Falkirk Council

Report to Members and the Controller of Audit on the 2008/09 Audit

October 2009

Audit Scotland

Falkirk Council

Draft Report to Members and the Controller of Audit on the 2008/09 Audit

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Key Messages

Outcomes for 2008/09

We have given an unqualified opinion on the financial statements of Falkirk Council.

Audited accounts show a net contribution of £3.0 million from reserves, which is £1.1 million more than was budgeted. This resulted in an unallocated balance of £5.6 million on the general fund, which is at the lower end of the target range of £5.5 million to £7.5 million agreed by the council in 2006 to cope with unforeseen events. This outturn position masks some underlying pressures in the recurring budget position which the council will have to manage in future years. Overspends on social work and housing services were experienced in 2008/09 and were managed by offsetting savings in other services, but cost pressures continue to cause overspends in these areas in 2009/10.

The council continues to build up an earmarked portion of the general fund to fund an injection payment of £24 million to the new schools project in 2011. The council decided to allocate £4.0 million to this purpose in 2008/09 and the amount set-aside to date totals £19.3 million. When taken together with the remaining £3.6 million in the capital receipts reserve, there remains a further £1 million to be found over the next 2 years to fund this payment.

In establishing contribution rates the actuary is required to consider the level of underlying pension liabilities alongside the desirability of stable contribution rates for employers. The funding level of the Falkirk Pension Fund is low compared to other Scottish local government pension funds. The decision to apply a stabilisation strategy to restrict the rise in employers' contributions, reached in conjunction with the actuary, means that the future funding level will be lower than would otherwise be the case.

The second Single Outcome Agreement (2009–2012) for Falkirk was signed in June 2009. The extent to which supporting performance indicators have been specified provides a good basis for ongoing performance management. There is scope to shift some outcomes and indicators to 'below the waterline' performance management arrangements, to allow for a more strategic set of high level outcome measures in the Single Outcome Agreement (SOA) itself.

While initial work in implementing the council's best value improvement plan is progressing well in most areas, significant further effort is required to bring much of this to a conclusion so that improvement initiatives have the anticipated impact.

Some significant concerns have previously been raised about the overall effectiveness of scrutiny in the council. The council has undertaken a review of these arrangements and introduced a revised structure in March/April 2009, including the introduction of an audit committee. We note, however, that the audit committee is chaired by the council leader which is contrary to good practice and could impede its effectiveness. The council should keep the effectiveness of scrutiny under the revised structure under review as it continues to bed in.

Outlook for future years

The Scottish Government has made it clear that public expenditure will be constrained for the medium term. The council need to plan now for a future where there is no real growth in funding and where it continues to face difficult financial pressures. The council has prepared medium term forecasts of its own budget position. These indicate that to maintain council tax at current levels savings of £11 million will be required to be identified in 2010/11, followed by a further 4% per annum real term reductions in the council's budget over the period of the forthcoming 2011-14 spending review.

While this work provides a good baseline against which the council can manage its overall financial position, longer term financial planning remains limited. Further improvements could also be made to the process of integrating financial planning and Single Outcome Agreements. Savings take time to accrue and the council has to take action now to be sure of achieving efficiencies in the future. A review of spending priorities is also likely to be required in the future to ensure that the council can balance its books and ensure that it is directing resources to the priorities and objectives agreed for the area.

Achieving the level of efficiencies and other savings required will need continuing review across all of the council's activities and effective coordination of its efforts. There are a number of shared service initiatives within the council including Joint Buying Arrangements. It is likely that the council will be reliant on working much more closely with other councils and other public sector organisations if it is to release the level of savings required, without damaging services. There is much to do before specific plans are developed and implemented.

The council has seen increasing pressures as it has managed its overall financial position over the past five years. While aggregate reserve levels are significant, a major proportion of these are committed to fund the injection required under the new schools project contract. The council has limited opportunity to use its balances to manage any significant reductions in income and recurring expenditure pressures.

In recent years the council has relied on capital receipts to finance a significant proportion of its capital expenditure. The economic recession means that assets are harder to dispose of and receipts are lower. This means the council is having to scale back its capital plans, financing a greater proportion from debt.

The development of the SOA and supporting arrangements has the potential to improve planning and performance management significantly. However, the long term and complex nature of many of the outcome targets pose many questions for performance management. A key challenge will be integrating and aligning the council's processes to support delivery of the desired outcomes – making sure that resources and efforts are directed to key areas.

The introduction of an annual governance statement and the associated review processes, represent best practice. The council has shown a strong commitment to reporting publicly on its governance arrangement and the action it is taking to improve them. This places the council in a strong position to help ensure that it continues to improve its arrangements.

The council has recently embarked on a new process of self-evaluation, making use of the Scottish Performance Improvement Framework. Self-evaluation will be an important tool in managing future performance. The council needs to consider how well it coordinates all of its improvement activity and reviews to ensure that it systematically identifies key areas for improvement and ensures that it implements the actions necessary to improve effectiveness and efficiency.

It is important that the council starts the transition to International Financial Reporting Standards (IFRS) in 2009/10 to support the move of all local government accounts to IFRS with effect from 2010/11. The council has established an internal team to manage the transition and has engaged external support.

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

AUDIT SCOTLAND

October 2009

Introduction

1. This report is the summary of our findings arising from the 2008/09 audit of Falkirk Council and other relevant work carried out by Audit Scotland. A number of detailed reports have already been issued in the course of the year in which we make recommendations for improvements (see Appendix A). We do not repeat all of the findings in this report. Instead we focus on the financial statements and any significant findings that have arisen from our review of the management of strategic risks.

2. The report uses the headings of the new corporate assessment framework, which is being developed for Best Value 2 (BV2) and for joint scrutiny work. The framework is founded on the characteristics of a best value council which are available on Audit Scotland's website[1]. Using evidence gathered in the course of the audit, supplemented by other work by Audit Scotland and other scrutiny bodies, we comment on the council's position this year.

3. It must be stressed that our comments are made on the basis of information made available in the course of the annual audit. Our intention is to build up the corporate assessment over time and for that to form the basis of a proportionate best value audit. This report is a step towards that goal.

4. 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:

   - The impact of the race equality duty on council services
   - Improving energy efficiency
   - Asset management in councils
   - Overview of drug and alcohol services
   - Mental health overview
   - Civil contingencies planning
   - Strategic procurement

5. We mention the key findings from these reports and the implications for Falkirk in the performance and use of resources sections of this report. Full copies of the studies can be obtained from Audit Scotland's web page at www.audit-scotland.gov.uk.

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[1] - http://www.audit-scotland.gov.uk/docs/local/2009/bv_090331_bv2_consultation_char.pdf

6. Appendix B is an action plan setting out the high level risks we have identified from the audit. Officers have considered the issues and have agreed to take the specific steps set out in the column headed *Planned Management Action.* We do not expect all risks to be eliminated or even minimised. What we are expecting to see is that the council understands its risks and has in place mechanisms to manage them. Members should ensure that they are satisfied with the proposed management action and have a mechanism in place to be duly assured that the proposed action has been implemented.

7. This report is addressed to members and the Controller of Audit. It will be published on our website after consideration by the council. The Controller of Audit may use the information in this report for her annual overview of local authority audits to the Accounts Commission later this year. The overview report is published and used by the Accounts Commission as the basis for its annual briefing to the Scottish Parliament's Audit and Local Government and Communities committees.

8. The management of the council is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems. Weaknesses highlighted by auditors in this and other reports are only those that have come to our attention during our normal audit work in accordance with the Code of Practice approved by the Accounts Commission, and may not be all of the weaknesses that exist. Communication by auditors of the matters arising from the audit does not absolve management from its responsibility to address the issues raised and for maintaining an adequate system of internal control.

9. We thank the members and officers of the council for their assistance and cooperation in the conduct of our 2008/09 audit.

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Financial statements

Introduction

10. In this section we summarise key outcomes from our audit of the council's financial statements for 2008/09, comment on the significant accounting issues faced, and provide an outlook on future financial reporting issues.

Audit Opinion

11. We have given an unqualified opinion that the financial statements of Falkirk Council for 2008/09 give a true and fair view of the financial position and expenditure and income of the council and its group for the year. We also certify that the accounts have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements.

12. The council's financial statements include an Annual Governance Statement, which sets out the findings from the council's review of the effectiveness of its governance systems. This Statement replaces the Statement on the Systems of Internal Financial Control and is recognised as good practice in the CIPFA publication *Delivering Good Governance in Local Government*. We were satisfied with disclosures made in the annual governance statement and the adequacy of the process put in place by the council to obtain assurances on the governance systems. We note, however, that the references in the Statement to other group entities continue to focus on internal financial controls. We understand that the council are encouraging other group entities to prepare an Annual Governance Statement for 2009/10, which will provide assurance for group governance arrangements.

13. The council's unaudited financial statements were submitted to the Controller of Audit by the deadline of 30 June. Working papers to support the 2008/09 accounts have improved since last year. We shall continue to work in partnership with finance to clarify our requirements and help improve the processes for the preparation and audit of the financial statements.

