

# Falkirk Council

Report to Members and the Controller of Audit on the  
2007/08 Audit



October 2008





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# Key Messages

## Introduction

In 2007/08 we looked at the key strategic and financial risks being faced by the council. We audited the financial statements and we looked at aspects of performance management and governance. This report sets out our main findings, summarising key outcomes from the 2007/08 audit and the outlook for the period ahead.

## Key outcomes from 2007/08 audit

We have given an **unqualified** opinion on the financial statements of the Falkirk Council. The council dealt well with significant changes to the format of the accounts.

The council ended 2007/08 with total cash backed reserves and funds of £48.815 million, including a general fund balance of £36.4m. A contribution to the general fund of £3.970 million was achieved against a planned contribution from the fund of £5.050 million. After allowing for the use of £7.602 million of capital receipts to fund loans fund payments, this position was £1.418 million better than budgeted. The non-earmarked element of the general fund was £6.289 million, which was within the target range for minimum uncommitted reserves of £5.5 million to £7.5 million.

A Best Value and Community Planning audit of the council was completed in early 2008. This concluded that the council shows good, solid performance with many characteristics of best value, while still having room for improvement in some areas. In particular, the report highlighted that the council does well in regard to vision and strategic direction, community engagement, customer focus, partnership working, performance management and delivery of major projects and initiatives contributing to economic development and regeneration. Current service performance is mixed. The council needs to ensure that these strengths need to be driven through to service improvement throughout the council.

The council had generally good governance systems in place that operated well within a sound control environment. The council's Best Value and Audit Forum satisfies many of the principles set out in the CIPFA/SOLACE *"Audit Committee Principles in Local Authorities in Scotland"*. However we did identify scope for improvement in some areas, including the need to ensure scrutiny was conducted in accordance with principles of openness and accountability. These areas are being reviewed by the council as part of a review of its management and political structures.

In 2006/07 we reported that the council needed to improve its risk management framework and to embed risk management within the council's strategic and operational planning processes. Little progress has been made in this area.



## Outlook for future audits

In the course of our audit, we identified some of the strategic risks that the council needs to manage in delivering its corporate objectives and priorities.

The council's financial position at the end of 2007/08 was relatively strong, with the level of uncommitted reserves in line with target, but it is facing a range of significant cost pressures. It will have to continue to work hard to release the efficiencies and other savings required to ensure that planned activity remains affordable and sustainable. An updated pension fund valuation is due in the next few months, but until it is concluded it will not be known whether the recent significant volatility in financial markets will lead to any further increases in superannuation costs. More needs to be done to align financial planning with the council's vision and develop longer-term planning.

The council has recently undertaken a review of its management and political structures. As a result a revised management structure is now in place. Work is ongoing on the review of the political structure including a review of the scrutiny function. As part of the revised structure, the separation of the 'audit committee' functions from the existing Best Value and Audit Forum has been proposed. The council needs to ensure that its new arrangements support an approach to scrutiny that will be in accordance with the principles of openness and accountability.

The council published a new corporate plan in early 2008, setting out its strategic objectives and priorities for 2008 - 2011. The council has recognised that performance information needs to be reported more consistently to the Corporate Management Team and committees and has procured 'Covalent', an electronic performance information system with the aim of presenting improved, consistent performance management information. Improved performance management information will assist in the decision making process and in managing progress against strategic objectives. It is also important that the council puts in place robust arrangements for the monitoring and delivery of the local single outcome agreement.

There is evidence of a great deal of work on asset management in the council, including the introduction of a strategic asset management plan in 2007/08. The effectiveness of the council's overall strategic approach to asset management should be kept under review.

The council agreed its Best Value agenda with the Accounts Commission in summer 2008. Mechanisms now need to be put in place to monitor progress, ensuring that the impact on services and outcomes can be demonstrated.

The co-operation and assistance given to us by the Falkirk Council councillors and staff during the year is gratefully acknowledged.

Audit Scotland  
October 2008



# Introduction

1. This report summarises the findings from our 2007/08 audit of Falkirk Council, the second year of a five year appointment. Findings are set out in four sections: financial statements, financial position, governance and performance. Within each of these sections we have also provided an outlook setting out key issues and concerns facing the council going forward.
2. The scope of the audit is set out in our Annual Audit Plan (AAP), which was submitted to the council in March 2008. The AAP summarises the specific governance and other risks that could affect the council's financial statements. It describes the work we planned to carry out in response to these risks.
3. As part of our planned work Audit Scotland also undertook a review of Falkirk Council's performance in relation to its statutory duty to secure Best Value and to initiate and facilitate the community planning process. Key business risks facing the council were identified through this process.
4. Overall conclusions about the council's management of key risks are discussed throughout this report. Appendix A sets out the key risks highlighted in this report which we wish to draw to the attention of members and the action planned by management to address them.



# Financial statements

## Introduction

5. In this section we summarise key outcomes from our audit of the council's financial statements for 2007/08. We comment on the significant accounting issues faced and provide an outlook on future financial reporting issues.
6. We audit the financial statements and give an opinion on:
  - whether they present fairly the financial position of the council and its expenditure and income for the year
  - whether they have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements.
7. We also review the statement on the system of internal financial control by considering the adequacy of the process put in place by the council to obtain assurances on systems of internal financial control and assessing whether disclosures in the statement are consistent with our knowledge of the council.

## Overall conclusion

8. We have given an **unqualified** opinion on the financial statements of Falkirk Council for 2007/08.
9. The council's unaudited financial statements were submitted to the Controller of Audit prior to the deadline of 30 June. Audited accounts were finalised by the target date of 30 September 2008 and are now available for presentation to the council and publication. The financial statements are an essential means by which the council accounts for its stewardship of the resources made available to it and its financial performance in the use of those resources.
10. Final accounts preparation processes were generally good. After the 2006/07 audit, we met with council officers to determine where improvements could be made in both the supporting information and the audit process. We have agreed with council officers to carry out a 2007/08 post audit review to determine where further improvements could be made.

## Accounting practice

11. Local authorities in Scotland are required to follow the *Code of Practice on Local Authority Accounting in the United Kingdom – A Statement of Recommended Practice* (the 'SORP'). The 2007 SORP required a number of significant changes to be made to the 2007/08 financial statements to make



them more consistent with the accounts of other public and private sector entities. The major changes include:

- accounting for financial instruments based on FRS25, FRS 26 and FRS 29;
- replacement of the fixed asset restatement account and capital financing account by a revaluation reserve and capital adjustment account;
- provision for penalties under the Landfill Allowance Schemes.

12. Overall, we were satisfied that the council has prepared the accounts in accordance with the revised SORP. The council adjusted the financial statements to reflect our audit findings. This resulted in an increase in the net cost of services of £15.2 million and an increase in net assets of £6.8 million, largely due to technical changes to the treatment of the write-down of capital expenditure in the HRA and adjustments to the value of fixed assets. Neither amendment had any impact on the bottom line of the movement on the general fund. As is normal practice, immaterial unadjusted errors have been reported to the Director of Finance and members via our letter issued in line with International Standard on Auditing 260 (ISA 260) *communication of audit matters with those charged with governance*. Details of significant accounting issues arising in the course of our audit are summarised below.

## Accounting for Fixed Assets

13. In 2006/07 the council included £15 million of assets that had not been previously recognised in its fixed assets balance as at 31 March 2007. We highlighted this issue in last year's report on the annual audit and the council agreed that a comprehensive review of fixed assets would be undertaken in 2007/08 as part of the council's asset management arrangements. This review did not commence until 2008/09 and is currently ongoing. A further £5.9 million of assets not previously recognised was identified for inclusion in the accounts for 2007/08. The assets were recorded at the point they were identified for sale and accounted for at the expected sales proceeds value. It is anticipated that the ongoing review of fixed assets will avoid similar concerns arising in 2008/09.

