolved to third party organisations.

129. Effective governance arrangements for the Falkirk Integration Joint Board will be particularly important to support the delivery of both local and national priorities. Audit Scotland has introduced a new online resource that is dedicated to sharing our work on health and social care services. It is based on our most recent reports in this area, and is intended to support organisations and individuals involved in health and social care to meet the challenges ahead in the sector:

http://www.audit-scotland.gov.uk/our-work/transforming-health-and-social-care-in-scotland

Best Value

Best Value audit

130. In August 2015, the Commission expressed significant concerns that Falkirk Council's approach to Best Value, and in particular to its financial challenges, was inadequate. Since then, a considerable amount of activity has taken place in the council to respond to these concerns. It is acknowledged that a relatively short-time has passed since the audit, so it is too soon to fully assess whether sufficient change will result from this activity. However current evidence suggests that it is not enough to make the impact needed.

131. The council accepted the Commission's findings and produced a plan to address the areas for improvement identified. While this plan sets out actions for each area of improvement, it is high level with a focus on process rather than ensuring that the actions lead to the improvements required. The actions themselves lack depth and are not well embedded in council business. Officers now acknowledge this and plan to develop this going forward.

132. The Commission said that the council needed to make a step-change in its pace to transform and improve services. It was concerned that the council's reliance on small-scale savings projects, service reductions and service charge increases was not sufficient. The financial challenges facing the council have increased and it needs to makes savings of £36 million over the next two years to 2018/19. The pace of improvement is still slow and the council has continued to rely on the same approaches to bridge its budget gap.

133. The council has taken steps to prioritise its service review programme, and established a series of individual Strategic Reviews. It still lacks clear and cohesive strategic priorities overall that can drive a co-ordinated and longer-term approach to improvement. The council needs to provide a stronger focus on the transformation of services and what impact this will have on local people. There is little evidence that the budget setting process and savings plans are closely linked to corporate outcomes or priorities for improvement. This is a significant gap.

134. In the council's Best Value improvement plan, it commits to developing medium and longer term financial plans. It has not yet done this and does not currently have financial plans extending beyond a year. Further challenges and uncertainties over future

funding and income for councils are expected. Rather than limiting its forward planning, the council needs to respond to this environment by producing a range of scenarios which go beyond incremental cost saving measures and which focus more on redesigning service delivery. We acknowledge that longer term planning can be more challenging in the run up to council elections, but this does not act as a barrier to effective medium and long term planning in other councils. It is essential that the elected members and senior management work together to overcome this as a matter of urgency.

135. In its 2015 findings, the Commission welcomed that, after an unacceptable and protracted period of ineffective scrutiny members were participating in new arrangements. It noted that the council needed to demonstrate that scrutiny is now effective. Under these revised scrutiny arrangements, elected members are now working well together. Disagreements and debates between politicians do take place, which is to be expected to some extent in any healthy political environment. But, members are now more aware that they must operate together constructively to support the council's work and act in the overall interests of local communities.

136. The council continues to use a broad range of performance management tools but it still needs to do more to ensure that performance management makes improvement happen. It has taken steps to coordinate how it reviews services to target where improvement would result in most benefit. The council needs to do more to identify and track the savings and benefits expected as a result of its improvement activities and strengthen linkages with the budget setting process. It has revised the performance information it provides to members and the public, with better use of narrative and benchmarking to show how the council performance compares with others. However, it has not developed improvement action plans that can be monitored and challenged by both members and officers. This means that members are not getting assurance that actions are followed up, that they are delivered on time and that they are achieving the benefits intended.

137. Overall, the approach taken by the council has made limited progress in making the step change required. Given that this is in the context of a considerable amount of activity taking place, it may be that the improvement required is a considerable challenge for the council. It has made some progress and there is awareness and recognition of the need to do things differently. But translating this into more radical change has not yet happened. The council has recruited a manager for its change programme which is a positive step in improving capacity, and senior management will need to ensure that this initiative is supported at the highest levels to ensure it delivers its objectives.