14. The accounts were certified by the target date of 30 September 2009 and are now available for presentation to members 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.

Accounting issues

15. 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). No major changes

were introduced by the 2008 SORP. We were satisfied that the council prepared the accounts in accordance with the 2008 SORP.

16. The council has adjusted the financial statements to reflect audit findings. As is normal practice, immaterial unadjusted errors have been reported to the Director of Finance. Details of significant accounting issues arising in the course of our audit are summarised below.

17. It is the nature of financial information that in some areas it requires estimates and judgements to be made by the council about the amounts to include in the accounts. Our role is to assess the significant estimates and judgements made by the Director of Finance in the preparation of the financial statements. Such estimates were necessary in 2008/09 in relation to one key issue – actual and potential claims in relation to equal pay legislation, with a provision of £5 million being recognised at 31 March 2009.

18. The Director of Finance has confirmed that this amount has been reviewed and is the best estimate of the expenditure likely to be required to settle this potential obligation. While there remain uncertainties over the actual costs that will be incurred to settle such cases, we are satisfied that a reasonable approach has been taken. The council will continue to require to keep the likely amount of these potential liabilities under review in future years.

19. As in previous years the council has not charged depreciation on its housing stock on the grounds that the amount involved would not be material. We have accepted this.

Audit testing

20. As part of our work, we took assurance from 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
- accounts receivable
- treasury management
- income and banking
- accounts payable
- council tax
- non-domestic rates
- pension payments
- pension investments

21. We also relied on the work of internal audit on accounts payable and members' expenses to support our financial statements audit work.

Prevention and detection of fraud and irregularities

22. 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 strategy which includes a fraud response policy; a whistle blowing policy; codes of conduct for elected members and staff; and defined remits for relevant regulatory committees.

NFI in Scotland

23. The National Fraud Initiative (NFI) in Scotland brings together data from councils, police boards, 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 (£40 million to 2008). If fraud or overpayments are not identified in a body, assurances may be taken about internal arrangements for preventing and detecting fraud.

24. The most recent data matching exercise was carried out in October 2008 and national findings will be published by Audit Scotland in May 2010.

25. For Falkirk Council, the 2008/09 NFI generated a total of 8,340 data matches, the major elements of which were in relation to the creditors system (5,324 matches), the benefits system (1,462 matches) and payroll & pensions (691 matches). All creditors data matches have been investigated and resolved and the council is making progress in clearing the remaining data matches. The council has concentrated resources on cases classified as 'high quality' and around 50% of these have been completed to date. Although no cases of fraud have been uncovered and only one overpayment of under £1,000 has been uncovered, in our view the NFI remains an important part of the council's internal arrangements to detect and deter fraud.

Housing Benefit

26. Audit Scotland took over the inspection responsibilities of the Benefit Fraud Inspectorate in Scotland in April 2008. Our specialist team is carrying out a programme of risk assessments of benefits services in all councils over a two year period.

27. The risks to Falkirk's benefits service were assessed in March 2009 and a detailed report was issued. The council has responded to the risks we identified with an action plan. We believe the actions will make a positive contribution to improving the benefits service and we will monitor progress in the next inspection cycle, which starts in 2010.

Group accounts

28. Local authorities use a diverse variety of mechanisms for delivering services to the public. Material service delivery vehicles are included in consolidated group accounts which are required to give a true and fair view of the council and its group's income and expenditure.

Associates and Joint venture companies

29. The council has interests in four associates:

- Central Scotland Joint Police Board
- Central Scotland Joint Fire and Rescue Board
- Central Scotland Joint Valuation Board
- Falkirk Community Stadium Limited.

30. These have been included in group accounts in accordance with the SORP. In addition, the results of the Common Good have also been consolidated into the group accounts. Sufficient audit assurances to support our opinion were obtained through review of board minutes, internal audit reports and audited accounts.

31. Proper accounting practice requires local authorities to make a charge to the income and expenditure account for pension costs based on the applicable accounting standard (FRS 17 Retirement Benefits). Regulations provide a legal basis for removing the FRS 17 based costs from being a charge to the general fund, so that only the actual pension payments are charged to that fund. It recently emerged that the relevant regulations do not currently apply to new police and fire pension schemes which came into effect from 6 April 2006. Although the Scottish Government intends to amend the regulations to include these new schemes, there is no legal basis for removing the FRS 17 based costs for the new schemes from the general funds of police and fire and rescue authorities.

32. While Central Scotland Joint Fire and Rescue Board decided to amend their accounts for this issue, Central Scotland Joint Police Board did not. The council decided to be consistent with this divergent approach in its own group accounts. As a result the balance on the group's general fund as at 31 March 2009 was overstated by £0.78 million, with a corresponding understatement of the Pension Reserve. While significant, we agree with the view that these amounts are not material to the financial position of the council and its group.

33. With effect from 28 May 2009, Falkirk Community Stadium Limited was reconstructed through a solvent liquidation pursuant to Section 110 of the Insolvency Act 1986. In effect the assets and liabilities of the company have been split between Falkirk Football & Athletic Club and the council. The

loans advanced by the council have been replaced by other assets. As this restructuring took place after 31 March 2009 there is no impact in the 2008/09 group accounts.

Trust funds

34. Local authorities with registered charitable bodies are required to comply with the requirements of the Charities Accounts (Scotland) Regulations 2006. In effect, this means a full set of financial statements is required for such trust funds. We have been advised that none of the Trust Funds operated by the council fall within these regulations.

Common good fund

35. In December 2007, Local Authority (Scotland) Accounts Advisory Committee (LASAAC) issued a guidance note for practitioners. The guidance requires the common good fund to be disclosed within the financial statements and a separate common good asset register to be in place by March 2009. In compliance with this guidance the council now has a separate common good asset register.

36. A separate account for the common good is disclosed in the council's financial statements. Fixed assets totalling £0.235 million have been included in the Common Good Accounts. This represents the land and buildings at Kilns House and these are identified separately in the Council's fixed asset register (not held as part of the council's assets).

Legality

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

Financial reporting outlook

IFRS adoption

38. Local government will move from UK Generally Accepted Accounting Principles to International Financial Reporting Standards (IFRS) with effect from 20010/11. Local government has already adopted some aspects of IFRS, which should aid the transition, and next year councils will be expected to account for PFI projects on an IFRS basis. It is important that the council starts the transition period in 2009/10. A comparative balance sheet as at 1 April 2009 will be required and whole of government accounts will also be required on an IFRS basis from 2009/10. The council has established an internal team to manage the transition and has engaged external support.

Pension funds

39. The introduction of the IFRS based accounting code of practice in 2010/11 is likely to require separate pension fund reports and accounts, something also supported by LASAAC. Although it is unlikely pension funds will be separate audit appointments (as they are not statutory bodies in their own right) it may be necessary for us to treat them separately. This is something we will be discussing with the CIPFA Directors of Finance Group.

Carbon reduction commitment

40. From April 2010 a new and complex system for charging for carbon emissions will be introduced by the EU. The council will be required to purchase and account for carbon credits to cover all of its non transport related energy usage. Incentives and penalties will be built into the system to encourage a reduction in carbon emissions. At a price per tonne of £12 the cost of carbon permits is expected to be up to £0.4 million. The council will need to consider how it accounts for any potential assets and liabilities under the scheme.

Use of resources

Financial results

41. In 2008/09, Falkirk council spent around £518 million on the provision of public services, £476 million on revenue costs and £42 million on capital projects. Income for the year from central government, local taxation and other sources amounted to £446 million. This resulted in a deficit of £30 million for the year on the income and expenditure account.

42. As the council is required to set its council tax on a different accounting basis this deficit is subject to further adjustments. The main adjustments are to ensure that capital investment is accounted for as it is financed rather than when fixed assets are consumed, and that retirement benefits are charged as amounts become payable to pension funds and pensioners rather than as future benefits are earned. The impact of these adjustments in 2008/09 is to reduce the deficit by £31 million, resulting in a surplus of £1 million being taken to the general fund.

43. While the general fund surplus or deficit is a key measure in managing the council's annual budget, the income and expenditure deficit indicates the underlying level of resources the council has consumed during the year. The effect of this will ultimately impact on future revenue and capital budgets as assets are maintained and replaced and pension commitments met.

44. The budget set for 2008/09 was based on a Band D council tax level of £1,070 with a planned contribution of £1.9 million from reserves (exhibit 1). Audited accounts show a net contribution of £3.0 million from reserves, which is £1.1 million more than budgeted.

Exhibit 1

Budgeted and actual use of reserves 2008/09

Reserve	Budget	Actual	Variance
General Fund	(1.910)	0.978	2.888
Capital Fund (CRR)	-	(3.698)	(3.698)
Renewal & Repair Fund	-	(0.426)	(0.426)
Insurance Fund	-	0.151	0.151
Total reserves applied	(1.910)	(2.995)	(1.085)

45. This outturn position masks some underlying pressures in the recurring budget position that the council will have to manage in future years. Significant effort was required to manage the overall budget position during the year. The council overspent by £3.970 million on social work and housing services, but was able to manage this during the year by making offsetting savings in other general fund services, and within the housing revenue account. Additional provision of £1.0 million was required for equal pay costs.