### Key risk area 1

14. We requested written confirmation from the Director of Finance that for 2007/08, no assets were omitted from the final fixed asset valuation. The Director of Finance has confirmed that to the best of his knowledge and belief and having made appropriate enquiries of the council's Corporate Management Team, no assets were omitted.
15. On the advice of the District Valuer, the council values its council houses using the 'Existing Use Value' (Social Housing) valuation method. The council is one of only three Scottish local authorities





which adopts this methodology, which, with an average valuation of £5,465 per council dwelling, results in a lower valuation in comparison to other recognised valuation methods. The council has continued to apply this methodology on the advice of the District Valuer, who considers that it is the most appropriate option for social housing assets.

16. This approach results in a residual value for council houses close to the carrying value of the asset. The council has not charged depreciation on its council houses on the grounds that any depreciation, which is based on the gap between carrying value and residual value, would be immaterial. As we noted in our 2006/07 final report on the audit, depreciation is required, not only to reduce the asset to its carrying value, but also to charge services with the use of assets resulting from the consumption of economic benefits. We have previously recommended that this practice should be kept under review in future years.

#### **Key risk area 2**

17. The council has identified significant impairments to fixed assets totalling £28.6 million in its 2007/08 financial statements. A significant proportion (£15.9 million) of this related to the write down of capital expenditure on council dwellings due to the valuation methodology employed.
18. The remaining impairments of £12.7 million resulted from a review of all capital expenditure in the year. The review ascertained whether all expenditure treated as capital was in line with the requirements of the SORP, and:
  - increased substantially the market value of the asset;
  - lengthened substantially the useful life of the asset; or
  - increased substantially the extent to which the asset can be used.

The review therefore identified capital expenditure which does not add value but significantly enhances the life or the use of the asset and the council wrote this down as asset impairments.

19. This review is carried out by staff within Finance services. We understand that advice is also provided by property professionals from Development Services. However, there is no formal process in place to record the extent of professional advice sought and provided, or to document the views provided.

#### **Key risk area 3**



## **Use of capital receipts to repay loan principal**

20. During the year £7.602 million of capital receipts were applied to repay loan principal. While this was accounted for correctly, better disclosure would have helped ensure that this significant transaction was disclosed more transparently. We have discussed future improvements with officers.

### **Key Risk Area 4**

## **Legality**

21. We have requested written confirmation from the Director of Finance that the council's financial transactions accord with relevant legislation and regulations. Significant legal requirements are also included in audit programmes. The Director of Finance has confirmed that, to the best of his knowledge and belief and having made appropriate enquiries of the council's Corporate Management Team, the financial transactions of the council were in accordance with the relevant legislation and regulations governing its activities.
22. There are no additional legality issues arising from our audit which require to be brought to members' attention.

## **Financial reporting outlook**

### **IFRS adoption**

23. Central government and NHS bodies are to move from UK Generally Accepted Accounting Principles to International Financial Reporting Standards (IFRS) with effect from 2009/10. The government also announced its intention to publish Whole of Government Accounts on an IFRS basis from 2009/10. The intention is that local government will adopt IFRS for 2010/11, although there is a possibility that early adoption may be required in some areas and this might include PFI.

### **Falkirk Community Stadium Limited**

24. In March 2003, the Council in conjunction with Falkirk Football and Athletic Club Ltd (FFAC), established a joint venture, Falkirk Community Stadium Limited (FCSL), to develop and operate a stadium facility in Falkirk. The Council holds 25% of the ordinary shares in the company and as at 31 March 2008 had loans of £5.8 million with the company. The company is included in the council's group accounts.



25. The company appointed a consultant to carry out a review of the existing operating model for the company and in September 2008 the Council approved a request from FCSL for the restructuring of the company to form three new companies and the subsequent transfer of assets to the council and FFAC. We intend to monitor progress in this area as part of our ongoing audit responsibilities

#### **Key risk area 5**

### **Identification and valuation of common good assets**

26. There have been a number of Scottish parliamentary petitions concerning the proper recording, auditing and safeguarding of common good assets and this area continues to produce a significant amount of correspondence and complaints. In December 2007, Local Authority (Scotland) Accounts Advisory Committee (LASAAC) issued a guidance note for practitioners. The paper recognises the legislative distinction of the Common Good as a managed fund, which requires disclosure within the local authority financial statements this year, with common good asset registers in place by March 2009.
27. The council has amended its accounts to present the Common Good account in accordance with the LASAAC guidance. The account includes a fixed asset (Kilns House) which is included in the fixed assets register at a valuation of £0.210 million. This asset is to be revalued in 2008/09.



# Financial position

## Introduction

28. In this section we summarise key aspects of the council's reported financial position and performance to 31 March 2008, providing an outlook on future financial prospects, including our views on potential financial risks. Our findings and key messages are set out in this section, highlighting the significant challenges being faced by the council in managing ongoing financial pressures in funding existing service delivery and future improvement.

## Council tax and the general fund

### Operating performance 2007/08

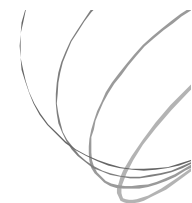
29. The surplus or deficit on the income and expenditure account is the best measure of the council's financial results in the year, recognising the resources that have been consumed and generated in accordance with Generally Accepted Accounting Principles. The council's net operating expenditure in 2007/08 was £295.7 million. This was met by government grants and local taxation of £277.1 million, resulting in an income and expenditure account deficit of £18.6 million (6.3% of the net expenditure for the year). However, after making technical adjustments (as outlined in paragraph 30 below) for amounts required by statute and non statutory proper practices, a general fund surplus of £3.970 million was achieved for the year.

30. The movement on the general fund balance is an important aspect of the council's stewardship as the main budget reference point. The main differences between the income and expenditure account and the general fund balance are:

- capital investment is accounted for as it is financed, rather than when fixed assets are consumed;
- retirement benefits are charged as amounts become payable to pension funds and pensioners, rather than as future benefits are earned.

31. The budget set for 2007/08 was based on a Band D council tax level of £1,070 with a contribution of £5.05 million from the general fund. During the year, the council achieved a general fund surplus of £3.97 million, after a contribution of £7.6 million from the useable capital receipts reserve (see below). The general fund balance of £36.416 million at the end of 2007/08 was therefore £9.02 million above the budgeted position.

32. Within the overall outturn, there were a number of under and overspends against budget. In particular, an under-spend of £7.6 million was made across services as a result of funding the repayment of



loans fund principal from the council's Usable Capital Receipts Reserve (effectively a capital fund) rather than from service expenditure. The practical effect of this is to release revenue funding to support other items of expenditure. This approach was taken in order to further build up a fund for financing the council's New Schools project and resulted in an increase in the general fund balance which has been earmarked for the project.

## Housing Revenue Account

33. The council has earmarked part of the general fund balance for housing revenue account (HRA) purposes. The council planned that £1.3 million of this balance would be deployed to restrict rent levels in 2007/08. The HRA shows a surplus of £0.136 million. After adjusting for statutory and non-statutory proper practices, £0.7 million was drawn from reserves. This was £0.6 million better than planned and was mainly due to a delay in the planned implementation of an integrated housing management system.

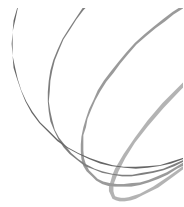
## Reserves and balances

34. At 31 March 2008, the council had total cash backed funds of £48.815 million, a decrease of £0.886 million on the previous year (table 1).

**Table 1: Reserves and Funds**

Description	31 March 2008 £ Million	31 March 2007 £ Million
General Fund	36.416	32.446
Capital Receipts Reserve	6.880	12.119
Repair and Renewal Fund	2.760	2.247
Insurance Fund	2.759	2.889
	<b>48.815</b>	<b>49.701</b>

35. The council achieved a general fund surplus of £3.970 million during the year. Added to the amount brought forward from 2006/07, the council has a general fund balance of £36.416 million.
36. However, at 31 March 2008, £30.127 million of the general fund balance was earmarked for the HRA and other specific purposes leaving an unallocated balance of £6.289 million. The unallocated balance is in line with the council's reserve policy, which sets a minimum reserve level of between £5.5 million and £7.5 million to guard against financial risk. Earmarked amounts have been identified



for devolved school management balances held by individual schools, economic development balances, housing revenue account operations, a central energy efficiency fund and the new schools project (as noted at paragraph 28). A total of £2.8 million has been provisionally earmarked to restrict HRA rent rises in each of the next two years.