138. The scale of the challenges facing councils is increasing. It is essential that Falkirk Council approaches these challenges differently as its actions to date are unlikely to deliver the change required. The council needs to agree clear priorities. The Corporate Management Team (CMT) should lead a focussed and coordinated approach to deliver them. Senior officers should challenge each other to do things differently and hold each other to account. The CMT now acknowledge this and is looking at the culture and

leadership approaches of some other councils. The CMT now needs to agree on how it is to apply the lessons learned to drive change. It should continue to seek external views or assistance where this could help.

Recommendation 7

139. The Accounts Commission will publish its findings on the Best Value follow-up audit by the end of the calendar year.

Procurement

140. 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.

141. The most recent PCA assessment was carried out in December 2014 when the council was awarded a score of 70 or 'improved performance', representing a ten point increase from 2013 and only five points away from achieving superior performance.

142. Following the Procurement Reform (Scotland) Act and the Public Contracts (Scotland) Regulations 2015 a new assessment regime was introduced as part of the new Procurement and Commercial Improvement Programme (PCIP). It came into effect on the 18 April 2016 and has new sections including fraud awareness & prevention and commercial acumen.

143. The council's assessment under this new regime took place on 11 July 2016 and was attended by a Scottish Government observer. The council were assessed as being in the top band (of which there are twelve) with a score of 70.

144. In addition, the council has carried out a self-assessment in line with the recommendation in the Audit Scotland report 'Procurement in Councils' (April 2014) and the subsequent impact report published in February 2016. The outcome of this exercise was reported to the scrutiny committee in June 2016 and confirmed that the council mostly complied with good practice.

145. We concluded that the council has good procurement practices in place and is committed to continuous improvement.

Following the public pound

146. Local authorities have a statutory responsibility to comply with the Accounts Commission/COSLA Code of Guidance on funding external bodies and following the public pound.

147. The council's financial regulations contain a specific section on following the public pound. These emphasise that services must adhere to the council's 'Funding at Falkirk' guidance for allocating funds to external organisations. The guidance applies where funding is provided, or transferred, to arms-length bodies such as companies, trusts and voluntary organisations.

148. Also, there is a dedicated officer within the community, policy and planning service who provides advice on funding to external organisations. He must be consulted before any proposed funding is progressed.

149. Furthermore, formal reporting and monitoring arrangements have been put in place for funding to external bodies. A 'Following the Public Pound' report must be submitted to the council's external scrutiny committee for approval where an application for funding exceeds £20,000 or covers multiple years. These reports include details of the applicant's business, how their work relates to the council's aims and a financial performance risk assessment. Applications for smaller amounts are delegated to a chief officer for approval.

150. We concluded that the council has appropriate arrangements for ensuring compliance with the Code of Guidance on funding external bodies and following the public pound.

Performance management

151. The 2015 Best Value report said that the council needed to improve the performance information it reports to members and the public. In November 2015, officers introduced a new performance reporting template to improve the performance information it reports to the performance panel. Reports now make better use of narrative and benchmarking information to provide context on what is being reported. Additionally, a system of exception reporting is used to draw attention to those performance indicators which are slightly or significantly below target. This provides greater focus on the areas for improvement. These reports are made available on the council's website following the meetings.

152. The Commission also said that the council could use its self-assessments and service reviews more effectively to achieve improvement and transform services. In May 2016, the council agreed a programme of performance reviews which include structured self-assessments and in-depth service reviews. This is a positive step but it is too early to assess the effectiveness of this programme. The council should ensure that the programme is used to target resources to delivery priorities and drive continuous improvement. There should also be clear links between the programme, savings plans and the budget setting process.