46. The council made significant savings (£2.337 million) on a prudent budget for interest and loan costs. The public sector is entering a period of significant financial constraint and looking forward it is likely that interest budgets are likely to be under significant pressure, reducing the scope to use these areas to help manage the overall financial position of the council.

47. The council continues to fund part of the repayment of loans fund principal from the council's Usable Capital Receipts Reserve (effectively a capital fund) rather than from service expenditure. The practical effect of this is to release revenue funding to support other items of expenditure. This approach is being taken in order to build up an earmarked fund for financing the council's New Schools project. The council decided to allocate £3.698 million of capital receipts to this purpose in 2008/09, resulting in an increase in the general fund balance which has been earmarked for the project.

Reserves and balances

48. Exhibit 2 shows the balance in the council's funds at 31 March 2009 compared to the previous year. Funds include a capital fund which may be used to defray capital expenditure or repay loan principal, and a repair and renewal fund to finance expenditure incurred in repairing, maintaining, repairing and replacing fixed assets. At 31 March 2009, the council had total funds of £46.3 million, a decrease of £2.5 million on the previous year.

Exhibit 2
Cash backed reserves

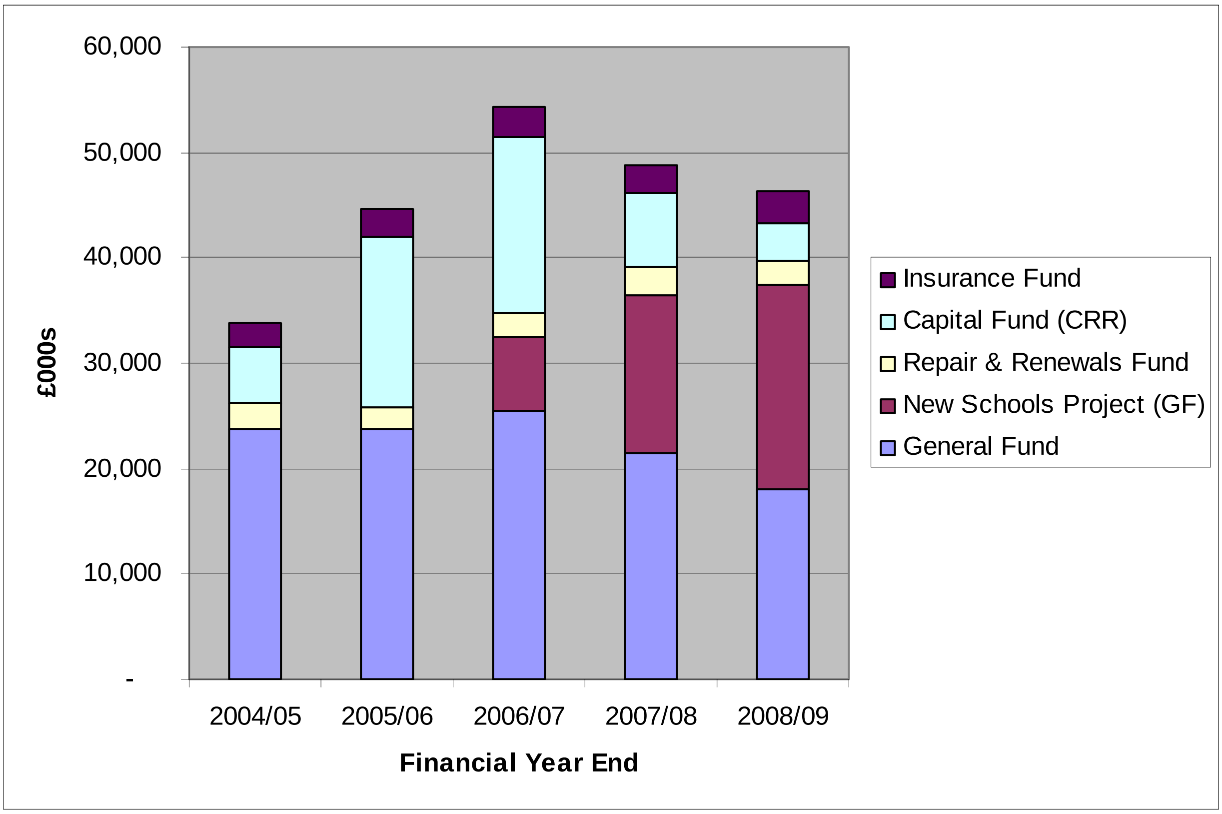
Description	31 March 2009 £ Million	31 March 2008 £ Million
General Fund	37.394	36.416
Repairs and Renewals Fund	2.334	2.760
Insurance Fund	2.910	2.759
Capital Fund (Capital Receipts Reserve)	3.631	6.880
	46.269	**48.815**

49. The general fund increased by £1 million during the year to a balance of £37.4 million which equates to 11% of the council's net annual expenditure. Of this balance £31.8 million has been earmarked for specific purposes: housing funds to limit the impact of future rent increases, devolved schools management balances held by individual schools, economic development balances for the development of strategic business parks, central energy efficiency funds to improve energy efficiency in council buildings and amounts set aside to fund a 'payment which the council is contracted to pay in 2011 (see paragraph 51 for further details). This leaves an unallocated balance of £5.6 million, which is at the lower end of the target range of £5.5 million to £7.5 million set out council's reserve strategy to meet unforeseen circumstances or risks.

50. Over the last five years, after allowing for the fund being built up for the new schools project, the council has maintained general fund balances between a maximum of £25.4 million (2006/07) and a minimum of £18.1 million (in 2008/09). The balance has been steadily falling from its peak level over the last three years, with the 2008/09 outturn being the lowest level in the period. The balance on the insurance fund and the renewal and repair fund has remained consistent over this period.

Exhibit 3

Falkirk Council cash backed reserves 2004/05 to 2008/09



51. The aggregate of the council's capital fund and the earmarked element of the general fund being built up for the new schools project has remained broadly consistent as receipts are released. An injection payment of £24 million requires to be made to the new schools project in 2011. A total of £19.3 million is currently set-aside for this. Taken together with the remaining balance on the capital receipts reserve, there remains a further £1 million to be found from further capital receipts or revenue budgets over the next 2 years to fund this payment.

52. The council has seen increasing pressures as it has managed its overall financial position over the past five years. While aggregate reserve levels are significant, a major proportion of these are committed to fund the injection required under the new schools project contract. A further amount is earmarked for the devolved school management scheme. Uncommitted general fund balances are within the target level previously approved by the Council, but represent less than 1.3% of the other income and funding received annually. The council applied part of the remaining earmarked amounts (HRA) as part of its 2008/09 budget, and taken together with uncommitted balances these total 3% of annual funding. This provides some scope to manage the overall financial position, were this required, but the council has limited opportunity to use its balances to manage any significant reductions in income and recurring expenditure pressures.

Group balances and going concern

53. 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 £187.1 million, mainly because of pension liabilities.

54. 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 Police, Central Scotland Fire and Rescue and Central Scotland Valuation) had an excess of liabilities over assets at 31 March 2009 due to the accrual of pension liabilities. In total these deficits amounted to £360.3 million (2007/08 £323.6 million), with the council's share being £186.6 million (2007/08 £167.7 million). However, all group bodies' accounts have been prepared on a going concern basis as pension liabilities will be funded as they fall due through a combination of employee and employer contributions, government grants and council tax.

Capital performance 2008/09

55. Capital expenditure in 2008/09 totalled £42.1 million, a drop of £6.7 million from 2007/08. The capital programme was adjusted during the year as the economic downturn impacted on projected capital receipts from property sales and planning gains. General Services Capital expenditure (£26.4m) included some major projects such as the completion of the new primary schools at Kinnaird and Maddiston (£2.5m), ongoing major upgrades to primary schools at Larbert Village, Wallacestone and Hallglen (£3.5m) and improvements in the roads, paths and transport infrastructure (£7.8m).

