

Audited Annual Report
and Accounts

2016/17



Falkirk Council



ANNUAL REPORT AND ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2017

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INTRODUCTION TO THE ACCOUNTS

The statements which follow show the financial results of Falkirk Council for the year to 31st March 2017.

They comprise:

- A Management Commentary providing a summary and explanation of the Council's financial position.
- A Statement of Responsibilities for the Annual Accounts.
- An Annual Governance Statement.
- A Remuneration Report detailing payments and pension information for senior officers and senior elected members.
- The Expenditure and Funding Analysis takes the net expenditure that is chargeable to taxation and rents and reconciles it to the Comprehensive Income and Expenditure Statement.
- The Comprehensive Income and Expenditure Statement - this highlights gross revenue expenditure, income and net expenditure for the Council. The Account shows how net expenditure has been financed.
- The Movement in Reserves Statement which shows the movement in the year of the different reserves used by the Council.
- The Balance Sheet - sets out the overall financial position of the Council as at 31 March 2017.
- The Cash Flow Statement - shows where the Council's money came from and how it was spent.
- Notes to the Core Accounts including the General Accounting Policies and other explanatory information.
- The Group Accounts consolidate the Council's interest in other entities to provide services and improve the well-being of the local area.

MANAGEMENT COMMENTARY

1. INTRODUCTION

- 1.1 The Local Authority Accounts (Scotland) Regulations 2014 include the requirement for a management commentary which reflects those matters companies are required to disclose under the Companies Act 2006, as interpreted for local authorities. The purpose of the management commentary is to help readers to understand the annual accounts. It should include a description of the risks and uncertainties facing the Council along with the factors likely to affect future performance.
- 1.2 The financial results for Falkirk Council for 2016/17 are set out on pages 32 to 105 and have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17. The statement of accounting policies which have been adopted are shown in notes 1 to 5, with more specific policies shown alongside the relevant notes. The adoption of these policies is to ensure that the annual accounts provide a true and fair view of our financial performance.

Accounts

- 1.3 The Code requires local authorities to produce annual accounts and governs the format and content of those accounts. The pages that follow are the Council's Accounts for 2016/17. The Annual Governance Statement is presented in pages 18 to 22, followed by the Annual Remuneration Report on pages 23-31.

General Fund & Housing Revenue Account

- 1.4 The information in this management commentary mainly relates to the General Fund. The General Fund is the statutory fund into which all the receipts of the Council are required to be paid and out of which all liabilities of the Council are to be met, except to the extent that statutory rules might provide otherwise. The General Fund is funded by government grants, fees and charges, council tax income, non-domestic rates income (subject to pooling arrangements) and interest/returns on investments and is split between uncommitted balances (the level of funding available to the Council to manage financial risks and unplanned expenditure) and balances which have been earmarked for specific purposes. General Fund services include Children's Services, Development Services, Corporate & Housing Services and the payments from and to the Community Trust and Integration Joint Board.
- 1.5 The Housing Revenue Account (HRA) deals only with the income and expenditure related to the council's housing stock. The HRA expenditure is fully funded from housing rents. As such, it does not face many of the pressures of the General Fund. Council housing falls under the responsibility of Corporate & Housing Services.

Group Accounts

- 1.6 Local authorities are required to prepare Group Accounts in addition to their own Council's accounts where they have a material interest in other organisations. Group Accounts have been prepared (see pages 99 to 105) which consolidate the results of the Council with its share of the following entities:
- Central Scotland Valuation Joint Board
 - FCSL (Holdings) Ltd
 - Falkirk Community Stadium Ltd
 - Falkirk Community Trust Ltd and Falkirk Community Trading Ltd
 - Common Good Funds
 - thinkWhere Ltd
 - Falkirk Integration Joint Board (IJB)
- 1.7 The Falkirk IJB was established in 2015 with a go live date of 1 April 2016. This is the first year that the Falkirk IJB has been included in the group accounts as 2015/16 was a transitional year for the partnership. More information on the IJB is included in paragraph 2.10.

- 1.8 The effect of the inclusion of the Council’s interests on the Group Balance Sheet is to reduce both Reserves and Net Assets by £8.671m. This represents the Council’s share of the net liabilities in those entities.

2. INFORMATION ABOUT THE FALKIRK AREA

- 2.1 Falkirk Council has a growing population of 159,380, roughly 72,600 households. The largest towns in the area are Bo’ness, Denny, Larbert, Stenhousemuir, Falkirk and Grangemouth – Scotland’s premier port and home to its only major oil refinery. Falkirk is one of the best connected areas in Scotland, within half an hour of Glasgow and Edinburgh with excellent motorway, rail links and a sea terminal.
- 2.2 The Falkirk area employs a higher proportion of people in manufacturing than the rest of Scotland (13% v 7%), mainly as a result of the chemicals and petro-chemicals industry in Grangemouth. Other key sectors in the area include vehicle manufacturing, transportation and storage, tourism and leisure.
- 2.3 Tourism has seen a significant increase in recent years as a result of the construction of the Helix park and the two giant Kelpies which have received worldwide attention. The park was funded by Falkirk Council, the Big Lottery Fund, Falkirk Environmental Trust, Scottish Canals, Sustrans, and Score and is managed by Falkirk Community Trust. The project builds on other existing attractions in the area including the Falkirk Wheel, Callendar Park & House, the Antonine Wall, Blackness Castle and Bo’ness Steam Railway.
- 2.4 The Council provides a diverse and wide range of services to all residents, including bin collection, education, home care, planning application services, social housing, fostering and adoption services and roads maintenance. It also provides funding to the Falkirk Community Trust. The Council employs 6,976 employees.
- 2.5 The Council has 30 Councillors elected every five years to represent the interests of the local community. The number of Councillors was reduced from 32 for the local government election in May 2017.
- 2.6 The management of Falkirk Council is led by the Chief Executive, Mary Pitcaithly. The operational structure consists of three Services - Corporate & Housing, Development and Children’s Services. Adult Social Care services currently sit within the Integration Joint Board established to take forward health and social care, though are included within the Councils management arrangements for consistency etc. The Council has established three Arms’ Length Organisations – Falkirk Community Trust, Falkirk Community Stadium Ltd and thinkWhere Ltd. ThinkWhere was set up jointly by Falkirk and Stirling Councils. More information on these organisations can be found at the following links:

www.falkirkcommunitytrust.org
www.thinkwhere.com
www.falkirkstadium.co.uk

What are the Council’s Priorities?

- 2.7 The Council works in close partnership with a number of other public sector partners, the Third Sector and increasingly with local communities to achieve our vision for the area “as the place to be”. The plan for delivering on this vision is the Strategic Outcomes and Local Delivery Plan (SOLD) which is supported and overseen by the Community Planning Partnership. The plan references 4 strategic priorities, which represent some of the most significant challenges facing the area, and 6 local outcomes which represent how partners will endeavour to improve public services, local communities and the lives of local people. Our priorities and outcomes are as follows:

Strategic Priorities

Improving mental health and wellbeing
Maximising job creation and employability
Minimising the impact of substance misuse
Addressing the impact of poverty on children

Local Outcomes

Our area will be a fairer and more equal place to live
 We will grow our local economy to secure successful business investment and employment
 Our children will develop into resilient, confident and successful adults
 Our population will be healthier
 People live full, independent and positive lives within supportive communities
 Our area will be a safer place to live

- 2.8 The Council is in the process of producing its new Corporate Plan which will consider how the Council contributes to delivery of the SOLD and will also set out the Council’s priorities going forward. It is anticipated that this plan will be presented to Council in September.

The SOLD can be accessed from the following link:

<http://www.falkirk.gov.uk/services/council-democracy/policies-strategies/docs/community-planning/03%20The%20Strategic%20Outcomes%20and%20Local%20Delivery%20Plan%202016%20-%202020.pdf?v=201707041339>

The current Corporate Plan can be accessed from the following link:

<https://www.falkirk.gov.uk/services/council-democracy/councillors-decision-making/docs/management-structure/corporate/02%20Corporate%20Plan.pdf?v=201406041009>

- 2.9 The Council provides a total of £3.8m (2016/17) in funding to a number of external organisations to assist the delivery of its priorities. In doing so the Council needs to ensure that this money is spent wisely and represents good value. The Council has a statutory obligation to comply with the Code of Guidance on Funding External Bodies and Following the Public Pound. This forms the basis for the regular scrutiny of these organisations to Elected Members through annual reports to our Scrutiny Committee.
- 2.10 Integration of Health and Social Care is the Scottish Government’s programme of reform to improve services for people who use adult health and social care services. It aims to ensure that health and social care provision across Scotland is joined-up and seamless. The Falkirk IJB is responsible for overseeing the planning, management and delivery of relevant health and social care services. A Strategic Plan has been developed which describes how services will be delivered to adults who use health and social care services. The vision for the Strategic Plan is:

“To enable people to live full, independent and positive lives within supportive communities.”

The Strategic Plan can be accessed from the following link:

<https://nhsforthvalley.com/wp-content/uploads/2015/11/Falkirk-Integrated-Strategic-Plan.pdf>

3. HOW DID THE COUNCIL PERFORM IN 2016/17?

How did we perform against our budget in 2016/17?

- 3.1 In February 2016 the budget set for Falkirk Council for 2016/17 included £2.2m of reserves in order to achieve a balanced budget. Elected Members were provided with regular updated projections through the Financial Position reports submitted to the Executive. The projection report in January 2017 showed that the forecast was a deficit of c£0.2m. The year-end outturn shows an improvement of £2m. As reported throughout 2016/17, there were favourable movements in most of the Services mainly as a result of staff savings. Further explanation is included at paragraph 3.8.
- 3.2 The year end outturn position is a deficit of £0.488m. This represents a 1% variance on the budget. Added to this, £3.455m of earmarked and other reserves were transferred to the general fund, giving a balance on the uncommitted reserves of £11.529m.
- 3.3 The Movement in Reserves Statement shows an overall net increase in General Fund balances of £1.382m for the year, which can be analysed as follows:

	31 March 2016 £'000	Movement £'000	31 March 2017 £'000
Total Earmarked Reserves	10,037	(1,585)	8,452
Uncommitted Reserves	8,562	2,967	11,529
Total General Fund	18,599	1,382	19,981

- 3.4 As part of the 2017/18 budget setting process, Elected Members agreed to apply £3.3m of reserves to help bridge the funding gap. The available uncommitted reserves of £11.529m is now £8.229m as a result of that decision. The Council’s approved reserves strategy sets the appropriate range of general fund reserves as £6.6m - £10m.

Management Accounts v Annual Accounts

- 3.5 During the course of the year, virements will be made as appropriate and projections reported to Executive. The reports presented to the Executive show Elected Members projections against budget for the year. These reports focus on the figures that impact on the general fund balance and ultimately on the council tax payer.
- 3.6 Following the Telling the Story review of the presentation of local authority accounts, the 2016/17 Code changed the segmental reporting arrangements for the Comprehensive Income and Expenditure Statement and introduced the Expenditure and Funding Analysis. Both these statements now require Councils to report performance on the basis of how they are structured and how they operate, monitor and manage financial performance.
- 3.7 Whilst this helps to link the reports to the Executive with the annual accounts, the annual accounts still have to be prepared in accordance with International Financial Reporting Standards. A number of statutory adjustments are required to reconcile the accounts and the reports to the Executive.

	£'000
Surplus on the Provision of Services (page 33)	1,220
Adjustments between the funding and accounting basis	(1,339)
Transfers from other Reserves	1,813
General Fund Movement	1,694
Application of HRA	(312)
Increase in General Fund Balance (page 34)	1,382

	£'000
Increase in General Fund Balance	1,382
Add: Movement in Earmarked Reserves	1,585
Movement in Uncommitted Reserves	2,967

3.8 The outturn against budget for 2016/17 is shown below. This reflects an increase in the general fund reserve of £2.967m.

	Budget	Actual	
	2016/17	2016/17	Variance
	£'000	£'000	£'000
Children's Services	181,533	180,679	(854)
Social Work – Adult Services	5,865	5,332	(533)
Development Services	28,758	28,690	(68)
Corporate & Housing Services	26,485	25,444	(1,041)
Trading Accounts	(540)	(567)	(27)
Provision for Budget Pressures	1,500	-	(1,500)
Sub Total	243,601	239,578	(4,023)
Add:			
Falkirk Community Trust	11,934	11,934	-
Valuation	1,022	1,022	-
Integration Joint Board	59,521	59,521	-
Employee Related Liabilities	-	3,267	3,267
Capital Charges	17,328	15,257	(2,071)
Total Net Expenditure	333,406	330,579	(2,827)
Funding			
Revenue Support Grant	206,724	206,724	-
Non-Domestic Rates	68,028	68,031	(3)
Council Tax	54,951	55,336	(385)
Total Funding	329,703	330,091	(388)
(Surplus)/Deficit	3,703	488	(3,215)
Transfers to/(from) Earmarked Reserves	(1,075)	(1,585)	(510)
Transfers to/(from) Other Reserves	(428)	(1,870)	(1,442)
(Increase)/Decrease in Uncommitted General Fund Reserve	2,200	(2,967)	(5,167)

The explanations for the more significant variances are noted below:

- Children's Services – an underspend in Education of £1.473m has been offset by an overspend in Social Work – Children & Families of £0.619m. The main underspends in Education are due to a reduced number of children in residential schools, lower employee costs due to vacant posts and £0.5m of probationers funding which has been carried forward to 2017/18. The overspend in Social Work for Children & Families is mainly a result of costs associated with care packages for children looked after away from home. However, there was an improvement in these projected costs during the course of 2016/17.
- Social Work – Adult Services – this budget covers the elements of adult social care that did not transfer to the Integration Joint Board, mainly administration, property and transport. The mental health officer service also remains within this service. The majority of the underspend is due to lower expenditure on property costs and an underspend within supporting people of £0.1m.
- Corporate & Housing Services – the majority of the underspend (£0.6m) comes from reduced staffing costs across all of the central support services.
- The figure for employee related liabilities covers the costs of compensatory lump sums paid as a result of employees leaving the Council through voluntary severance as well as an additional provision for equal pay.

Financial Indicators

- 3.9 The Chartered Institute of Public Finance and Accountancy (CIPFA) Directors of Finance Section recommends the inclusion of certain “financial ratios” in the Management Commentary to assist the reader to assess the performance of Falkirk Council over the financial year and the affordability of its ongoing commitments. The following table provides the indicators with an explanation of each, grouped into CIPFA categories for the various areas of financial activity.

Financial Indicator	Commentary	2015-16	2016-17
Uncommitted general fund reserve as a % of annual net budget	Reflects the amount of funding available to manage unplanned events	2.5%	3.5%
In year council tax collection	Reflects Falkirk Council’s effectiveness in collecting council tax debt	96.09%	96.39%
Actual outturn compared to budgeted expenditure	How closely expenditure compares to the budget is a reflection of the effectiveness of financial management	99.8%	99.2%
Ratio of Financing Costs to Net Revenue Stream	Shows how much of the Council’s income is committed to repaying debt arising from the capital investment	5%	5%
Incremental Impact of Capital Expenditure on Council Tax	Affordability Indicator showing implications of capital expenditure and its financing on the “bottom-line”	£19.12	£17.87
Capital Financing Requirement	The Capital Financing Requirement reflects the underlying need to borrow for Capital Investment	£279.1m	£267.6m
External Debt Levels	The actual external debt and long term liabilities of Falkirk Council. This should never exceed Falkirk Council’s authorised limit	£410m (Limit) £362m (Actual)	£420m (Limit) £355m (Actual)

Earmarked Reserves

- 3.10 The table at paragraph 3.3 shows earmarked reserves of £8.5m as at 31 March 2017, a reduction of £1.6m from 1 April 2016. For the purposes of the accounts, earmarked reserves include the Devolved School Management (DSM) reserve, Economic Development, Central Energy Efficiency, Spend to Save and Housing. Comments on the housing reserve are included at paragraph 3.1.2. The main movements in earmarked reserves were in the DSM and the Economic Development reserves.

- DSM – The balance on the fund at 31 March 2017 is £3.357m. This takes into account a sum of £0.500m transferred back to the General Fund as a contribution to the 2017/18 savings targets and the £0.550m transferred to the fund to offset teaching costs in 2017/18.
- Economic Development - The £0.624m earmarked to support the Falkirk Townscape Initiative will now be funded through the capital programme and this sum has therefore been transferred back to the General Fund. This leaves £0.283m for property maintenance/dilapidations works at Meeks Road, Almond Court and Victoria Mills (Bo’ness) and £0.084m for business Support/Landscape Initiatives including delivery of tourism signage works.

Integration Joint Board

- 3.11 In line with the approved budget for 2016/17, the Council passed a net sum of £61.261m (£59.521m from the General Fund) to the IJB for delegation back to the Council. It is for the IJB to manage its expenditure within the resources provided. Elected Members should be aware that for the Council Services passed over to the IJB, an underspend of £0.585m is being reported. This is made up of £0.275m from HRA related spend on Garden Aid and Housing Aids and Adaptations, and £0.310m from other adult social care services. The latter underspend includes non HRA Garden Aid and savings and cost reductions through reviewing high cost packages, re-negotiating and harmonising external residential care rates as well as improving the efficiency of in house services.

Housing Revenue Account

- 3.12 The approved expenditure budget for 2016/17 for the Housing Revenue Account was £59.415m, to be fully matched with income. The outturn was £58.524m with income of £58.836m. The housing revenue account reserve increased by £0.312m.

- 3.13 Within the Housing Revenue Account, savings of £1.8m across employee, property, supplies and services and support service expenses were offset with an increase in contributions from revenue to capital (CFCR) of c£2.5m to increase the resources available for housing investment.

Public Performance Reporting

- 3.14 The performance of the Council is reported in the Performance section of the Council’s website which can be found at:
<http://www.falkirk.gov.uk/services/council-democracy/budgets-spending-performance/council-performance/>
- 3.15 This section of the website includes information on our statutory performance, key performance indicators and benchmarking information. The fifth annual report for the Scottish Local Government Benchmarking Framework was published in early 2017. This report covers the Council’s performance for 2015/16 and compares it to other Scottish Local Authorities. This work highlights both positive and negative trends in both financial and qualitative performance terms which can be used to help plan and focus improvement work
- 3.16 Falkirk Council has been highlighted in the benchmarking report for its innovative changes to waste collection resulting in increased levels of recycling and reduced costs for disposal and collection. At the same time customer satisfaction levels have stayed around the Scottish average.
- 3.17 A further area performing well is Council Tax collection where costs are below the Scottish average but collection rates are above the Scottish average.
- 3.18 As a social housing landlord, Falkirk Council annually submits performance data to the Scottish Housing Regulator (SHR) to allow the SHR to assess performance against the Scottish Government’s Social Housing Charter. In conjunction with the SHR, 10 indicators were identified for improvement action during 2016/17. The 2016/17 performance submission highlights improvement in 9 out of the 10 indicators. Whilst there was a small reduction in performance for 1 indicator, performance with that indicator remains above the All Landlord Scottish average for 2015/16. The Council is now performing better than the Scottish average in 5 of the 10 indicators, with improvement plans in place to continue to deliver improved performance going forward.
- 3.19 Educational attainment is an area where the Council is below national average, specifically for the numbers of pupils gaining 5+ awards.
- 3.20 Each of the Council services reports to the Performance Panel. These reports identify key priorities, areas for improvement and the important indicators that the service has identified. Performance and progress in each of these areas is reported and where appropriate improvement actions are identified. Work is ongoing to address the areas where performance is below the target level.

4. WHAT ARE THE BIGGEST RISKS FACING THE COUNCIL

The Financial Health of Scottish Local Authorities

- 4.1 Scottish local authorities have been faced with funding cuts for a number of years. The Scottish Government Grant is the main source of income for local authorities. In November 2016 Audit Scotland published their report entitled “Local Government in Scotland: Financial Overview 2015/16”. This report highlighted that since 2010/11, local authorities have experienced a real term reduction in funding of 8.4%.
- 4.2 The challenges facing local authorities and indeed the public sector as a whole are set to continue. The Audit Scotland overview report notes that all councils are facing future funding gaps and that there is a variation in how well placed councils are to address these gaps.
- 4.3 Audit Scotland have emphasised the need for medium and longer term financial planning to allow councillors and officers to assess and scrutinise the impact of approved spending on future budgets and the sustainability of their council’s financial position.

What is the financial outlook for Falkirk Council?

- 4.4 The outlook for the Housing Revenue Account is broadly healthy. As a ring fenced account the current balance of c£5m is considered an appropriate level of reserve to meet any short-term pressures. The information below looks at the outlook for the Council’s General Fund services.

- 4.5 In February 2017 the budget report presented to Falkirk Council included an estimate of the funding gap for Falkirk Council over the next four years. It was estimated that Falkirk Council will have to address a funding gap of c£38.8m over 2018/19 and 2019/20.
- 4.6 A commitment was made to carry out a more in depth review of the estimates of income and expenditure for the next 5 years. This remains a work in progress and has involved identification of key cost drivers and pressures facing each service, along with estimates of issues that will impact the whole Council.
- 4.7 There are a number of significant things that impact on the funding gap estimates, including:
- Government grant reductions – for the last few years the Scottish Government has presented a one year grant settlement figure. This makes financial planning more difficult and any small variance in the estimates used can make a significant difference.
 - Pay awards – staff represent our single biggest area of spend and pay awards have a big impact.
 - Inflation – the various areas of Council spend are subject to inflationary pressures. Projections are that inflation will increase over 2017. This can have a major effect on prices and costs.
 - Demographics – the age of our population will determine demand on our services. For example, more children will require more school places so we need to make sure we can accommodate this. In addition, more elderly people will require more care services. This is a key driver for looking at how we deliver services in the future.
- 4.8 At this stage, the estimate of £38.8m remains. However, we need to consider the best and worst case scenarios for things such as government grant and consider a range of possibilities. This work is ongoing.

How are we going to tackle the funding gap?

- 4.9 The main ways in which the funding gap can be tackled are:
- Raise council tax – this is dependent on any restrictions put in place by the Scottish Government.
 - Use reserves – this is not a sustainable way to address the funding gap as it doesn't address the underlying problem that expenditure is more than income. Reserves can only be used once and can be used to buy time to find a solution. Falkirk Council has a reserves policy that is reviewed each year as part of the budget setting process. That policy sets the minimum level of uncommitted resources necessary as c£6.6m.
 - Make savings – this can be done through stopping or reducing services as well as through identifying efficiencies in how services are delivered. However, given the historic budget gaps that the Council has faced (£128m from 2007/08 to 2017/18), savings of the amount required are becoming more and more difficult to identify. This is a problem facing most local authorities and many have adopted an agenda for change and transformation. For Falkirk Council, this is called “Council of the Future” (see paragraph 5.1).
- 4.10 The Council has a process called the Equality and Poverty Impact Assessment process (EPIA). The aim of this is to ensure that the Council considers the impact of any policy or service delivery changes on our customers, which would include any proposed cuts or reductions to services. The EPIA process is there to ensure we meet our statutory responsibility under the Equalities Act 2010 by making sure that our services are accessible to everyone, whilst paying particular attention to protected characteristics as defined by the Act.
- 4.11 All of the options outlined have difficulties associated with them and Elected Members will be asked to make difficult decisions going forward. Ensuring that Elected Members are fully briefed on all of the options will be critical.

What are the Other Risks and Uncertainties we face?

- 4.12 The Council's approach to risk is included in the Annual Governance Statement within these accounts. This statement also explains the system of Internal Control in place along with some improvement actions identified.

4.13 The Council recognises that evaluation and monitoring of corporate and strategic risk is a key part of its role. The Corporate Risk Register records all the high level risks facing the Council and is regularly reviewed through the Corporate Risk Working Group. This work is regularly reported to the Council’s Corporate Management Team and six monthly reports are presented to the Audit Committee. The last report to the Audit Committee was in March 2017 and can be accessed at the link below.