37. A total of £18.889 million was paid into the useable capital receipts reserve during the year.

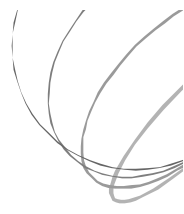
## **Group balances and going concern**

38. The widening diversity of service delivery vehicles used by local authorities means that group accounts are required to present fairly all the activities of councils. The overall effect of inclusion of all of the council's subsidiaries, associates and joint ventures on the group balance sheet is to reduce net assets by £167.879 million, substantially as a result of pension liabilities. All group bodies' accounts have been prepared on a going concern basis as pension liabilities will be funded as they fall due through a combination of employee and employer contributions, government grants and council tax.
39. The council has an obligation to meet a proportion of the expenditure of the joint boards of which it is a constituent member. All of these boards (Central Scotland Joint Police Board, Central Scotland Joint Fire & Rescue Board and Central Scotland Valuation Joint Board) had an excess of liabilities over assets at 31 March 2008 due to the accrual of pension liabilities. In total these deficits amounted to £323.624 million, with the council's group share being £186.627 million.

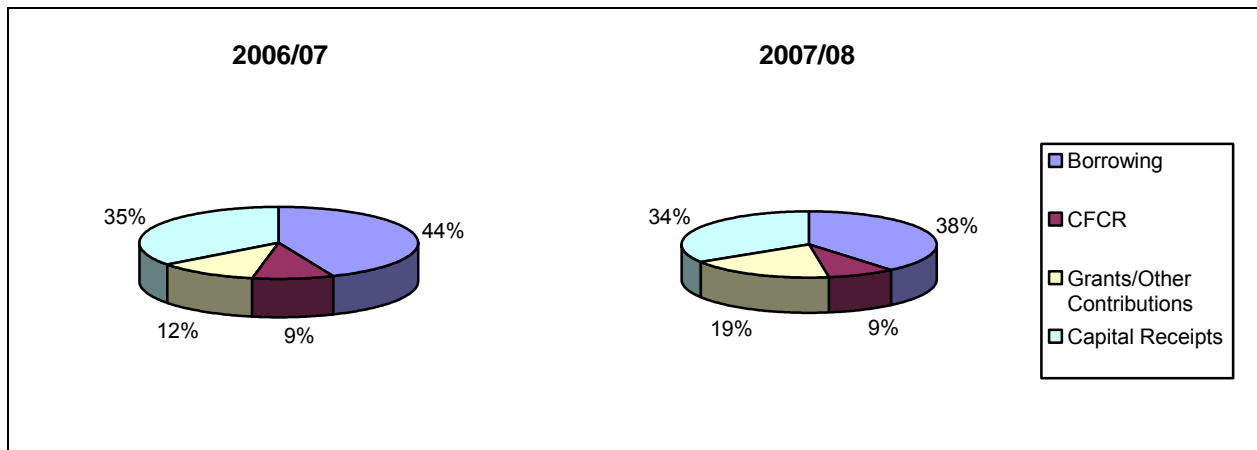
## **Spending on assets and long-term borrowing**

### **Capital performance 2007/08**

40. Since the introduction of the prudential code in April 2004, the council can decide locally on a capital investment strategy which meets best value requirements as well as being affordable. The council has used the code to increase significantly its capital expenditure to improve its asset infrastructure.
41. Capital expenditure in 2007/08 totalled £48.774 million, rising from £39.520 million in 2006/07. Capital investment over the last two years was funded as shown in Chart 1. The Council's capital investment programme for 2007/08 identified budgeted capital expenditure of £51.712 million and a level of funding to the value of £45.186 million. The difference of £6.526 million represents anticipated slippage in the general fund capital programme. Actual slippage in 2007/08 was £2.938 million and arose principally from community services projects. As a result, the council's capital investment programme was more advanced than was planned.



**Chart 1: Sources of finance for capital expenditure 2007/08**



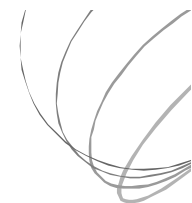
## Significant trading operations

- 42. The Local Government in Scotland Act 2003 replaced compulsory competitive tendering regulations with a duty to maintain and disclose trading accounts for significant trading operations (STOs), which are required to break even over a three year rolling period.
- 43. The council has two STOs, Building maintenance and Roads Maintenance, both of which returned a cumulative surplus for the three years to 31 March 2008. .
- 44. Prior to the commencement of the Best Value audit, the council had developed an improvement plan which incorporated a 'best value' review of all of its commercial activities, including the two STOs. The Best Value audit highlighted the need for the council to undertake the planned 'across the board' review of commercial services as a matter of priority.
- 45. The council has engaged the Association of Public Service Excellence (APSE) to carry out the review and are currently awaiting their final report. We understand that officers intend to report the outcome of the review to members in November 2008.

**Key Risk Area 6**

## Pension funds

- 46. The council is responsible for the management and administration of Falkirk Pension Fund. The investment assets for the fund are largely under the management of external fund managers and have generally been on an upward trend over the last few years as indicated by table 2: A small proportion (1.7%, £16.2 million) of the pension fund's investments is managed in house.



**Table 2: Pension Fund Investments**

	<b>31/03/05 £000</b>	<b>31/03/06 £000</b>	<b>31/03/07 £000</b>	<b>31/03/08 £000</b>
Falkirk Pension Fund	699,969	882,375	958,975	947,170

47. A full actuarial valuation of the fund as at 31 March 2005 was reported in June 2006. At that time, the funding level for the Falkirk Pension Fund, calculated as the ratio of fund assets to past service liabilities, was 86%. The next full actuarial valuation is due as at 31 March 2008 and is expected to be reported early in 2009.
48. The financial markets have recently been subject to significant volatility. A short Post Balance Sheet Event note is included in the accounts, commenting on the anticipated effect on current market valuations in relation to the pension fund accounts. This highlighted that any decline in the value of fund values would be less than the reduction in equity values, due to the proportion of assets held in government bonds which have produced small positive returns over the same period.

## Financial outlook

### Council tax freeze

49. The council is party to the concordat between the Scottish Government and COSLA. The financial features of this include an agreement to freeze council tax levels for three years in return for some additional funding and the removal of some ringfencing. As a result, the council froze its council tax levels for 2008/09.
50. The council is facing a range of significant cost pressures, including ongoing single status/equal pay commitments, revenue implications of the capital programme (particularly in relation to schools), efficiency savings, increased pension contributions, new schools NPDO affordability gap, steeply rising costs (particularly as a consequence of an increasingly elderly population, looked after children and homelessness) and general price increases e.g. increasing energy and fuel costs and landfill taxes.
51. The council continues to build anticipated efficiency savings into its budgets. For 2008/09 it has increased the previous cumulative efficiency savings target from £3.2 million per annum to £6.8 million. The council's 2008/09 budget has also supported additional investment of £2.5 million in a number of council priority areas, as well as additional resources to deliver key government policies and programmes specified in the concordat.
52. The outlook for future public expenditure remains tight, and in the council will have to continue to work hard to release the planned level of efficiencies to ensure that planned activity is affordable and sustainable within available resources.





## **Equal pay**

53. The 1970 Equal Pay Act makes it unlawful for employers to discriminate between men and women in terms of their pay and conditions where they are doing the same or similar work, work rated as equivalent, or work of equal value. Employees who consider that they have been discriminated against in terms of pay can put forward claims to an Employment Tribunal. Following cases pursued against English councils, the extent of exposure of Scottish councils arising from individual pay claims began to emerge during 2006/07.
54. As detailed in our 2006/07 report, costs of £3.8 million had been recognised in the financial statements since 2005/06 for the one-off cost of dealing with the equal pay legislation. A further unspecified liability for claims which were progressing through Tribunals was recognised as a contingent liability in the 2006/07 financial statements.
55. In 2007/08 the council reviewed the outstanding claims to determine the extent of the potential liability. As a result, a further £4.0 million has been reflected as a provision in the balance sheet at 31 March 2008 with regard to backdated pay claims.