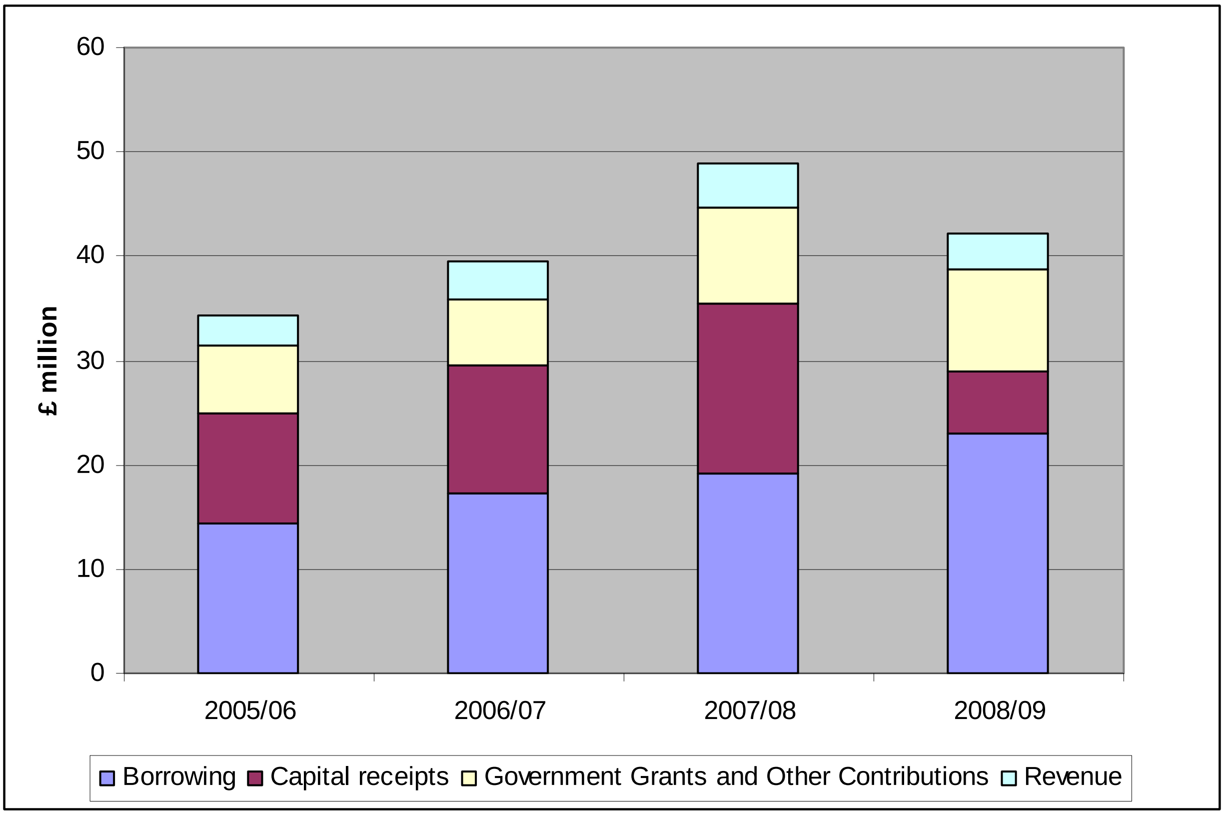
56. Investment in council housing stock was £15.7 million. Slippage in some areas was offset by spending on fabric improvements, kitchen replacements and electrical works. Each year significant investment is being made to ensure the Scottish Housing Quality Standard will be achieved by 2015. Anticipated funding for the housing programme included £10.3 million of capital receipts from council house sales. However, the economic downturn has had a severe impact on the level of council house sales with final capital receipts income of only £6.4 million, of which £6 million related to council house sales. This has required a higher than budgeted level of council borrowing but this has been accommodated from a combination of reduced interest rates and retained rental income.

57. The council's capital investment programme for 2008/09 identified budgeted capital expenditure of £50 million and a level of funding to the value of £44.9 million. The difference of £5.1 million represents anticipated slippage in the general fund capital programme. Actual slippage was £7.9 million due to the deferral of planned expenditure as a consequence of the council's early response to the loss of capital receipts caused by the economic downturn.

58. The trend in capital investment and sources of funds is reflected in exhibit 4. The trend of increasing investment each year was reversed in 2008/09, for reasons outlined above. The reduction in available receipts has meant, however, that annual borrowing has continued to grow.

Exhibit 4

Sources of finance for capital expenditure 2005 to 2009



59. The council continues to experience delays in some capital projects whilst awaiting legal process and Scottish Government decisions. An allowance for this is built into the budgeting process. Over the next few years the council has committed to delivering a number of large projects which are subject to funding issues outwith the council's control, including the River Avon Gorge Bridge and Glenbervie Slip Road. This may mean delays to planned timescales.

60. The world's financial markets are experiencing turbulence and uncertainty. There is limited scope to achieve savings through debt restructuring and it is increasingly difficult to forecast interest rate movements as the balance between preventing recession and managing inflation is sought. It is also likely that capital receipts and developer contributions will be less than forecast for the medium to long term. This means that the council will have to consider alternative sources of capital funding or further reducing capital budgets.

Treasury management

61. In recent years, some councils have held significant amounts of cash and temporary investments to take advantage of favourable interest rates for planned capital programmes. In these circumstances, the early borrowing must be justified in its own right as representing the best time for borrowing the amount required. This should be assessed without regard to temporary investment possibilities, otherwise the action may be judged to be unlawful or to have subjected public money to unnecessary speculation risk.

62. The current economic climate means that interest rates on investments are low – the council received £2 million in investment income this year compared to £3.5 million last year. Borrowing rates are also low, but the council has a significant proportion of its debt at fixed rates. The council decided to reschedule £41.8 million of debt, repaying a significant amount of debt early. This has resulted in a net saving for the year of £0.4 million. As at 31 March 2009, the council held cash and temporary investments totalling £2.7 million, a significant reduction from the 2007/08 balance of £34.8 million.

63. The crisis in the banking sector prompted the council to review its treasury management practices. An internal audit review of the council's treasury management practices found that they comply with CIPFA guidance and that sound systems of control were in place. The only recommendation included in the report was that, as the external treasury consultant contract was awarded in 2002, consideration be given to re-tendering for the provision of treasury consultancy services. This recommendation has been accepted by the council.

Pension funds

64. The council is responsible for the management and administration of the Falkirk Pension Fund. The investment assets for the fund are largely under the management of external fund managers. The value of investments assets is illustrated in exhibit 5.

Exhibit 5

Pension Fund Investments

	31/03/06 £000	31/03/07 £000	31/03/08 £000	31/03/09 £000
Falkirk Pension Fund	882,375	958,975	947,170	783,513

65. Total investment value had been increasing steadily since 2006, but has recently declined due to the global economic downturn. There have been significant movements in share prices particularly in the banking sector. This affects the investment asset valuation, but the volatile nature of the current market makes it difficult to make a long term estimate of the value of the assets. The fund is valued every 3 years.

66. A full actuarial valuation of the pension fund was undertaken as at 31 March 2008 and the actuary's final report was presented to the council's Investment Committee in February 2009. As at 31 March 2008 the pension fund had a funding level of 79% with a funding shortfall of £256 million. The actuary has calculated that, to extinguish this shortfall, an employer contribution of 6.1% of pay would be required over a 20 year period. The valuation at March 2008 has disclosed that the ongoing cost of benefit accrual for employers ("the future service rate") has risen to 17.7% of pay. Taking past service and future service calculations into account, the 2008 valuation has disclosed a theoretical employer contribution of 23.8% of pay.

67. It is estimated that an increase in employer contribution rate to 23.8% of pay would cost the council around £6 million per year. The council considered that this was unaffordable in the present economic climate. The actuary was asked to explore the long term effect on the fund of capping contribution increases for employers. The results of this modelling satisfied the council that such an approach was appropriate for employers with a strong covenant. As a result the council and its actuary agreed to apply a stabilisation strategy with the following contribution rates applying to Clackmannanshire, Falkirk and Stirling Councils and to the Police, Fire and Valuation Joint Boards from 1 April 2009:
    - 2009/10 – 18%
    - 2010/11 – 18.5%
    - 2011/12 – 19%.

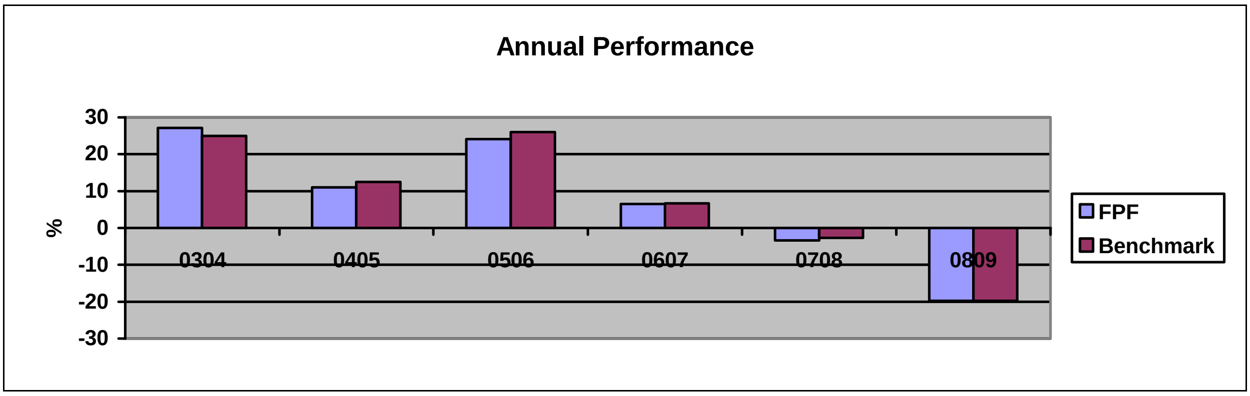
68. In establishing contribution rates the actuary is required to have regard to the existing and prospective liabilities of the fund and to the desirability of maintaining as nearly a constant rate as possible. The funding level on valuation was low relative to other Scottish local government pension funds, and the decision to apply the stabilisation strategy means that the future funding level will be lower than would otherwise have been the case. The implications of the decision to restrict employers' contributions will be kept under review by the actuary in the course of future valuations.