<http://www.falkirk.gov.uk/coins/agenda.asp?meetingid=2650>

4.14 The Corporate Risk Register includes a number of risks rated “high”. Such risks may be inherently high and will not change despite robust controls being in place, for example those risks dealing with vulnerable people. High risks facing the Council include:

- Closing the gap in attainment;
- Harm to vulnerable people/public protection;
- Failure to recognise and act upon, the need for transformational change and continuous improvement
- Insufficient funding to deliver services and deliver outcomes; and
- Compromised security, or inefficient use, of the Council’s data and information asset

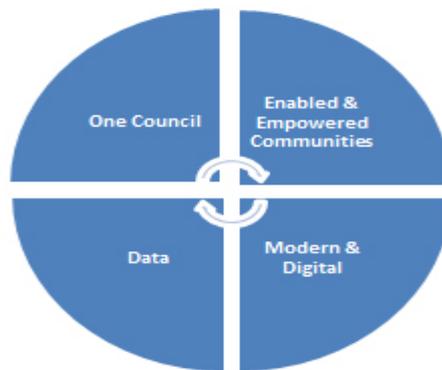
4.15 Finally, there are a wide range of issues where the potential impact on the Council are not known at this point, albeit there is some recognition that the impact may be significant. These uncertainties flow from issues including:

- Brexit – the United Kingdom’s decision to leave the European Union;
- Independence – the possibility of Scotland leaving the United Kingdom;
- Public sector reform, flowing from the SNP manifesto pledge to look again at how local services are structured; and
- Scotland’s new financial powers which will significantly increase the amount of devolved spending in Scotland that is raised directly in Scotland.

4.16 The above uncertainties and predictions for grant reductions, together with the predictions for the growing demands on services puts the Council in arguably it’s most challenging position to date. In recognition of this, the Council has developed the Council of the Future framework.

5. COUNCIL OF THE FUTURE

- 5.1 In December 2016 the Council agreed to adopt the Council of the Future framework to deliver a programme of change over the next five years. The framework will be used to set a clear vision of what Falkirk Council will look like in the future. The framework will focus on outcomes and will be clearly linked to helping the Council balance its budget in the years to come.
- 5.2 The priorities on which the Council of the Future will be focused will be identified through the development of the Corporate Plan which will be considered by Council in the Autumn.. This in turn is linked to the Single Outcome Local Delivery Plan (SOLD) agreed by Council in September 2016 which sets out the strategic priorities and local outcomes for the Falkirk Council area. The priorities within the SOLD plan set out a clear direction for all the public sector agencies within the area.
- 5.3 There has been a number of Council of the Future sessions with Elected Members, staff and the Trade Unions. More extensive engagement is scheduled in 2017. The aim of these sessions has been to allow various stakeholder groups to contribute to shaping the Council as it moves forward. This recognises that buy-in is integral to the success of the change programme.
- 5.4 To date four overarching themes have emerged from the stakeholder groups:



- One Council – working together to improve outcomes for the people of the Falkirk area;
 - Enabled and Empowered Communities – working together with Communities and Partners to have enabled, empowered and connected communities where people lead healthy, safe and fulfilled lives.
 - Modern and Digital – modernise how we deliver our services, be innovative by designing and delivering services that are more accountable, flexible and efficient.
 - Data – enabling communities. Elected Members and officers to use data and information to make decisions based on shared priorities and real-time information.
- 5.5 Work continues to develop the Council’s Corporate Plan which will recognise the priorities within the SOLD. The Corporate Plan will be considered by Council in Autumn 2017. Once the Corporate Plan is developed, further engagement and review of the proposed programme of change will be undertaken by Elected Members. This will generate a defined Council of the Future vision and programme of change. Further stakeholder engagement will take place at this point.
- 5.6 In December 2016 the Accounts Commission published its report on “The Audit of Best Value and Community Planning” for Falkirk Council. This report was a follow up to the Best Value report published in August 2015. The Council of the Future framework will address the findings and recommendations in the report. The Commission’s findings were as follows:
- The Commission accepts the Controller of Audit’s report on Best Value in Falkirk Council.
 - In our findings in August 2015, we stated that the Council needs to make a stepchange in its pace of improvement. It is disappointing that we have not yet seen this.

- While there has been much activity in the Council in responding to our previous findings, we remain concerned that the scale of improvement required necessitates the Council making more radical change. It urgently needs to agree its key priorities. These need to be supported by a more robust approach to financial planning for the medium and longer term and a more coordinated and streamlined approach to its improvement activity, showing how substantial change will be achieved. While a corporate workforce strategy is now in place, the Council needs to show how this will drive and deliver change across services.
- Increased collaboration among Elected Members in the budget process and in business transformation activity is encouraging. Scrutiny by Elected Members has also improved, but this could be more transparent. This needs to be supported by better reporting of performance by officers. The Council also needs to demonstrate its change and improvement more effectively.
- Strong and effective leadership by Elected Members and the Corporate Management Team is critical for the Council to address its challenges in coming years.
- We continue to have a close interest in how the Council is progressing. We required the Controller of Audit to update us by the end of 2017 through the annual audit and in our revised approach to auditing Best Value.

5.7 The findings of the Accounts Commission were reported to Falkirk Council in February 2017 along with the Council's responses to those findings. The Accounts Commission has requested a follow up report by the end of 2017.

6. LONG TERM INVESTMENT AND FINANCING

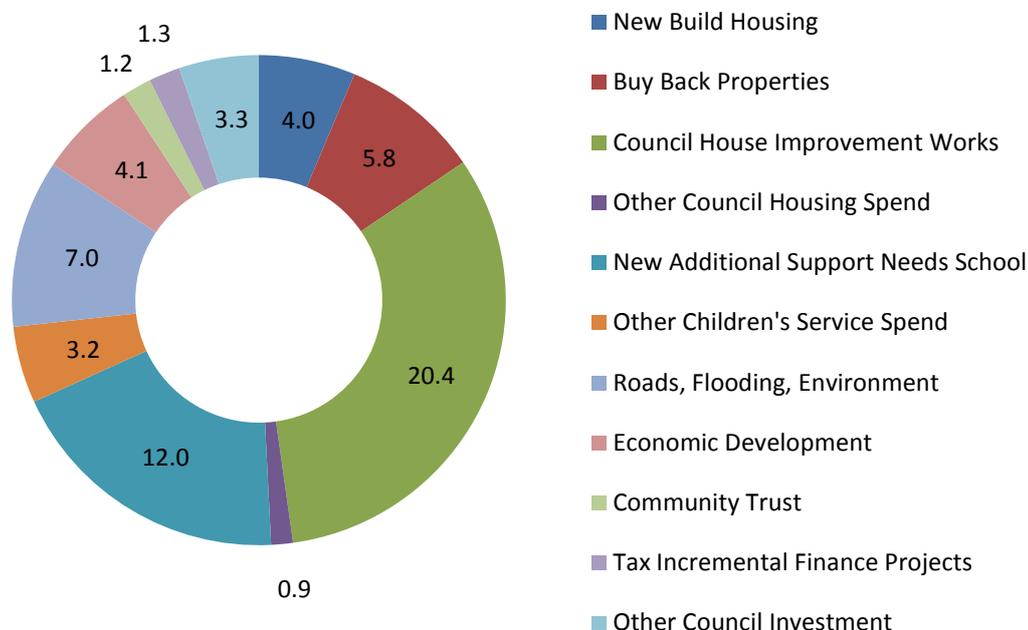
Investment and Borrowing

- 6.1 The Council is allowed to borrow money to finance capital investment i.e. spend that will have longer term benefits. The Council also receives a capital grant from the Scottish Government for such investment within General Fund services. Due to the prevailing financial difficulties facing all local authorities, including Falkirk, Elected Members previously took a decision to minimise borrowing for new investment. This decision recognised that the cost of borrowing, i.e. the repayment of debt and associated interest payments flow through to the general fund revenue account. Housing Investment was not affected by this decision.
- 6.2 The Council approves two key documents for investment and borrowing - the three year Capital Programme which outlines anticipated spend and resources and the Treasury Management Strategy which explains how we plan to finance the Council's borrowing needs and where we will invest the Council's money. The outturn of the Capital Programme for the year will have an impact on the amount of external borrowing required.

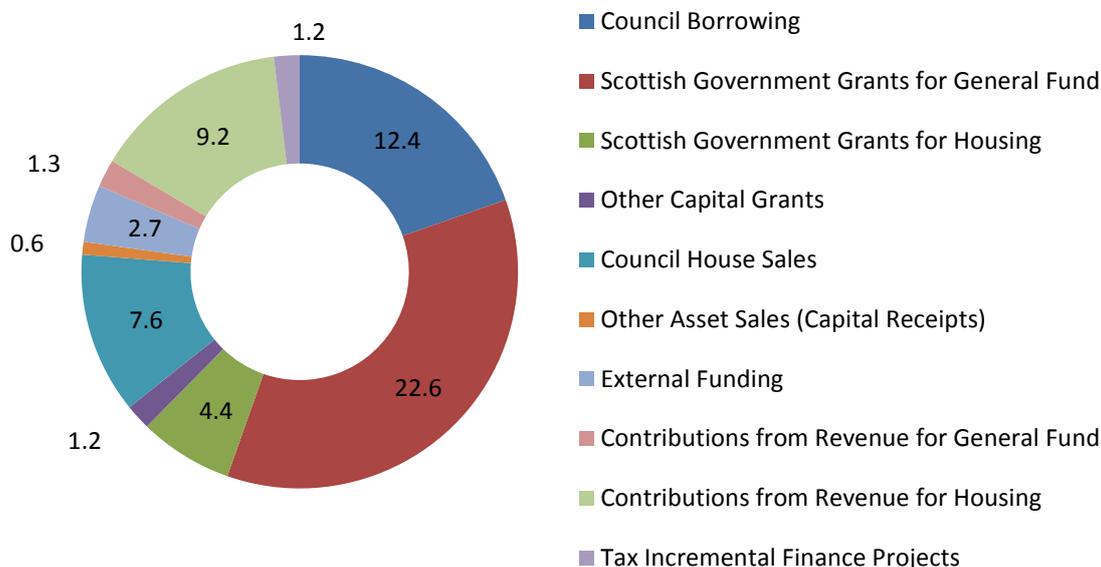
Borrowing Activity

6.3 The Council’s borrowing strategy is prepared in accordance with the Code of Practice on Treasury Management in Local Authorities. The majority of the Council’s borrowing, which is used to finance capital expenditure, comes from the Public Works Loan Board with the remainder from market bonds or other market lenders. Total borrowing in 2016/17 was £24m which replaced borrowing that matured in the year. This was undertaken using short term borrowing to take advantage of the lower interest rates available. Capital Expenditure is paid for by charging a proportion of the cost (principal) along with interest each year to the revenue account over the life of the asset. The current level of expenditure not yet repaid is the Capital Financing Requirement (CFR) of the Council, which at 31 March 2017 was £395.3m. This is in comparison to the net value of non current assets owned which was £1,010m. Further details on loans outstanding are provided at note 28.

2016/17 Capital Expenditure in £'m
Total £63.2m



2016/17 Capital Resources in £'m Total £63.2m



6.4 For 2016/17, a budget of £35m was identified for general fund capital investment including the Tax Incremental Finance Projects (TIF). The Council incurred actual capital expenditure of £32.1m. The majority of the underspend (£2.0m) was in relation to commercial property and environmental projects. A budget of £31.3m was set for investment in Council Housing with a year end outturn of £31.1m. The minor underspend of £0.2m comprised new build housing projects which had been deferred until 2017/18 (£3.0m), mostly offset by an acceleration of improvement works across the Council’s housing stock (£2.8m).

Assets and Liabilities

6.5 The Balance Sheet on page 35 summarises the Council’s assets and liabilities as at 31 March 2017. The net assets of the Council have decreased by £148.211m. The main reason for this movement is an increase in the pension scheme liabilities of £159m, as outlined at paragraph 6.8. This was offset by a reduction in short term borrowing of £5.9m, which primarily relates to short term loans that matured in 2016/17 and were not replaced.

Provisions

6.6 The Council has included provisions in the Balance Sheet as detailed in note 30 to the accounts. These provisions cover a number of areas including potential Equal Pay claims and Insurance claims. These provisions represent cash available for use by the Council but set aside for specific reasons.

6.7 A further provision has been set up for the restoration of Kinneil Kerse landfill site. However, this is a technical provision which is not cash backed.

Pension Liabilities

6.8 In terms of International Accounting Standard 19 “Employee Benefits” (IAS19), the Council is required to show the actuarially assessed net pension deficit/liability within the Balance Sheet. The deficit is assessed as £461.650m as at 31 March 2017 (£303.045m as at 31 March 2016). The Pension Fund deficit has increased since last year due to unfavourable financial assumptions which have increased the pension liability but these have been partially offset by higher than expected asset returns. A significant factor leading to the increase in liabilities was the sharp fall in the discount rate as the Brexit vote and the prospect of “lower for longer” interest rates drove market sentiment. Further information on accounting for retirement benefits can be found in note 17.

- 6.9 A valuation of the pension fund was undertaken as at 31 March 2014 and disclosed that the Fund was 85% funded. The current contribution rate has been set with the aim of ensuring that payments are sufficient to meet the cost of future benefit accrual and the Council's share of the fund deficit. The funding target is for the Fund to be fully funded over a period of 20 years. A risk based funding strategy is in place to meet this objective. The Pension Fund Actuary has estimated that the funding level has reduced to 76% at 31 March 2017. A further valuation as at 31 March 2017 is currently underway, however, initial work undertaken by the Actuary in November 2016 has indicated that employers contributions will have to rise. An actuarial loss on pension liabilities of £267m offset by an increase on the return on plan assets of £121m has been reported in the Comprehensive Income and Expenditure Statement. There is no impact on the General Fund balance. Scottish Government regulations require the General Fund balance to be charged with the amount payable by the Council to the pension fund in the year, not the amount calculated according to accounting standards.

Pension Fund

- 6.10 Falkirk Council is statutorily classed as an administering authority and therefore has responsibility for operating and maintaining a pension fund for its own employees and those of constituent fund employers. Under the Council's governance arrangements, pension fund business has been delegated to a representative Pensions Committee and is overseen by a statutory Pensions Board. The Fund produces its own Annual Report and Accounts separate from those of the Council. These can be viewed at www.falkirkpensionfund.org

2016/17 has been a year of consolidation for the Local Government Pension Scheme following the introduction of the new career average arrangements in April 2015 and various initiatives, such as a Scheme Structure review, being conducted by the National Scheme Advisory Board. At a local level, the Fund has migrated its pensioners payroll to a new platform; engaged with employers around contribution rates; and continued to build out its investment allocation to UK infrastructure projects.

- 6.11 Fund investment returns for the year were ahead of benchmark (20% v 18.4%). Positive returns were the result of strong market performance and significant sterling depreciation which boosted earnings from overseas assets. Strong investment performance should not mask the fact that returns from a predominantly equity based portfolio can be volatile and it is assumptions around future returns that will be the main factor in determining contribution rates. The funding valuation taking place at 31 March 2017 will set employer rates for the three years from 2018/19.
- 6.12 As part of the Fund's risk management processes, the Pensions Committee reviews investment strategy on a regular basis. In general terms, the Fund is looking to de-risk by reducing its equity exposure and increasing its allocation to infrastructure and property. The transition will be undertaken gradually as and when market opportunities arise.

7. CONCLUSION

- 7.1 The Council has managed to operate within its budget for 2016/17. However, it is clear that challenging times lie ahead and difficult decisions may need to be taken. The Council of the Future framework will help to ensure that the changes ahead reflect the priorities of the Council and that the desired outcomes for the Council area are delivered.



Bryan Smail, CPFA MBA
Chief Finance Officer
28 September 2017



Councillor Cecil Meiklejohn
Leader of Falkirk Council
28 September 2017



Mary Pitcaithly
Chief Executive of Falkirk Council
28 September 2017

STATEMENT OF RESPONSIBILITIES FOR THE ANNUAL ACCOUNTS

1. FALKIRK COUNCIL RESPONSIBILITIES

1.1 The Council is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that the proper officer of the authority has responsibility for the administration of those affairs (section 95 of the Local Government (Scotland) Act 1973). In Falkirk Council that officer is the Chief Finance Officer.
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- Ensure the Annual Accounts are prepared in accordance with legislation (The Local Authority Accounts (Scotland) Regulations 2014), and so far as is compatible with that legislation, in accordance with proper accounting practices (section 12 of the Local Government in Scotland Act 2003).
- Approve the Annual Accounts for signature.

1.2 I can confirm that these Annual Accounts were approved for signature by the Council at its meeting of 28 September 2017.

Signed on behalf of Falkirk Council

Councillor Cecil Meiklejohn
Leader of Falkirk Council

2. THE CHIEF FINANCE OFFICER'S RESPONSIBILITIES

2.1 The Chief Finance Officer is responsible for the preparation of the authority's Annual Accounts in accordance with proper practices as required by legislation and as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Accounting Code).

2.2 In preparing the Annual Accounts the Chief Finance Officer has:

- Selected suitable accounting policies and then applied them consistently;
- Made judgements and estimates that were reasonable and prudent;
- Complied with legislation;
- Complied with the Accounting Code (in so far as it is compatible with legislation).

2.3 The Chief Finance Officer has also:

- Kept adequate accounting records which were up to date;
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

2.4 I certify that the accounts give a true and fair view of the financial position of the Council and its group as at 31 March 2017 and the transactions of the Council and its group for year ended 31 March 2017.



Bryan Smail, CPFA MBA
Chief Finance Officer
28 September 2017

ANNUAL GOVERNANCE STATEMENT 2016/17

Introduction

1. Falkirk Council has a duty under the Local Government in Scotland Act 2003 to secure best value and ensure continuous improvement in the Services it delivers. Public money must be used economically, efficiently, and effectively, and with due regard to the achievement of sustainability. To help ensure these responsibilities are met the Council must establish and apply robust governance arrangements.
2. Responsibility for ensuring good governance rests with all Council employees and elected Members, and Falkirk Council is absolutely committed to the principles set out in the CIPFA guidance '*Delivering Good Governance in Local Government: A Framework*'. This guidance was revised and updated in 2016, and positions the attainment of sustainable economic, societal, and environmental outcomes as a key focus of governance processes and structures.
3. The Local Authority Accounting (Scotland) Regulations 2014 require that all Councils conduct a review, at least once in each financial year, of the effectiveness of the system of internal control ¹ and that an Annual Governance Statement is included in the Annual Accounts. Falkirk Council has complied with both of these requirements for some years now, underlining our commitment to openness and transparency.
4. Preparation of this Statement also meets the requirements of the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

Falkirk Council's Governance Framework

5. The aim of this Statement is to summarise the key elements of Falkirk Council's governance framework, set out within the context of each of the Principles set out in the Delivering Good Governance Framework, namely:
 - behaving with integrity, demonstrating strong commitment to ethical values, and respecting rules of law;
 - ensuring openness and comprehensive stakeholder engagement;
 - defining outcomes in terms of sustainable economic, social, and environmental benefits;
 - determining the interventions necessary to optimise the achievement of intended outcomes;
 - developing the entity's capacity, including the capability of its leadership and the individuals within it;
 - managing risks and performance through robust internal control and strong public financial management; and
 - implementing good practices in transparency, reporting, and audit, to deliver effective accountability.
6. Fundamental to the delivery of successful outcomes is the availability of sufficient resource. In February 2017, the Council again agreed balanced revenue and capital budgets for the coming year, including sums to be transferred to the Falkirk Health and Social Care Integration Joint Board. The budget setting process is complex, but was undertaken in an open and inclusive manner, involving Officers and Members from an early stage.
7. Work on developing medium and longer term financial strategies and plans, incorporating scenario planning, was progressed during 2016/17 and is now an integral element of the budget setting and monitoring process. Work to enhance these plans will continue, taking account of known and emerging variables including future budget settlements, local and national demographics, and the continuously evolving political landscape.
8. The Council of the Future (COTF) change programme is a key part of the Council's wider improvement and budget framework. The programme is a significant driver of change, both in terms of the way the Council delivers services and as a catalyst for realising efficiencies and making savings. Clear governance, engagement, and communication structures have been established. In addition, the recruitment of a Change Programme Manager and supporting Project Management Office is helping to ensure that the pace and scale of the programme is as required.

¹ **NOTE:** any review of governance can provide only reasonable (not absolute) assurance that policies, aims, and objectives are being applied and implemented as intended.

9. The senior management structure of the Council has continued to evolve over the course of 2016/17. While the streamlining of the structure impacts on the level of organisational intelligence and experience, it also provides an opportunity to ensure that managers are empowered to make decisions and to be accountable for those decisions. This has a positive impact on manager development and on succession planning, and is an important strand of the Council's wider workforce strategy.
10. Related to that, opportunities continue to be taken to work in partnership with other organisations and stakeholder groups to deliver services in new and innovative ways.
11. Examples of this include partnership working with NHS Forth Valley and Falkirk Health and Social Care Integration Joint Board (IJB) on the delivery of adult health and social care services. The IJB is responsible for the planning, resourcing, and the operational oversight of a wide range of health and social care services. It is now well established, with greater clarity around governance and operational arrangements. The effective and efficient operation of Falkirk Council's Adult Social Work Services is fundamental to the joined up delivery of Services, and there have been some significant steps taken over the course of 2016/17 to, for example, review and improve reablement services and to agree interventions that lead to better outcomes for service users.
12. The Council is also seeking ways of facilitating community engagement in the local delivery of services. Over the course of 2016/17 the Council engaged with Falkirk Community Trust and other local organisations, including Falkirk FC Foundation and Comely Park School Parent Council to work towards a different model of service delivery at Woodlands Games Hall and pitch. This has seen the pitch area transformed as a valuable community resource, and which is also available to the pupils of the adjacent Comely Park Primary School on a daily basis.
13. At a more operational level, Falkirk Council's Internal Audit team have recently entered into a Joint Working Arrangement with Clackmannanshire Council for the joint delivery of Internal Audit services across both Councils and Central Scotland Valuation Joint Board. This will allow both Councils' Internal Audit plans to be more closely aligned, provide development opportunities for staff, and result in efficiencies for both Councils.
14. Previous Annual Governance Statements have commented on the Council's risk management arrangements. The Risk Management Policy and Framework is now well embedded, and Corporate Risk Management Group (CRMG) oversees its practical application. All 'high' risks are considered and reviewed on a cyclical basis by CRMG, and the Group considers new and emerging risks. CRMG reports to the Corporate Management Team, with periodic updates provided to the Audit Committee and Executive. Reports to all Council committees now include relevant risk considerations.
15. During 2016/17 West Lothian Council's Audit and Risk Manager undertook a follow up review of Falkirk Council's risk management arrangements. This report was reassuring, providing substantial assurance on the implementation and embedding of effective risk management.
16. Over the course of 2016/17 the Audit Committee continued to be a key element of the Council's governance structures. It was chaired by an external lay member, and met four times during the year to consider the adequacy of the Council's arrangements for risk management, governance, and control. It considered reports on risk management, Internal Audit, and External Audit (from previous and current appointed External Auditors, Audit Scotland and Ernst and Young).
17. The May 2017 Local Government elections led to significant change across the elected Member cohort and to the overall administration of the Council. Clearly, in a period of such fundamental and significant change, it is vital that all elected Members are effectively supported and have a good understanding of the risks and opportunities facing the Council. A programme of induction and development will be put in place for all elected Members, comprising a Member's Handbook and training events on specific roles, responsibilities, and topic areas. This will include training for all Members appointed to the Audit Committee.
18. The Council has a Code of Conduct for Members and Officers, and all Members are expected to apply the Standards Commission Scotland's Councillors' Code of Conduct. Contract Standing Orders (CSO) and Financial Regulations regulate financial and transactional activity. Financial Regulations were reviewed and updated in October 2015. CSO have also been updated, to reflect the requirements of new legislation, including the Procurement Reform (Scotland) Act 2014 and the Public Contracts (Scotland) Regulations 2015. The revised CSO were approved by Council in June 2016.
19. The Council has a well established and understood framework of internal control, as evidenced by the work of both External and Internal Audit.