153. Despite these developments, the Best Value follow-up audit has found that there is still limited evidence that performance management is making improvement happen. The council has not developed tracked action plans as previously recommended and therefore no assurance is provided to members on how improvement actions are followed up and whether they are delivered on time.

Recommendation 8

Overview of performance targets in 2015/16

154. The council participates in the Local Government Benchmarking Framework (LGBF). The framework aims to bring together a wide range of information about how all Scottish councils perform in delivering better services to local communities, including the cost of services and how satisfied citizens are with them.

155. The LGBF section on the council website contains information about all areas of council performance, including a service overview, a brief overview of performance against LGBF indicators and action the council is taking to improve performance.

156. Services continue to report performance periodically to the Performance Panel and include an annual performance statement within the relevant Service Performance Plans. In some instances we noted a time lag in the performance information provided to members.

157. A review of the service annual performance statements for 2015/16 found that complete information was only provided for 47% of indicators. This can be justified in some cases, for example, examination success indicators are not available until later in the year. However, it is not clear what the reason is for all unreported indicators.

158. Of those indicators reported, 53% reported improved performance, including the number of modern apprentices in council programmes, tenants satisfied with their new home and rent loss through empty properties. 31% of indicators reported a decline in performance including street light repairs completed within 7 days and average time to complete emergency repairs. Performance remained static across 16% of indicators.

159. Given the circumstances we are unable to form a judgement on the council's performance as a whole for the year. Officers need to ensure that members and the public are provided with timely and complete performance information to enable them to scrutinise performance effectively.

See also recommendation 8

Statutory performance indicators (SPIs)

160. The Accounts Commission places great emphasis on councils' responsibility for public performance reporting. The Commission does not prescribe how councils should report but expects councils to provide citizens with fair, balanced and engaging performance information reporting.

161. For 2015/16 three (SPIs) were prescribed:

- SPI 1: covering a range of information relating to areas of corporate management such as employees, assets and equalities and diversity
- SPI 2: covering a range of information relating to service performance
- SPI 3: relates to the reporting of performance information as required by the Local Government Benchmarking Framework.

162. Our audit responsibility in relation to SPIs is forward looking and the focus is on the arrangements in place for the collection, recording and reporting of information in relation to SPIs 1, 2 and 3.

163. Audit Scotland's Performance Audit and Best Value group carried out an evaluation of all Scottish councils' approaches to public performance reporting last year (this was based on 2013/14 SPIs). The council prepared an improvement plan in response to the

findings; however, there are a number of areas within this plan that still need to be progressed.

164. We have reviewed the council's arrangements for collecting recording and publishing data in 2015/16 and concluded that they are adequate. Some of our key assurances include:

- The council uses Covalent to capture performance information throughout the year.
- A timetable is in place and has been communicated to relevant staff.
- The council's internal audit section provides independent assurance on the validity of SPI information through annual verification of some SPIs. We reviewed the work performed by internal audit in 2015/16 and were satisfied with their conclusions.
- We have been advised that an annual performance statement is in development. This will provide a full picture of the council's performance for the year and will be published in Autumn 2016. This is a key development in terms of the council's reporting.

Local performance audit work

165. In November 2013 Audit Scotland published a report entitled *Scotland's public sector workforce.* The aim of the report was to assess if public bodies, including councils, are managing their workforces effectively.

166. Audit Scotland asked external auditors, across the public sector, to undertake follow-up audit work on the 2013 report. A standard questionnaire based on the report's findings was issued to external auditors to complete.

167. Our follow-up audit highlighted that there were a number of areas where improvements were required, including:

- workforce plans are not prepared for all services
- existing workforce plans are not consistent in structure and content
- workforce plans do not include succession planning over the medium to longer term.

168. The council has taken steps to improve performance including approval of a workforce strategy supported by detailed guidance in the form of a workforce planning framework. Our findings were part of the evidence used in the Best Value follow-up audit.

169. As reported at paragraph 77, we concluded that the council has taken steps to develop workforce planning arrangements but these are still in the early stages of development.