Key risk area 1

69. The investment performance of the fund in 2008/09, (-19.8%) was in line with the relevant benchmark (also -19.8%). Exhibit 6 shows comparative performance of the fund over the last six years. Although fluctuations have been experienced each year, overall the investment performance of the fund has been broadly in line with the benchmark.

Exhibit 6

Falkirk Council Pension Fund – fund and benchmark return 2004 – 2009



Financial planning

70. The Scottish Government has made it clear that public expenditure will be constrained for the medium term. Therefore councils need to plan now for a future where there is no real growth in funding. Falkirk Council continues to face difficult financial pressures in 2009/10, including equal pay, efficiency savings, revenue implications of the capital programme, the new schools (NPDO) project affordability gap, increased energy costs, escalating cost pressure areas and reductions in council tax income due to slowing down in house building.

71. As the council is party to the concordat with Scottish Government, amongst other things, the 2009/10 council tax has not been increased. This means that the council has had to look at other sources of income and reductions in expenditure to balance its budget. All areas of expenditure and income have been subject to detailed scrutiny to balance the budget shortfall including recognising pay and other inflationary pressures only where absolutely necessary, maximising income through a review of fees and charges and further reducing borrowing costs through prudent treasury management. The council identified a need to raise rents by 3% to ensure that it meets the Scottish Housing Quality Standard by 2015.

72. The latest 2009/10 Financial Position report identifies that cost pressures in both social work and homelessness continue to cause overspends. Directors have been instructed to take appropriate action to bring spending more into line with approved budgets.

73. The Scottish Government has recently announced its proposed budget for 2010/11. The council has identified that it will need to identify savings of £11 million to maintain council tax at current levels for the next financial year.

74. Beyond 2010/11, the full impact of the current economic recession on future grant levels is unclear. The Centre for Public Policy for Regions (CPPR) published data exploring possible scenarios for the three year period 2011/12 to 2013/14. Directors of Finance in Scottish local government have reviewed this work and formed their own view on the likely level of funding in the medium term, estimating a cumulative real terms reduction in funding of between 12% and 14% up to 2013/14. The council has prepared medium term forecasts of its own budget position based on this work. These indicate that in order to maintain council tax at current levels, savings of 4% per annum will be required to be identified over the period of the forthcoming 2011-14 spending review.

75. While this work provides a good baseline against which the council can manage the overall financial position, longer term financial planning remains limited. There is also scope for further improvements in the integration of financial plans and the Single Outcome Agreement (SOA) in order to deliver the outcome aims of the SOA. Some initial steps have been taken to introduce medium to longer term financial planning but this is at an early stage. This restricts the council's ability to prioritise expenditure to meet its strategic objectives. Savings take time to accrue and the council has to take action now to be sure of achieving the necessary level of efficiencies and other savings in the future.

Key risk area 2

76. Unit cost is concerned with how much each service "output" costs. In common with most local authorities, the council has limited information available on these. There is little evidence of unit costs being used systematically to plan, monitor and scrutinise service performance. The focus of financial management is on expenditure, budgetary performance and the annual financial position with less emphasis on unit costs and their inter-relationships with performance and quality. A good understanding of unit costs provides building blocks that the council can use in budgeting for the outcomes they are aiming for through the Single Outcome Agreements (SOAs).

Budgetary Control

77. This year, because of the heightened importance of good budgetary control, we paid particular attention to how the council set and managed its budgets. The council considers its priorities and available resources in determining its budgets. A more radical review of spending priorities is likely to be required in the future to ensure that the council can balance its books and ensure that spending is appropriately aligned to corporate priorities and objectives. The council acknowledges the need for clearer linkages with the SOA.

78. The council has generally sound budgetary control processes. Regular financial management reports advise members of anticipated under and overspends at service level, the main reasons for budget variances and what action is being taken to address the position.

Asset Management

79. Effective management of council assets helps the council achieve its objectives and get best value from its investment in property. Through effective asset management, council buildings can be made to work better for staff and service users. It can also reduce the opportunity cost of money locked up in surplus property and the council's carbon footprint.

80. In 2009, we published *Asset Management in Councils*. Our study found that strategic asset management was not well developed in most councils. For Scottish councils as a whole, over a quarter of all properties were in poor condition and slightly less than that were not suitable for the services being delivered from them.

81. The council holds property assets of around £500 million and our report highlighted that fewer than 5% of its buildings were in poor condition and with poor quality. However by adopting best practice in asset management the council can maximise the benefits from its extensive range of land, property and other assets, gain efficiency savings, as well as optimising investment decisions, modernise working practices and gain better service provision.

82. The council's corporate asset management plan, *Better Assets, Better Services*, was approved in August 2007. The council acknowledges that significant efforts are required to ensure that its property portfolio matches the expectations set out in the plan. It recognises that a clear understanding of the extent, condition and performance of the existing portfolio is required and is developing this understanding in terms of suitability, sufficiency and sustainability, including carbon management, to properly inform the process. Work continues to develop the council's existing databases supporting asset management and appraise the longer term options.

83. The council's asset management strategy includes an action plan and progress in implementing this plan is being monitored by the corporate management team. A corporate asset management group has been established and meetings are held regularly to progress the various asset management issues which arise. An early remit for this group was to identify the implications for the council arising from the recommendations contained in the *Asset Management in Councils* report and related guidance. In addition, a dedicated Asset Management Team has been established in Community Services and an Asset Manager appointed. It is recognised that a considerable amount of work remains to be done in several areas however effort is being directed to address this task.

84. We acknowledge that the council is making progress in this area. We will continue to monitor the council's progress and the impact that it is having.

Procurement

85. Local authorities spend significant sums annually purchasing goods and services. As part of the efficient government initiative the Scottish Government identified that scope existed for significant financial savings through improved procurement practice. The McClelland Report on procurement, published in March 2006, confirmed that significant savings were possible but concluded that public sector procurement processes still had weaknesses in resources, skills, organisational structures and practices.

86. In response to the McClelland report the Scottish Government introduced the Public Procurement Reform Programme (the Programme) in April 2006. In July 2009, Audit Scotland reported the extent to which the Programme had progressed nationally. This report concluded that while some significant steps had been made, more work was required before the Programme could achieve its full potential. The key findings of the report were that while the wider impact of the Programme appears positive:

- there was no systematic basis for reporting savings directly attributable to the Programme
- savings from collaborative contracts, a key feature of the Programme, were being achieved more slowly than expected
- there were wide variations across the public bodies in the quality of purchasing data, practice and skill levels.

87. The council does not currently participate in the national centres of procurement expertise, deciding that to date the financial costs of participating have exceeded the potential benefits to it. The council currently operates joint buying arrangements with Clackmannanshire and Stirling Councils. As contracts migrate towards the national agreements, the scope of these arrangements will require to be kept under review. The council has committed to re-evaluate the business case for participation in Scotland Excel by the end of 2009.

88. Audit Scotland recently surveyed Scottish local authorities to establish the nature of information held by councils on procurement processes. Questions also sought information on some key procurement statistics as well as establishing if individual councils had plans to implement the key recommendations from the McClelland report. In general Falkirk Council is making reasonable progress in developing its approaches:

- the council has a procurement strategy and aims to achieve “superior” performance by 2010/11 Progress reports are submitted quarterly to the council’s Procurement Board
- the council has a contract register in place to record details of all live contracts
- 80% of the council’s procurement staff hold an appropriate procurement qualification
- internal audit undertakes an annual review of the procurement function.

89. The council has reported savings of £0.5 million across a range of contracts and anticipates further savings of £0.75 million in 2009/10.

Managing People

90. The successful achievement of council objectives and the delivery of high quality services whether directly by council staff or by others who are monitored by council staff, depends on the capacity, capability, competency and motivation of the workforce.

91. Workforce related issues are currently at the forefront of local government business, as councils continue to deal with outstanding pay claims, implement age discrimination legislation and consider the proposed changes to the local government pension scheme. The financial implications of all these matters are significant and will affect employer/employee relationships.

92. The council has a Human Resources and Workforce Strategy in place which sets out the (HR) vision for the council and makes explicit linkages with corporate priorities. The council has developed a toolkit implementing the Workforce Plan which has been piloted in housing services before being rolled out across all services. We understand that HR is still working through this pilot with housing services which has been more complicated than first expected. When the pilot is complete a report will be made to the corporate management team to reach agreement on the way forward.