## **Single status**

56. In 1999 a single status agreement was reached between Scottish local authorities and trade unions to harmonise the terms and conditions of manual and administrative, professional, technical and clerical workers (covering pay, working hours, leave and negotiating mechanisms). There was a presumption that single status would be cost neutral with any increased costs being offset by savings arising from changes to other conditions of service or from efficiencies.
57. The original national single status agreement specified that implementation should take place by April 2002 but, following difficulties in establishing a model job evaluation scheme, was extended by agreement between local authorities and unions to April 2004.
58. Falkirk Council implemented single status in December 2006 and as such, was one of the first councils to implement agreement. There remains a residue of craft worker employees (circa 400 employees) who have yet to be included in the agreement. Work is ongoing to reach agreement with the employees and the trade unions for inclusion in the agreement.



## **Future capital programme**

59. Capital investment programmes for 2008/9 and 2009/10 anticipate annual general fund capital expenditure of £34.372 million and £33.258 million respectively. This is expected to be funded by a number of sources including capital receipts, grants and other contributions and further increases in borrowing totalling £24.201 million over the two years.
60. Over the same period £15.25 million is planned to be spent each year on the council's housing stock, funded by capital receipts, CFCR, energy efficiency income and prudential borrowing. The council expects to comply fully with the Scottish housing quality standard by 2015.

## **EC landfill directive**

61. The EC Landfill Directive sets limits on the disposal of biodegradable waste to landfill and requires the pre-treatment of waste prior to landfill. There are technical and financial challenges facing the council in delivering solutions and the implications of landfill penalties could be significant. The Scottish Minister for the Environment has the power to waive penalties in certain circumstances, and he has advised COSLA that he may be prepared to do this, for local authorities who have made genuine efforts to maximise landfill diversion, and had not met targets due to circumstances outwith their control. From 2008/09 onwards, Scottish councils will be allowed to trade landfill allowances. If one council performs better than its targets, it can sell its excess allowances to other councils.
62. Falkirk Council has performed well against the allowance set by the Scottish Government for biodegradable material taken to landfill. The council recognises the need to continue to make improvements each year in order to meet future targets as targets begin to tighten in future years.

## **Pension liabilities**

63. Financial planning and accounting for the costs of pensions presents a difficult challenge. The amounts involved are large, the timescale is long, the estimation process is complex and involves many areas of uncertainty that are the subject of assumptions. In accounting for pensions, Financial Reporting Standard 17 (Retirement Benefits) is based on the principle that an organisation should account for retirement benefits at the point at which it commits to paying them, even if the actual payment will be made years into the future. This requirement results in very large future liabilities being recognised in the annual accounts.
64. The council's estimated pension liabilities at 31 March 2008 exceeded its share of the assets in the Falkirk Pension Fund by £59.11 million, reducing from £111.47 million in the previous year. Budgeted contributions are expected to rise from 270% of employee contributions in 2007/08 to 295% by 2008/09, reflecting the reduction in the funding level as at 31 March 2008.



65. The next full actuarial valuation will assess the position as at 31 March 2008 and is expected to be reported in early 2009. This will determine contribution rates for 2009-10 and the next two financial years. Recent changes to the Local Government Pension Scheme regulations are expected to release some future financial benefits, while providing additional flexibility to future pensioners. The financial markets have recently been subject to significant volatility, which is likely to affect the valuation of the fund's assets. However, until the valuation is complete the extent of any further increases in superannuation costs is unknown.



# Governance

## Introduction

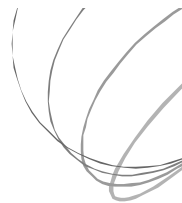
66. In this section we comment on key aspects of the council's governance arrangements during 2007/08. We also provide an outlook on future governance issues, including our views on potential risks.

## Overview of arrangements in 2007/08

67. Corporate governance is concerned with structures and processes for decision-making, accountability, control and behaviours at the upper levels of the organisation.
68. In 2007, CIPFA/SOLACE published a revised governance framework entitled "*Delivering Good Governance in Local Government*". The framework defined governance as being "*about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner. It comprises the systems and processes, and cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and, where appropriate, lead their communities*". The Framework sets out six core principals for good governance.
69. In 2007/08 we carried out a review of the governance arrangements in Falkirk Council. We concluded that, overall, the council had systems in place that operated well within a sound control environment, although some areas were identified where improvements could be made. In 2006/07 we reported that the council needed to improve its risk management framework and to embed risk management within the council's strategic and operational planning processes. Little progress has been made in this area.

## Political Governance

70. The political context for councils changed significantly in 2007, with a new Scottish government and a shift to more coalition and minority administrations in local government. Nearly half of the councillors elected in May 2007 were new to local government. In Falkirk Council itself, there were a considerable number of new councillors elected and no overall party control following the elections. The council's Administration changed following the 2007 elections and the council is now led by a minority Labour Administration.
71. The creation of multi-member wards has required new ways of working to support efficient representation and sharing of the workload. In Falkirk, there is no protocol for multi-member ward working and wards operate on an individual basis, shaped by the political composition and



personalities within the Ward. However, multi-member wards are still fairly new in Scotland and the practical issues will become clearer as the new arrangements mature.

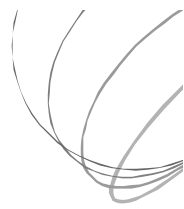
## **Audit Committee**

72. Effective scrutiny is central to good governance, with a significant role for members to scrutinise performance, hold management to account on service delivery and support the reform and modernisation agenda.
73. The council currently operates a Best Value and Audit Forum (BVAF) which, amongst other things, operates as the council's equivalent of an audit committee. The BVAF satisfies many of the principles set out in the CIPFA/SOLACE guidance "*Audit Committee Principles in Local Authorities in Scotland*", however there is scope for improvement in a number of areas including:
- improving openness, transparency and accountability (the Best Value audit report published in May 2008 also emphasised this point)
  - revised terms of reference reflecting all expected audit committee functions
  - training for members
  - fuller review of Internal Audit activity.
74. In December 2007, the Council approved a review of the management and political structures and the set up of a member/officer working group to review the arrangements. The Council has agreed to establish an Audit Committee to consider matters relating to audit and risk management, with terms of reference in line with those contained in the CIPFA/SOLACE guidance. Further work in establishing the Audit Committee will be carried out by the working group in the coming months. We understand that Best Value and Performance scrutiny will continue to be carried out by a forum (similar to the Best Value & Audit Forum), which will not be held in public. The conduct of this important aspect of Members' scrutiny will continue to be inconsistent with the key principles of accountability and openness.

### **Key Risk Areas 7-8**

## **Internal Audit**

75. Internal audit provides an independent appraisal service to management by reviewing and evaluating the effectiveness of the internal control system. We carry out an annual review of the council's internal audit arrangements, covering the following areas:



- organisational status – specific status of internal auditing in the entity and the effect this has on the ability to be objective
- scope and coverage of the internal audit function – the nature and extent of internal auditing assignments performed
- staffing and technical competence – whether internal audit is performed by persons having adequate technical training and proficiency as internal auditors
- due professional care – whether internal audit is properly planned, supervised, reviewed and documented.

76. We have concluded that the council's internal audit service has improved in recent years and that overall, the work of Internal Audit is of a good quality and reliance can be placed on their work. We have also concluded that Internal Audit operates in accordance with the CIPFA *Code of Practice for Internal Audit in Local Government*.

## Systems of internal control

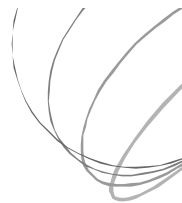
77. A Statement on the System of Internal Financial Control for the council and its group was included within the financial statements. In accordance with the Code of Practice on Local Authority Accounting, the Statement reflects the internal control environment for the group position. Following receipt of a statements of assurances from service directors, the head of internal audit and returns from associate companies, the Director of Finance concluded that he was satisfied that reasonable assurance could be placed on the adequacy and effectiveness of the systems of internal control operated by the council and its group.