20. That said, the threat of fraud or corruption remains, particularly with cyber crime continuing to pose a significant and ever evolving risk. The Corporate Fraud Team, which was established during 2015/16, is now well embedded, with workstreams covering preventative, proactive, and reactive counter fraud activity. To further strengthen arrangements, and to provide a clear means for staff and others to report suspected wrongdoing, malpractice, illegality or risk in the workplace, a Whistleblowing Policy was approved by Executive in September 2016. This replaced the previous Confidential Reporting Policy, and clearly signposts towards the most appropriate means of raising or reporting concerns.
21. Linked to that, the Council has taken clear steps to further enhance the framework within which information is managed and secured. An Information Governance Manager has been appointed, providing a coherent approach and structure to information legislation / regulatory requirements, standards, and best practice (including DPA and FoI); information security; information sharing; and records management. It is also within the Information Governance remit to help ensure that an effective framework is in place to allow the Council to create, manage, use, share, and dispose of information efficiently, appropriately, and lawfully. These arrangements will continue to evolve over the course of 2017/18.

Monitoring and Review of Governance Arrangements

22. Falkirk Council's governance arrangements are formally monitored via:
- the Committee framework, including the Audit Committee;
 - Corporate and Service Management Teams;
 - Corporate Risk Management Group and other Corporate Working Groups;
 - Internal and External Audit work; and
 - the work of Falkirk Council's Local Area Network.
23. This monitoring is done within the context of the Delivering Good Governance guidance, the Strategic Outcomes and Local Delivery Plan 2016-2020, agreed Single Outcome Agreement, and the fundamental statutory requirement to demonstrate and achieve best value.
24. The Council underwent a review of Best Value and Community Planning during 2015, with a follow up review undertaken by Audit Scotland on behalf of the Accounts Commission during 2016. Activity undertaken by the Council in response to the findings of the initial report is reflected in the follow up report, which comments positively on Member involvement in the budget setting and change programme processes. The follow up report does, however, re-iterate that further work is required to ensure that the pace and scale of change is sufficient, that medium and longer term financial plans are further developed, and that the Council demonstrates how its workforce strategy will drive and deliver change. Progress with implementing actions to address the concerns raised in both reports is presented to Members on an ongoing basis, with improvement plans in place to address the issues raised.

System of Internal Financial Control

25. This section relates to the systems of internal financial control of Falkirk Council and of the consolidated entries in the Council's group accounts for the year to 31 March 2017. The Chief Finance Officer is responsible for ensuring the operation and maintenance of an effective system of internal financial control that provides reasonable (not absolute) assurance that: assets are safeguarded; transactions are authorised and properly recorded; and material errors or irregularities are either prevented or detected.
26. The system of internal financial control is based on a framework of risk management; Contract Standing Orders, Financial Regulations, and associated guidance; delegation and accountability; budgeting systems; clear financial targets; and robust management information.
27. The Council's Internal Audit Section provides assurance on arrangements for risk management, governance, and control, and undertakes an annual, risk based, programme of work approved by the Chief Executive, Chief Finance Officer, and Audit Committee.
28. The Internal Audit Manager has established a Quality Assurance and Improvement Programme for the Section, including annual self assessment and periodic external assessment of compliance with the Public Sector Internal Audit Standards. Self assessments have confirmed broad compliance with the Standards, and an independent External Quality Assessment is scheduled for 2017/18.
29. All Internal Audit reports are issued to the relevant managers, and include recommendations and agreed action plans. It is then management's responsibility to ensure that appropriate action is taken to address these recommendations. Significant matters arising, and recommendations which remain outstanding beyond their agreed implementation date, are brought to the attention of Audit Committee.

30. The Audit Committee operates in accordance with relevant guidance, is chaired by an external lay member, and has a remit to provide:
- independent assurance on the adequacy of the risk management framework and associated control environment;
 - independent scrutiny of the Authority’s financial and non-financial performance to the extent that it affects risk exposure and weakens the control environment; and
 - assurance that any issues arising from the process of drawing up, auditing, and certifying the Annual Accounts are properly dealt with.
31. The Committee considers the Internal Audit Manager’s Annual Assurance Report, which provides an independent opinion on the adequacy and effectiveness of the Council’s arrangements for risk management, governance, and control. In his 2016/17 report, which will be presented to the 21 August 2017 meeting of the Audit Committee, the Internal Audit Manager concludes that he was able to provide substantial assurance on the Council’s overall framework of control for the year to 31 March 2017.
32. The Local Authority Accounting (Scotland) Regulations 2014 require that a review is undertaken, at least once in each financial year, of the effectiveness of the system of internal control. In practice, the Chief Finance Officer considers the work of managers, Internal Audit, and External Audit. Based on his considerations, the Chief Finance Officer has concluded that substantial assurance can be placed on the adequacy and effectiveness of the Council’s internal control systems for the year to 31 March 2017.
33. In relation to other entities that fall within the Council’s group boundary, the Chief Finance Officer’s review is informed by the:
- Annual Governance Statement included within the Annual Accounts of Central Scotland Valuation Joint Board;
 - Statements of Assurance from the Chief Executives of Falkirk Community Trust and Falkirk Community Stadium Limited; and
 - work of these bodies’ respective External Auditors (and, where relevant, Internal Auditors).
34. Based on consideration of the above, the Chief Finance Officer has concluded that, on the whole, substantial assurance can be placed on the internal financial control systems of other bodies falling within the Council’s group boundary.
35. In undertaking his duties, and in forming the above opinions, the Chief Finance Officer worked in conformance with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government.

Governance Arrangements – Areas for Improvement

36. Falkirk Council is committed to ensuring robust and proportionate governance. That said, the ever changing environment within which the Council operates means that there will always be scope for improvement. Areas that will be addressed over the coming year include:
- work to enhance medium and longer term financial planning arrangements will continue, taking account of known and emerging variables;
 - progress will continue to be made with projects falling within the remit of the Council of the Future programme;
 - opportunities will continue to be sought for innovative, effective, and inclusive partnership working;
 - work will continue to raise awareness of the risk of fraud and corruption, and the preventative, proactive, and reactive roles of the Corporate Fraud team; and
 - the way the Council uses, manages, and secures its information asset will be further developed.

Conclusion

37. This Annual Governance Statement summarises, openly and transparently, arrangements established by Falkirk Council for 2016/17 and the period to date. It highlights areas for improvement, and is consistent with the Council's established improvement agenda.



Councillor Cecil Meiklejohn
Leader of Falkirk Council
28 September 2017



Mary Pitcaithly
Chief Executive of Falkirk Council
28 September 2017

ANNUAL REMUNERATION REPORT 2016/17

The Local Authority Accounts (Scotland) Regulations 2014 require the annual accounts of the Council to contain a Remuneration Report. This Report for the financial year 2016/17 contains the information specified in the Schedule to the above Regulations.

All information disclosed in the tables below (excluding tables 2.1 and 6.6) will be audited by Ernst & Young LLP. The other sections of this Report will be reviewed by Ernst & Young LLP to ensure that they are consistent with the accounts.

1. SENIOR COUNCILLORS' REMUNERATION ARRANGEMENTS

- 1.1 The remuneration of Councillors is regulated by the Local Governance (Scotland) Act 2004 (Remuneration) Regulations 2007, as amended by the Local Governance (Scotland) Act 2004 (Remuneration and Severance payments) Amendment Regulations 2016. The Regulations provide for the grading of Councillors for the purposes of remuneration arrangements, as either the Leader of the Council, the Civic Head, Senior Councillors or Councillors. The Leader of the Council and the Civic Head cannot be the same person for the purposes of payment of remuneration. A Senior Councillor is a Councillor who holds a significant position of responsibility in the Council's political management structure.
- 1.2 The salary that is to be paid to the Leader of the Council is set out in the Regulations. For 2016/17 the salary for the Leader of Falkirk Council is £33,789. The Regulations permit the Council to remunerate one Civic Head. The Regulations set out the maximum salary that may be paid to that Civic Head as £25,341. On 9 March 2016 the Council agreed that the remuneration paid to the Civic Head would remain at the level previously set in 2007 (£23,179) increased by 1% in 2015/16 to £23,410 and a further 1% in 2016/17 to £23,644.
- 1.3 The Regulations also set out the remuneration that may be paid to Senior Councillors and the total number of Senior Councillors the Council may have. The maximum yearly amount that may be paid to a Senior Councillor is 75% of the total yearly amount payable to the Leader of the Council (£25,341). The total yearly amount payable by the Council for remuneration of all of its Senior Councillors is specified by the above Regulations and shall not exceed £295,643. The Council is able to exercise local flexibility in the determination of the precise number of Senior Councillors and their salary within these maximum limits. The Council agreed on 9 March 2016 that there will be 11 level 1 Senior Councillors each with a salary of £22,689 and 2 level 2 Senior Councillors each with a salary of £19,020.
- 1.4 In 2016/17 Falkirk Council had 13 Senior Councillors and the remuneration paid to these Councillors totalled £287,619. The Regulations also permit the Council to pay contributions or other payments as required to the Local Government Pension Scheme in respect of those Councillors who elect to become Councillor members of the pension scheme.
- 1.5 In addition to the Senior Councillors of the Council the Regulations also set out the remuneration payable to Councillors with responsibility of a Convener or Vice-Convener of a Joint Board such as a Joint Valuation Board. The Regulations require the remuneration to be paid by the Council of which the Convener or Vice-Convener (as the case may be) is a member. The Council is also required to pay any pension contributions arising from the Convener or Vice-Convener being a member of the Local Government Pension Scheme.
- 1.6 The Council is reimbursed by the Joint Board for any additional remuneration paid to the member from being a Convener or Vice-Convener.

2. SENIOR EMPLOYEES' REMUNERATION ARRANGEMENTS

- 2.1 The salary of senior employees is set by reference to national arrangements. The Scottish Joint Negotiating Committee (SJNC) for Local Authority Services sets the salaries for the Chief Executives of Scottish local authorities. Circular CO/148 sets the amount of salary for the Chief Executive of Falkirk Council for the period 2015 to 2017.

The salaries of Service Directors are based on a fixed percentage of the Chief Executive’s salary and statutory officers are based on a percentage of Director salaries, as shown in the following tables:

Senior Employee Post	Percentage of Chief Executive’s Salary
Director	78%

Senior Employee Post	Percentage of Director Salary
Chief Finance Officer	87%
Chief Governance Officer	87%
Chief Social Work Officer	87%

The restructure of Services and Chief Officer posts was approved by members on 24 June 2015 and came into operation on 1 August 2015. Further changes to the Chief Officer structure were agreed in February 2017, however, those changes do not impact on the specific position referred to above.

- 2.2 The Council does not have a role in determining the remuneration policy of Falkirk Community Stadium Ltd., a subsidiary of the Council.
- 2.3 In terms of Falkirk Community Trust Ltd (FCT), a company limited by guarantee with charitable status established by the Council in summer 2011 to deliver cultural and leisure services for the Falkirk Council area, the Funding Agreement between the Council and FCT provides that FCT is to provide terms and conditions to its employees (including remuneration) no less favourable than the relevant corresponding terms and conditions of employment enjoyed by employees of the Council at any time.

3. GENERAL DISCLOSURE BY PAY BAND

3.1 The number of employees whose remuneration was £50,000 or more in 2016/17 is as follows:

Remuneration Bands	Number of Employees		Chief Officials		Teachers		SJC Employees	
	2015/16	2016/17	2015/16	2016/17	2015/16	2016/17	2015/16	2016/17
£50,000 - £54,999	105	118	-	-	56	78	49	40
£55,000 - £59,999	30	37	-	-	23	23	7	14
£60,000 - £64,999	4	7	1	1	-	1	3	5
£65,000 - £69,999	3	3	-	-	1	1	2	2
£70,000 - £74,999	10	8	8	5	2	2	-	1
£75,000 - £79,999	3	8	1	5	2	3	-	-
£80,000 - £84,999	4	3	1	-	3	3	-	-
£85,000 - £89,999	2	3	2	2	-	-	-	1
£90,000 - £94,999	-	-	-	-	-	-	-	-
£95,000 - £99,999	1	-	1	-	-	-	-	-
£100,000 - £104,999	2	5	2	5	-	-	-	-
£105,000 - £109,999	-	-	-	-	-	-	-	-
£110,000 - £114,999	-	-	-	-	-	-	-	-
£115,000 - £119,999	-	-	-	-	-	-	-	-
£120,000 - £124,999	-	-	-	-	-	-	-	-
£125,000 - £129,999	-	-	-	-	-	-	-	-
£130,000 - £134,999	-	-	-	-	-	-	-	-
£135,000 - £139,999	-	-	-	-	-	-	-	-
£140,000 - £144,999	-	-	-	-	-	-	-	-
£145,000 - £149,999	-	1	-	1	-	-	-	-
£150,000 - £154,999	-	-	-	-	-	-	-	-
£155,000 - £159,999	-	-	-	-	-	-	-	-
£160,000 - £164,999	-	-	-	-	-	-	-	-
£165,000 - £169,999	1	-	1	-	-	-	-	-
£170,000 - £174,999	-	-	-	-	-	-	-	-
£175,000 - £179,999	-	-	-	-	-	-	-	-
£180,000 - £184,999	-	-	-	-	-	-	-	-
£185,000 - £189,999	-	-	-	-	-	-	-	-
£190,000 - £194,999	-	-	-	-	-	-	-	-
£195,000 - £199,995	-	1	-	1	-	-	-	-
Total	165	194	17	20	87	111	61	63

Note these figures do not include employees of Falkirk Community Trust (2 Chief Officials and 3 SJC employees).

4. DISCLOSURE – LOCAL AUTHORITY SUBSIDIARY BODIES

4.1 Falkirk Community Stadium Ltd is a subsidiary body of the Council and the details to be provided in this Report are as follows:

- The Stadium Manager is Louise Burns who commenced employment on 06/06/16;
- There were no Councillors of Falkirk Council remunerated by the body in 2016/17; and
- There were no employees of the body whose remuneration in 2016/17, including any annual remuneration from Falkirk Council, was £150,000 or more.

4.2 Falkirk Community Trust Ltd (FCT) is a subsidiary body of the Council and the details to be provided in this Report are as follows:

- The Chief Executive is Maureen Campbell;
- There were no Councillors of Falkirk Council remunerated by the body in 2016/17; and
- There were no employees of the body whose remuneration in 2016/17, including any annual remuneration from Falkirk Council, was £150,000 or more.

5. DISCLOSURE OF REMUNERATION FOR RELEVANT PERSONS

5.1 The Regulations require that the Report shows in tabular form, against the post held and name of each relevant person the total amounts, whether received or receivable, by each relevant person from Falkirk Council or, as the case may be, Falkirk Community Stadium Ltd or Falkirk Community Trust Ltd.

5.2 The information is provided in separate tables as follows:

Remuneration paid to Falkirk Council’s Senior Councillors.

Name		2016/17	2015/16
		Salary, Fees and Allowances £	Salary, Fees and Allowances £
David Alexander	Vice Convener, Community Justice Authority	20,063	19,864
James Blackwood	Portfolio Holder, Public Protection	22,689	22,464
William Buchanan	Convener, Planning	22,689	22,464
Dennis Goldie	Portfolio Holder, Economic Development	22,689	22,464
Gerald Goldie	Portfolio Holder, Housing	22,689	22,464
Charles MacDonald	Convener, Joint Valuation Board	21,118	20,909
Adrian Mahoney	Portfolio Holder, Culture, Leisure & Tourism	22,689	22,464
Craig Martin	Leader of the Council	33,789	33,454
Craig R Martin	Portfolio Holder, Environment	22,689	22,464
John McLuckie	Convener, Appeals	22,689	22,464
Cecil Meiklejohn	Leader of the Opposition	19,020	18,832
Rosemary Murray	Convener, Joint Consultative	19,020	18,832

		2016/17	2015/16
Name		Salary, Fees and Allowances £	Salary, Fees and Allowances £
Malcolm Nicol	Convener, Licensing	22,689	22,464
Alan Nimmo	Portfolio Holder, Education	23,018	22,713
Joan Coombes	Depute Leader of the Council	22,689	22,464
John Patrick	Depute Provost	22,689	22,464
Patrick Reid	Provost	23,179	23,410
Total		386,097	382,654

The amount recharged to Central Scotland Valuation Joint Board in 2016/17 was £2,276 (2015/16 £2,252). There were £329 taxable expenses and no non-cash expenses and benefits in kind in 2016/17

Remuneration paid to all Members in 2016/17 was:

2015/16 £'000		2016/17 £'000
630	Salaries	639
8	Allowances (Mileage)	9
4	Expenses	2
642		650

The annual return of Councillors' salaries and expenses for 2016/17 is available for any member of the public to view at all Council libraries and public offices during normal working hours and is also available on the Council's website at www.falkirk.gov.uk. Please follow the "Councillors" quick link on the Council's website.

Remuneration of Senior Employees of Falkirk Council

Name	Post Title	Salary, Fees and Allowances £	Other Amounts £	Compensation for Loss of Employment £	Total Remuneration 2016/17 £	Total Remuneration 2015/16 £
M Anderson	Director of Social Work Services (left 30/06/2015)	-	-		-	25,183
R Geisler	Director of Development Services	103,263	700		103,963	102,591
M Pitcaithly	Chief Executive	132,389	16,633		149,022	167,004
S Ritchie	Director of Corporate & Housing Services	103,263	1,300		104,563	102,841
B Smail	Chief Finance Officer (Section 95 Officer)	89,877	-		89,877	89,086
RM Glackin	Chief Governance Officer	107,461	3,150	86,593	197,204	89,011
R Naylor	Director of Children's Services (started 13/04/2015)	103,263	-		103,263	98,833 (full year equivalent 102,241)
C McCarroll	Head of Social Work Children's Services (CSWO)	89,839	-		89,839	84,179
G Greenhorn	Joint Acting Director of Education from 02/09/2013 to 12/04/2015*	-	-		-	2,908 (full year equivalent 102,241)
A Pearson	Joint Acting Director of Education from 15/12/14 to 12/04/15*	-	-		-	2,660 (full year equivalent 102,241)
Total		729,355	21,783	86,593	837,731	764,296

- * The Joint Acting Directors of Education received a responsibility payment to reflect the additional responsibilities of the vacant Director’s post undertaken by them until the appointment of the Director of Children’s Services on 13/04/15. The total expenditure of the Director of Education post and the Acting arrangements were within the budget provision for the two posts for 2015/16. The full time annual equivalent salary for the post was £102,241.

There were no payments to senior employees by way of Bonuses, Taxable Expenses or Benefits other than in cash.

The “Other Amounts” value above covers election duties and related fees received during 2016/17 (2015/16 £36,876). These payments are reimbursed by either the Scottish Government or the Government of the United Kingdom.

The senior employees included in the table include any local authority employee:

- Who has responsibility for management of the local authority to the extent that the person has power to direct or control the major activities of the authority (including activities involving the expenditure of money), during the year to which the Report relates, whether solely or collectively with other persons;
- Who holds a post that is politically restricted by reason of section 2(1) (a), (b) or (c) of the Local Government and Housing Act 1989(a); or
- Whose annual remuneration, including any remuneration from a local authority subsidiary body, is £150,000 or more.

Remuneration paid to relevant persons of Falkirk Community Stadium Ltd

Name	Post Title	Salary, Fees and Allowances £	Benefits other than in cash £	Total Remuneration 2016/17 £	Total Remuneration 2015/16 £
P Eadie	Stadium Manager Until 26/02/16	-	-	-	37,382
L Burns	Stadium Manager from 06/06/16	31,554	-	31,554	-
Total		31,554	-	31,554	37,382

Remuneration paid to relevant persons of Falkirk Community Trust Ltd

Name	Post Title	Salary, Fees and Allowances £	Other Amounts £	Total Remuneration 2016/17 £	Total Remuneration 2015/16 £
M Campbell	Chief Executive	91,041	-	91,041	91,010
Total		91,041	-	91,041	91,010

6. PENSION BENEFITS

- 6.1 Pension benefits for councillors and local government employees are provided through the Local Government Pension Scheme (LGPS).
- 6.2 Councillors’ pension benefits are based on career average pay. The Councillor’s pay for each year or part year ending 31 March (other than the pay in the final year commencing 1 April) is increased by the increase in the cost of living, as measured by the appropriate index (or indices) between the end of that year and the last day of the month in which their membership of the scheme ends. The total of the revalued pay is then divided by the period of membership to calculate the career average pay. This is the value used to calculate the pension benefits.

- 6.3 The terms of the LGPS were changed from 1 April 2015. Prior to this date the scheme operated on a final salary basis meaning benefits were based on the final year’s salary and number of years of membership of the scheme. Benefits are now based on a combination of a final salary pension scheme for membership accrued to 31/03/15, and a career average pay for membership accrued after 31/03/15.
- 6.4 The scheme’s normal retirement age for both Councillors and employees is 65.
- 6.5 From 1 April 2009 a five tier contribution system was introduced with contributions from scheme members being based on how much pay falls into each tier. This is designed to give more equality between the cost and benefits of scheme membership. Prior to 2009 contributions rates were set at 6% for all non-manual employees.
- 6.6 The tiers and members contribution rates for 2016/17 are unchanged from 2015/16 and are as follows:-

Wholetime Pay	Contribution Rate	
	2015-16	2016-17
On earnings up to and including £20,500	5.50%	5.50%
On earnings above £20,500 and up to £25,000	7.25%	7.25%
On earnings above £25,000 and up to £34,400	8.50%	8.50%
On earnings above £34,400 and up to £45,800	9.50%	9.50%
On earnings above £45,800	12.00%	12.00%

If a person works part-time their contribution rate is worked out on the whole-time pay rate for the job, with actual contributions paid on actual pay earned.

- 6.7 There is now no automatic entitlement to a lump sum. Scheme members may opt to give up (commute) pension for lump sum up to the limit set by the Finance Act 2004. The accrual rate guarantees a pension based on 1/60th of final pensionable salary and years of pensionable service. (Prior to 2009 the accrual rate guaranteed a pension based on 1/80th and a lump sum based on 3/80th of final pensionable salary and years of pensionable service).
- 6.8 The value of the accrued benefits has been calculated on the basis of the age at which the person will first become entitled to receive a full pension on retirement without reduction on account of its payment at that age; without exercising any option to commute pension entitlement into a lump sum; and without any adjustment for the effects of future inflation.
- 6.9 The pension figures shown relate to the benefits that the person has accrued as consequence of their total pensionable service, which may include service derived from other employments, and not just their current appointment. The pension figures shown must be rounded to the nearest £1,000.

Pension Rights of Senior Councillors of Falkirk Council

The pension entitlements for Senior Councillors for the year to 31 March 2017 are shown in the table below, together with the contribution made by the Council to each Senior Councillor’s pension during the year.

Name	In-Year Pension Contributions For year to 31/03/2017 £	Accrued Pension Benefits			
		As at 31/03/2017		Difference from 31/03/2016	
		Pension £	Lump Sum £	Pension £	Lump Sum £
David Alexander	4,213	8,000	15,000	1,000	-
James Blackwood	4,765	4,000	2,000	1,000	-
Dennis Goldie	4,765	2,000	-	-	-
Gerald Goldie	4,765	14,000	27,000	2,000	1,000
Adrian Mahoney	4,765	12,000	-	1,000	-
Craig R Martin	4,765	4,000	2,000	1,000	-
John McLuckie	4,765	4,000	2,000	1,000	-
Cecil Meiklejohn	3,994	3,000	-	-	-
Rosemary Murray	3,994	2,000	-	1,000	-
Malcolm Nicol	4,765	4,000	2,000	1,000	-
Alan Nimmo	4,765	3,000	-	1,000	-
Joan Coombes	4,765	2,000	-	1,000	-
Total	55,086	62,000	50,000	11,000	1,000

The pension benefits shown relate to the benefits that the individual has accrued as a consequence of their total pensionable service in the Scheme, and not just their current appointment.

Councillor John Patrick has reached 75 and therefore the Council no longer makes contributions into the pension fund.

Pension Rights of Senior Employees of Falkirk Council

The pension entitlements of Senior Employees for the year to 31 March 2017 are shown in the table below, together with the contribution made by the Council to each Senior Employee’s pension during the year.