National performance audit reports

170. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2015/16, a number of reports were issued which were of direct interest to the council. These are outlined in Appendix III accompanying this report.

171. Falkirk Council has arrangements in place for considering all national audit reports published by Audit Scotland. These reports are considered in detail by the scrutiny committee, or other relevant committee, including actions being taken locally to improve performance.

172. In addition, the audit committee receives an annual report summarising details of Audit Scotland reports published during the year and which committee formally reviewed them. This provides assurance to members that all national reports and their impact on the council are subject to review and scrutiny.

Outlook

173. Falkirk Council faces the significant challenges of reducing budgets, an aging population with higher levels of need and the public expectation of high quality services. Savings have been made in recent years largely by reductions in the workforce. As choices on how to address funding gaps become increasingly difficult, the council needs to challenge existing ways of doing things. A strong and effective performance management framework driven by clear and focussed priorities will be critical to the success of the council delivering Best Value.

174. Falkirk Council's response to the conclusions of the Best Value follow-up audit highlighted in this report and the subsequent findings of the Accounts Commission later in the year will be critical to paving the way for the future.

The audit of Falkirk Temperance Trust

175. The preparation and audit of financial statements of registered charities is regulated by the Charities and Trustee Investment (Scotland) Act 2005 and The Charities Accounts (Scotland) Regulations 2006. The 2006 regulations require charities to prepare annual accounts, and require an accompanying auditor's report where any legislation requires an audit.

176. The Local Government (Scotland) Act 1973 specifies the accounting and audit requirements for any trust fund where a local authority, or some members of the authority, are the sole trustees (i.e. only members of the authority are trustees).

177. Therefore, as a consequence of the interaction of Local Government (Scotland) Act 1973 with the charities legislation, a full and separate audit and auditor’s report is required for each registered charity where members of Falkirk Council are sole trustees, irrespective of the size of the charity.

178. Our duties as auditors of the charitable trust administered by Falkirk Council are to:

- express an opinion on whether the charity's financial statements properly present the trusts financial position and are properly prepared in accordance with charities legislation
- read the trustees' annual report and express an opinion as to whether it is consistent with the financial statements
- report on other matters by exception to the trustees and to the Office of the Scottish Charity Regulator (OSCR).

179. We have given an unqualified opinion on these matters with respect to the 2015/16 financial statements of Falkirk Temperance Trust.

Appendix I: Significant audit risks

The table below sets out the financial statement audit risks we identified during the course of the audit and how we addressed each risk in arriving at our opinion on the financial statements.

Audit Risk	Assurance procedure	Results and conclusions
Risk of material misstatement		
Risk of material misstatement due to fraud in revenue recognition Falkirk Council receives a significant amount of income in addition to Scottish Government funding. The complexity of that income means that there is an inherent risk of fraud in accordance with ISA240. ISA 240 (*The auditor's responsibilities in relation to fraud in the audit of financial statements*) presumes an inherent risk of fraud where income streams are significant.	• Controls testing of accounts receivable and transaction testing will cover each area of service income. • Detailed testing of revenue transactions focusing on areas considered higher risk. • Testing of significant grants received. • Focused testing on local taxation systems.	• We carried a high level review of controls within the accounts receivable system in line with our cyclical approach. • We performed substantive testing on a sample of transactions from each material category of income. *Our audit work has not identified any uncorrected material misstatements in the financial statements.*
Risk of management override of control Management's ability to manipulate accounting records and prepare fraudulent or biased financial statements by overriding controls that otherwise appear to be operating effectively. ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit.	• Detailed testing of journal entries. • Review of accounting estimates for bias. • Evaluation of significant transactions that are outside the normal course of business. • Focused testing of local taxation systems.	• We substantively tested a sample of high value journals at the year end. • We examined management's accounting estimates for bias with focused review and testing of accruals and provisions. • We carried out focussed testing on