78. We have discussed the procedures for providing assurance for the Statement on the System of Internal Financial Control with the Head of Internal Audit and raised the following issues:

- preparation of the statement requires processes in place to capture information on control deficiencies and action to be taken to address the deficiencies
- although there are procedures for Service Directors to provide assurance on the adequacy and effectiveness of the internal controls within their service, there is scope for further development to ensure that these assurances are supported by improved, auditable evidence.

79. The Head of Internal Audit is committed to implementing improved procedures for 2008/09.

80. As part of our work to provide an opinion on the annual financial statements we assessed the extent to which we could gain assurance on a number of the council's main financial systems. We assessed the following central systems as having a satisfactory level of control for our purposes:



- Payroll
- Housing rents
- Main accounting system
- Budgetary control
- Pension payments
- Accounts receivable
- Cash income and banking
- Creditors payments
- Council tax
- Non-domestic rates
- Treasury management
- Pension investments
- Capital accounting
- Housing and council tax benefits

## Prevention and detection of fraud and irregularities

81. At the corporate level, the council has appropriate arrangements in place to help prevent and detect fraud, inappropriate conduct and corruption. These arrangements include an anti-fraud and corruption policy and response plan, a whistle blowing policy, codes of conduct for elected members and staff, and defined remits for relevant regulatory committees.

### NFI in Scotland

82. In 2007/08, the council again took part in the National Fraud Initiative (NFI) in Scotland. The exercise is undertaken as part of the audits of the participating bodies. NFI brings together data from councils, police and fire and rescue boards, health bodies and other agencies, to help identify and prevent a wide range of frauds against the public sector. These include housing benefit fraud, occupational pension fraud and payroll fraud. The NFI has generated significant savings for Scottish public bodies (£27 million to 2005) but, if fraud or overpayments are not identified in a body, assurances may be taken about internal arrangements for preventing and detecting fraud.

83. Overall 26,267 data matches were identified in respect of Falkirk Council. 25,656 of these were ranked as 'high quality' and were considered for review by the Council. 24,535 of the 'high quality' matches related to the creditors system and were investigated and found to be satisfactory.

84. The remaining 1,121 'high quality' data matches were from the benefits, housing rents, payroll & pensions systems. As at 31 August 2008, 409 of these had been identified for review, of which 367 had been reported as cleared, 4 had been identified as fraud and 38 were still under investigation. As at 31 August 2008 potential recoveries of £24,478 had been identified and recovery action was in progress.

85. We found that the Council had set in place sufficient arrangements as part of the NFI, data had been reviewed promptly and deadlines met.



## Housing Benefit

86. From April 2008, Audit Scotland took over responsibility for inspecting the housing and council tax benefit functions from the Department for Work and Pensions. We are carrying out risk based inspections on a cyclical basis and all councils will be inspected during an 18 month period. An inspection of the housing and council tax benefit functions at Falkirk Council is scheduled for early 2009.

## Data handling and security

87. Data handling and security has received increased public and media attention recently as a result of a number of national incidents relating to lost data. The council shares data with a number of organisations such as the Department for Work and Pensions and other government departments. Information security is now a service delivery issue where a significant failure of controls could lead to loss of stakeholder confidence and opt out from services, higher compliance costs due to enforcement action, withdrawal of third party services such as payment card processing and legal fees relating to civil and criminal litigation.

88. Organisational culture was identified by a recent Cabinet Office report as critical to achieve acceptable levels of information security. As part of our 2007/08 audit we looked at the cultural aspects of information handling and security, including risk awareness, leadership, governance, operating methods and training.

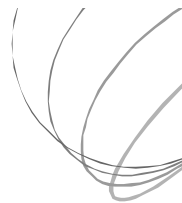
89. We are pleased to note that we found good examples of key controls on data handling already in place within the council:

- an Acceptable Use of Internet and E-mail Policy is readily available on the intranet and internet
- a home-working policy covering application process, equipment and a detailed section on the health and safety requirements is available
- an information security policy exists, with the next planned review scheduled for completion by the end of December 2008
- internal audit regularly conduct audits in aspects of information security (for example, a review of the Resourcelink System Management and Security) and physical security (for example, building security).

90. We also noted opportunities to improve elements of the information security management system:

- the council does not have an information strategy in place





- work is underway to identify and record all information that is transferred routinely as well as informally to third parties regardless of the type of media involved
- no formal system for classifying information is in place
- Information on 'system owners' and 'administrators of information' for key systems is being collated as part of the exercise to identify and record the information transfers
- the Acceptable Use Policy for Internet and e-mail and the Information Security Policy had not been recently reviewed, although we understand that a review is now underway and a revised Acceptable Use Policy will follow.

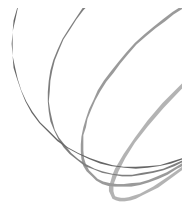
## **Payment card standards**

91. The Payment Card Industry Data Security Standard (PCI/DSS) was developed by major credit card companies as a guideline to assist organisations that process card payments to prevent credit card fraud, hacking and various other security threats. Any organisation processing, storing or transmitting payment card data must be PCI/DSS compliant or risk losing their ability to process credit card payments.
92. Further consultation with regard to the PCI/DSS standard is ongoing, both within the council and with similar external organisations and further progress is required.

## **Governance outlook**

### **Single outcome agreements**

93. The concordat between the Scottish Government and COSLA sets out the terms of a new relationship between the Scottish Government and local government. It underpins the funding to be provided to local government over the period 2008/09 to 2010/11. Central to the concordat is the single outcome agreement (SOA) between each council and the government. The SOA sets out the council's contribution to the government's 15 key national outcomes as set out in the concordat. It also reflects established corporate and community planning commitments. In this way progress at a national level is supported by outcomes at a local level.
94. For Falkirk, the outcomes, priorities and targets included within the SOA were derived from a number of sources. The Strategic Community Planning Partnership (SCPP) had already started a process of developing outcomes and performance measures to underpin the existing Strategic Community Plan. This process involved the SCPP implementation groups and cross cutting groups investigating the key outcomes that they would measure and report.



95. In addition the Council had recently agreed local outcomes as an integral part of the development of a new Corporate Plan. The Council's Corporate Plan derives outcomes to underpin the vision within the Strategic Community Plan, the new Administrations Manifesto, as well as an understanding of the context within which the Council works including an examination of the socio-economic issues within the area.
96. It was agreed at the Community Planning Leadership Group that the SCPP would develop a Partnership Agreement in the first year. Through a process of negotiation local outcomes were aligned to national outcomes. The final SOA was approved by the SCPP Leadership Group and thereafter by Council at its meeting on the 25 June 2008.
97. The SOA is the means by which the performance of the council and partners will be monitored. It is important therefore that the council has robust governance arrangements for the delivery and monitoring of this key document.



# Performance

## Introduction

98. In this section we summarise how the council manages its performance. We discuss the overall arrangements and we give an outlook on future performance focussing on specific areas identified in our audit work. Finally, we comment on the findings of Audit Scotland's national performance studies, relating them to the council's situation.

## Corporate objectives and priorities

99. Following the May 2007 elections, the former ruling coalition of Scottish Nationalist Party and Independent Members was replaced by a new coalition of Labour, Conservative and Independent Members. A new corporate plan 2008 – 2011 incorporating the council's vision and priorities for the next four years was approved by the new council in March 2008.

100. The new Corporate Plan sets out the key goals and priorities for the council until 2011 and explains how its performance against the priorities will be measured. The goals and priorities are aligned with vision and themes contained in the Strategic Community Plan. Both plans reflect the goals of the council, all of which cut across a variety of services:

- further develop a thriving, sustainable and vibrant economy;
- continuing to improve health, safety and wellbeing of citizens and communities;
- increasing efforts to tackle disadvantage and discrimination in all its forms; and
- enhancing and sustaining an environment in which people want to live, work and visit.