Name	Post Title	In-Year Pension Contributions For year to 31/03/17 £	Accrued Pension Benefits			
			As at 31/03/2017		Difference from 31/03/2016	
			Pension £	Lump Sum £	Pension £	Lump Sum £
R Geisler	Director of Development Services	21,685	52,000	113,000	3,000	1,000
M Pitcaithly	Chief Executive	27,802	65,000	138,000	4,000	1,000
M Pitcaithly	Returning Officer	1,106	1,000	1,000	-	-
S Ritchie	Director of Corporate & Housing Services	21,685	50,000	105,000	3,000	1,000
B Smail	Chief Finance Officer (Section 95 Officer)	18,866	40,000	82,000	3,000	2,000
R Naylor *	Director of Children’s Services from 13/04/15	21,685	56,000	5,000	42,000	1,000
C McCarroll	Head of Social Work Children’s Services (CSWO)	18,866	49,000	109,000	4,000	6,000
Total		131,695	313,000	553,000	59,000	12,000

* Transfers received during 2016/17 from the Scottish Public Pensions Agency (on behalf of the Scottish Teachers Superannuation Scheme) and the Strathclyde Pension Fund.

The pension benefits shown relate to the benefits that the individual has accrued as a consequence of their total pensionable service in the Scheme, and not just their current appointment.

Pension Rights of relevant persons of Falkirk Community Stadium Ltd

The Stadium Manager of Falkirk Community Stadium Ltd is not a member of a pension scheme requiring a contribution from Falkirk Community Stadium Ltd.

Pension Rights of relevant persons of Falkirk Community Trust Ltd

The pension entitlement of the Chief Executive for the year to 31 March 2017 is shown in the table below, together with the contribution made by the Trust during the year.

Name	Post Title	In-Year Pension Contributions For year to 31/03/17 £	Accrued Pension Benefits			
			As at 31/03/2017		Difference from 31/03/2016	
			Pension £	Lump Sum £	Pension £	Lump Sum £
M Campbell	Chief Executive	19,119	38,000	76,000	2,000	-

7. EXIT PACKAGES

7.1 The Local Authority Accounts (Scotland) Regulations 2014 require a local authority to disclose the number of exit packages agreed in the financial year in bands as disclosed in the table below.

The total cost shown in the following tables is for exit packages that have been agreed, accrued for and charged to the Comprehensive Income and Expenditure Statement or equivalent statements in 2016/17.

The costs in respect of compensatory and pension fund payments have been converted to capital values using factors agreed by the LGPS sub-committee of the Association of Consulting Actuaries in 1998 and published in November 1998, uprated to 2009 values as advised by the actuary to the Falkirk Council Pension Fund. These factors have also been used to arrive at capital values for the equivalent costs in the Teachers Pension Scheme.

There were no compulsory redundancies in either 2016/17 or 2015/16.

Exit Packages agreed with former employees of Falkirk Council

Bands	Number of Exit Packages			
	2015/16	Total Payments	2016/17	Total Payments
		£		£
Up to £20k	100	974,657	54	463,314
Over £20k up to £40k	58	1,643,138	26	728,779
Over £40k up to £60k	13	641,023	5	229,105
Over £60k up to £80k	7	458,882	2	138,231
Over £80k up to £100k	-	-	2	179,368
Over £100k up to £150k	1	126,847	4	476,562
Over £150k up to £200k	-	-	-	-
Over £200k	-	-	-	-
Number of Packages	179	3,844,547	93	2,215,359

Exit Packages agreed with former employees of Falkirk Community Stadium Ltd

There were no exit packages agreed in either 2016/17 or 2015/16.

Exit Packages agreed with former employees of Falkirk Community Trust Ltd

Bands	Number of Exit Packages			
	2015/16	Total Payments	2016/17	Total Payments
		£		£
Up to £20k	3	20,210	1	190
Over £20k up to £40k	3	76,645	1	24,795
Over £40k up to £60k	-	-	-	-
Over £60k up to £80k	1	63,072	-	-
Over £80k up to £100k	-	-	-	-
Over £100k up to £150k	-	-	-	-
Over £150k up to £200k	-	-	-	-
Over £200k	-	-	-	-
Number of Packages	7	159,927	2	24,985



Councillor Cecil Meiklejohn
Leader of Falkirk Council



Mary Pitcaithly
Chief Executive of Falkirk Council

EXPENDITURE AND FUNDING ANALYSIS

The purpose of the Expenditure and Funding Analysis is to show how annual expenditure is used and funded from resources (government grants, rents, council tax and business rates) by local authorities in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the council's directorates/services/departments. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

2015/16			2016/17			
Net Expenditure Chargeable to the General Fund and HRA Balances £'000	Adjustments between the Funding and Accounting Basis £'000	Net Expenditure in the Comprehensive Income and Expenditure Statement £'000		Net Expenditure Chargeable to the General Fund and HRA Balances £'000	Adjustments between the Funding and Accounting Basis £'000	Net Expenditure in the Comprehensive Income and Expenditure Statement £'000
167,905	15,064	182,969	Children's Services	163,272	16,684	179,956
71,119	2,471	73,590	Social Work Adult Services	65,010	3,361	68,371
34,396	24,653	59,049	Development Services	29,442	10,943	40,385
17,627	(1,010)	16,617	Corporate & Housing Services	28,452	59	28,511
(16,322)	15,398	(924)	Housing Revenue Account	(19,245)	18,527	(718)
1,119	-	1,119	Valuation Joint Board	1,022	-	1,022
12,660	-	12,660	Falkirk Community Trust	11,935	-	11,935
288,504	56,576	345,080	Net Cost of Services	279,888	49,574	329,462
(288,242)	(37,900)	(326,142)	Other Income and Expenditure	(279,769)	(50,913)	(330,682)
262	18,676	18,938	(Surplus) or Deficit	119	(1,339)	(1,220)
(24,026)			Opening General Fund & HRA Balance at 31 March	(23,380)		
262			Less/(Add) Deficit or Surplus on General Fund and HRA Balance in Year	119		
384			Transfers to/(from) Other Statutory Reserves	(1,813)		
(23,380)			Closing General Fund and HRA Balance at 31 March *	(25,074)		

* For a split of this balance between the General Fund and the HRA – see the Movement in Reserves Statement.

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

This Statement shows the economic cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

Restated Gross Expenditure 2015/16 £'000	Restated Gross Income 2015/16 £'000	Restated Net Expenditure 2015/16 £'000		Gross Expenditure 2016/17 £'000	Gross Income 2016/17 £'000	Net Expenditure 2016/17 £'000	Notes
215,824	(32,855)	182,969	Children's Services	209,903	(29,947)	179,956	
107,681	(34,091)	73,590	Social Work Adult Services	160,890	(92,519)	68,371	
97,010	(37,961)	59,049	Development Services	74,266	(33,881)	40,385	
69,432	(52,815)	16,617	Corporate & Housing Services	86,150	(57,639)	28,511	
52,527	(53,451)	(924)	Housing Revenue Account	56,496	(57,214)	(718)	
1,119	-	1,119	Valuation Joint Board	1,022	-	1,022	
12,660	-	12,660	Falkirk Community Trust	11,935	-	11,935	
556,253	(211,173)	345,080	Net Cost of Services	600,662	(271,200)	329,462	
			<u>Other Operating Expenditure</u>				
			(Gains) or Losses on disposal of Non-Current and Current Assets	-	(3,306)	(3,306)	
442	-	442					
			<u>Financing and Investment Income and Expenditure</u>				
			(Surplus) or deficit on trading undertakings	32,933	(33,489)	(556)	14
33,459	(33,341)	118	Interest Payable and Similar Charges	23,783	-	23,783	41
27,326	-	27,326	Interest & Investment Income	-	(369)	(369)	
-	(539)	(539)	Pensions interest cost & interest income on plan assets	34,727	(24,096)	10,631	17
33,920	(21,601)	12,319		91,443	(57,954)	33,489	
94,705	(55,481)	39,224					
			<u>Taxation and Non-Specific Grant Income</u>				
-	(54,384)	(54,384)	Council Tax	-	(55,336)	(55,336)	
-	(223,140)	(223,140)	Government Grants	-	(206,724)	(206,724)	
-	(25,048)	(25,048)	Capital Grants, Contributions & Donations	-	(29,686)	(29,686)	38
-	(62,336)	(62,336)	Non-Domestic Rates redistribution	-	(68,031)	(68,031)	
-	(900)	(900)	Non-Domestic Rates – TiF	-	(1,088)	(1,088)	
-	(365,808)	(365,808)		-	(360,865)	(360,865)	
651,400	(632,462)	18,938	(Surplus) or Deficit on Provision of Services	692,105	(693,325)	(1,220)	
			Items that will not be reclassified to the (Surplus)/Deficit on the Provision of Services				
		(291,423)	(Surplus) or deficit on revaluation of non-current assets and current assets			3,276	
		(97,970)	Remeasurements of pension assets/liabilities			146,155	
		(389,393)	Other Comprehensive Income and Expenditure			149,431	
		(370,455)	Total Comprehensive Income and Expenditure			148,211	

MOVEMENT IN RESERVES STATEMENT

This statement shows the movement in the year on the different reserves held by the Council, analysed into “usable reserves” (i.e. those that can be applied to fund expenditure or reduce local taxation) and ‘unusable reserves’. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the Council’s services, more details of which are shown in the Comprehensive Income and Expenditure Statement. This is different from the statutory amounts required to be charged to the General Fund Balance and the Housing Revenue Account for council tax setting and dwellings rent setting purposes.

Movement in Reserves Statement for the year ended 31 March 2017

	General Fund Balance £'000	HRA Balance £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied Account £'000	Repairs & Renewals £'000	Insurance Fund £'000	Total Usable Reserves £'000	Unusable Reserves £'000	Total Reserves £'000	Notes
Balance at 31 March 2016	(18,599)	(4,781)	(6,498)	(3,626)	(4,022)	(5,180)	(42,706)	(281,716)	(324,422)	
<u>Movement in reserves during 2016/17</u>										
Total Comprehensive Income and Expenditure	2,747	(3,967)	-	-	-	-	(1,220)	149,431	148,211	CIES
Adjustments between accounting basis and funding basis under regulations	(2,259)	3,598	(1,533)	1,804	38	-	1,648	(1,648)	-	9
Transfers to/from Other Statutory Reserves	(1,870)	57	-	-	1,833	(20)	-	-	-	
(Increase)/Decrease in 2016/17	(1,382)	(312)	(1,533)	1,804	1,871	(20)	428	147,783	148,211	
Balance at 31 March 2017	(19,981)	(5,093)	(8,031)	(1,822)	(2,151)	(5,200)	(42,278)	(133,933)	(176,211)	

Movement in Reserves Statement for the year ended 31 March 2016 - Restated

	General Fund Balance £'000	HRA Balance £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied Account £'000	Repairs & Renewals £'000	Insurance Fund £'000	Total Usable Reserves £'000	Unusable Reserves £'000	Total Reserves £'000	Notes
Balance at 31 March 2015	(18,933)	(5,093)	(5,778)	(3,869)	(4,745)	(4,825)	(43,243)	89,276	46,033	
<u>Movement in reserves during 2015/16</u>										
Total Comprehensive Income and Expenditure	19,531	(593)	-	-	-	-	18,938	(389,393)	(370,455)	CIES
Adjustments between accounting basis and funding basis under regulations	(19,900)	1,224	(720)	243	752	-	(18,401)	18,401	-	9
Transfers to/from Other Statutory Reserves	703	(319)	-	-	(29)	(355)	-	-	-	
(Increase)/Decrease in 2015/16	334	312	(720)	243	723	(355)	537	(370,992)	(370,455)	
Balance at 31 March 2016	(18,599)	(4,781)	(6,498)	(3,626)	(4,022)	(5,180)	(42,706)	(281,716)	(324,422)	

BALANCE SHEET AS AT 31 MARCH 2017
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The Balance Sheet shows the value as at the Balance Sheet date of the asset and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. Reserves are reported in two categories. The first category of reserves is usable reserves, i.e. those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the capital receipts reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves is those that the Council is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the revaluation reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line “Adjustments between accounting basis and funding basis under regulations”.

2015/16 £'000		2016/17 £'000	Notes
	Non-Current Assets		
987,184	Property, Plant & Equipment	992,451	20
259	Heritage Assets	266	21
2,271	Intangible Assets	2,312	19
104	Assets Held for Sale	74	23
6,310	Long Term Investments	6,310	27,39
9,266	Long Term Debtors	8,979	31
1,005,394		1,010,392	
	Current Assets		
772	Inventories	611	32
23,784	Short Term Debtors	21,588	34
36,866	Cash and Cash Equivalents	26,068	36
1,224	Assets Held for Sale	3,348	23
62,646		51,615	
	Current Liabilities		
(32,915)	Short Term Borrowing	(26,985)	28
(73,306)	Creditors (including provisions)	(68,586)	30,35
(106,221)		(95,571)	
	Long Term Liabilities		
(214,193)	Long Term Borrowing	(214,168)	28
(303,045)	Defined Benefit Pension Scheme Liability	(461,650)	17
(115,446)	Other Long Term Liabilities	(109,761)	40
(4,713)	Capital Grants Received in Advance	(4,646)	38
(637,397)		(790,225)	
324,422	Net Assets	176,211	
	Usable Reserves		
(6,498)	Capital Receipts Reserve	(8,031)	
(3,626)	Capital Grants Unapplied Account	(1,822)	
(23,380)	General Fund	(25,074)	6
(4,022)	Repairs & Renewals	(2,151)	
(5,180)	Insurance Fund	(5,200)	
(42,706)		(42,278)	
	Unusable Reserves		
(147,637)	Capital Adjustment Account	(179,433)	10
5,403	Financial Instruments Adjustment Account	5,072	10
(447,421)	Revaluation Reserve	(429,160)	10
303,045	Pensions Reserve	461,650	10
4,894	Accumulated Absences Account	6,128	10
-	Employee Liabilities Statutory Account	1,810	10
(281,716)		(133,933)	
(324,422)	Total Reserves	(176,211)	



Bryan Smail, CPFA MBA
Chief Finance Officer

28 September 2017

The unaudited accounts were issued on 29 June 2017.

CASH FLOW STATEMENT

The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the reporting period. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as: operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipients of services provided by the Council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Council.

2015/16 £'000		2016/17 £'000
18,938	Net (surplus) or deficit on the provision of services	(1,220)
(79,364)	Adjust net surplus or deficit on the provision of services for non-cash movements	(53,989)
25,048	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	29,686
<u>(35,378)</u>	Net cash flows from operating activities	<u>(25,523)</u>
	Investing Activities	
50,536	Purchase of property, plant & equipment, investment property and intangible assets	63,798
-	Other payments for investing activities	-
(4,305)	Proceeds from the sale of property, plant & equipment, investment property and intangible assets	(9,275)
<u>(25,145)</u>	Other receipts and investing activities	<u>(29,154)</u>
21,086	Net cash flows from investing activities	25,369
	Financing Activities	
(39,350)	Cash receipts of short and long-term borrowing	(24,345)
4,357	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	4,997
<u>26,755</u>	Repayments of short and long-term borrowing	<u>30,300</u>
(8,238)	Net cash flows from financing activities	10,952
<u>(22,530)</u>	Net (increase) or decrease in cash and cash equivalents	<u>10,798</u>
(14,336)	Cash and cash equivalents at the beginning of the reporting period	(36,866)
	Cash and cash equivalents at the end of the reporting period	
(40)	Cash held by Officers	(44)
(835)	Bank Current Accounts	974
<u>(35,991)</u>	Short-term deposits	<u>(26,998)</u>
<u>(36,866)</u>		<u>(26,068)</u>

The cash flows for operating activities include interest paid of £23.783m (2015/16 £27.326m) and interest received of £0.369m (2015/16 £0.539m).

Adjust net surplus or deficit on the provision of services for non-cash movements:

(442)	Net Gain/(Loss)	3,306
(297)	Amortisation of Intangible Assets	(397)
(51,194)	Depreciation & Impairment of Fixed Assets	(46,082)
(19,727)	Net Charges for Retirement Benefits	(12,450)
(3,040)	Movement in Debtors	(2,948)
(4,545)	Movement in Creditors	4,743
(119)	Movement in Stock	(161)
<u>(79,364)</u>		<u>(53,989)</u>

Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities:

21,753	Capital Grants General Fund	25,324
3,295	Capital Grants HRA	4,362
<u>25,048</u>		<u>29,686</u>

NOTES TO THE ACCOUNTS

1. GENERAL ACCOUNTING POLICIES

General Principles and Accounting Concepts

The Annual Accounts summarise the Council's transactions for the 2016/17 financial year and its position at the year-end of 31 March 2017. The Council is required to prepare Annual Accounts by the Local Authority Accounts (Scotland) Regulations 2014. Section 12 of the Local Government in Scotland Act 2003 requires that the accounts are prepared in accordance with proper accounting practices. The Accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (the Code) and the Service Reporting Code of Practice 2016/17 (SERCOP), supported by International Financial Reporting Standards (IFRS).

The Code of Practice on Local Authority Accounting is issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Local Authority (Scotland) Accounts Advisory Committee (LA(S) AAC).

The Accounts are designed to illustrate the financial performance in the year as well as the position of the Council as at 31 March 2017. Comparative figures for the previous financial year are also provided.

In accordance with IAS 8: Accounting Policies, the Council regularly reviews its accounting specific policies to ensure that they remain the most appropriate. The Code defines accounting policies as "the principles, bases, conventions, rules and practices applied by an authority in preparing and presenting accounts."

The accounting concepts of 'materiality', 'accruals', 'going concern' and 'primacy of legislative requirements' have been considered in the application of accounting policies. In this regard the materiality concept means that information is included where it is of such significance as to justify its inclusion. The accruals concept requires the non-cash effects of transactions to be included in the accounts for the year in which they occur, not in the period in which payment is made or income received. The going concern concept assumes that the Council will not significantly curtail the scale of its operation. In cases where accounting principles and legislative requirements conflict, the latter will apply.

The selection of accounting policies can have a significant impact on the figures shown in the accounts and as such they are required to be disclosed in these accounts. The policies shown in notes 1 to 5 in general impact on the accounts as a whole. More specific accounting policies are also disclosed against the relevant notes to the accounts.

Any departures from the above Codes of Practice are stated in the notes to the core accounts. In addition, these accounts have been prepared under the historic cost convention, other than changes resulting from the revaluation of certain categories of non-current assets.

As noted in the management commentary by the Chief Finance Officer, Group Accounts have been prepared which reflect the Council's interest in the Central Scotland Valuation Joint Board, FCSL (Holdings) Ltd, Falkirk Community Stadium Ltd, Falkirk Community Trust Ltd, Common Good Funds, Falkirk Community Trading Ltd and thinkWhere Ltd.

Accrual Of Income And Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council;
- Revenue from the provision of services is recognised when the Council can reliably measure the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council;
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet;
- Expenses in relation to services received (including those rendered by employees) are recorded as expenditure when the services are received, rather than when payments are made;
- Interest payable on borrowings and receivable on investments is accounted for on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract; and
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where there is evidence that debts are unlikely to be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Changes in accounting estimates are accounted for prospectively i.e. in the current and future years affected by the change.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

A new Expenditure Funding Analysis statement has been introduced to the accounts. The presentation of the Movement in Reserves Statement and the Comprehensive Income and Expenditure Statement for 2015/16 have been restated in line with the Council's management expenditure analysis according to the change to the 2016/17 Code for Telling the Story. This has had no impact on the presentation of the Balance Sheet and Cash Flow Statements.

The impairment of Council House Assets in the prior year was adjusted because the element that related to New Build Housing and houses purchased under the Buy Back Scheme was incorrectly charged to the Revaluation Reserve. This element of the impairment should have been charged to the Net Cost of Service within the Comprehensive Income and Expenditure Statement (CIES). The prior year Net Cost of Service has therefore increased by £4.4m and the Revaluation Reserve has decreased by £4.4m. The impairment has also been reversed out to the Capital Adjustment Account in the Movement in Reserves Statement. Therefore in overall terms there is no impact on the net asset value as the Revaluation Reserve has increased by £4.4m and the Capital Adjustment Account has decreased by £4.4m.

Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Balance Sheet and Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

Charges to Revenue for Non-Current Assets

Service revenue accounts, support services and the trading accounts are debited with the following amounts to record the real cost of holding non-current assets during the year:

- Depreciation attributable to the assets used by the relevant service;
- Revaluation and impairment losses attributable to the clear consumption of economic benefits on tangible non-current assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off; and
- Amortisation of intangible non-current assets attributable to the service.

The Council is not required to raise council tax to cover depreciation, impairment losses, revaluation losses, or amortisations. However, it is required to make an annual contribution from general fund balances to reduce its overall borrowing requirement. Depreciation, impairment losses, revaluation losses, and amortisations are therefore substituted by a funding contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Value Added Tax

Income and expenditure excludes any amounts related to VAT, as all VAT collected is payable to Her Majesty's Revenue & Customs (HMRC) and all VAT paid is recoverable from HMRC.

Revenue Expenditure Funded from Capital Under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income & Expenditure Statement in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

Overheads and Support Services

Changes to the 2016/17 Code for Telling the Story have removed the requirement to report services in the Comprehensive Income and Expenditure Statement in accordance with the specifications in the Service Reporting Code of Practice 2016/17 (SERCOP). As a result the costs of Central Support Services are no longer allocated out to all Services.

Accounting for the Costs of the Carbon Reduction Commitment Scheme

The authority is required to participate in the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme. The Scheme is now in its second phase which runs from 1 April 2014 until March 2019. The authority is required to purchase and surrender allowances, on the basis of emissions i.e. carbon dioxide produced as energy is used. As carbon dioxide is emitted (i.e. as energy is used), a liability and an expense are recognised. The liability will be discharged by surrendering allowances. The liability is measured at the best estimate of the expenditure required to meet the obligation, normally at the current market price of the number of allowances required to meet the liability at the reporting date. The Council has chosen to buy allowances at the start of the compliance year (eg a forecast sale) and the allowance has been treated as an intangible asset in the accounts. The cost to the authority is recognised and reported in the costs of the authority's services and is apportioned to services on the basis of energy consumption. A liability has been created for the surrender of the allowances to the CRC Registry.

Reserves

Reserves are amounts set aside for specific purposes outwith the definition of provisions. They are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service revenue account in that year and included within the Net Cost of Services in the Comprehensive Income & Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure in that year.

Section 93 of the Local Government (Scotland) Act 1973 requires the Council to have a General Fund. Schedule 3 to the Local Government (Scotland) Act 1975 also allows local authorities to establish a Repairs and Renewals Fund, an Insurance Fund and a Capital Fund. Other reserves have also been established to meet the accounting requirements of the Code.

Certain reserves are kept to manage the accounting processes for non-current assets and financial instruments as well as retirement benefits and do not represent usable resources for the Council – these reserves are explained in the relevant policies below:

Usable Reserves

Capital Receipts Reserve

Capital Receipts received in the year are available to finance new capital expenditure or to finance the repayment of principal on existing loans.

Capital Grants Unapplied Account

The Capital Grants Unapplied Account records grants, developers contributions and other contributions which have been credited to the Comprehensive Income and Expenditure Statement but have still to be applied to fund capital expenditure. Once applied, the value will be transferred from the Capital Grants Unapplied Account to the Capital Adjustment Account.

General Fund

The General Fund relates to the revenue reserves of the Council, elements of which are regarded as earmarked funds e.g. Devolved Schools, Spend to Save, Economic Development and Energy Efficiency.

Housing Revenue Account

The Housing (Scotland) Act 1987 requires the Council to account separately for local authority housing provision and the related reserves.

Other Usable Reserves

These comprise:

Insurance Fund

Established as a provision against future claims and the cost of insurance premiums to meet any large claims. Council Services contribute to the fund which meets the costs in respect of property damage, public and employee liability and the vehicle fleet.

Repairs and Renewals Fund

The contribution to this reserve mainly arises from the Waste Strategy programme and provision for property costs in Social Work and Development Services.

Unusable Reserves

Certain reserves are kept to manage the accounting process for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the Council. These reserves are explained in Note 10.

2. ACCOUNTING STANDARDS ISSUED BUT NOT YET ADOPTED

The Code requires the disclosure of information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. This applies to the adoption of the following new or amended standards within the 2017/18 Code:

- Amendment to the reporting of pension fund scheme transaction costs
- Amendment to the reporting of investment concentration

The Code requires implementation from 1 April 2017 and there is therefore no impact on the 2016/17 accounts.