Audit Risk	Assurance procedure	Results and conclusions
		significant items across all areas of the accounts. *Our audit work has not identified any uncorrected material misstatements in the financial statements.*
Risk of inadequate equal pay claims provision There is still uncertainty over the legal position of outstanding pay claims against the council. Therefore, there is a risk of material misstatement in the level of provision required to cover equal pay claims.	• Monitor legal developments nationally and assess potential financial impact on the council. • Review calculations and assumptions supporting the equal pay provision.	• We reviewed the latest report on the equal pay position taken to full council on 22 June 2016 (private item). • We reviewed the basis of the equal pay provision in the 2015/16 accounts. *We concluded that the council has made adequate provision for the equal pay settlement. A contingent liability has been disclosed in the accounts to cover future uncertainty.*
Risk relating to the revaluation of council dwellings The council has obtained a valuation of its council dwellings under the Beacon approach methodology for inclusion in the 2015/16 financial statements. There is a risk that these dwellings are not accounted for correctly in the financial statements.	• Obtain the District Valuer's report on the revaluation of council dwellings. • Review the valuation and accounting treatment of council dwellings in the financial statements.	• Obtained the district valuer's report and checked that valuation details were correctly recorded in the financial statements. • Reviewed the accounting treatment of the revaluation to ensure that this was appropriate. *We concluded that the full revaluation should have been put through the*

Audit Risk	Assurance procedure	Results and conclusions
		revaluation reserve (rather than credited to operating costs) and officers were in agreement. The accounts have been amended accordingly. See Table 1 - significant findings from the audit.
Risks identified from the auditor's wider responsibility under the Code of Audit Practice		
Risk relating to financial management Social work services (both children and adult) continue to overspend in 2015/16. The overspend as at 31 December 2015 has been funded by a £2 million contingency offset by underspends in other areas. There is a risk that overspends persist and the council is unable to balance the budget in future years.	• Monitor the council's financial position. • Review reports to the Scrutiny Committee for action being taken to address overspends.	• We reviewed financial monitoring reports submitted to the council and scrutiny committee. • Reviewed reports to scrutiny committee to ensure that action was being taken to address overspends. *The findings from this review have been included in the 'financial management' section of this report at paragraphs 43-44.*
Risk relating to Best Value follow-up audit The Accounts Commission requires a report on the council's progress against the improvements identified in the 2015 Best Value audit report from the Controller of Audit by the end of 2016. There is a risk that the council is unable to demonstrate that action has been taken to address the improvement areas identified.	• Obtain and review the council's best value improvement action plan. • Review council's progress against the key findings in the Best Value report.	• The Best Value follow-up audit was carried out in the year. • Evidence was collected to assess progress against the Accounts Commission's findings. *The findings from this review have been*

Audit Risk	Assurance procedure	Results and conclusions
		included within this report and summarised in the 'best value' section at paragraphs 130-139.
Risk relating to workforce planning In response to the constrained financial position that the council is facing members have approved plans to reduce the workforce by 348 full time equivalents during 2015/16 and 2016/17. There is risk that the reduced workforce, and a loss of intellectual capacity, has an adverse impact on service delivery and staff morale.	• Carry out a local follow-up audit using a checklist based on the recommendations included in *Scotland's Public Sector Workforce* report published by Audit Scotland.	• We carried out a local follow-up audit using the checklist from the *Scotland's Public Sector Workforce Report*. *Key findings from this review have been outlined at paragraphs 165-169.*
Risk relating to infrastructure assets From 2016/17 the Code of Practice on Local Authority Accounting in the UK requires infrastructure assets to be included in the council's financial statements at depreciated replacement cost. The Code requires an authority to disclose information relating to the impact of an accounting change as a result of a new standard that has been issued but not yet adopted. There is a risk that the council has not prepared the information needed to include the appropriate disclosures in 2015/16 and meet the change in accounting requirement for 2016/17.	• Review the council's preparedness for the change in accounting treatment of infrastructure assets. • Review disclosures relating to infrastructure assets included in the 2015/16 financial statements.	• Discussed and assessed the council's arrangements for complying with the new accounting requirements in 2016/17. • Reviewed the relevant disclosures in the 2015/16 accounts. *We concluded that the council is prepared to meet the new requirements in 2016/17 and are satisfied that relevant disclosures have been included in the 2015/16 accounts.*