101. These goals are underpinned by the council's values of commitment to public service, performance and partnership. The council's Single Outcome Agreement uses these values to develop key outcomes for the four goals identified above. These values set the culture and ethos of the council. Table 3 below sets out how the council aims to meet those values.



**Table 3: Meeting council values**

<p><b>Public service</b></p> <ul style="list-style-type: none"><li>▪ Becoming the employer of choice in the local area</li><li>▪ Ensuring we have the necessary qualified and motivated workforce to meet our service delivery priorities</li><li>▪ Ensuring our customers have information they need to access services and it is easily understood</li><li>▪ Ensuring we continue to understand and meet the needs of our customers</li><li>▪ Working with other public sector agencies to provide seamless services.</li></ul>
<p><b>Performance</b></p> <ul style="list-style-type: none"><li>▪ Being the provider of choice</li><li>▪ Continuing to deliver the best services that are value for money</li><li>▪ Continuing to deliver efficiencies within our services</li><li>▪ Continuing to modernise the way we deliver services</li><li>▪ Ensuring continuous improvement in the quality of services we deliver</li><li>▪ Reporting to our customers on how we are performing</li><li>▪ Maintaining and enhancing our asset base.</li></ul>
<p><b>Partnership</b></p> <ul style="list-style-type: none"><li>▪ Providing leadership to our community planning partnership</li><li>▪ Continuing to develop and support our approach to community planning</li><li>▪ Working with local communities to develop local ward service delivery plans</li><li>▪ Delivering on our commitment to community engagement</li><li>▪ Supporting the community and voluntary sector to deliver on common priorities</li><li>▪ Working with other public sector agencies to develop common mechanisms for consultation.</li></ul>



## Overview of performance in 2007/08

### Annual Report on Progress against the Corporate Plan

102. The Council's Corporate Plan was approved by Council in March 2008. The first monitoring report, which is due to be presented to Members at the end of 2008, will set out progress against the council's corporate plan and will incorporate information on the council's progress in achieving the outcomes set out within the Community Planning Partnership's first Single Outcome Agreement.

### Measuring Performance

103. The performance management framework is well-embedded throughout the council, with staff at all levels demonstrating a good understanding of the framework. All services provide performance reports to both the CMT and the BVAF and these are also an important feature of Departmental Management Team meetings. Performance reports provide a rounded view of performance, balancing statutory, and local performance indicators and encompassing all forms of continuous improvements such as best value and other business improvement tools.

104. The council recognises that performance information needs to be reported more consistently to the CMT and to members. Therefore, the council is further developing its performance reporting mechanisms, focusing on reducing variability across services. As part of this development, the council has procured *Covalent*, an electronic performance information system. These developments should improve the consistency of performance reporting to members and improve members' ability to carry out their scrutiny role.

#### Key Risk Area 9

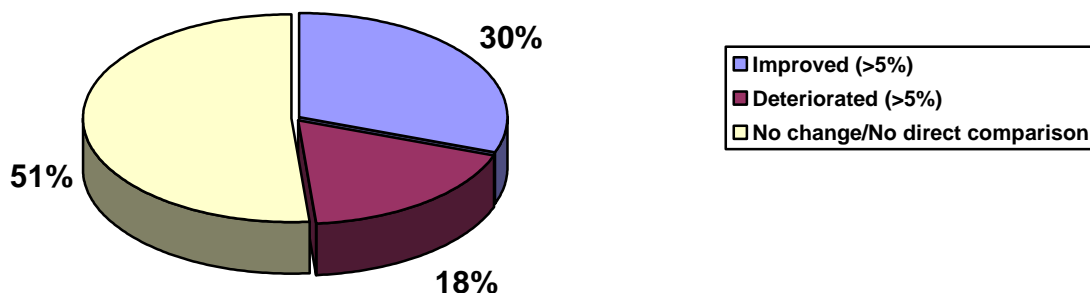
105. The council has put in place an effective structure for Community Planning. It is working well with partners to address priorities through the themed implementation groups and some tangible outcomes are being achieved. A performance management framework is being considered within the Strategic Community Planning Partnership to ensure effective monitoring of the Single Outcome Agreement.

#### Key Risk Area 10

### Statutory performance indicators

106. One of the ways of measuring council performance is through the statutory performance indicators (SPIs). With regard to 2007/08, a total of 82 SPIs were published. These were published by the council by the due date of 30 September 2008.

107. The council has carried out an analysis of SPI data which identified that around a third of indicators demonstrated improvement in year on year performance in excess of 5%, but in around a fifth of cases performance has fallen in excess of 5%. This balance of improvement to deterioration is in line with the Scottish average.



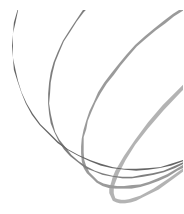
108. Each year we review the reliability of the council's arrangements to prepare SPIs. In general, the working papers provided were good. This year we rated all indicators as reliable.

## Best Value

109. The Local Government in Scotland Act 2003 established best value and community planning as statutory duties for local authorities. In response the Accounts Commission introduced new arrangements for the audit of best value based on a full review by a specialist team once every three years. In the intervening years short follow-up reviews are carried out by the local auditor.

110. A Best Value and Community Planning audit of Falkirk Council was completed in early 2008. This concluded that the council shows good, solid performance with many characteristics of best value. In particular, the report highlighted that the council does well in regard to vision and strategic direction, community engagement, customer focus, partnership working, performance management and delivery of major projects and initiatives contributing to economic development and regeneration.

111. The report recognised that the council also has room for improvement in some areas, some of which are featured elsewhere in this report. Table 4 summarises the improvement areas identified in the report.



**Table 4: Best Value improvement agenda**

<p><b>Immediate priority</b></p> <ul style="list-style-type: none"> <li>▪ Address the high level of vacancies within the senior management structure to ensure the capacity is in place to take forward this improvement agenda.</li> <li>▪ Review political and managerial structures to ensure that they are: <ul style="list-style-type: none"> <li>◇ relevant to the new corporate plan</li> <li>◇ support an open and transparent approach to policy development, decision-making and performance monitoring.</li> </ul> </li> <li>▪ Review current approach to scrutiny including standing orders, scheme of delegation and arrangements for the BVAF.</li> <li>▪ Develop better links between three-year budgets and corporate and service improvements plans.</li> <li>▪ Finalise the performance management and reporting framework for Community Planning and ensure its full adoption by the CPP.</li> <li>▪ Ensure an overarching risk management framework is in place.</li> <li>▪ Undertake the planned 'across the board' review of commercial services.</li> <li>▪ Implement the community engagement strategy to provide a more coordinated and strategic approach to consultation and community engagement.</li> <li>▪ Implement a more strategic approach to reducing sickness absence: <ul style="list-style-type: none"> <li>◇ consider new options such as 'spend to save' initiatives</li> <li>◇ learn from other organisations to drive down high levels of absenteeism.</li> </ul> </li> <li>▪ Develop and put in place, corporate and service-led standards for customer services.</li> <li>▪ Address identified weaknesses in aspects of housing services and social work services and sustain a focus on raising educational attainment.</li> </ul> <p><b>Medium term improvements</b></p> <ul style="list-style-type: none"> <li>▪ Provide ongoing support and training to elected members, including leadership development in order for them to discharge their roles effectively.</li> <li>▪ Implement the revised framework for the best value service reviews and press ahead with the programme of strategic reviews.</li> <li>▪ Drive forward the actions contained within the 2007-10 Corporate Asset Management Plan, including the detailed review of office accommodation.</li> <li>▪ Drive forward the actions contained with the 2007-10 Procurement Strategy to ensure 'superior performance' in relation to compliance with the McClelland Report by 2009/10.</li> <li>▪ Continue to refine public performance reporting arrangements to ensure they remain appropriate across all audiences.</li> </ul> <p><i>Source: The Audit of Best Value and Community Planning – Falkirk Council (May 2008)</i></p>
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112. The council already had an improvement plan in place which was subject to regular review by the BVAF. In a report to the Council in June 2008, the Chief Executive recommended that the improvement plan be refreshed to ensure continuous improvement and include reference to the improvement agenda identified in the Best Value report. The Chief Executive also recommended that the refreshed improvement plan be monitored by the CMT and the BVAF, with progress reported to the Policy and Resources Committee.