93. The council recognises the importance of staff development to the achievement of the council's objectives. The development of the Achievement and Personal Development Scheme which includes personal development plans for all employees setting out their business objectives, personal development objectives and training needs is now complete and has been rolled out across services.

94. The council has been proactive in its management of staff absences and a range of actions have been introduced which it is hoped will have an impact on absence levels, such as :

- absence management poster campaign – posters are being circulated to each workplace location to raise awareness

- occupational health department management team meetings – to help raise awareness, improve relationships and offer an opportunity to resolve difficulties

- HR absence surgeries – advice to services on how to progress long term absences

- manager training – to allow managers to develop "soft skills" to assist them in dealing with sensitive and emotional conversations that may be required with staff on long term absence.

95. The council had around 600 equal pay cases outstanding at the end of March 2009 and has made a provision of £5 million for the cost of this in the annual accounts. The implementation of single status should have helped reduce the risk of further claims. The craft workers agreement is still outstanding (c 500 employees) and negotiations are ongoing with trade unions. It is anticipated that new pay and conditions for craft workers will be implemented early in 2010.

ICT

96. The council makes good use of ICT to support and deliver services. It has a clear strategy for the future development of ICT that is clearly linked to the council's objectives and restructuring plans.

97. As part of our 2008/09 audit we have carried out a review of the action taken in response to recommendations contained in our previous audit reports on our computer service review and our website overview.

Computer Services Review

98. Our computer service review examined the arrangements for the management of ICT services. The review identified the scope of the services provided and the controls in place to ensure their reliable delivery.

99. Our review identified that the council was making satisfactory progress with the previously agreed action plan. A total of 8 action points were brought forward from this audit of which 3 have been completed, 4 have achieved initial target dates and I has not achieved its target date although it was being progressed. A revised action plan has been agreed to achieve further improvements in this area.

Website Overview

100. Our previous website overview examined the extent to which the website supports corporate strategy. It also examined the procedures in place to ensure that the council follows best practice with regard to publication, accessibility and protection of privacy, has effective processes for maintenance and change control and has adequate arrangements in place to identify and mitigate the risk of security incidents. Our review identified good practice in this area but also identified some areas for improvement.

101. Our follow up review showed that the council was making satisfactory progress with the previously agreed action plan and were to be commended for actions taken to assist users such as the deaf community to access the website content. These and other initiatives were being brought forward through consultation and with input from focus groups. A revised action plan has been agreed to achieve further improvements in this area.

Shared Services

102. The Accounts Commission commented on the lack of progress in developing shared services in its *Overview of the local authority audits 2008*. It recommended that councils should give this high priority in the light of financial pressures and the drive for efficiency.

103. While the council has explored a number of options with neighbouring local authorities for the sharing of support services to a significant degree, ultimately these have not come to fruition. There are a number of shared service initiatives within the council including Joint Buying Arrangements. It is likely that the council will be reliant on working much more closely with other councils and other public sector organisations if it is to release the level of savings required, without damaging services. There is much to do before specific plans are developed and implemented.

Outlook

104. Clearly we are in a period of reduced economic growth with big implications for the council's resources and the demand for services. The council needs to remain alert to the impact of the recession on the community it serves and what that means for its own objectives and services. At the same time as the council tries to support its local economy and provide best value services, it is likely to face a reduction in resources.

105. The council will be faced with making difficult financial decisions to balance future budgets. The scale of the financial challenge facing all Scottish councils is significant and the council will require to work hard to ensure that it gets the most out of the limited resources that it will have at its disposal, and that it targets these appropriately to priorities. Better long term resource planning will help the council to do this.

Governance and accountability

Introduction

106. We believe that an effective council is committed to high standards of probity and can demonstrate high standards of governance and accountability. It has effective political and managerial structures and processes to govern decision-making and the exercise of authority within the organisation, supported by mature and effective relationships between members and officers. An effective council is committed to public performance reporting as a key element of public accountability. It clearly sets out service standards which reflect the needs of local people and other stakeholders, and is balanced in its presentation of the council's strengths, weaknesses and challenges for the future.

Structure and policies

107. Corporate governance is about direction and control of organisations. Councils are large complex organisations and so good governance is critically important. The council has assessed its own arrangements against the CIPFA/SOLACE guidance: *Delivering Good Governance in Local Government*. The assessment has identified a number of areas for improvement, but overall, the results suggest that the council has many elements of a sound governance framework.

108. We have previously raised concerns about the effectiveness of scrutiny arrangements in the council. Since then the council has made some changes to its arrangements, following a review of its political structure. A revised political structure was introduced with effect from the March/April 2009 committee cycle. The council should keep the effectiveness of the new arrangements under review.

109. The revised political structure included the introduction of an audit committee. The audit committee meets in public and has met twice to date, with the first meeting taking place in April 2009. Its remit includes risk management, consideration of the adequacy of the council's control environment, approval of Internal Audit strategy, ensuring that there are effective relationships between internal and external audit and reviewing the council's assurance statements to ensure that they properly reflect the risk environment.

110. The audit committee is chaired by the Leader of the Administration. This is contrary to good practice and it is difficult to see how the committee can be fully effective with such an arrangement. A non-executive and independent chair is essential to promote the objectivity of the audit committee, its authority and to enhance its public standing in the eyes of the public.

Key risk area 3

111. It is important that the council supports the committee in developing its effectiveness as it becomes more established. Members received an introductory briefing on their role at the first committee, but to

date this has not been supplemented by regular and specific audit training in the areas recommended by CIPFA/ SOLACE such as financial reporting, governance, understanding the financial statements, the regulatory framework, the role of the internal and external auditor and the importance of risk management. The council has plans for further training of audit committee members to aid them in developing their scrutiny role.

112. The committee may find it helpful to focus more attention on the following areas of work:

- internal and external audit plans, which are prepared on the basis of risks identified. The committee needs to be assured that significant risks identified in audit plans are being managed appropriately, and to consider the implications of any slippage in audit work
- the committee will receive a selection of internal audit reports and will be advised of significant issues by the external auditor. The committee needs to challenge the effectiveness of action being planned by management in response to identified issues and consider the extent to which agreed actions are being implemented and are effective in practice
- review of the financial statements and the associated audit process, considering the timetabling of meetings to support this.

113. Moving forward, the audit committee may wish to consider its arrangements for meeting privately with the internal and external auditors. This is considered to be good practice in CIPFA audit committee guidance.

114. At its meeting in December 2008 the council agreed to retain the Best Value and Audit Forum (BVAF) but to re-name the forum as the Best Value Forum (BVF) and with the exception of the matters now within the audit committee, the business dealt with formerly by the BVAF continues to be dealt with by the BVF. Members have decided that the forum will continue to meet in private, meaning that public scrutiny is limited.

Roles and relationships

115. The Accounts Commission recommends that councils give priority to the continuous professional development of its members. A report from the Scottish Local Authorities Remuneration Committee in September 2008 recommended that all councillors should have training assessments and personal development plans in place by 31 March 2009. Members' completion of training needs analysis (TNA) and attendance at training events has been variable.

116. The TNA process has been refreshed and re-launched in January 2009 and one to one meetings took place prior to end of March 2009 with a view to identifying members' training priorities and rolling out a training programme specific to their needs. Some members are also participating in both the Improvement Service's training programme and its continuing professional development programme.

117. The challenge for officers is to provide training appropriate to members' varying training needs and we would encourage the council to continue to identify and support members' training.

Partnership Working

118. SOAs have been introduced across Scotland following the concordat between central and local government in November 2007. Development of the SOA for Falkirk and underpinning governance and performance management arrangements has been a key issue for partnership working, building on established community planning approaches. Our interest in SOAs relates primarily to how effective they are as a planning and performance management tool. Although progress against outcomes will be an important source of evidence for our BV2 pathfinder audit, we do not audit the delivery of the SOAs.

119. In June 2009 members of the Falkirk Community Planning partnership (CPP) approved the 2009-2012 SOA. The SOA incorporates 58 local outcomes. These have been organised around the 15 national outcomes, and are therefore clearly linked to these and the Scottish Government's 5 strategic objectives.

120. Guidance on the development of SOAs issued to community planning partnerships emphasised the need to ensure that SOAs have a strategic focus, with a manageable and meaningful number of high-level outcomes and supporting indicators. Falkirk's SOA has the highest number of local outcomes of all 32 SOAs across Scotland. The SOA also contains 193 separate supporting indicators, which is the fourth highest of all of the Scottish local authorities. While this means that much of the operational detail has been worked through, there is scope to shift some local outcomes and indicators to 'below the waterline' performance management arrangements, to allow for a more strategic set of high level outcome measures.

121. Notwithstanding these issues, the extent to which individual indicators have been specified has provided a good basis for ongoing performance management. Baselines have been established for most of the indicators, and data is being collected to enable ongoing monitoring. Performance against each indicator in 2007/08 is reported in the updated SOA and an annual performance report for 2008/09 has been prepared for consideration by members before publication.