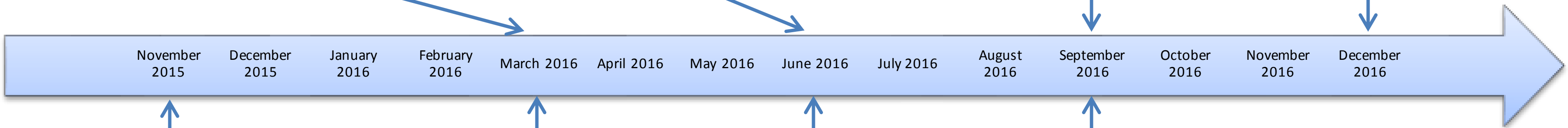
Appendix II: Summary of Falkirk Council local audit reports 2015/16

Annual Audit Plan: This set out the planned external audit work for financial year 2015/16, the scheduling of our work and the agreed audit fee.

Internal Controls Review: The overall conclusion is that internal controls within the council are effective although there are some areas where improvements can be made.

Annual Audit Report: Annual report to those charged with governance. Summarises our main findings from the 2015/16 audit of Falkirk Council. It also draws to the attention of those charged with governance significant matters arising from the audit of the financial statements prior to the formal signing of the independent auditor's report.

BV Report to Accounts Commission: Findings of best value follow-up audit to be reported to the Accounts Commission by the end of 2016.



Internal Audit Reliance Letter: This letter set out our assessment of internal audit and outlines areas of intended reliance on internal audit.

Local scrutiny plan: This provides a summary of planned scrutiny in Falkirk Council during 2016/17.

Scotland's Public sector workforce - local follow-up: Collating information on local workforce planning arrangements (internal submission).

Independent auditor's report on the 2015/16 financial statements: This provides a formal opinion on whether the financial statements give a true and fair view of the affairs of the council and its group as at 31 March 2016 and of the income and expenditure of the council and its group for the year then ended.

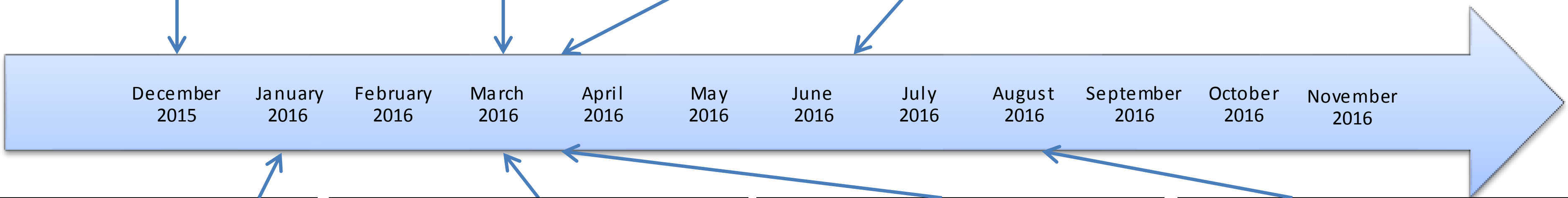
Appendix III: Summary of Audit Scotland national reports 2015/16

Health and social care integration (December 2015) – Significant risks must be addressed if a major reform of health and social care is to fundamentally change how services are delivered, and improve outcomes for the people who use them.

Community planning: an update (March 2016) – Progress on community planning has not yet achieved the major change needed to fulfil its potential to reduce inequalities and put communities at the heart of delivering public services.