These new or amended standards are not expected to have a significant impact on the accounts.

3. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying these accounting policies the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Annual Accounts are:

- there is a high degree of uncertainty about future levels of funding for local government. However, the Council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close facilities and reduce levels of service provision.
- The Code has adopted the International Public Sector Accounting Standards (IPSAS) definition of Investment Property as one that is used solely to earn rentals or for capital appreciation, or both. Property that is used to facilitate the delivery of services or production of goods as well as to earn rentals or for capital appreciation does not meet the definition of investment property under IPSAS 16 and is accounted for as Property, Plant and Equipment. The Council has examined its portfolio of property, in particular those which were classified as investment properties under the Code and concluded that they do not meet the definition of an investment property as noted above. Instead, these properties are held for economic development purposes and are now classified as Property, Plant and Equipment.
- The Council is deemed to control the services provided under the Private Finance Initiative agreements for the provision of school buildings, maintenance and other facilities (Class 98 and Falkirk Schools Gateway Ltd). The accounting policies for Private Finance Initiatives have been applied to these arrangements and the schools (valued at net book value of £209.5m at 31 March 2017) are recognised as Property, Plant and Equipment on the Council's Balance Sheet.
- The Council entered into a partnership agreement with Scottish Canals to invest in The Helix project. All costs were routed through the Council and funded by external contributions from such bodies as Scottish Canals and Big Lottery with the Council contributing £6.3m over the last 9 years (£0.3m in 2016/17). The partnership agreement allowed for the transfer of The Kelpies and canal elements of the project to Scottish Canals. The transfer was completed in 2015/16 and was accounted for as a disposal at nil receipt and as such included as a "loss on disposal of non-current and current assets" in the Comprehensive Income and Expenditure Account. The partnership agreement also allowed for the part transfer of the Visitor Centre to Scottish Canals. The agreement dictates that the Visitor Centre is jointly owned by the Council and Scottish Canals and as such 50% of the total costs of £0.79m have been transferred (£0.01m in 2016/17).
- The Council's housing stock is valued using the Beacon Method. The nature of capital expenditure incurred has been reviewed to determine to what extent this expenditure is deemed to enhance the value of the stock and therefore what element is treated as non-enhancing capital expenditure. In terms of New Build Housing and house purchases under the Buy-Back Scheme, the level of enhancement is based on the average net book value of a house in a particular management area, with the difference between spend and this average value being treated as non-enhancing capital expenditure. Spend incurred in relation to achieving Scottish Housing Quality Standard (SHQS) assumes that in the main 90% of these works maintain the value of the housing stock and therefore mitigates, to a certain extent, the depreciation charge for the year.

4. ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

The Annual Accounts contain estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Council's Balance Sheet as at 31 March 2017 for which there is a significant risk of material adjustment in the forthcoming financial years are as follows:

Provisions

The Council has made a provision for the settlement of claims for back pay arising from the Equal Pay initiative, based on the number of claims received and an average settlement amount. However, uncertainty remains as settlement negotiations are ongoing.

Pensions Liability

Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied. The effects on the net pensions liability of changes in individual assumptions can be measured. For instance, a 0.5% decrease in the real discount rate assumption would result in an increase in the pension liability of £145m, whilst a 1 year increase in life expectancy would approximately add £53m to liabilities.

However, the assumptions interact in complex ways. During 2016/17, the Council's actuaries advised that the net pensions liability had increased by £159m since March 2016. This included an increase in assets of £150m and an increase in liabilities of £309m. Had there been a 0.5% increase in the assumptions governing both salary rates and pension increase rates, this would have resulted in an increase in liabilities of £53m and £88m respectively.

Arrears

At 31 March 2017, the Council had a balance of sundry debtors of c£9.6m, council tax circa £12.3m and house rents of c£3.6m. Provision for doubtful debts amount to c£4m, £12m and £2.7m respectively. An increase of 10% in the value of these would amount to £0.4m, £1.2m and £0.3m respectively.

5. EVENTS AFTER THE BALANCE SHEET DATE

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the balance sheet date and the date when the Annual Accounts is authorised for issue. Two types of event can be identified:

- Those that provide evidence of conditions that existed at the end of the reporting period – the Annual Accounts are adjusted to reflect such events; and
- Those that are indicative of conditions that arose after the reporting period – the Annual Accounts are not adjusted to reflect such events, but where a category of events would have a material effect disclosure is made in the notes of the nature of the events and their estimated financial effect.

There have been no such events up to the date of authorisation.

Events taking place after the date of authorisation for issue are not reflected in the Annual Accounts.

6. ANALYSIS OF GENERAL FUND BALANCE

	General (i) £'000	Housing (i) £'000	Devolved Schools (ii) £'000	Economic Development (iii) £'000	Central Energy Efficiency Fund (iv) £'000	Revenue Grant (v) £'000	Spend to Save (vi) £'000	Total £'000
Balance at beginning of year	(8,562)	(4,781)	(3,891)	(1,001)	(501)	(1,508)	(3,136)	(23,380)
(Surplus)/Deficit for the year	488	(369)	-	-	-	-	-	119
Appropriation (to)/from General Fund	(1,585)	-	534	634	(7)	424	-	-
Other Appropriations	(1,870)	57	-	-	-	-	-	(1,813)
Net Movement	(2,967)	(312)	534	634	(7)	424	-	(1,694)
Balance at End of Year	(11,529)	(5,093)	(3,357)	(367)	(508)	(1,084)	(3,136)	(25,074)

- (i) The budgeted use of general fund reserves in 2016/17 was £1.45m.
- (ii) Carry forward of unutilised budgets delegated to Headteachers under the Devolved Schools Management System.
- (iii) Funds arising from the strategic development of business parks.
- (iv) Funds to develop energy efficient initiatives in Council buildings.
- (v) Prior to 2013/14 unspent revenue grants were treated as short term creditors. From 2013/14 revenue grants are now fully recognised as income in the accounts with any unspent balances earmarked within the overall general fund balance.
- (vi) The Council agreed to earmark funds for spend to save initiatives aimed at reducing future budgeted expenditure.

7. NOTES TO THE EXPENDITURE AND FUNDING ANALYSIS

Adjustments between Funding and Accounting Basis 2016/17

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts	Adjustments for Capital Purposes (Note 1) £'000	Net change for the Pensions Adjustments (Note 2) £'000	Other Differences (Note 3) £'000	Total Adjustments £'000
Children's Services	14,387	1,080	1,217	16,684
Social Work – Adult Services	2,671	685	5	3,361
Development Services	10,041	897	5	10,943
Corporate & Housing Services	1,345	(1,293)	7	59
Housing Revenue Account	17,722	805	-	18,527
Net Cost of Services	46,166	2,174	1,234	49,574
Other Income and Expenditure from the Expenditure and Funding Analysis	(62,999)	10,276	1,810	(50,913)
Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statements Surplus or Deficit on the Provision of Services	(16,833)	12,450	3,044	(1,339)

Adjustments Between Funding and Accounting Basis 2015/16

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts	Adjustments for Capital Purposes (Note 1) £'000	Net change for the Pensions Adjustments (Note 2) £'000	Other Differences (Note 3) £'000	Total Adjustments £'000
Children's Services	12,918	3,144	(998)	15,064
Social Work – Adult Services	435	2,064	(28)	2,471
Development Services	22,018	2,663	(28)	24,653
Corporate & Housing Services	782	(1,752)	(40)	(1,010)
Housing Revenue Account	15,025	410	(37)	15,398
Net Cost of Services	51,178	6,529	(1,131)	56,576
Other Income and Expenditure from the Expenditure and Funding Analysis	(51,098)	13,198	-	(37,900)
Difference between General Fund Surplus or Deficit and Comprehensive Income and Expenditure Statements Surplus or Deficit on the Provision of Services	80	19,727	(1,131)	18,676

(1) **Adjustments for Capital Purposes**

Adjustments for capital purposes – this column adds in depreciation and impairment and revaluation gains and losses in the services line, and for:

- Other operating expenditure – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets.
- Financing and investment income and expenditure – the statutory charges for capital financing i.e. Minimum Revenue Provision and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices.
- Taxation and non-specific grant income and expenditure – capital grants are adjusted for income not chargeable under generally accepted accounting practices. Revenue grants are adjusted from those receivable in the year to those receivable without conditions or for which conditions were satisfied throughout the year. The Taxation and Non Specific Grant Income and Expenditure line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year.

(2) **Net Change for the Pensions Adjustments**

Net change for the removal of pension contributions and the addition of IAS 19 Employee Benefits pension related expenditure and income:

- For services this represents the removal of the employer pension contributions made by the authority as allowed by statute and the replacement with current service costs and past service costs.
- For Financing and investment income and expenditure – the net interest on the defined benefit liability is charged to the CIES.

(3) **Other Differences**

Other differences between amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts payable/receivable to be recognised under statute:

- For Financing and investment income and expenditure the other differences column recognises adjustments to the General Fund for the timing differences for premiums and discounts.
- The charge under Taxation and non-specific grant income and expenditure represents the difference between what is chargeable under statutory regulations for council tax and NDR that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices in the Code. This is a timing difference as any difference will be brought forward in future Surpluses or Deficits on the Collection Fund.

8. EXPENDITURE AND INCOME ANALYSED BY NATURE

The authority’s expenditure and income is analysed as follows:

2015/16 £'000 Restated		2016/17 £'000
	Expenditure	
233,574	Employee benefits expenses	229,110
281,456	Other services expenses	337,743
29,830	Support services recharges	20,263
51,478	Depreciation, amortisation, impairment	46,479
27,326	Interest payments	23,783
33,920	Pensions interest cost	34,727
442	Loss on the disposal of assets	-
(6,626)	Adjustment for Support costs	-
651,400	Total Expenditure	692,105
	Income	
(250,999)	Fees, charges and other service income	(304,689)
(546)	Interest & investment income	(369)
(21,601)	Pensions interest income on plan assets	(24,096)
(117,620)	Income from council tax, non-domestic rates	(124,455)
(248,322)	Government grants and contributions	(236,410)
-	Gain on the disposal of assets	(3,306)
6,626	Adjustment for Support costs	-
(632,462)	Total Income	(693,325)
18,938	(Surplus) or Deficit on the Provision of Services	(1,220)

Note:

2015/16 figures were restated due to our treatment of support costs in 16/17 to allow an accurate comparison of costs. The adjustment is to bring the 15/16 figures in line with the CIES which has not been restated at the individual service level.

9. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS 2016/17

This note details the adjustments that are made to the total Comprehensive Income and Expenditure recognised by the Council in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure.

	General Fund Balance £'000	HRA Balance £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied Account £'000	Other Reserves £'000	Total Usable Reserves £'000	Unusable Reserves £'000	Note
Depreciation, impairment and downward revaluation of non-current assets	(28,360)	(17,722)	-	-	-	(46,082)	46,082	10(a)
Amortisation of intangible assets	(397)	-	-	-	-	(397)	397	10(a)
Statutory Repayment of Debt (Loans Fund Advances)	9,025	4,488	-	-	-	13,513	(13,513)	10(a)
Capital expenditure charged to the General Fund Balance (CFCR)	2,305	9,174	-	-	-	11,479	(11,479)	10(a)
Statutory Repayment of Debt (Finance Lease Liabilities)	-	-	-	-	-	-	-	
Statutory Repayment of Debt (PFI)	4,997	-	-	-	-	4,997	(4,997)	10(a)
Capital Receipts applied to fund Capital Expenditure	-	-	7,741	-	-	7,741	(7,741)	10(a)
Use of the Repairs & Renewals Fund , DMR, Spend to Save to Finance new capital expenditure	-	-	-	-	38	38	(38)	10(a)
Amount by which finance costs calculated in accordance with the Code are different from the amount of finance costs calculated in accordance with statutory requirements	267	64	-	-	-	331	(331)	10(e)
Amount by which pension costs calculated in accordance with the Code (i.e. in accordance with IAS 19) are different from the contributions due under the pension scheme regulations	(11,646)	(804)	-	-	-	(12,450)	12,450	10(c)
Net transfer to or from the Accumulated Absences account required by legislation	(1,234)	-	-	-	-	(1,234)	1,234	10(d)
Employee Liabilities	(1,810)	-	-	-	-	(1,810)	1,810	10(f)
Net Loss/(Gain) on Sale of Assets	(730)	4,036	-	-	-	3,306	-	
Capital Receipts Received	-	-	(9,274)	-	-	(9,274)	-	
Capital Grants Received	25,324	4,362	-	1,804	-	31,490	(31,490)	10(a)
Net Book Value of Asset Disposals	-	-	-	-	-	-	5,968	10(a)&(b)
Impairment of long term investment	-	-	-	-	-	-	-	10(a)
Total Adjustments	(2,259)	3,598	(1,533)	1,804	38	1,648	(1,648)	

Adjustments between accounting basis and funding basis under regulations 2015/16

	General Fund Balance £'000	HRA Balance £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied Account £'000	Other Reserves £'000	Total Usable Reserves £'000	Unusable Reserves £'000	Notes
Depreciation, impairment and downward revaluation of non-current assets	(36,169)	(15,025)	-	-	-	(51,194)	51,194	10(a)
Amortisation of intangible assets	(297)	-	-	-	-	(297)	297	10(a)
Statutory Repayment of Debt (Loans Fund Advances)	10,560	3,946	-	-	-	14,506	(14,506)	10(a)
Capital expenditure charged to the General Fund Balance (CFCR)	2,921	8,218	-	-	-	11,139	(11,139)	10(a)
Statutory Repayment of Debt (Finance Lease Liabilities)	-	165	-	-	-	165	(165)	10(a)
Statutory Repayment of Debt (PFI)	4,192	-	-	-	-	4,192	(4,192)	10(a)
Capital Receipts applied to fund Capital Expenditure	-	-	3,585	-	-	3,585	(3,585)	10(a)
Use of the Repairs & Renewals Fund , DMR, Spend to Save to Finance new capital expenditure	-	-	-	-	752	752	(752)	10(a)
Amount by which finance costs calculated in accordance with the Code are different from the amount of finance costs calculated in accordance with statutory requirements	269	64	-	-	-	333	(333)	10(e)
Amount by which pension costs calculated in accordance with the Code (i.e. in accordance with IAS 19) are different from the contributions due under the pension scheme regulations	(18,817)	(910)	-	-	-	(19,727)	19,727	10(c)
Net transfer to or from the Accumulated Absences account required by legislation	1,094	37	-	-	-	1,131	(1,131)	10(d)
Net Loss/(Gain) on Sale of Assets	(1,876)	1,434	-	-	-	(442)	-	
Capital Receipts Received	-	-	(4,305)	-	-	(4,305)	-	
Capital Grants Received	21,753	3,295	-	243	-	25,291	(25,291)	10(a)
Net Book Value of Asset Disposals	-	-	-	-	-	-	4,747	10(a)&(b)
Impairment of long term investment	(3,530)	-	-	-	-	(3,530)	3,530	10(a)
Total Adjustments	(19,900)	1,224	(720)	243	752	(18,401)	18,401	

10. UNUSABLE RESERVES

Notes	2015/16 £'000	Unusable Reserve	2016/17 £'000
(a)	(147,637)	Capital Adjustment Account	(179,433)
(b)	(447,421)	Revaluation Reserve	(429,160)
(c)	303,045	Pension Reserve	461,650
(d)	4,894	Accumulated Absences Account	6,128
(e)	5,403	Financial Instruments Account	5,072
(f)	-	Employee Liabilities Account	1,810
	(281,716)	Total Unusable Reserves	133,933

(a) **Capital Adjustment Account**

The Capital Adjustment Account contains the difference between amounts provided for depreciation and amounts that require to be charged to revenue to repay the principal element of external loans. It also contains the amount of impairment charged to revenue to the extent that the revaluation reserve does not contain a revaluation gain relevant to a specific asset.

2015/16 £'000		2016/17 £'000
(144,139)	Balance at 1 April	(147,637)
(25,291)	Capital Grants Received	(31,490)
4,325	Net Book Value of Asset Disposals	5,118
-	Gain/(loss) on Revaluation of Non-Current Assets	-
51,194	Depreciation/ impairment and downward revaluation of non-current assets	46,082
297	Amortisation of intangible assets	397
(14,506)	Statutory Repayment of Debt (Loans Fund Advances)	(13,513)
(11,139)	Capital expenditure charged to the General Fund Balance (CFCR)	(11,479)
(165)	Statutory Repayment of Debt (Finance Lease Liabilities)	-
(4,192)	Statutory Repayment of Debt (PFI)	(4,997)
(3,585)	Capital Receipts applied to fund Capital Expenditure	(7,741)
(752)	Use of the Repairs & Renewals Fund, DMR, Spend to Save to Finance new capital expenditure	(38)
(3,214)	Adjustment between CAA and Revaluation Reserve for depreciation that is related to the revaluation balance rather than Historic Cost	(14,135)
3,530	Impairment of long term investment	-
(147,637)	Balance at 31 March	(179,433)

(b) **Revaluation Reserve**

The Revaluation Reserve records the increase in value of non-current assets as a result of revaluation. These increases are offset by the depreciation charge incurred as a result of the revaluation of each asset. On disposal of an asset, the reserve is reduced by any balance it may hold in relation to that asset. Any downward revaluations will be processed through the revaluation reserve up to the value of any previous credits which may exist. The balance in the revaluation reserve represents an increase in the net worth of the Council. However, these gains would only be recognised if the assets were sold and a capital receipt generated.

2015/16 £'000		2016/17 £'000
(159,634)	Balance at 1 April	(447,421)
422	Net Book Value of Assets Disposals	850
(291,423)	Loss/(Gain) on Revaluation of Non-Current Assets	3,276
3,214	Adjustment between CAA and Revaluation Reserve for depreciation that is related to the revaluation balance rather than Historic Cost	14,135
(447,421)	Balance at 31 March	(429,160)

(c) Pension Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Council makes employer's contributions to pensions funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

2015/16 £'000		2016/17 £'000
381,288	Balance at 1 April	303,045
(97,970)	Remeasurements of Pension Assets/Liabilities	146,155
19,727	Amount by which pension costs calculated in accordance with the Code (i.e. in accordance with IAS 19) are different from the contribution due under the pension scheme regulations	12,450
303,045	Balance at 31 March	461,650

(d) Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

2015/16 £'000		2016/17 £'000
6,025	Balance at 1 April	4,894
(1,131)	Net transfer to or from earmarked reserves required by legislation	1,234
4,894	Balance at 31 March	6,128

(e) Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions. The Council uses the Account to manage premiums paid on the early redemption of loans. Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out of the General Fund Balance to the Account in the Movement in Reserves Statement. Over time, the expense is posted back to the General Fund Balance in accordance with statutory arrangements for spreading the burden on council tax. In the Council's case, this period is the unexpired term that was outstanding on the loans when they were redeemed. As a result, the balance on the Account at 31 March 2017 will be charged to the General Fund over the next 40 years.

2015/16 £'000		2016/17 £'000
5,736	Balance at 1 April	5,403
(333)	Amount by which finance costs calculated in accordance with the Code are different from the amount of finance costs calculated in accordance with statutory requirements	(331)
5,403	Balance at 31 March	5,072

(f) **Employee Statutory Adjustment Account**

An Employee Statutory Adjustment Account was established in 2016/17. This account allows the charge for a provision for employee related liabilities, to be deferred until a settlement is actually made. When the accounting provision is paid or reduced, the statutory adjustment account is to be credited and the General Fund is to be charged with the amount of the payment or reduction.

2015/16 £'000		2016/17 £'000
-	Balance at 1 April	-
-	Net transfer to or from earmarked reserves required by legislation	1,810
-	Balance at 31 March	1,810

11. MATERIAL ITEMS OF INCOME AND EXPENSE

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the Council's financial performance. There were no material items requiring additional disclosure in 2016/17.

12. RELATED PARTY TRANSACTIONS

The Council is required to disclose material transactions with related parties - that is bodies or individuals that have potential to control or influence the Council or to be controlled or influenced by the Council.

The Scottish Government is a related party as it exerts significant influence through legislation and funding.

Other material transactions with related parties were as follows:

Related Party		Income 2016/17 £'000	Expenditure 2016/17 £'000
Falkirk Towns Ltd	Promotion of Town Centres	-	319
Falkirk Council Pension Fund	Charge for Support Services (Also see Note 17 – Defined Benefit Pension Schemes)	626	-
Falkirk Community Stadium Ltd	Repayment of expenses and Professional Fees	441	-
Family Centres	Funding provided per Service Level Agreement	-	571
Central Scotland Valuation Joint Board	Contribution to running costs Charge for Support Services	7	1,022
Falkirk Schools Gateway	Contribution to operating costs	-	4,008
Falkirk & District Women's Aid	Funding provided per Service Level Agreement	-	220
Falkirk Community Trust	Contribution to Community Trust Charge for Support Services	82	11,934
Fife & Forth Valley Community Justice Authority	Administration Charge	271	-
thinkWhere Ltd	Contribution to operating costs	-	195
Falkirk IJB	Commission Income Contribution to IJB	61,262	60,724

Outstanding balances for parties were as follows:

2015/16 Debtor £'000	2015/16 Creditor £'000		2016/17 Debtor £'000	2016/17 Creditor £'000
2	-	Joint Boards	2	-
1,372	8	Falkirk Community Stadium Ltd	1,324	7
1,055	2,516	Falkirk Community Trust	969	32
-	60	Falkirk Towns Ltd	-	-
4	-	Fife & Forth Valley CJA	-	-
-	191	Falkirk Council Pension Fund	-	157
-	-	Falkirk IJB	-	538

13. EXTERNAL AUDIT FEE

The agreed external audit fee for Falkirk Council for 2016/17 was £320,235 (£321,990 in 2015/16). Ernst & Young LLP propose to charge £550 for the audit of the Temperance Trust, in 2015/16 Audit Scotland charged £200. These fees were for work undertaken in accordance with the Code of Audit Practice. No other services were provided by Ernst & Young LLP.

14. STATUTORY TRADING ACCOUNTS

Section 10 of the Local Government in Scotland Act 2003 requires that each Statutory Trading Account should at least break-even over a rolling 3 year period. The figures are based on International Financial Reporting Standards as specified in the Code of Practice for Local Authority Accounting. For the purposes of determining whether or not the Statutory Trading Account has met the financial objective, interest payable and receivable should be included.

Falkirk Council operates a Statutory Trading Account for Building Maintenance.

Actual Year to 31/03/15 £'000	Actual Year to 31/03/16 £'000	BUILDING MAINTENANCE TRADING ACCOUNT	Actual Year to 31/03/17 £'000	3 Year Total £'000
33,624	33,341	Turnover	33,489	100,454
33,434	33,459	Expenditure	32,933	99,826
190	(118)	Surplus/(Deficit) per CIES	556	628
(73)	(95)	Interest	(83)	(251)
117	(213)	Surplus/(Deficit) for Financial Return Purposes	473	377

The Building Maintenance Division is primarily responsible for providing a repairs and maintenance service for the Council's housing stock, which at 31 March 2017 amounted to 16,276 houses. The Division also includes a Joinery Manufacturing Unit which manufactures doors as part of the Council's Door Replacement Programme and is responsible for providing a repairs and maintenance service for the Council's operational and administrative buildings.

The interest figure shown above is included within Interest Payable/Receivable in the Comprehensive Income and Expenditure Account.

15. AGENCY ARRANGEMENTS

The Council has an agreement with Scottish Water whereby it collects water and waste charges in conjunction with collection of Council Tax. The income received from this service in 2016/17 was £511,792 (£511,792 in 2015/16).

16. EMPLOYEE BENEFITS

Benefits Payable During Employment

Short-term employee benefits are defined as “falling due wholly within 12 months after the end of the period in which the employees render the related service”. Some examples are salaries, wages, paid annual leave, paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees. These are recognised as an expense for each Service in the year in which employees render service to the Council. An accrual is made against Services for the cost of holiday entitlements earned by employees but not taken before the year-end and which employees can carry forward into the next financial year. The accrual is made at the remuneration rates applicable in the following financial year and is reversed out of the General Fund Balance through the Movement in Reserves Statement so that the holiday benefits are charged to revenue in the year in which the holiday absence occurs.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer’s employment before the normal retirement date or an officer’s decision to accept voluntary redundancy. These termination benefits are charged on an accruals basis to the Comprehensive Income & Expenditure Statement when the Council is demonstrably committed to either terminating the employment of an officer or group of officers or making an offer to encourage voluntary redundancy.