**Key Risk Area 11**



## Performance outlook – opportunities and risks

### Introduction

113. In the course of our audit work we identified some of the strategic risks to Falkirk Council delivering its stated objectives and priorities in the years ahead. The Best Value report issued in May 2008 highlighted areas where improvements need to be made to address the key risks. Risk exists in all organisations which are committed to continuous improvements and, inevitably, is higher in those undergoing significant change. The objective is to be 'risk aware', and have sound processes of risk management, rather than 'risk averse'. Indeed, organisations that seek to avoid risk entirely are unlikely to achieve best value.
114. A number of the areas for improvement identified in the Best Value report have been covered elsewhere within this report. Other areas for future improvement that we would like to draw to your attention are noted below.

### Members' Training

115. Following the May 2007 elections, a minority administration leads the council and there is a large proportion of new members. Together, these issues present a challenge in developing effective political leadership and delivering new corporate priorities. To support this, the council needs to provide ongoing support and training to elected members, including leadership development in order for them to discharge their roles effectively.
116. The council needs to engage all members in identifying individual development aspirations and encourage more active participation in training to develop skills and knowledge, for instance, in aspects of scrutiny. This will also enable the council to utilise fully the breadth of new skills and experiences, which newly elected members bring to their role.

### Best Value reviews

117. In our work on the audit of Best Value and Community Planning, we noted that there was scope for improvement in the central co-ordination and quality assurance of the corporate best value review programme. The council acknowledged that this was an important area for improvement and introduced a revised framework for best value service reviews a programme of strategic reviews. An update report on the reviews was presented to the Best Value & Audit Forum in October 2008. The approach clarifies the approval and scrutiny role of BVAF throughout the course of the review.





## **Asset Management**

118. In August 2007, the Policy and Resource Committee approved the council's a corporate asset management plan entitled '*Corporate Asset Management Plan 2007-2010 Better Assets, Better Services.*'. The plan provides a coordinated approach across all services and programmes of activities that meets customer expectations and enables standards to be improved.
119. There is evidence of a great deal of work within the area of asset management but it is too early to assess the effectiveness of the council's overall strategic approach. There are challenges in taking forward the corporate asset management plan. In particular, major improvements and repair are required to office accommodation. The council plans to undertake a strategic review of the plan during 2008/09.

## **Financial Planning**

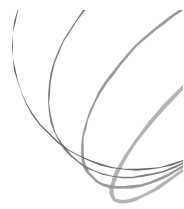
120. The council has improved the links between corporate, service and financial plans. This involved changes to the timeframe to allow alignment of plans and budgets and changes to the 'resourcing' section of service plans to include issues such as service delivery changes and capital investment decisions. The council has introduced these changes into the 2008/09 planning process.
121. Although there are some elements of longer-term financial planning in place, the council does not have a medium to long-term financial strategy that models the effects of spending decisions, long-term demographic changes, borrowing levels, etc. The council decided that this was of limited value given the uncertainty over future funding settlements, but there is a risk that this will limit its ability to achieve its objectives beyond the three-year budgeting horizon.

## **National studies**

122. Audit Scotland carries out a national study programme on behalf of both the Accounts Commission and the Auditor General for Scotland. Reports published in the last year of direct interest to the council are described below. Further information on these studies and copies of the reports can be obtained from Audit Scotland's web page at [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)

## **Sustainable waste management**

123. Collecting household waste is a vital and universal service. In recent years significant new investment has been made to reduce the amount of waste sent to landfill. Our national report on sustainable waste management, published in September 2007, highlighted that:
- significant progress has been made in meeting interim recycling targets, but the rate varies considerably between councils. The percentage of municipal waste recycled and composted



increased from 7% in 2001/2 to 25% in 2005/6. Co-mingled collections appear to achieve higher recycling rates.

- there has been slow progress in developing facilities to treat residual waste and there is a significant risk that EU landfill directive targets might not be met.
- increased recycling has led to increased costs for councils.
- all parties need to work more effectively together to make progress in waste minimisation, recycling and waste treatment.

124. The council continues to exceed national targets and expects to achieve a 40% recycling rate for 2008/09, a year ahead of the national 40% target for 2009/10. In addition, the council fully expects to continue to meet its landfill allowance targets for the next two years based on current performance.

## **Free personal and nursing care**

125. Since July 2002, all councils have had systems in place to deliver free personal and nursing care (FPNC). People of all ages living in care homes are entitled to free nursing care and people over 65, living in any setting, are entitled to free personal and nursing care. Our national report about the financial implications of FPNC, published in September 2007, found that:

- councils have interpreted the legislation and guidance relating to food preparation differently across Scotland
- councils should improve their information systems to enable them to collect comprehensive and accurate information on FPNC and other aspects of care and support services;
- councils should provide clear information to older people on what is covered by FPNC;
- councils should work with local health partners to evaluate the longer term consequences of reducing domestic homecare services.

126. Falkirk Council does not charge for any care and support home services. Although the council considers itself to be satisfying many of the findings in the national report it is currently taking steps to improve FPNC systems, including:

- continuing to work on improving the accuracy of the system (although the council considers itself to already have reliable information systems to collect FPNC expenditure information and other aspects of care and support services);
- developing a joint older peoples commissioning strategy framework along with its partners from Stirling and Clackmannanshire councils and NHS Forth Valley.



## Scotland's school estate

127. A major programme of school building renewal started at the end of the 1990s and is continuing today. The programme aims to create a school estate that achieves the government's vision for 21<sup>st</sup> century schools that are well designed, well built and well managed. Our national study reviewed what has been achieved so far, how much it is costing, how effective the improvements are and how well the Scottish Government and councils are working together to manage improvements to the schools estate. One of the main conclusions of our report, published in March 2008, is that the current rate of progress will take up to 20 years to remove all schools from poor or bad condition. The report recommends actions for the Scottish Government and councils to help improve arrangements and support future achievements. These include:

- better planning by councils and the Scottish Government to set specific, measurable and meaningful targets for the school estate strategy;
- greater use of the Scottish Government guidance by councils to make sure future school design strikes a good balance for the comfort of everyone who uses the building;
- making environmental sustainability a key element of school design;
- doing more to identify and share good (and bad) practice in school design and estate management;
- estimating pupil rolls for at least ten years ahead with a minimum annual review.

128. The council has identified 14 individual areas as key action points relating to the national report's key recommendations. These areas have been risk assessed by the council in terms of current progress made. A report submitted to the Education Management Team in September highlights that the council is making good progress in 12 of the key action points, with some progress being made in the remaining 2. The plan is reviewed regularly by the Education Management Team.

## Overview of sport in Scotland

129. Public bodies spend on average £558 million a year on sport in Scotland. Councils are responsible for 90% of this expenditure. Most of the money is spent on providing and maintaining facilities as well as programmes to encourage participation and support individual athletes. Our national report, published in April 2008, found that:

- the provision of sports facilities and other services is fragmented, with no clear links between the government's national strategy for sport and councils' investment. The development of single outcome agreements is an opportunity to clarify and align the links between national and local strategies;



- the level of participation and funding in sport has been declining and participation by younger people falls short of targets;
- Sportscotland estimates that an additional £110 million a year is needed for the next 25 years to bring sports facilities up to an acceptable standard;
- arrangements to deliver the 2014 Commonwealth Games are still being developed. These will be critical in ensuring the success of the games and safeguarding the large sums of public money that will be invested.