An overview of local government in Scotland (March 2016) - Budget reductions mean starker choices ahead for councils which will not be met simply by continuing to cut staff and services.

The National Fraud Initiative in Scotland (June 2016) – The current NFI exercise found nearly £17 million of fraud and error.



Major capital investments in councils: follow-up (January 2016) - Councils need to improve further the way they manage major projects like schools, roads, housing and flood prevention, says the Accounts Commission.

Changing models of health and social care integration (March 2016) - A lack of national leadership and clear planning is preventing the wider change urgently needed if Scotland's health and social care services are to adapt to increasing pressures.

National scrutiny plan for local government (March 2016) - Provides a summary of strategic scrutiny activity for all councils in 2016/17. The information used in compiling the national scrutiny plan is based on risk assessments and scrutiny plans drawn up for each council.

Maintaining Scotland's roads: a follow-up report (August 2016) – the condition of the road network has not improved between 2011/12 and 2014/15. A longer term view that takes into account both the need for new roads and the maintenance of the existing road network is needed.

Appendix IV: Action plan

No. AS ref.	Paragraph ref.	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
1.	**37**	**Financial Management** The year-end financial position did not vary significantly from budget but there were a number of significant underlying over and underspends within this. A similar trend has been reported over a number of years. **Risk:** The budget does not accurately reflect the council's costs leading to uncertainty over the financial position. **Recommendation:** The process for preparing the budget should be reviewed to ensure all costs and income are more accurately anticipated in the budget.	It is to be welcomed that the overall outturn position was close to and indeed below budget. This is the primary consideration from a strategic financial management perspective. Notwithstanding that primary consideration, it is important that significant variances are explored, understood & acted upon. As practical illustrations of this, a Strategic Review has been set up to focus on the overspend in the Social Work part of Childrens' Services and the Chief Officer of the IJB has established a corporate Leadership Group to address overspends in Adult Social Services. In terms of the Recommendation, the Council already has an integral workstream termed "rebasing" in the revenue Budget process to address this.	Chief Finance Officer/Corporate Management Team Ongoing

No. AS ref.	Paragraph ref.	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
2.	41	**Section 95 Officer** The Chief Finance Officer does not report directly to the Chief Executive in line with the CIPFA Statement on the role of the Chief Finance Officer in Local Government. **Risk:** The CFO does not have sufficient status to carry out his role effectively. **Recommendation:** Members should satisfy themselves that the CFO has appropriate access and influence to perform this role effectively.	The Council's management structure mirrors that of many other councils with a Director of Corporate Services. It is argued that the direct reporting line to the CE is not a core requirement of the CIPFA statement. The CFO is a core member of CMT and attends all the main meetings with Members including Council, Executive and Audit Committee as well as other engagements with Members when strategic financial matters are being considered. Moreover, the CFO has ready direct access to the CE if required.	Not applicable
3.	58	**Financial Planning** Medium and long term financial planning has not been developed as outlined in the council's Best Value improvement plan. **Risk:** The council is not well placed to address the significant financial challenges ahead. **Recommendation:** Despite the uncertainty over future funding and income, the council should plan for a range of scenarios in the medium and long term.	Financial planning is being developed and specific commitment has been given to Members for this updated financial framework to inform the Budget reports to Council in December 2016 and February 2017. It is recognised that scenario planning needs to be developed and work is also underway with this.	Chief Finance Officer December 2016

No. AS ref.	Paragraph ref.	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
4.	**62**	**Improvement Programme** A number of improvement activities are planned or ongoing but it is not clear how these activities are aligned with the council's strategic priorities, budget setting process and each other. The council has recruited a change manager who will be responsible for coordinating activity within the improvement programme. **Risk:** The lack of co-ordination between improvement activities could lead to inefficiencies and the failure to deliver against strategic priorities. The change manager does not receive good support from senior management and is unable to deliver. **Recommendation:** The council should review arrangements for the overall management of improvement activity and ensure that this is closely aligned with strategic priorities and the budget setting process.	The Council will review its improvement programme to ensure consistency in language, linkages to priorities and the budget process.	Director of Corporate and Housing Services Ongoing