Where the termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund or pensioners and any such amounts payable but unpaid at the year-end.

Post Employment Benefits

The Council participates in two separate pension schemes that meet the needs of employees in different services:

- (a) The Teachers’ Pension Scheme, administered by the Scottish Public Pensions Agency.
- (b) The Local Government Pension Scheme, administered by Falkirk Council.

Both schemes provide defined benefits (i.e. retirement lump sums and pensions) to members earned whilst working as employees for the Council. In addition, from time to time, the Council may award discretionary benefits to employees who are retiring.

(a) Teachers

The Teachers’ Pension Scheme is an unfunded scheme where the employer contribution rate is currently 17.2%. The Scottish Government has set this rate on the basis of a notional fund. The most recent actuarial valuation of the Teachers’ Pension Scheme took place on 31 March 2016. The results, which are still to be disclosed, will set contribution rates from 1 April 2019. Falkirk’s level of participation in the scheme is 2.5% based on the proportion of employer contributions paid in 2015/16.

The arrangements for the teachers’ scheme mean that the liabilities for employee benefits cannot be identified specifically to the Council. The pension costs are therefore accounted for as if the scheme were a defined contributions scheme – no liability for future payment of benefits is recognised in the Balance Sheet and the Children’s Services line in the Comprehensive Income & Expenditure Statement is charged with the employer’s contributions payable to Teachers’ Pensions in the year.

As a result, the Council does not comply with the Code to recognise the full expected cost of providing for all pensions and related benefits on a systematic and rational basis over the period the Council derives benefit from its employees’ service.

(b) Other Employees

Other employees are eligible to join the Local Government Pension Scheme through the Pension Fund administered by the Council. The Scheme is accounted for as a defined benefits scheme.

The Scheme is a funded arrangement with the employer's contribution rate being set on a three yearly basis by an independent actuary. The rate is set to ensure that the Pension Fund remains solvent and with a view to meeting 100% of its overall liabilities in the long term. Full details of the most recent actuarial valuation can be found on the Fund website www.falkirkpensionfund.org.

The liabilities of the Local Government Pension Scheme attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method (i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of future earnings for current employees).

Liabilities are discounted to their value at current prices, using a discount rate of 2.6% (based on the indicative rate of return on high quality corporate bonds) which recognises the weighted average duration of the benefit obligation.

The assets attributable to the Council are included in the Balance Sheet at their fair value and these are separated into those that have a quoted market price in an active market and those that do not.

- Quoted securities – current market bid price
- Unquoted securities – independent valuation
- Unitised securities – current market bid price
- Property – independent valuation

The change in the net pensions liability is analysed into several components:

- Current service cost - the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income & Expenditure Statement to the services for which the employees worked
- Past service cost - the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus/Deficit on the Provision of Services in the Comprehensive Income & Expenditure Statement as part of Non-Distributed Costs
- Interest cost - the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to the Finance and Investment Income and Expenditure line in the Comprehensive Income & Expenditure Statement
- Interest Income on assets – a component of the return on plan assets which is determined by multiplying the fair value of the plan assets by the discount rate – credited to the Finance and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- Remeasurements comprising
 - Actuarial gains and losses –changes in the present value of the defined benefit obligation because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve
 - Return on plan assets excluding amounts included in net interest i.e. the difference between the return on plan assets and the interest income on assets
- Contributions paid to the Local Government Pension Scheme – cash paid as employer's contributions to the pension fund in settlement of liabilities not accounted for as an expense
- Estimated benefits paid – an estimate of the pension and lump sum benefits payable from the Local Government Pension and other discretionary arrangements

Statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the Pension Fund or directly to the pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the Pension Fund or pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Discretionary Benefits

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

More Information

More information about pension costs is disclosed in Note 17 of the core accounts.

17. DEFINED BENEFIT PENSION SCHEMES

As part of the terms and conditions of employment, the Council offers retirement benefits to its employees. Although these benefits will not actually be payable until employees retire, the Council has a commitment to make the payments that need to be disclosed at the time that employees earn their future pension entitlement.

The Council participates in two pension schemes, the rules of which are made under the terms of the Public Services Pensions Act 2013.

The Local Government Pension Scheme

The scheme provides defined benefits for non-teaching employees and is administered locally by the Council. The scheme is funded which means that the Council and the scheme members pay contributions into a fund, calculated at a level that is intended to balance the pensions liabilities with investment assets. The contribution rate for the majority of employees is between 5.5% and 9.0% depending on the level of members' salary. Employer contributions are set every three years following a valuation of the Fund by an independent actuary.

The fund is used to pay pension and lump sum benefits to scheme members and their dependants. Contributions to the fund are made by active members and by participating employers. Income also flows into the fund through its investments which include equities, property and bonds.

The Council's participation in the Local Government Pension Scheme requires the funding of liabilities that may stretch out 60-70 years based on the working lives of active members and period during which pensions are in payment. During these periods there will be diverse economic cycles, varying levels of investment return and changes in mortality rates. All of these are factors which could impact on the Council's cash flow position as they could require the actuary to set a revised employer contribution rate having undertaken the three yearly valuation of the pension fund.

Whilst there is always an element of uncertainty as to the extent of any change in the contribution rate, the actuary is obliged to have regard to the Fund's Funding Strategy which is to take a prudent long term view of liabilities and maintain as constant an employer contribution rate as possible.

Around 35 employers currently participate in the Falkirk Council Pension Fund. This includes employers such as local authorities and non-governmental public bodies who have very secure financial credentials and also employers such as non-profit making charitable organisations who have less secure financial circumstances. If any Fund employer were to be wound up and unable to pay its share of any fund deficit, that liability would fall on the employers remaining in the Fund, including Falkirk Council.

The pension fund seeks to mitigate this risk by requiring all new entities to the Fund since the mid-1990's to nominate a guarantor to make good any deficit on wind up. Employers with less secure covenants admitted to the fund prior to the mid 1990's generally hold tangible assets which could be realised to meet any cessation debts. In any event, the employers who are most at risk of financial failure represent a very small proportion of the fund both in terms of member numbers and aggregate liabilities.

Falkirk Community Trust is a member of the Falkirk Pension Fund, a Local Government Pension Scheme, which is a defined benefit scheme and provides benefits based on final pensionable pay. As part of the Admission Agreement to the Scheme both Falkirk Community Trust and Falkirk Council agreed that assets of the Pension Fund in respect of Trust employees and former employees shall, at all times, be notionally allocated to Falkirk Council and the liabilities of the Pension Fund shall, at all times, be the responsibility of Falkirk Council and not Falkirk Community Trust.

The Council is itself a guarantor of the pension liabilities of thinkWhere Ltd (formerly Forth Valley GIS Ltd) and Haven Products Ltd. There was no requirement for the guarantor role to be activated during 2016/17. Activation could be triggered if either of the bodies ceased trading and were unable to meet their financial commitments to the pension fund. Both employers have closed the Scheme to new entrants in order that funding obligations are minimised.

Falkirk Council has delegated pension fund business to its Pensions Committee which comprises six elected members from Falkirk Council and three co-opted members representing Trade Unions, Pensioners and Other Fund employers. The work of the Pensions Committee is overseen by a statutory Pension Board which consists of four trade union representatives and four employer representatives.

Local Government Pension Scheme and Discretionary Benefits

In accordance with the requirements of International Accounting Standard 19 "Employee Benefits" (IAS 19), the Council is required to disclose certain information concerning assets, liabilities, income and expenditure related to Pension Schemes for its employees.

The assets and liabilities of the Council's pension arrangements as at 31 March 2017 have been calculated by Hymans Robertson a firm of independent Consulting Actuaries.

Fund membership is made up of active members, deferred members and pensioner members.

Participating employers include Clackmannanshire, Falkirk and Stirling Councils, Falkirk Community Trust, Scottish Police Authority (ex Central Scotland Police members), Scottish Fire and Rescue Service (ex Central Scotland Fire and Rescue members), Central Scotland Valuation Joint Board, the Scottish Environment Protection Agency (SEPA), the Scottish Children's Reporter Administration (SCRA), Forth Valley College and a number of non-profit making charitable bodies in Central Scotland.

Regulation 55 of the Local Government Pension Scheme (Scotland) Regulations 2014 requires that an Administering Authority must prepare a pension fund annual report. Statutory guidance issued by the Scottish Government and contained in the Local Government Finance Circular No. 1/2011 requires that the annual report is to be published separately from the Council's accounts and is to be subject to a separate audit opinion.

The Teachers' Pension Scheme

The scheme is administered by the Scottish Public Pensions Agency (SPPA) and provides defined benefits for teaching employees. The employee contribution rate ranges from 7.2% to 11.9% depending on the level of teachers' salary. The Council contributes towards the costs of the scheme by making contributions based on a percentage of members' pensionable salaries. Although the scheme is unfunded, the Government Actuary uses a notional fund as a basis for calculating the employers' contribution rate. Annual reports in respect of the STSS (Scottish Teachers' Superannuation Scheme) are available from:

http://www.sppa.gov.uk/index.php?option=com_content&view=article&id=323&Itemid=840

In addition to both of the schemes above, the Council has powers to grant additional benefits under Discretionary Payments Regulations relating to teaching and non-teaching employees. On occasion, benefits under the regulations may be awarded by the Council where an employee leaves in the interests of the efficiency of the service or on the grounds of redundancy. These are unfunded schemes meaning that there are no investment assets built up to meet the pension liabilities. These benefits have been accounted for on a defined benefit basis.

The Local Government Pension Scheme and Teachers' Pension Scheme were both amended with effect from 1 April 2015 to meet the requirements of the Public Service Pensions Act 2013. Both schemes have moved to a career average basis from the existing final salary basis. It is expected to be a number of years before savings are realised from the new arrangements as pre April 2015 benefits are generally continuing to be calculated on a final salary basis.

The report must contain the following items:

- a report about the management and financial performance of the fund during the year
- a report explaining the Council's investment policy for the fund and reviewing the performance of the investments of the fund during the year
- a report of the arrangements made during the year for the administration of each of those funds
- a statement by the actuary who carried out the most recent valuation of the assets and liabilities of the fund and of the level of funding disclosed by that valuation
- the current version of the governance compliance statement or details of where that statement can be obtained
- the fund account and net asset statement with supporting notes and disclosures prepared in accordance with proper practices
- an annual report dealing with
 - (i) the extent to which the administering Council and constituent employers have achieved any levels of performance set out in a pension administration strategy
 - (ii) such other matters arising from its pension administration strategy as it considers appropriate
- the current version of the Funding Strategy Statement or details of where that statement may be obtained
- the current version of the Statement of Investment Principles or details of where that statement may be obtained
- any other material which the administering Council considers appropriate

The annual report of the Falkirk Council Pension Fund in respect of year 2016/17 can be inspected at the offices of the Council or online at www.falkirkpensionfund.org by following the links to local government pension scheme.

The cost of retirement benefits in the Net Cost of Services is recognised when employees earn them, rather than when the benefits are eventually paid as pensions. The following information is in relation to the Comprehensive Income and Expenditure Statement.

Comprehensive Income and Expenditure Statement

31/03/16	Year Ended:	31/03/17
£'000		£'000
32,601	Current Service Cost	27,410
33,920	Interest Cost	34,727
(21,601)	Interest Income on Plan Assets	(24,096)
630	Past Service Costs/(Gains)	735
-	Losses/(Gains) on Curtailments and Settlements	-
45,550	Total	38,776

Reconciliation of present value of defined benefit obligation

31/03/16	Year Ended:	31/03/17
£'000		£'000
1,054,451	Opening Defined Benefit Obligation	989,722
32,601	Current Service Cost	27,410
33,920	Interest Cost	34,727
6,410	Contributions by Members	6,313
	Remeasurements	
-	- Change in demographic assumptions	-
(98,328)	- Change in financial assumption	265,360
(11,520)	- Other experience	2,211
630	Past Service Cost	735
(25,749)	Benefits paid	(25,393)
(2,693)	Unfunded Benefits Paid	(2,662)
989,722	Closing Defined Benefit Obligation	1,298,423

Reconciliation of the movements in the fair value of plan assets

31/03/16	Year Ended:	31/03/17
£'000		£'000
673,163	Opening Fair Value of Plan Assets	686,677
21,601	Interest Income on Plan Assets	24,096
	Remeasurements	
(11,878)	- Return on Plan Assets excluding the amount included in net interest	121,416
23,130	Contributions by Employer	23,664
6,410	Contributions by Members	6,313
2,693	Contributions in respect of unfunded benefits	2,662
(25,749)	Benefits Paid	(25,393)
(2,693)	Unfunded Benefits Paid	(2,662)
686,677	Closing Fair Value of Plan Assets	836,773

Disclosure of Net Pensions Asset/Liability*Local Government Pension Schemes*

The underlying assets and liabilities for retirement benefits attributable to the Council at 31 March 2017 are as follows:

31/03/16		31/03/17
£'000		£'000
(303,045)	Net asset (liability)	(461,650)

The net liability above includes the sum of £47.7m for year ended 31 March 2017 (£43.8m for 31 March 2016) being unfunded liabilities related to the award of discretionary benefits.

There has been an increase in IAS19 liabilities of £159m as at 31 March 2017 compared with the liabilities as at 31 March 2016. This is mainly due to an increase in the value of liabilities as a result of a reduction in the net discount rate which has been partly offset by higher than expected asset returns.

In summary, the IAS19 balance sheet this year has deteriorated from last year with IAS19 liabilities increasing in monetary terms reflecting market conditions, however, this has been partially offset with higher than expected asset returns over the year (21.2% against the fund's targeted return of 6%).

Actuaries have recognised the weighted average duration of the benefit obligation which takes account of the average time until payment of all expected future discounted cash flows, based on membership and the financial and demographic assumptions. Falkirk has been allocated into a Medium category with a weighted average duration of between 17 and 23 years.

Fair Value of Employer assets

The assets held by the Pensions Fund are primarily a mixture of equities, bonds and property and an expected rate of return has been set equal to the discount rate of 2.6% (3.5% for year ended 31 March 2016).

Quoted Prices in Active Markets 31/03/16 £'000	Prices not Quoted in Active Markets 31/03/16 £'000	Total 31/03/16 £'000		Quoted Prices in Active Markets 31/03/17 £'000	Prices not Quoted in Active Markets 31/03/17 £'000	Total 31/03/17 £'000
			Equity Securities			
72,129	-	72,129	Consumer	87,004	-	87,004
38,806	-	38,806	Manufacturing	40,820	-	40,820
24,494	-	24,494	Energy and Utilities	33,764	-	33,764
44,381	-	44,381	Financial Institutions	56,450	-	56,450
35,127	-	35,127	Health & Care	37,723	-	37,723
41,586	-	41,586	Information Technology	57,577	-	57,577
15	-	15	Other	16,509	-	16,509
256,538	-	256,538		329,847	-	329,847
			Debt Securities			
-	11,097	11,097	Corporate Bonds	-	32,029	32,029
-	49,953	49,953	Private Equity	-	64,166	64,166
			Real Estate			
-	53,389	53,389	UK Property	-	52,268	52,268
-	1,625	1,625	Overseas Property	-	1,424	1,424
-	55,014	55,014		-	53,692	53,692
			Investment Funds and Unit Trusts			
146,069	-	146,069	Equities	185,868	-	185,868
-	47,327	47,327	Bonds	-	40,257	40,257
-	8,980	8,980	Infrastructure	-	10,040	10,040
79,255	-	79,255	Other	86,723	-	86,723
225,324	56,307	281,631		272,591	50,297	322,888
			Derivatives			
-	-	-		-	-	-
32,444	-	32,444	Cash and Cash Equivalents	34,151	-	34,151
514,306	172,371	686,677	Total	636,589	200,184	836,773

A substantial portion of employer assets are invested in global financial markets. Valuations can therefore be affected by the strength of local currency against sterling.

The main assumptions used in the calculations have been:

31/03/16 % p.a	Year Ended:	31/03/17 % p.a.
2.2	Pension Increase Rate	2.4
3.7	Salary Increase Rate	3.9
3.5	Discount Rate	2.6

Demographic assumptions – Mortality

Life expectancy is based on “Club Vita” Analysis which is an extensive database of mortality information maintained by the Pension Fund Actuary, Hymans Robertson. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current Pensioners	22.1 years	23.8 years
Future Pensioners	24.3 years	26.3 years

Current Pensioners life expectancy is based on a member being age 65 as at the valuation of 31 March 2014. Future Pensioners are assumed to be age 45 as at the March, 2014 valuation.

Commutation

An allowance is included for future retirements to elect to take 50% of the maximum additional tax-free cash up to HMRC limits for pre-April 2009 service and 75% for post-April 2009 service.

Projected pension expense for the year to 31 March 2018

The following table sets out the estimation of the pension cost for 2017/18, based on the assumptions as at 31 March 2017 (the start of the period).

Analysis of projected amount to be charged to operating profit for the year to 31 March 2018

Year Ended:	£'000
Projected Current Service Cost	38,192
Interest on Obligation	33,952
Interest Income on Plan Assets	(21,781)
Past Service Cost	-
Total	50,363

The estimated Employer’s contributions for the year to 31 March 2018 will be approximately £22.6m.

The pension fund’s approach to meeting its liabilities is set out in its Funding Strategy Statement. The funding policy is to achieve a funding level of 100% of liabilities. Where, as at present, the fund is in a deficit position, the strategy is to require employers to make deficit contributions over periods of up to 20 years, but also maintain contribution levels at as stable a rate as possible.

In order to achieve the desired stability, Falkirk Council’s contribution rate has been determined as part of a pooled group, including Clackmannanshire and Stirling Councils.

Teachers’ Pension Scheme

During the year, the Council paid £10.313m (£9.655m in 2015/16) to the Scottish Government in respect of teachers’ pension costs and this represents 17.2% of teachers’ pensionable pay.

The Council is also required to meet the costs of benefits arising from compensatory added years, as well as the costs arising from the early release of benefits in the Teachers Pension Scheme. In 2016/17, these amounted to £1.069 million, representing 1.8% of pensionable pay (£1.107 million, representing 1.9% of pensionable pay in 2015/16).

With regard to the Teachers’ Pension Scheme, there were no contributions outstanding at the year end.

18. LEASES

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

(a) The Council as Lessee

Finance Leases

The Council currently has no finance lease arrangements with the Council acting as lessee.

Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income & Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. All charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

The Council has acquired several properties by entering into operating leases.

The future minimum lease payments due under non-cancellable leases in future years are:

31 March 2016 £'000		31 March 2017 £'000
1,521	Not later than one year	1,538
2,257	Later than one year and not later than 5 years	1,840
1,383	Later than five years	1,419
5,161	Total	4,797

The total of future minimum sub-lease payments expected to be received as at 31 March 2017 is £0.801m (£0.553m as at 31 March 2016).

The expenditure charged to Council Services in the Comprehensive Income and Expenditure Statement during the year in relation to these was:

31 March 2016 £'000		31 March 2017 £'000
1,694	Minimum lease payments	1,482
-	Contingent rents	-
(206)	(sub-lease payments receivable)	(355)
1,488	Total	1,127

(b) The Council as Lessor

Finance Leases

Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income & Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Council's net investment in the lease, is credited to the same line in the Comprehensive Income & Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a Debtor in the Balance Sheet.

Lease rentals receivable are apportioned between:

- A capital receipt for the disposal of the asset – applied to write down the Debtor (together with any premiums received), and
- Finance income - credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income & Expenditure Statement

The gain credited to the Comprehensive Income & Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and will be required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, the amount relating to the disposal (initial debtor) value is credited to the Capital Receipts Reserve immediately. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the Debtor.

The written-off value of disposals is not a charge against council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

The Council leases out Northfield Quarry to Tillicoultry Quarries Ltd on a finance lease with a remaining term of 12 years.

The Council has a gross investment in the lease, made up of the minimum lease payments expected to be received over the remaining term. There is no residual value anticipated for the property when the lease comes to an end. The minimum lease payments comprise settlement of the long-term debtor for the interest in the property acquired by the lessee and finance income that will be earned by the Council in future years whilst the debtor remains outstanding. The gross investment is made up of the following amounts:

31 March 2016 £'000		31 March 2017 £'000
	Finance lease debtor (net present value of minimum lease payments);	
45	• Current	49
833	• Non-Current	784
424	Unearned finance income	363
-	Unguaranteed residual value of property	-
1,302	Gross investment in the lease	1,196

The gross investment in the lease and the minimum lease payments will be received over the following periods:

Gross Investment in the Lease 31 March 2016 £'000	Minimum Lease Payment 31 March 2016 £'000		Gross Investment in the Lease 31 March 2017 £'000	Minimum Lease Payment 31 March 2017 £'000
106	45	Not later than one year	106	49
422	218	Later than one year and not later than 5 years	422	235
774	615	Later than five years	668	549
1,302	878	Total	1,196	833

Operating Leases

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income & Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

The Council leases out land and buildings to provide suitable affordable accommodation for local businesses in the interests of economic development.

The future minimum lease payments receivable under non-cancellable leases in future years are:

31 March 2016 £'000		31 March 2017 £'000
3,690	Not later than one year	2,490
7,519	Later than one year and not later than five years	6,171
28,005	Later than five years	26,863
39,214	Total	35,524

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews.

19. INTANGIBLE ASSETS

Expenditure on assets that do not have physical substance but are identifiable and controlled by the Council (e.g. software licences) is capitalised when it will bring benefits to the Council for more than one financial year. These intangible assets have been initially valued at cost and are then amortised on a straight line basis to the Comprehensive Income and Expenditure Statement over the economic life of the investment from the year after the year of purchase.

Intangible assets are not revalued, as the fair value of the assets held by the Council cannot be determined by reference to an active market. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the Comprehensive Income & Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income & Expenditure Statement

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses as well as disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and the Capital Receipts Reserve.

The Council accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant and Equipment. The intangible assets include both purchased licenses and software.

All software is given a finite useful life, based on assessments of the period that the software is expected to be of use to the Council. The useful lives assigned to the major software suites used by the Council are:

	Internally Generated Assets	Other Assets
5 years	-	Server Consolidation Software
5 years	-	Software Licenses

The carrying amount of intangible assets is amortised on a straight-line basis. The amortisation of £0.4m was charged to revenue in 2016/17.

The movement on Intangible Asset balances during the year is as follows:

Other Assets 2015/16 £'000		Other Assets 2016/17 £'000
1,998	Balance at start of year:	3,112
(545)	• Gross carrying amounts	(841)
1,453	• Accumulated amortisation	
	Net carrying amount at start of year	2,271
	Additions:	
-	• Internal development	
502	• Purchases	429
612	Other movements and costs or valuation	9
(296)	Amortisation for the period	(397)
2,271	Net carrying amount at end of year	2,312
	Comprising:	
3,112	• Gross carrying amounts	3,550
(841)	• Accumulated amortisation	(1,238)
2,271		2,312

The other movements and costs or valuation above reflects the accounting treatment for the Carbon Reduction Commitment (CRC).

There is one item of capitalised software that is individually material to the accounts:

Carrying Amount		Carrying Amount	
31 March 2016 £'000		31 March 2017 £000	Remaining Amortisation Period
863	Citrix Software Licenses	647	4 years

There are no changes in accounting estimates for Intangible Assets. All Intangible Assets have a finite useful life.

20. PROPERTY, PLANT AND EQUIPMENT

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (ie repairs and maintenance) is charged as an expense when it is incurred.

In the past the Council has set a de minimus level for capital expenditure. However, we have found that there are issues with this on an operational level where a large volume of smaller invoice values are part of a large capital project. Consequently, we have introduced controls to ensure that revenue expenditure which could have been in excess of the predetermined de minimus level, does not find its way into the capital programme costs of the Council. The controls in place include the processing of the majority of capital invoices within the Capital section, thereby ensuring the criteria for recognition is confirmed at the outset. In addition a monthly analysis of all capital expenditure transactions is carried out to ensure that where invoices have been processed in the Services, these meet the criteria for recognition as capital expenditure. Any errors identified are transferred from capital to revenue.