122. A draft of the Strategic Community Plan 2010-2015 has recently been presented to the Community Planning Leadership Group. This new community plan reflects some key developments in partnership working, including:

- the implementation of the Local Government Concordat and the development of the SOA
- an increased focus on the delivery and attainment of outcomes
- recent structural and thematic changes which have taken place within the CPP, and

- the impact of the current economic downturn and measures to help support the local economy and local communities.

123. After consideration by the Community Planning and Leadership Group, the Strategic Community Plan will be presented to each of the partner organisations for approval and will be formally launched thereafter.

Community engagement

124. Falkirk council and its community planning partners have adopted the national standards for community engagement. The council regularly asks its customers what they think about its services and its future plans through surveys, meetings and other forms of consultation Every two years the council carries out a customer satisfaction survey and the 2008 survey attracted more than 4,200 responses from local residents. The next survey is scheduled to take place in the Spring of 2010.

125. Although the council has used consultation and community engagement successfully to inform policy developments, decision making and service delivery, it recognises the need to implement a community engagement strategy to provide a more consistent approach to community engagement. The council has set up a working group to progress the implementation of this strategy as well as taking steps to improve consultation including drafting guidance and support for services and establishing six monthly consultation plans which are made available to the public.

Public performance reporting

126. Although the council does not issue a standalone annual public performance report it is developing its approach to public performance reporting (PPR) using a range of mechanisms. These are being used to communicate corporate and service PPR information to stakeholders. They include articles in the Falkirk Council News which is distributed quarterly to all households in the council area, publication of housing performance in the *'in our neighbourhood'* newsletter and through the "Performance Zone" on the council's website. This provides a clear way of accessing an impressive and well organised range of council performance information.

127. The council's PPR also includes information on the SOA and service progress and performance. In addition the council produces information targeted at specific stakeholders, including newsletters for tenants and local businesses and an annual standards and quality report for education, supplemented by reports for individual schools.

128. In line with best practice, the council has published an Annual Governance Statement within its 2008/09 financial statements based on CIPFA/SOLACE's *Delivering Good Governance in Local Government* Framework. This statement summarises the key elements of Falkirk Council's governance framework, set out within the context of the six Principles of Good Governance, defined within the CIPFA/SOLACE Framework.

Governance and internal control

129. The council has highlighted a range of areas for improvement in its annual governance statement and has stated its commitment to addressing these as part of its continuous improvement agenda. Key areas identified for improvement include :

- continuing to give priority to addressing issues raised within Audit Scotland's report on Best Value and Community Planning; including review of management structures, improving scrutiny and improving asset management;
- developing the role of the council's Business Improvement Team with procedures established to ensure that measures designed to improve the efficiency and effectiveness of systems and processes are implemented;
- reviewing and re-issuing council's contract standing orders and financial regulations;
- completion of the roll out of personal development plans to elected members;
- further development of risk management arrangements;
- reviewing and updating community engagement arrangements.

Outlook

130. Partnership working is critical to the council's success. The Accounts Commission acknowledges that SOAs are still at an early stage of development. If they are to be successful the partnership will need to develop effective governance and accountability arrangements to support effective working and the delivery of overall aims.

131. The introduction of an annual governance statement and the associated review processes, represent best practice. The council has shown a strong commitment to reporting publicly on its governance arrangement and the action it is taking to improve them. This places the council in a strong position to help ensure that it continues to improve its arrangements.

Performance management and improvement

Introduction

132. We believe that an effective council has a clear and ambitious vision for what it wants to achieve for its locality and communities to secure high quality services and effective outcomes for local people. The vision is effectively promoted by the member and officer leadership of the council and supported by staff and partners. It is backed up by clear plans and strategies to secure improvement, with resources aligned to support their delivery. An effective council has a performance management culture which is embedded throughout the organisation. The council recognises that performance information needs to be reported more consistently which will improve members' ability to carry out their scrutiny role.

Vision and Strategic Direction

133. Councils that perform well are ambitious and have clear aims and objectives for delivering high quality services that provide best value and meet the needs of their local community. Member and officer leadership of the council are responsible for promoting this vision effectively and ensuring its achievement, with support of staff and partners. The community plan is at the centre of the council's planning framework and cascades to service plans. The council and its partners have established a long-term vision for the Falkirk area which is shared and well understood.

Performance management

134. The council continues to develop its performance management system. All services report performance to the BVF on a quarterly basis. Good progress has been made and work is continuing to develop the approach.

135. The council has made significant investment in performance management information and has now procured "Covalent", a computer based performance management system. Reports from Covalent highlight service performance on corporate and service plan performance indicators. This incorporates the use of a traffic light system to highlight performance against targets as well as performance trends. Work is now progressing on the next implementation phase of Covalent which will report on all of the SOA, corporate plan and service plan commitments at service manager level. The system is expected to provide an on-line monitoring facility for managers.

136. Since 2007 the council has been working towards embedding a performance management culture both across the council and the Community Planning Partnership. It is now looking at how it can further reinforce this culture through training and development programmes to ensure that performance management becomes standard practice throughout its management chain.

137. Within Falkirk Council all senior managers of the council are being interviewed, looking at how employees spend their time and what ideas there are to improve how services are delivered and managed. This work is continuing, but the council expects it to lead to specific proposals for improvement and efficiency.

138. The Diagnostic Pathways Programme was initiated by the Scottish Government in 2008. It has been co-ordinated by the Improvement Service with all 32 councils participating. The council has recognised the importance of integrating the work from the Programme to identify and achieve improvements in its strategic service review framework.

139. The council has recently reviewed the way it conducts strategic service reviews, introducing a framework for determining what reviews should be undertaken and what these are expected to deliver. Five such reviews were planned and an update on progress was reported to the BVF in September 2009. While some specific improvements are being progressed, the overall impact of these reviews has, to date, been limited. Some savings have been identified, most notably in relation to procurement, but otherwise these have not been significant. We have been advised that one of the five strategic service reviews, the review of Fleet Management, has been used to pilot the revised strategic service review approach. The results of this review of fleet management are currently being drawn together.

140. The council has recently embarked on a new process of self-evaluation, making use of the Scottish Performance Improvement Framework. Self-evaluation will be an important tool in managing future performance. The council needs to consider how well it coordinates all of its improvement activity and reviews to ensure that it systematically identifies key areas for improvement and ensures that it implements the actions necessary to improve effectiveness and efficiency.

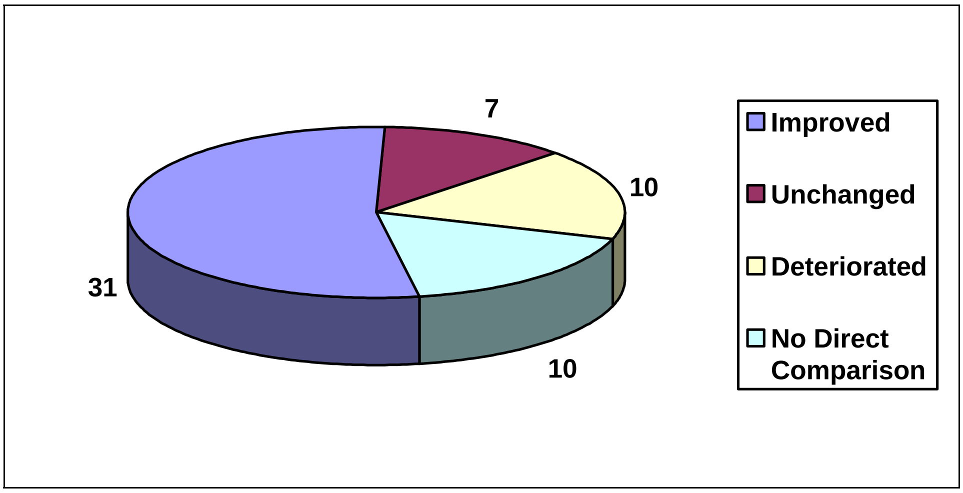
Statutory performance indicators

141. One of the ways of measuring council performance is through the statutory performance indicators (SPIs). A total of 58 SPIs were required in 2008/09. These were published by 30 September 2009. SPIs provide a consistent form of measurement for councils to review their performance over time and to make comparisons with other councils. The council makes significant use of SPIs in measuring and managing its performance. In overall terms, Exhibit 7 confirms that the council has made improvement in a number of areas.

142. Each year we review the reliability of the council’s arrangements to prepare SPIs. Overall, the quality of working papers provided to support the SPIs continued to be variable although we did note improvements in the process.

Exhibit 7

Improvements demonstrated by SPIs (Total 58 indicators)



Equality and Diversity

143. Falkirk council is aiming to ensure that all of its activities comply with best practice in the field of equality and diversity. Corporate task groups supplement the work of the Equality and Diversity partnership and in 2008, relevant targets were introduced to service plans. In 2008, we published *The impact of the race equality duty on council services,* a study examining how councils had responded to the race equality duties placed on their services.