No. AS ref.	Paragraph ref.	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
5.	77	**Workforce Planning** Workforce reductions for 2016/17 were not informed by a workforce strategy and plans. Severance costs were also not included in the budget. The ongoing financial challenges faced by the council means it may need to reduce its workforce further. **Risk:** The council's workforce is not well shaped for the future and the delivery of services in a changing and challenging environment. **Recommendation:** The council needs to ensure that workforce reductions are managed within the context of the revised workforce strategy and informed by detailed workforce plans. Budgets should reflect any planned workforce changes.	Severance costs are provided for in the Spend to Save Reserve and from earmarked capital receipts. Workforce plans are now actively being developed by all Services with the aim of having both Service specific and a Council wide plan prepared by the end of the year to help inform the actions to be taken to support the budget strategy. These plans are being developed in line with the Council's recently revised Workforce Strategy and supporting guidance contained within the Council's Workforce Planning Framework which will enable a consistent approach to workforce planning.	Corporate Management Team Ongoing

No. AS ref.	Paragraph ref.	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
6.	**92**	**Strategic Planning** The council's strategic planning is in a period of transition and there is a lack of clarity around the council's priorities. Improvement activity and the budget setting process are not clearly aligned to strategic priorities. **Risk:** Resources are not targeted consistently and effectively towards the council's strategic priorities to deliver outcomes for local communities. **Recommendation:** The council needs to identify and clearly communicate its strategic priorities and ensure that all activity is aligned with these priorities.	The Council will review its priorities internally and externally as part of its contribution to the Community Planning Partnership SOLD.	Corporate Management Team November 2017

No. AS ref.	Paragraph ref.	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
7.	**138**	**Leadership** The overall approach taken by the council in response to the 2015 Best Value report has not achieved the necessary change and the pace is still slow. This is in the context of a considerable amount of activity which suggests that the improvement needed is a significant challenge for the council. **Risk:** The pace of change does not increase and the council is not well prepared to tackle the financial challenges ahead. This would have a detrimental impact on local outcomes. **Recommendation:** The corporate management team needs to lead a focussed and coordinated approach to improvement. Senior officers need to hold each other to account and challenge each other to do things differently. Seeking assistance from external parties may be part of this.	A number of strategic reviews have been established which will provide the opportunities for a significant step change in how the Council operates. These include for example a strategic property review, a review of models of alternative service delivery and a review of income generation. These reviews are expected to contribute to the savings necessary to meet the challenges in the Council's medium term financial strategy. Corporate Management Team has been working with a number of Councils to establish best practice and lessons learned for making these significant changes. Work with these Councils and other organisations who can assist in informing change and improvement programmes will continue.	Corporate Management Team Ongoing

No. AS ref.	Paragraph ref.	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
8.	**153/159**	**Performance Management** Performance information and reporting style has improved but we found a delay in information being reported and some areas of incomplete information. There is little evidence that performance management drives improvement. **Risk:** Performance management arrangements do not contribute to improved outcomes for local communities. **Recommendation:** Officers should ensure that members and the public are provided with timely and complete performance information to promote effective challenge and drive improvement. Tracked action plans should be introduced to ensure that improvement happens where poor performance is identified.	The Council has been developing a new approach to performance management. It is argued that there are examples where performance management drives improvement for example in the establishment of a new standard of re-letting properties where customer satisfaction with the standard of the properties let has risen. This needs to be developed on a more consistent basis across the Council. Tracked action plans will be developed and introduced to ensure that improvement is made where poor performance is identified.	Corporate Management Team Ongoing