Measurement

Assets are initially measured at cost, comprising:

- The purchase price
- Any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management
- The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Council). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Council.

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-Specific Grant Income line of the Comprehensive Income & Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income & Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

Assets are then carried in the Balance Sheet using the following measurement bases:

- Infrastructure, community assets and assets under construction – historical cost
- Dwellings – current value, determined using the basis of existing use value (Social Housing – Beacon Method)
- Surplus Assets – fair value, estimated at highest and best use from a market participant’s perspective
- All other assets – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV, except where there is no market based evidence of fair value).

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value.

Where non-property assets have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value.

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. However, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

Where decreases in value are identified, they are accounted for as follows:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains); or
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the excess value is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Impairment

Assets are assessed at each year-end to determine if there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for as follows:

- Where there is a balance of revaluation gains for the asset in the revaluation reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains); or
- Where there is no balance in the revaluation reserve, or an insufficient balance, the excess value is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

The Council's Social Work land and buildings were revalued as at 1 April 2016. In addition, the Helix Visitor Centre, Antonine Primary School and St Joseph's Primary School were also revalued at 1 April 2016. The revaluation gains and losses flowing from these revaluations, together with the impairment for non-enhancing capital expenditure within the Housing Revenue Account were accounted for in 2016/17. The overall net loss was £14m, of which £3.3m was debited to the Revaluation Reserve and £10.7m was debited to the Comprehensive Income and Expenditure Statement.

Depreciation

Depreciation is charged on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).

The following depreciation methods have been used for Property, Plant and Equipment:

Council Dwellings. Land is not depreciated. Buildings are depreciated on a straight line basis over the estimated life of the asset.

Land and Buildings – Land is not depreciated. Buildings are depreciated on a straight line basis over the estimated life of the asset.

Vehicles, Plant and Equipment - these are depreciated on a straight line basis over the estimated life of the asset.

Infrastructure Assets - these are depreciated on a straight line basis over the estimated life of the asset.

Community Assets - these are depreciated on a straight line basis over the estimated life of the asset.

Non-Operational - these are depreciated on a straight line basis over the estimated life of the asset.

Assets Under Construction - these are not depreciated.

Surplus Assets – these all relate to land and are therefore not depreciated.

Where an item of Property, Plant and Equipment has a valuation in excess of £1m and has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Disposals and Non-Current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as Assets Held for Sale, adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Assets Held for Sale, and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for disposal are categorised as capital receipts. All receipts are credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserves from the General Fund Balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

(a) PROPERTY, PLANT & EQUIPMENT MOVEMENTS IN 2016/17								
	Council Dwellings £'000	Other Land and Buildings £'000	Vehicles, Plant and Equipment £'000	Infra-Structure £'000	Community Assets £'000	Assets under Construction £'000	Surplus Assets £'000	Total £'000
Cost or Valuation as at 1 April 2016	359,162	651,155	30,858	141,084	15,964	9,104	9,003	1,216,330
Additions	29,351	4,071	1,429	7,724	852	19,409	-	62,836
Revaluations:-								
• Recognised in Revaluation Reserve	-	1,776	-	-	-	-	80	1,856
• Recognised in Provision of Services	-	443	-	-	-	-	-	443
De-recognition:-								
• Disposals	(3,793)	(1,320)	(2,167)	-	-	-	(1,080)	(8,360)
Assets reclassified to/from Held for Sale	-	(983)	-	-	-	-	(449)	(1,432)
Other Movements in Cost or Valuation	303	7,022	-	1,389	(16)	(8,698)	-	-
As at 31 March 2017	385,023	662,164	30,120	150,197	16,800	19,815	7,554	1,271,673
Accumulated Depreciation & Impairment								
As at 1 April 2016	21,959	144,041	17,143	37,327	2,597	1,151	4,928	229,146
Depreciation:								
• Charge for Year	11,519	15,432	3,430	4,633	478	-	-	35,492
Impairment Losses/(Reversals):								
• Recognised in Revaluation Reserve	3,745	1,998	-	-	-	-	251	5,994
• Recognised in Provision of Services	5,867	5,311	-	-	-	-	-	11,178
De-recognition:-								
• Disposals	(235)	(328)	(2,025)	-	-	-	-	(2,588)
As at 31 March 2017	42,855	166,454	18,548	41,960	3,075	1,151	5,179	279,222
Net Book Value								
31 March 2016	337,203	507,114	13,715	103,757	13,367	7,953	4,075	987,184
31 March 2017	342,168	495,710	11,572	108,237	13,725	18,664	2,375	992,451

(b) PROPERTY, PLANT & EQUIPMENT MOVEMENTS IN 2015/16								
	Council Dwellings £'000	Other Land and Buildings £'000	Vehicles, Plant and Equipment £'000	Infra-Structure £'000	Community Assets £'000	Assets under Construction £'000	Surplus Assets £'000	Total £'000
Cost or Valuation as at 1 April 2015	137,597	623,795	28,971	131,119	14,593	5,971	7,928	949,974
Additions	24,464	3,247	5,517	7,187	1,371	9,533	-	51,319
Revaluations:-								
• Recognised in Revaluation Reserve	198,489	22,552	-	-	-	-	275	221,316
• Recognised in Provision of Services	-	1,758	-	-	-	-	150	1,908
De-recognition:-								
• Disposals	(1,973)	(2,250)	(3,630)	(318)	-	-	-	(8,171)
Assets reclassified to/from Held for Sale	-	(16)	-	-	-	-	-	(16)
Other Movements in Cost or Valuation	585	2,069	-	3,096	-	(6,400)	650	-
As at 31 March 2016	359,162	651,155	30,858	141,084	15,964	9,104	9,003	1,216,330
Accumulated Depreciation & Impairment								
As at 1 April 2015	82,630	112,837	17,081	32,098	2,167	1,151	1,241	249,205
Depreciation:								
• Charge for Year	10,946	15,272	3,321	5,229	430	-	-	35,198
Impairment Losses/(Reversals):								
• Recognised in Revaluation Reserve	(76,034)	3,508	-	-	-	-	2,890	(69,636)
• Recognised in Provision of Services	4,417	12,735	-	-	-	-	797	17,949
De-recognition:-								
• Disposals	-	(311)	(3,259)	-	-	-	-	(3,570)
As at 31 March 2016	21,959	144,041	17,143	37,327	2,597	1,151	4,928	229,146
Net Book Value								
31 March 2015	54,967	510,958	11,890	99,021	12,426	4,820	6,687	700,769
31 March 2016	337,203	507,114	13,715	103,757	13,367	7,953	4,075	987,184

21. HERITAGE ASSETS

Heritage Assets are defined as assets which have historical, artistic, scientific, technological or environmental qualities and are held and maintained principally for their contribution to knowledge and culture. It is a distinct asset class which is reported separately from Property, Plant and Equipment and Intangible Assets.

Heritage Assets are recognised where cost or valuation information is available. Where the cost or value is not available, and the cost of obtaining the information is disproportionate in terms of the benefit derived, the Code does not require the assets to be recognised on the Balance Sheet. Where valuation is available, this is based on insurance valuation. Any increases in valuation are accounted for in accordance with the Council's general policies on revaluation.

Heritage Assets are reviewed periodically where there is evidence of physical deterioration or breakage. Where impairment losses are identified, they are accounted for in accordance with the Council's general policies on impairment. The Council does not consider it appropriate to charge depreciation in respect of Heritage Assets due to the undetermined lives and high residual values.

With the exception of Civic Regalia and one item of art, the Council does not consider that reliable cost or valuation information can be obtained and consequently there is limited recognition of Heritage Assets on the Balance Sheet.

Movement on Heritage Assets

2015/16 £'000		2016/17 £'000
259	Cost or Valuation as at 1 April	259
-	Additions	7
	Revaluations:-	
-	• Recognised in Revaluation Reserve	-
-	• Recognised in Provision of Services	-
	De-recognition:-	
-	• Disposals	-
-	Assets reclassified to/from Held for Sale	-
-	Other Movements in Cost or Valuation	-
259	As at 31 March	266
	<u>Accumulated Depreciation and Impairment</u>	
-	As at 1 April	-
	Depreciation:	
-	• Charge for Year	-
	Impairment:	
-	• Written Out to Revaluation Reserve	-
-	• Written Out to Provision of Services	-
	De-recognition:-	
-	• Disposals	-
-	As at 31 March	-
259	Net Book Value at 31 March	266

The total net book value of Heritage Assets at 31 March 2017 is £0.266m, of which £0.211m relates to Civic Regalia.

Heritage Assets were initially recognised in the Balance Sheet in 2011/12. The initial recognition was via the Revaluation Reserve. Thereafter, in 2013/14, £0.048m was added for Town Centre Sculptures, with a further £0.007m added in 2016/17 for a memorial statue.

22. OTHER CAPITAL NOTES

Valuation Disclosure

All of the Council's land and buildings are subject to a rolling programme of revaluation. This effectively means that each Service has to be revalued at least once within a five year period, always as at 1 April of the year. The revaluations are performed externally by the District Valuer or external property surveyors.

The Housing Stock was re-valued as at 1 April 2015 by the District Valuer of the Scotland South East Valuation Office, using the 'Existing Use Value' for Social Housing – EUV-SH Beacons method. Previously Housing Stock was valued using the Discounted Cash Flow method. This substantially increased the value of housing stock and was reflected in the 2015/16 Accounts.

The Council's Property portfolio of retail and industrial units have been valued on the basis of Existing Use Value. This valuation was carried out as at 1 April 2015 by Ryden LLP.

Land and Buildings owned by Social Work have been valued as at 1 April 2016 and were valued on the basis of open market value for existing use.

Land and Buildings owned by Corporate and Neighbourhood Services have been valued as at 1 April 2012 and were valued on the basis of open market value for existing use, or where this could not be assessed, because there was no market for the subject asset, depreciated replacement cost. Plant and Machinery within buildings is included in the valuation of those buildings.

Land and Buildings owned by Education Services have been valued as at 1 April 2013 and were valued on the basis of depreciated replacement cost (DRC) or where this wasn't available, existing use value.

Two Primary Schools have been valued as at 1 April 2016 by the District Valuer and were valued on the basis of depreciated replacement cost (DRC) or where this wasn't available, existing use value.

Two of the nine PFI Schools have been valued as at 1 April 2015 and were valued on the basis of depreciated replacement cost (DRC). The other seven were valued as at 1 April 2014 using the same method.

The Helix Visitors Centre has been valued at 1 April 2016 on the basis of depreciated replacement cost (DRC).

Common Good Asset (Kilns House) has been valued as at 1 April 2014 on the basis of existing use value.

Surplus Assets have been valued at fair value equivalent to Market Value.

Assets Under Construction have been valued at cost.

Vehicles, Plant and Equipment are valued at depreciated historical cost.

Infrastructure and Community Assets have been valued on the basis of historical cost.

The sources of information and assumptions made in producing the various valuations are set out in a valuation certificate and report.

The Council has taken into account any material changes in the value of fixed assets.

Capital Commitments

As at 31 March 2017, the Council has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2016/17 and future years, budgeted to cost £16.1m. Similar commitments at 31 March 2016 were £26.4m. The major commitments are:-

Project	£'m
Various Housing Contracts	6.3
New Build Housing	0.9
New ASN School	4.6
Nethermains/Beancross PS	0.4
Denny Town Centre Regeneration	1.5
Crematorium	1.9
Various Projects	0.5
TOTAL	16.1

23. ASSETS HELD FOR SALE

Current 2015/16 £'000	Non-Current 2015/16 £'000		Current 2016/17 £'000	Non-Current 2016/17 £'000
888	104	Balance at start of year	1,224	104
15	-	Assets newly classified as held for sale:	1,432	
		Revaluation losses:		
(7)	-	Recognised in Revaluation Reserve	(4)	
-	-	Recognised in Provision of Services		(4)
		Revaluation gains:		
473	-	Recognised in Revaluation Reserve	867	
(145)	-	Assets sold	(197)	-
-	-	Transfers from/to non-current/current	26	(26)
1,224	104	Balance outstanding at year-end	3,348	74

24. CAPITAL EXPENDITURE AND CAPITAL FINANCING

The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance leases and PFI/PPP contracts), together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be financed. The CFR is analysed in the second part of this note.

2015/16 £'000		2016/17 £'000
408,572	Opening Capital Financing Requirement	401,284
	<u>Capital Investment</u>	
51,319	Property, Plant and Equipment	62,836
502	Intangible Assets	429
-	Heritage Assets	7
332	Revenue Expenditure Funded from Capital under Statute	332
262	Long Term Investment - thinkWhere	-
	<u>Sources of finance</u>	
(3,585)	Capital receipts	(7,741)
(25,625)	Government grants and other contributions	(31,821)
	Sums set aside from revenue:	
(11,630)	Direct revenue contributions	(11,517)
(18,863)	MRP/loans fund principal	(18,510)
401,284	Closing Capital Financing Requirement	395,299
	<u>Explanation of movements in year</u>	
(2,931)	Reduction in underlying need to borrow (unsupported by government financial assistance)	(988)
(165)	Assets acquired under finance leases	-
(4,192)	Assets acquired under PFI/PPP contracts	(4,997)
(7,288)	Increase/(Decrease) in Capital Financing Requirement	(5,985)

25. PRIVATE FINANCE INITIATIVE (PFI) AND SIMILAR CONTRACTS

PFI contracts are agreements to receive services, where the responsibility for making available the assets needed to provide the services passes to the PFI contractor. If the Council is deemed to control the services that are provided under its PFI schemes and if ownership of the assets will pass to the Council at the end of the contracts for no additional charge, the Council should carry the assets used under the contracts on its Balance Sheet, as part of Property, Plant and Equipment.

Under the revised accounting arrangements for PFI that were introduced for 2009/10 by the 2009 SORP, the criteria for asset recognition moved from risk and reward to issues about the control of service provision as well as control over the residual value of the asset. An exercise was carried out which concluded that the two PFI schemes operated by Falkirk Council would result in the assets being recognised on the Balance Sheet.

The two PFI Schemes operated by Falkirk Council are:-

- Class 98, for the provision of 5 schools with payments due from August 2000 and terminating in July 2026; and
- Falkirk Schools Gateway Ltd for the provision of 4 schools with payments due from January 2009 and terminating in March 2040.

The Code requires that when these assets are recognised an equal and opposite entry is made to credit a finance lease liability. The asset is depreciated in line with normal Council policy and the finance lease liability is written down annually by the apportioned element of the PFI unitary charge.

The amounts payable to the PFI operators each year are analysed into five elements:

- Fair value of the services received during the year – debited to the relevant service in the Comprehensive Income & Expenditure Statement;
- Finance cost – an interest charge on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
- Contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
- Payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease); and
- Lifecycle replacement costs – proportion of the amount payable is posted to the Balance Sheet as a prepayment and then recognised as additions to Property, Plant and Equipment when the relevant works are eventually carried out.

As the above scenario would result in a reduction in the total sum charged to the Comprehensive Income and Expenditure Account as compared to previous accounting arrangements, statutory intervention has been agreed with the Scottish Government (Finance Circular 4/2010) the intention of which is as far as possible, to put local authorities in a neutral finance position as compared to the previous accounting treatment of PFI arrangements. Two statutory charges have therefore been created:

- Statutory Charge for the Repayment of Debt (for the element of the Unitary Payment designated for the repayment of the finance lease liability); and
- Capital Expenditure Charged to General Fund (for the element of the Unitary Payment designated for lifecycle replacement costs).

The inclusion of these two Statutory Charges within the Movement in Reserves Statement should ensure that there is no effect on the General Fund Balance.

(a) Movement in Assets

	Class 98 £'000	Falkirk Schools Gateway Ltd £'000	2016/17 £'000
Balance as at 1 April 2016	96,097	119,878	215,975
Net Additions during year	13	-	13
Revaluation	-	-	-
Depreciation	(3,325)	(3,203)	(6,528)
Net Book Value 31 March 2017	92,785	116,675	209,460

(b) Movement in Liabilities

	Class 98 £'000	Falkirk Schools Gateway Ltd £'000	2016/17 £'000
Balance as at 1 April 2016	40,252	78,863	119,115
Additions during year	-	-	-
Repaid during year	(2,581)	(2,312)	(4,893)
Balance as at 31 March 2017	37,671	76,551	114,222
of which			
Current	3,099	2,483	5,582
Long Term	34,572	74,068	108,640
Total	37,671	76,551	114,222

(c) Estimated Future Unitary Payment Obligations

	Service Charges £'000	Interest £'000	Finance Lease Repayment £'000	2016/17 £'000
Basic Annual Payments – Class 98				
Within one year	3,613	6,530	3,099	13,242
In the second to fifth years inclusive	15,495	22,752	15,229	53,476
In the sixth to tenth years inclusive	9,871	15,626	19,343	44,840
Total	28,979	44,908	37,671	111,558

The figures shown above for the Basic Annual Payment assume an indexation rate of 0% on a fixed part of the Basic Annual Payment with the balance indexed at 1.3% per annum as per the operator's financial model.

	Service Charges £'000	Interest £'000	Finance Lease Repayment £'000	2016/17 £'000
Basic Annual Payments – Falkirk Schools Gateway Ltd				
Within one year	4,069	6,312	2,483	12,864
In the second to fifth years inclusive	18,599	25,690	10,465	54,754
In the sixth to tenth years inclusive	31,502	32,153	12,848	76,503
In the eleventh to fifteenth years inclusive	39,089	32,556	14,911	86,556
In the sixteenth to twentieth years inclusive	42,526	34,908	20,496	97,930
In the twenty first to twenty fifth years inclusive	14,998	19,721	15,348	50,067
Total	150,783	151,340	76,551	378,674

The figures shown above for the Basic Annual Payment assume an indexation rate of 1.3% as per the operator's financial model.

26. CONTINGENT ASSETS AND LIABILITIES

(a) Contingent Assets

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

- (i) In terms of a contract for the sale of land, a clawback provision was included in relation to the treatment of any savings on the assumed remediation costs for the land in question. Following a dispute the matter was assessed through third party determination at £0.930m. To date, some £0.326m has been received. Following an application by the purchaser for judicial review of the third party determination, the outcome of the determination was subsequently upheld by the Court. Negotiations are ongoing to finalise the required legal agreement in respect of settlement arrangements for the balance of £0.604m. This is due by means of transfer of land and property assets by the company to the Council for subsequent disposal, together with a further cash payment to a maximum of £0.300m (the latter dependent on proceeds of successful sale of a development site elsewhere by the company). There accordingly remains the potential for the Council to receive further sums subject to the outcome of the subsequent asset disposals and recovery of additional cash sum.

(b) Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably. Contingent liabilities are not recognised in the Balance Sheet. Where liabilities are reduced through contributions or recoveries from other parties the net liability is shown.

- (i) Falkirk Schools Project – Falkirk Council has entered into a Public Private Partnership with Class 98 Ltd to provide five schools. In terms of the Project Agreement, the Council is liable for outstanding senior debt following termination of a Class 98 Ltd event of default. At 31 March 2017, this totalled £32m (£35m as at March 2016).
- (ii) Note 30 includes provision in respect of potential expenditure arising from outstanding equal pay claims. Legal judgements on pay protection and equal pay matters means the Council could be at risk in respect of further potential equal pay obligations. However, this is dependent on case law development and cannot be quantified at this time.
- (ii) The Council recognises the potential for compensation claims deriving from the Scottish Government's Limitation (Childhood Abuse) (Scotland) Bill which will remove the three-year time limit on claims of child abuse. Some claims will be historic and relate to Falkirk District Council, Central Regional Council or their predecessors and some will date post-reorganisation and relate to Falkirk Council.
- (iv) The Council has received eight insurance claims relating to crematoria practices. These claims are still subject to consideration and cannot be quantified at this time.
- (v) A recent EU ruling has highlighted that the Council may have some liability in respect of additional Holiday Pay entitlement. The extent of this liability cannot be assessed at this stage.

27. LONG-TERM INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

The Council has two long term investments as follows:

In March 2003, the Council in conjunction with Falkirk Football and Athletic Club Ltd (FFAC), established a joint venture called Falkirk Community Stadium Limited (FCSL) to develop and operate a stadium facility at Westfield, Falkirk. The Council and FFAC invested £3.11m and £2.868m respectively from the proceeds of property disposals at Brockville and Hope Street, Falkirk. These sums were used to purchase Interest Free Secured Loan Stock 2178. The Council held 25% of the ordinary shares in the company, although this holding equated to 49% of the economic value. In addition, the Council advanced the Company loans of £2m on 31 March 2003, £2.795m on 22 December 2004 and £0.3m on 31 August 2005, which were repayable over 25 years for the provision of community leisure facilities within the new Community Stadium.

FCSL was reconstructed on 28th May 2009 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 FFAC and the Council. The loans advanced by the Council and the Long Term Investment were replaced by Property, Plant & Equipment of £3.85m and a Long Term Investment of £9.34m. The assets comprised Ground Leases of £0.25m and Development Sites of £3.6m per the 2009 valuation. These assets were subsequently revalued at 1 April 2015. The Ground Leases were revalued to £0.362m and the Development Sites at £0.65m. The Long Term Investment was therefore impaired by £3.53m to £5.81m.

thinkWhere was a company established by Falkirk, Stirling and Clackmannanshire Councils in 2007 to deliver geographical information services. In November 2014 the Council agreed an investment of £0.5m in the company, payable over three years. The long term investment in 2016/17 equated to £0.5m (£0.5m in 2015/16).

28. LOANS OUTSTANDING

These loans were raised to finance the capital expenditure of the Council. The source of these loans as at 31 March 2017 was as follows:-

2015/16 £'000	Borrowing Repayable on Demand or Within 12 Months	2016/17 £'000
29,001	Temporary Borrowing	24,000
2,834	Accrued Interest	2,775
31,835	Total	26,775
	Long Term Borrowing	
186,630	Public Works Loan Board	186,630
26,000	Market Bonds	26,000
212,630		212,630
1,563	Accrued Interest	1,538
214,193	Total	214,168

Short Term Borrowing per the Balance Sheet is £26.985m. This figure includes temporary borrowing of £26.775m and £0.210m in respect of Third Party balances which are invested in the Loans Fund as at 31 March 2017.

29. INSURANCE FUND

An updated independent actuarial valuation of the Insurance Fund was undertaken in September 2015. This has established that there are sufficient funds to meet its outstanding liabilities in respect of Property, Liability and Motor Insurance claims. There is no material risk which remains unfunded. The balance of the Fund as at 31 March 2017 is £5.20m (£5.180m as at 31 March 2016).

30. PROVISIONS

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential and a reliable estimate can be made of the obligation. Provisions are charged as an expense to the appropriate service revenue account in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation, based on the best estimate of the likely settlement. When payments are eventually made, they are charged to the provision set up in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year and appropriate adjustments made to the level of provision. The provisions are included in the accounts in accordance with IAS37.

Kinneil Kerse

A provision exists for the restoration costs associated with the restoration of Kinneil Kerse landfill site. Planning approval was granted and work commenced during 2015/16. Restoration costs of £0.149m have been incurred during 2016/17, consequently the provision has been reduced by this amount and the balance on the provision at 31 March 2017 is £1.948m (£2.097m as at 31 March 2016). The annual cost of restoration is £0.3m, the provision should therefore be fully written down within 7 years.

Equal Pay Claims

Employment Tribunal proceedings have been raised against the Council by a number of staff relating to Equal Pay. The information usually required by International Accounting Standard 37 (Provisions, Contingent Liabilities and Contingent Assets) is not disclosed in respect of this provision on the grounds that it can be expected to prejudice seriously the outcome of the proceedings.

Insurance Claims

Prior to local government reorganisation in 1996 the extant councils, Central Regional Council and Falkirk District Council, entered into a solvent run-off arrangement with their insurer, MMI, with the aim of having sufficient assets to meet outstanding insurance claims. This essentially means that liabilities, as they arise, can be met from available resources. The outcome of litigation has created a financial liability for Falkirk Council as successor Council. Consequently a provision of £0.720m was created. This provision has been drawn down by £0.451m up to 31 March 2016, with a further draw down of £0.004m in 2016/17. The balance on the provision at 31 March 2017 is £0.265m (£0.269m as at 31 March 2016).