144. This study found that all councils have developed policies and processes on race equality. A number of initiatives are in place to meet the diverse needs of local communities, such as the provision of interpretation and translation services, and information packs for recent migrants. However, councils lack information about minority ethnic communities, their needs and experiences. Councils are also unable to show how race equality is routinely built into the design and delivery of services.

145. A number of areas of good practice were identified in the report relating to Falkirk Council, however the report also highlighted areas for improvement for all councils and these have been highlighted to Services for consideration in their Equality Action Plans. The council and its Community Planning partners have also developed a reporting structure which provides for reporting Equality and Equity of Access issues to the Community Planning Management group. Six monthly progress reports are provided to the group which include information on key priority areas and progress within these.

Efficiency

146. In June 2004, the Scottish Executive launched the Efficient Government Initiative. The initiative aspired to achieve £1.5 billion of efficiency savings by 2007/08 and reported efficiency savings of £1.7 billion. In November 2007 the Scottish Government announced the Efficient Government Programme 2008/09 – 2010/11, setting set out its target to deliver cash-releasing efficiency savings amounting to £1.6 billion in 2010/11.

147. To achieve this level of savings the Scottish Government set a target of two per cent cash-releasing savings for each of the three financial years. Public bodies will therefore need to be able to deliver year on year efficiency savings and contribute to the achievement of the Scottish Government's savings targets.

148. As part of the 2008/09 budget process, £3.4 million of efficiency savings were identified and reported to members. Achievement of these efficiency savings is monitored through the budgetary control process. All councils are asked to publish an efficiency statement by September each year and the council's third efficiency statement, presented to the BVF in September 2009 reports that £6.3 million of efficiencies gains were actually achieved in 2008/09, in addition to the £5.5 million achieved in 2007/08.

149. As noted in the use of resources section above, the council will require to achieve significant efficiencies and other savings in the years ahead. This will require continuing review across all of the council's activities and effective coordination of the council's efforts.

Key risk area 4

150. Tackling climate change and making the best use of resources require the efficient use of energy. In 2008, we published a report on this subject: *Improving Energy Efficiency*. Our report concluded that the public sector in Scotland has made progress in using energy more efficiently, recording a 5% decrease in energy consumption in councils for the three years to March 2007. However, the amount spent on energy, over the same period, increased by 47% due to price increases. Public bodies are recommended to develop and implement robust energy strategies and to encourage the necessary changes to culture and behaviour.

151. Falkirk Council is in the process of implementing a Carbon Reduction Strategy which has a target of reducing CO2 emissions by 20% by 2013. Central to the Strategy are a range of energy efficiency measures, including the implementation of an awareness and behavioural change programme for Council staff and pupils (Carbon Crusader campaign); implementation of annual programmes of energy efficiency and lighting improvements; changes to procurement policy and upgrade/improvement of the council's assets.

Progress on delivery of the council's best value improvement plan

152. A full review of best value and community planning was completed in early 2008. The best value report 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.

153. However areas of improvement were identified including the embedding of new strategies and policies in key areas such as asset management, procurement and risk management. The report also recommended the review of both political and managerial structures and highlighted areas of poor service performance particularly in housing and social work services.

154. The improvement agenda identified by the Best Value report was included within the council's existing improvement plan. This is monitored by the corporate management team, with progress reported to the BVF and the Policy & Resources Committee. The most recent progress report presented to the BVF identifies that the majority of the actions identified in the Improvement Plan are proceeding within their target timescales.

155. Some important progress has been made including the roll out of the Achievement and Personal Development Scheme across the council, adoption and roll out of an agreed approach to self assessment and continuous improvement for rolling out across the council and agreeing a common reporting structure for performance management supported by the introduction of *Covalent* performance management software.

156. While initial work is progressing well in most areas, significant further effort is required to bring much of this to a conclusion so that improvement initiatives have the anticipated impact. Comments are made on a number of such initiatives throughout this report, including:

- asset management
- workforce planning
- scrutiny
- performance management
- review, improvement and efficiency
- community engagement.

Risk Management

157. Risk is the threat that an event, action or inaction will adversely affect an organisation's ability to achieve its objectives. Risk management is the process of identifying, evaluating and controlling risks. Risk management supports decision making and contributes to performance.

158. Effective risk management is an essential element of good corporate governance which, in turn, supports effective decision making and ultimately contributes to improved performance. Councils with mature governance arrangements embrace the concept of risk, recognising that awareness, discussion and management of risk represents strength in their management arrangements.

159. The council has recently reviewed its process for developing its corporate risk register and has prepared a draft risk register which is scheduled to be considered by the corporate management team. We also note that the consideration of the council's risk management arrangements is included within the remit of the newly established Audit Committee. While recognising these improvements, there is still some way to go before risk management arrangements can be considered to be fully embedded within the council.

160. Following an internal review of the Community Planning Partnership in 2007, the council recognised that improvements could be made to its risk management arrangements. Work is ongoing in this area but is not well progressed.

161. Business Continuity is a management process that provides a framework to protect an organisation following a disruptive event. The council has a Business Continuity Management Policy and supporting Business Continuity Plans in place. It is essential that such plans are tested to ensure they are robust.

Outlook

162. The development of the SOA and supporting arrangements has the potential to improve planning and performance management significantly. However, the long term and complex nature of many of the outcome targets, pose many challenges for performance management, for example, in evidencing how the council's action make a difference to the locality. A key challenge for the council will be integrating and aligning its approaches to support delivery of the desired outcomes.

163. We are currently developing our approach to BV2 by working with five pathfinder councils. From April 2010, we shall be rolling out the new approach to all Scottish councils. The timing of the council's best value audit will be determined by a risk assessment. We will report the risk assessment in the first half of 2010. The risk assessment will be carried out in conjunction with other scrutiny bodies. That means that not only will it determine the timing and scope of the BV2 audit of the council, but it will also identify the timing and scope of other scrutiny work. Along with the other bodies, we intend to publish a scrutiny plan for each council covering all scrutiny activity over a three year period.

Appendix A: Reports and Opinions

External audit reports and audit opinions issued for 2008/09

Title of report or opinion	Date of issue	Date presented to Audit Committee
Strategic Audit Risk Analysis	31/3/09	15/06/09
ICT Review	30/4/09	Not yet presented
Governance and Internal Control	30/10/09	Not yet presented
Statutory performance indicators	31/8/09	N/A
Report on financial statements to those charged with governance	30/9/09	N/A – to be presented to P&R Committee
Audit opinion on the 2008/09 financial statements	30/9/09	N/A – to be presented to P&R Committee
Annual report to the members and the Controller of Audit	30/10/09	N/A – to be presented to P&R Committee
Audit opinion on Whole of Government Accounts	30/10/09	N/A

Appendix B: Action Plan

Key Risk Areas and Planned Management Action

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1	68	**Pension contributions stabilisation strategy** The funding level of the Falkirk Pension Fund is low compared to other Scottish local government pension funds. The decision to apply a stabilisation strategy to restrict the rise in employers' contributions means that the future funding level will be lower than would otherwise be the case. ***Risk: The stabilisation strategy may place a strain on the fund, leading to significantly higher employer costs in the long term.***	The Council will continue to work closely with its Actuary to ensure continued stabilisation within an acceptable funding level/ employer contribution rates. In addition, the Fund is subject to a triennial actuarial valuation. The next valuation as at March 2011 will review the appropriateness of the stabilisation strategy.	Director of Finance	Ongoing
2	75	**Longer Term Financial planning** Longer term financial planning remains limited. There is also scope for further improvements in the integration of financial plans and the Single Outcome Agreement (SOA) in order to deliver the outcome aims set out in the SOA. ***Risks: Resources may not be effectively targeted at corporate priorities and outcome deliverables over the longer term.***	Some progress on the development of longer term financial planning has been made, notwithstanding the uncertainties arising from the deferral of the UK wide Spending Review. Further work will be carried out during 2009/10 and will be influenced by resource planning information as it becomes available.	Director of Finance	Ongoing

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
3	110	**Audit committee** The committee is chaired by the council leader which is contrary to good practice and could impede its effectiveness. ***Risk: the audit committee may not be effective in monitoring and improving the council's risk management and internal control systems.***	The Committee Chair position has been agreed by the Council. No change is anticipated.	N/A	N/A
4	149	**Savings and efficiency** The council anticipates a significant real terms reduction in the resources available to it over the medium term and has forecasted that it will need to identify significant savings over the next 4 years. Achieving the level of savings required will require continuing review across all of the council's activities and effective coordination of the council's efforts. It is likely that the council will be reliant on working much more closely with neighbouring councils and other public sector organisations if it is to release the level of savings required, without damaging services. There is much to do before specific plans for this are developed and implemented. ***Risk: The council cannot balance future budgets without significantly compromising its ability to deliver on its priorities and corporate objectives.***	Work is underway to meet the challenge of a significant real terms reduction in resources available. Budget deliberations for 10/11 – 12/13 will be considered in February. Other Public Sector Organisations are engaged as part of the Community Planning/SOA process	Chief Executive/ Director of Finance	Feb 2010