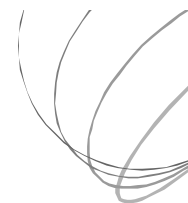
130. The council has considered the recommendations of the national study and recognises the challenges at both the national and local level of increasing participation in sport. Local considerations include:

- the Council plans to have an adopted Sports Development Strategy in place by the end of 2008;
- The national falling trend in the levels of participation of young people in sport is reflected in the Falkirk area. However recent initiatives and programmes including the appointment of Active School Coordinators, dedicated sports development officers in partnership with National Governing Bodies of Sport and the involvement of the council in sportcentral, a national sports partnership pilot supported by sportscotland, are helping to address this downward trend at a local level;
- the council has a significant stock of sports facilities, ranging from very modern facilities to those requiring urgent and significant levels of reinvestment and modernisation to ensure they continue to be fit for purpose, particularly in respect of swimming pools. This issue proves to be a continuing challenge for the council;
- the council recognises the opportunities for sport in the lead up to the 2014 Commonwealth Games and plans to exploit these opportunities in partnership with local sports clubs and key agencies to increase levels of participation and standards in sport and to achieve a lasting legacy of increased participation beyond 2014.



# Final Remarks

131. We have made a number of recommendations in the various reports we have issued during the course of the year and have obtained assurances from officials that action will be taken as appropriate.
132. Attached to this report is an action plan setting out the key risks identified by the audit which we are highlighting for the attention of members. In response, officers have considered the issues and have agreed to take the specific steps set out in the column headed 'planned management action'. On occasion, officers may choose to accept the risk and take no action. Alternatively, there may be no further action that can be taken to minimise the risk. Where appropriate, the action plan clearly sets out management's response to the identified risks.
133. Appropriate mechanisms should be considered and agreed by members for monitoring the effectiveness of planned action by officers. We will review the operation of the agreed mechanism as part of the 2007/08 audit.
134. The co-operation and assistance given to us by Falkirk Council members and staff is gratefully acknowledged.



# Appendix A: Action Plan

## Key Risk Areas and Planned Management Action

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1.	13	<p><b>Discovered assets</b></p> <p>A further £5.9 million of 'assets not previously recognised' was identified for inclusion in the accounts for 2007/08 (following £15 million identified in our 2006/07 report). The council's review of its fixed assets portfolio, which was to be carried out in 2007/08, is ongoing</p> <p><b><i>Risk: until the fixed asset review is completed, the council's record of fixed assets may be incomplete, impeding future reporting and decision making</i></b></p>	<p>A reconciliation between the asset register and services records is now complete. This information will be used in the revaluation exercise as at 1 April 2008. In this year some assets may need to be recognised however this should be minimised from 2009/10 onwards.</p>	Capital Manager	March 2009
2.	16	<p><b>Council dwellings depreciation</b></p> <p>The council has continued not to charge depreciation on its council houses on the grounds that any depreciation would be immaterial. Depreciation is required, not only to reduce the asset to its carrying value, but also to charge services with the use of assets resulting from the consumption of economic benefits.</p> <p><b><i>Risk: failure to depreciate council houses may mean the consumption of economic benefits is not properly recognised, impeding reporting and decision making.</i></b></p>	<p>This issue will be considered when Council dwellings are due to be revalued in 2010/11.</p>	Capital Manager	2010/11



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3.	19	<p><b>Review of capital expenditure</b></p> <p>Capital expenditure is reviewed by financial services staff to ensure that it has been properly categorised as capital and to identify expenditure which does not enhance value, with advice from property professionals. However, there is no formal process in place to record the extent of professional advice sought and provided, or to document the views provided.</p> <p><i><b>Risk: The incorrect categorisation of capital spend leads to borrowing outwith council's powers. The carrying value of assets is understated.</b></i></p>	<p>We will continue to renew and improve the standard of working papers maintained and received from property services.</p>	Capital Manager	Ongoing
4	20	<p><b>Capital fund disclosure</b></p> <p>The Council uses capital funds to fund loans fund principal repayment. The use of the fund could be better disclosed within the financial statements.</p> <p><i><b>Risk: the disclosure of significant transactions is not sufficiently transparent to users of the accounts.</b></i></p>	<p>This will be considered for the 2008/09 accounts.</p>	Capital manager	March 2009
5	25	<p><b>Falkirk Community Stadium Ltd (FCSL)</b></p> <p>A proposal from FCSL to restructure the company has been approved by the Council.</p> <p><i><b>Risk: restructuring of an organisation brings financial risks that need to be managed.</b></i></p>	<p>A further report on the detailed arrangements flowing from the proposed re-structuring will be submitted to Council in February 2009.</p>	Chief Executive	February 2009



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6.	45	<p><b>Commercial activities review</b></p> <p>It has been some time since the council had conducted a review of the competitiveness of its commercial activities. A review has since been carried out by external consultants and will be reported to members in November 2008.</p> <p><b>Risk: the commercial activity operations may not be providing best value to the council.</b></p>	<p>The review is substantively complete with a final report anticipated from consultants in November 2008.</p> <p>Following receipt of finalised report, the conclusions and findings will be reported to Members, early 2009.</p>	Director of Corporate & Neighbourhood Services	January 2009
7.	74	<p><b>Political structure review (including Audit Committee)</b></p> <p>The council is undertaking a review of its scrutiny arrangements as part of a review of its political structure. Although the council's 'audit committee' (currently its BVAf) satisfies many of the principles set out in the CIPFA/SOLACE guidance "<i>Audit Committee Principles in Local Authorities in Scotland</i>", there is scope for improvement in a number of areas which can be covered as part of the review.</p> <p><b>Risk: the council's BVAf is not fully carrying out its audit committee responsibilities.</b></p>	<p>Members have agreed to establish a separate audit committee. Terms of reference (reflecting the CIPFA/SOLACE guidance) will be presented to Council in December 2008.</p>	Acting Director of Law & Administration	December 2008





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8.	74	<p><b>Political structure review (including Audit Committee)</b></p> <p>The council intends to separate its audit committee role from its role in scrutinising best value. While the audit committee will be required to meet in public, Best Value scrutiny will continue to be carried out by a forum of the council which will not be held in public.</p> <p><i><b>Risk: Best value scrutiny will not meet the key principles of openness and transparency.</b></i></p>	Members have considered the role of the forum and have decided that the forum will continue to meet in private.	N/A	N/A
9	104	<p><b>Performance reporting</b></p> <p>The council recognises the need for improved consistency in reporting performance and has purchased an electronic performance information package to enhance the current arrangements. Decisions have yet to be taken on the preferred reporting format.</p> <p><i><b>Risk: inconsistent reporting limits members' ability to scrutinise performance</b></i></p>	A common framework for reporting will be presented to BVAf in November 2008. Once approved this will provide a standard template for all services. In addition work is ongoing to include the Council's indicators as set out within the Single Outcome Agreement so these can be reported to Members in a similar format.	Head of Policy & Performance Development	December 2008



Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
10	105	<p><b>Community Planning Partnership performance</b></p> <p>The council and its community planning partners do not yet have a robust performance management framework. The council and its partners are considering a performance management framework to ensure effective monitoring of the Single Outcome Agreement.</p> <p><i><b>Risk: the SCPP's performance may not be properly managed to ensure that the partnership contributes effectively to council objectives.</b></i></p> <p><i><b>Insufficient information may be available to manage and report performance in relation to the local Single Outcome Agreement.</b></i></p>	<p>We will continue to develop our approach to Community Planning to ensure we build on the strong and successful partnership we already have in place.</p> <p>The CP Partnership will continue to review our SOA to ensure it continues to reflect local priorities and outcomes and that we have the information by which to measure progress.</p> <p>A new SOA will be delivered in early 2009 and progress against the outcomes contained within the current SOA will be reported at that time.</p>	Head of Policy & Performance Development	February 2009
11	112	<p><b>Best Value Audit</b></p> <p>The council received a Best Value audit in 2007/08. A number of areas for improvement were identified in the Accounts Commission report. It is critical that these improvements are taken forward and monitored as part of the council's improvement plan.</p> <p><i><b>Risk: Best Value may not be achieved by the council.</b></i></p>	<p>A revised best value improvement plan will be presented to the BVA in November 2008. The plan will be regularly monitored to ensure we are making progress in critical areas. We will report progress on this regularly to Best Value and Audit Forum.</p>	Head of Policy & Performance Development	Ongoing