31. LONG-TERM DEBTORS

Balance 01/04/16 £'000		Advanced 2016/17 £'000	Repaid 2016/17 £'000	Balance 31/03/17 £'000
877	Northfield Quarry	61	(106)	832
107	Owner Occupiers	-	-	107
5	Loan Arrears	-	(1)	4
4	Housing Loans	-	(2)	2
2,342	National Housing Trust Initiative	90	(90)	2,342
4,734	Scottish Fire Service	-	(270)	4,464
1,197	Falkirk Community Stadium Ltd.	217	(186)	1,228
9,266	Total	368	(655)	8,979

- (1) The Council applied to the Scottish Government for consent to borrow to lend to Carrongrove NHT 2011 LLP, for the purchase of housing units forming part of the National Housing Trust (NHT) Initiative. The principal sum of this loan is to be repaid on the sale of housing units.
- (2) The outstanding debt in respect of the Scottish Fire Service is shown on the Council's balance sheet as a long term debtor. The balance will be written down over the life of the loans on payment of an annual account raised to Scottish Fire Service.

32. INVENTORIES

Consumable Stocks are valued at lower of cost and net realisable value except in the case of Building Maintenance, Waste and Roads Stocks where average cost is used.

The value of stocks as at 31 March 2017 is shown below:

	2016/17 Opening Stock £'000	Purchases/ Additions £'000	Stock Write Downs £'000	Recognition as an expense £'000	Closing Stock £'000
Stocks	772	5,240	(12)	(5,389)	611

33. CONSTRUCTION CONTRACTS

Work in progress under construction contracts is accounted for using the percentage of completion method. Contract revenue is matched with contract costs incurred in reaching the state of completion at the Balance Sheet date.

As at 31 March 2017, the Council's Building Maintenance Division had several construction contracts in progress. The income derived from the value of work completed at 31 March 2017 was established using a stage of completion methodology based on architects certificates obtained at the year end. There were no sums due as at 31 March 2017.

34. DEBTORS

2015/16 £'000		2016/17 £'000
4,756	Central government bodies	5,001
1,010	Other local authorities	435
1,333	NHS Bodies	1,145
70	Public corporations and trading funds	70
34,511	Other entities and individuals	33,839
278	Falkirk Community Trust	718
-	Falkirk Health & Social Care Partnership	(105)
41,958		41,103
(18,174)	Provision for Bad Debts	(19,515)
23,784	Total Debtors	21,588

35. CREDITORS

2015/16 £'000		2016/17 £'000
4,859	Central government bodies	11,629
256	Other local authorities	466
821	NHS Bodies	487
64,853	Other entities and individuals	55,432
2,517	Falkirk Community Trust	34
-	Falkirk Health & Social Care Partnership	538
73,306	Total Creditors	68,586

36. CASH AND CASH EQUIVALENTS

2015/16 £'000		2016/17 £'000
875	Bank Current Accounts	(930)
35,991	Deposits with UK Banks, Building Societies & Local Authorities	26,998
36,866		26,068

37. TRUST & THIRD PARTY FUNDS

The Council administers and acts as trustees, where applicable, to a number of Third Party Funds none of which are registered as a Charity under the Charities and Trustee Investment (Scotland) Act 2005. Whilst each fund has specific objectives and conditions, most were gifted into the trust of the Council to provide assistance to the poor and needy and to pay for the maintenance and upkeep of lairs. The Council acts as the sole trustee for all funds except two.

The purposes of the largest General Trust Funds held by Falkirk Council are:

Funds for which the Council Acts as Sole Trustee

- Provost’s Fund for Necessitous Poor (£55,401) - to provide donations to residents of the former Burgh of Falkirk at the sole discretion of the Provost.
- Shank’s Bequest (£26,608) - to provide donations to the needy of Denny.
- Grangemouth Children’s Day Committee (£23,074) - to provide a donation to the annual cost of the Grangemouth Children’s Day.
- Candyend Trust (£71,998) - to provide donations to specific organisations assisting the elderly in the Muiravonside area.
- Alexander Douglas King Bequest (£21,952) – bequest for the promotion and advancement of education of art at Bo’ness Academy.
- McNair Bequest (£51,862) – bequest for the benefit of Bo’ness Academy.

Funds for which the Council is not Sole Trustee

- Scottish Veterans’ Garden City Association (SVGCA) (£49,140) - to manage the Association’s housing in the Falkirk Council area. The Council’s main role is to manage the properties including collection of rental and undertake repairs on behalf of the Association.
- Odenwald Trust (£27,348) - to foster twinning exchanges between the Council and the Odenwald region in Germany. The Fund is managed by the three successor Councils of Central Regional Council who previously administered it. Each of the Councils from Stirling, Falkirk and Clackmannanshire have appointed one Trustee along with one appointed from the Odenwald Association.

Temperance Trust

The Temperance Trust is a registered charity (SC001904) administered by Falkirk Council. There are two trustees of the Trust – Provost Pat Reid and Cllr Craig Martin. Temperance Trust funds are available to assist mainly organisations operating within Falkirk dealing with alcohol abuse and other forms of substance addiction. As at the 31st March 2017 the Trust had available funds of £161,420. The funds do not represent assets of the Council and are not included in the Council’s Balance Sheet. Annual Report and Accounts are available for the Temperance Trust.

The financial position of General Trusts and Temperance Trusts are as follows:-

2015/16 £’000 General	2015/16 £’000 Temperance	Income and Expenditure Account	2016/17 £’000 General	2016/17 £’000 Temperance
		Income		
(8)	(1)	Investment Income	(10)	(1)
		Expenditure		
22	-	Awards and Other Expenses	36	-
14	(1)	Deficit/(Surplus) for the Year	26	(1)
		Balance Sheet		
		Fixed Assets		
3	160	External Investments	3	161
434	-	Internal Investments	408	-
437	160	Net Assets	411	161
(451)	(159)	Fund Balance at 1 April 2016	(437)	(160)
14	(1)	Deficit/(Surplus) for Year	26	(1)
(437)	(160)	Fund Balance at 31 March 2017	(411)	(161)

38. GOVERNMENT GRANTS AND CONTRIBUTIONS

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- the Council will comply with the conditions attached to the payments, and
- the grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants/contributions) or Taxation and Non-Specific Grant Income (non-ring-fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Account. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement during the year.

2015/16 £'000	Credited to Services	2016/17 £'000
3,597	Criminal Justice	4,021
162	Council Tax DWP Subsidy	152
40,719	Housing DWP Subsidy	39,767
398	Education Maintenance Allowances	389
332	Improvement Repair Grant	5
2,192	Home Insulation Scheme	858
-	Integration Fund	5,540
1,938	Other Grants	1,872
49,338	Total	52,604

2015/16 £'000	Credited to Taxation and Non-Specific Grant Income	2016/17 £'000
15,640	Scottish Government – General Capital Grant	13,881
236	Scottish Government – Specific Capital Grants	173
5,778	Scottish Government – Other Grants	14,009
-	Contributions from Common Good	114
865	Other Grants	1,080
581	Developers Contributions	196
1,948	Other Contributions	233
25,048	Total	29,686

Capital Grants Received in Advance

The Council has received a number of grants, contributions and donations that have yet to be recognised as income as they have conditions attached to them which require the monies to be returned to the giver. The balances at the year end are as follows:

2015/16 £'000	Capital Grants Received in Advance	2016/17 £'000
453	Scottish Government	343
2,805	Developers Contributions	2,941
1,455	Other Contributions	1,362
4,713	Total	4,646

39. FINANCIAL INSTRUMENTS

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability of another. The term 'financial instrument' covers both financial liabilities and financial assets.

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, at the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as a part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Financial Assets

Financial assets are classified into two types:

- Loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market; and
- Available for sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments.

Loans and Receivables

Loans and receivables are recognised on the Balance Sheet when the Council becomes a party to the contractual provision of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset at the effective rate of interest for the instrument. For most of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

Any gains and losses that arise on the de-recognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Available for Sale Assets

Available for sale assets are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset at the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (eg dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Council.

Assets are maintained in the Balance Sheet at fair value. Values are based on the following principles:

- instruments with quoted market prices – the market price
- other instruments with fixed and determinable payments – discounted cash flow analysis
- equity shares with no quoted market prices – independent appraisal of company valuations

Changes in fair value are balanced by an entry in the Available for Sale Reserve and the gain/loss is recognised in the Surplus or Deficit on Revaluation of Available for Sale Financial Assets. The exception is where impairment losses have been incurred – these are debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any net gain or loss for the asset accumulated in the Available for Sale Reserve.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made (fixed or determinable payments) or fair value falls below cost, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. If the asset has fixed or determinable payments, the impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Otherwise, the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation).

Any gains and losses that arise on the de-recognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any accumulated gains or losses previously recognised in the Available for Sale Reserve.

Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

There has been no transfer of financial assets for the year ended 31 March 2017.

IFRS 13 Fair Value Measurement

The 2015/16 Code of Practice introduced a number of changes to reflect the adoption of IFRS 13 Fair Value Measurement. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. There are a number of valuation techniques used to measure the fair value of financial assets and liabilities, details of which are explained in the following fair value hierarchy:

Level 1 Inputs - quoted prices (adjusted) in active markets for identical assets or liabilities that the authority can access at the measurement date.

Level 2 Inputs – inputs other than the quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 Inputs – unobservable inputs for the asset or liability.

Details of the valuation technique applied and the fair value measurement in relation to the Council’s financial instruments are as follows:

Financial Instrument	Input Level in Fair Value Hierarchy	Fair Value at 31/03/16 £'000	Fair Value at 31/03/17 £'000
PWLB Debt	Level 2	255,284	270,488
Non – PWLB Debt	Level 2	37,176	37,526
Temporary Loans	Level 2	29,042	23,721
Total		321,502	331,735

There were no transfers between levels 1 and 2 and no change in the valuation technique used during 2016/17 for the financial instruments.

39.(a) Financial Instruments Adjustment Account

2015/16 £'000	Financial Instruments Adjustment Account	2016/17 £'000
4,124 (307)	De-recognition of Premiums from Debt Restructuring Annual Amortisation	3,817 (307)
3,817		3,510
(253) 7	De-recognition of Discounts from Debt Restructuring Annual Amortisation	(246) 7
(246)		(239)
1,865 (33)	Re-measurement of Market LOBO's Annual Amortisation	1,832 (31)
1,832		1,801
5,403	Total	5,072

Disclosure of Financial Assets and Liabilities from 1 April 2016**39.(b)(i) Financial Instruments Balances**

The borrowings and investments disclosed in the Balance Sheet are made up of the following categories of financial instruments:-

Long Term	Current		Long-Term	Current
31/03/16	31/03/16		31/03/17	31/03/17
£'000	£'000		£'000	£'000
212,630	29,001	Financial liabilities (principal amount)	212,630	24,000
214,193	31,835	Financial liabilities at amortised cost	214,168	26,775
-	37,665	Loans and receivables (principal amount)	-	28,437
-	37,673	Loans and receivables at amortised cost	-	28,441
6,310		Unquoted investments at cost	6,310	

The Council does not have any soft loans.

39.(b)(ii) Financial Instruments Gains/Losses

The gains and losses recognised in the Comprehensive Income and Expenditure Statement in relation to financial instruments are made up as follows:

	Financial Liabilities	Financial Assets	
	Liabilities Measured at Amortised Cost	Loans and Receivables	Total
	£'000	£'000	£'000
Interest Expense	(11,041)	-	(11,041)
Interest Income	-	369	369
Net gain/(loss) for the year	(11,041)	369	(10,672)

39.(b)(iii) Fair value of Assets and Liabilities carried at Amortised Cost

Financial liabilities and financial assets represented by loans and receivables are carried on the Balance Sheet at amortised cost (in long term assets/liabilities with accrued interest in current assets/liabilities). Their fair value can be assessed by calculating the present value of the cash flows that take place over the remaining life of the instruments, using the following assumptions:

- For loans from the PWLB and other loans payable, premature repayment rates from the PWLB have been applied to provide the fair value under PWLB debt redemption procedures;
- For loans receivable, prevailing benchmark market rates have been used to provide the fair value;
- No early repayment or impairment is recognised;
- Where an instrument has a maturity of less than 12 months or is a trade or other receivable, the fair value is taken to be the principal outstanding or the billed amount;
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair values calculated are as follows:

Carrying Amount 31/03/16	Fair Value 31/03/16		Carrying Amount 31/03/17	Fair Value 31/03/17
£'000	£'000		£'000	£'000
186,630	255,284	PWLB Debt	186,630	270,488
26,000	37,176	Non-PWLB Debt	26,000	37,526
29,000	29,042	Temporary Loans	24,000	23,721
241,630	321,502	Total Debt	236,630	331,735
73,306	73,306	Trade Creditors	68,586	68,586
314,936	394,808	Total Financial Liabilities	305,216	400,321

The fair value is greater than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the rates available for similar loans in the market at the Balance Sheet date.

Carrying Amount 31/03/16	Fair Value 31/03/16		Carrying Amount 31/03/17	Fair Value 31/03/17
£'000	£'000		£'000	£'000
37,665	37,673	Money Market Deposits < 1 year	28,437	28,441
6,310	6,310	Long-Term Investments	6,310	6,310
23,784	23,784	Trade Debtors	21,588	21,588
9,266	9,266	Loans and Receivables	8,979	8,979
77,025	77,033	Total Loans and Receivables	65,314	65,318

39.(c)(i) Nature and Extent of Risk Arising from Financial Instruments

Key Risks

The Council's activities expose it to a variety of financial risks. The key risks are:

- Credit risk – the possibility that other parties might fail to pay amounts due to the Council;
- Liquidity risk – the possibility that the Council might not have funds available to meet its commitments to make payments;
- Re-financing risk – the possibility that the Council might be required to renew a financial instrument on maturity at disadvantageous interest rates or terms; and
- Market risk – the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates movements.

Overall Procedures for Managing Risk

The Council’s overall risk management procedures focus on the unpredictability of financial markets, and implementing restrictions to minimise these risks. The procedures for risk management are set out through a legal framework in the Local Government (Scotland) Act 2003 and the associated regulations. These require the Council to comply with the CIPFA Prudential Code, the CIPFA Treasury Management in the Public Services Code of Practice and Investment Regulations issued through the Act. Overall, these procedures require the Council to manage risk in the following ways:

- by formally adopting the requirements of the CIPFA Treasury Management Code of Practice;
- by the adoption of a Treasury Policy Statement and treasury management clauses within its Financial Regulations;
- by approving annually in advance prudential (incorporating treasury) indicators for the following three years limiting:
 - The Council’s overall borrowing;
 - Its maximum and minimum exposures to fixed and variable rates;
 - Its maximum and minimum exposures to the maturity structure of its debt;
 - Its maximum annual exposures to investments maturing beyond a year.
- by approving a Treasury Management Strategy for the forthcoming year setting out its criteria for both borrowing and investing and selecting investment counterparties in compliance with the Government Regulations.

Risk Management is carried out by Treasury Management staff, under policies approved by the Council in the annual Treasury Management Strategy. The Council maintains written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk, and the investment of surplus cash through Treasury Management Practices (TMPs). These TMPs are a requirement of the Code of Practice and are reviewed periodically.

39.(c)(ii) Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council’s customers. This risk is minimised through compliance with the Annual Treasury Management Strategy which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria in accordance with Fitch and equivalent rating agencies. The Annual Treasury Management Strategy also imposes maximum amounts and time limits in respect of each financial institution. Deposits are not made with banks and financial institutions unless they meet the minimum requirements of the investment criteria outlined above.

The Council’s maximum exposure to credit risk in relation to its investments in banks and building societies cannot be assessed generally as the risk of an institution failing to make interest payments or repay principal sums will be specific to each individual institution. A risk of irrecoverability applies to all of the Council’s deposits but there was no evidence at 31 March 2017 that this was likely to crystallise.

No breaches of the Council’s counterparty criteria occurred during the reporting period and the Council does not expect any losses from non-performance by any of its counterparties in relation to deposits.

The Council does not generally allow credit for its trade debtors, such that £4.4m of the £8.5m balance is past its due date for payment. The past due amount can be analysed by age as follows:

	£’000
Less than 31 days	750
31 – 60 days	137
61 – 90 days	49
More than 90 days	3,456
Total	4,392

The Council initiates a deferred charge on property in circumstances where clients, requiring the assistance of Social Work Services, are unable to meet their immediate financial liabilities. The total collateral at 31 March 2017 was £1.0m.

39.(c)(iii) Liquidity Risk

The Council manages its liquidity position through the risk management procedures above (the setting and approval of prudential indicators and the approval of the treasury and investment strategy reports), as well as through cash flow management procedures required by the Code of Practice.

The Council has ready access to borrowings from the Money Markets to cover any day to day cash flow need, and whilst the PWLB provides access to longer term funds, it also acts as a lender of last resort to councils (although it will not provide funding to a council whose actions are unlawful). The Council is also required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

39.(c)(iv) Re-financing and Maturity Risk

The approved treasury indicator limits for the maturity structure of debt are the key parameters used to address this risk. The Council approved treasury and investment strategies address the main risks and the central treasury team address the operational risks within the approved parameters. This includes:

- monitoring the maturity profile of financial liabilities and amending the profile through either new borrowing or the rescheduling of the existing debt; and
- monitoring the maturity profile of investments to ensure sufficient liquidity is available for the Council’s day to day cash flow needs.

The maturity analysis of financial liabilities is as follows:

31/03/16		Approved Maximum Limits		31/03/17
		%	£’000	
£’000				£’000
29,001	Less than one year	25	59,158	24,000
-	Between one and two years	25	59,158	1,000
7,429	Between two and five years	50	118,315	8,429
34,677	Between five and ten years	75	177,473	64,502
170,524	More than ten years	75	177,433	138,699
241,631	Total			236,630

39.(c)(v) Market Risk

Interest rate risk - The Council is exposed to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council, depending on how variable and fixed interest rates move across differing financial instrument periods. For instance, a rise in variable and fixed interest rates would have the following effects:

- borrowings at variable rates – the interest expense charged to the Comprehensive Income and Expenditure Statement will rise;
- borrowings at fixed rates – the fair value of the borrowing will fall (no impact on revenue balances);
- investments at variable rates – the interest income credited to the Comprehensive Income and Expenditure Statement will rise; and
- investments at fixed rates – the fair value of the assets will fall (no impact on revenue balances).

Borrowings are not carried at fair value on the Balance Sheet, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services and affect the General Fund Balance, subject to influences from Government Grants. Movements in the fair value of fixed rate investments will be reflected in the Comprehensive Income and Expenditure Statement, unless the investments have been designated as fair value through the Comprehensive Income and Expenditure Statement.

The Council has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws on the Council's prudential and treasury indicators and its' expected treasury operations, including an expectation of interest rate movements. From this Strategy a treasury indicator is set which provides maximum limits for fixed and variable interest rate exposure. The central treasury team will monitor market and forecast interest rates within the year to adjust exposures appropriately.

If all interest rates had been 1% higher with all other variables held constant, the financial effect would be:

	£'000
Increase in interest payable on variable rate borrowings	-
Increase in interest receivable on variable rate investments	(284)
Impact on Other Comprehensive Income and Expenditure	(284)
Share of overall impact credited to the HRA	(127)
Decrease in fair value of fixed rate borrowings liabilities (no impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure)	(46,815)

The approximate impact of a 1% fall in interest rates would be as above but with the movements being reversed.

Other areas of market risk are price risk and foreign exchange risk. The Council has no exposure to these risks through its treasury activities. The Council does not invest in equity shares (so called "available for sale" Assets) and consequently is not exposed to gains or losses arising from movements in the prices of shares. The Council does not lend or borrow in foreign currencies and has no exposure to gains or losses arising from movements in exchange rates.

40. OTHER LONG TERM LIABILITIES

2015/16 £'000		2016/17 £'000
114,222	PFI Finance Lease Liabilities	108,640
1,224	PFI Deferred Income	1,121
115,446	Total	109,761

41. INTEREST PAYABLE

2015/16 £'000		2016/17 £'000
10,992	Interest Paid	11,041
12,804	Finance Lease Interest PFI/NPDO	12,742
3,530	Impairment of Long Term Investment	-
27,326	Total	23,783

HOUSING REVENUE ACCOUNT INCOME AND EXPENDITURE STATEMENT

This account reflects the statutory requirement to account separately for Council Housing and it shows the major elements of housing revenue expenditure and capital financing costs and how these are met by rents, housing support grant and other income.

2015/16		2016/17
£'000		£'000
(49,681)	Dwelling Rents	(51,472)
(1,680)	Non-Dwelling Rents	(1,737)
(665)	Hostels	(661)
-	Housing Support Grant	-
(1,106)	Other Income	(3,344)
(53,132)	Total Income	(57,214)
22,538	Repairs and Maintenance	22,725
13,252	Supervision and Management	15,132
15,025	Depreciation and Impairment of Non-Current Assets	17,722
1,158	Other Expenditure	933
(23)	Increase/(Decrease) in Bad Debts Provision	(258)
51,950	Total Expenditure	56,254
	Net Expenditure of HRA Services as included in the Comprehensive Income and Expenditure Statement	(960)
(1,182)		(960)
258	HRA Services Share of Corporate and Democratic Core	242
(924)	Net Expenditure of HRA Services	(718)
	HRA Share of Operating Income and Expenditure included in the Comprehensive Income and Expenditure Statement:	
(1,434)	(Gain)/Loss on Sale of HRA Non-Current Assets	(4,036)
4,563	Interest Payable and similar charges	4,878
(3)	Interest and Investment Income	(84)
500	Pensions Interest Cost and Expected Return on Pension Assets	355
(3,295)	Recognised Capital Grant Income	(4,362)
(593)	(Surplus)/Deficit for the Year	(3,967)

Movement on the Housing Revenue Account Statement

2015/16		2016/17
£'000		£'000
(5,093)	Balance on the HRA at the end of the previous year	(4,781)
(593)	(Surplus) or Deficit for the year on HRA Income and Expenditure Statement	(3,967)
1,224	Adjustments between Accounting Basis and Funding Basis under Statute	3,598
631	Net (Increase) or Decrease before transfers to or from Reserves	(369)
(319)	Transfers (to) or from Reserves	57
312	(Increase) or Decrease in Year on the HRA	(312)
(4,781)	Balance on the HRA at the end of the Current Year	(5,093)

HOUSING REVENUE ACCOUNT DISCLOSURES
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(a) **Adjustments between Accounting Basis and Funding Basis under Statute:-**

2015/16 £'000		2016/17 £'000
1,434	Gain or (loss) on sale of HRA non-current assets	4,036
8,218	Capital expenditure charged to the HRA	9,174
165	Statutory Repayment of Debt (Finance Lease Liabilities)	-
(15,025)	Depreciation and Impairment	(17,722)
3,946	Statutory Repayment of Debt (Loans Fund Advances)	4,488
(910)	HRA share of contributions to or from the Pensions Reserve	(804)
37	Accumulated Absences Account	-
64	Difference between any other item of income and expenditure determined in accordance with the Code and determined in accordance with statutory HRA requirements	64
3,295	Recognised Capital Grant Income	4,362
1,224	Total	3,598

(b) **Housing Stock**

The Council Housing Stock at 31 March 2017 was 16,276 properties in the following categories:-

2015/16 Number		2016/17 Number
2,677	One bedroom and under	2,684
8,655	Two bedrooms	8,635
4,532	Three bedrooms	4,462
485	Four bedrooms	478
17	Five bedrooms and larger	17
16,366	Total	16,276
£59.64	Average Weekly rent (52 week basis)	£61.85

(c) **Rent Arrears**

Rent Arrears at 31 March 2017 were £3,638,729 (£3,677,716 in 2015/16).

(d) **Bad Debt Provision**

An impairment of £2.734m has been provided in the Balance Sheet for irrecoverable rents, a reduction of £0.258m from the provision in 2015/16.

(e) **Losses on Void Properties**

2015/16 £'000		2016/17 £'000
492	Dwelling Rents	461
165	Non-Dwelling Rents	178
657	Total	639

COUNCIL TAX INCOME ACCOUNT

This account shows all the income raised from Council Tax. Owners or tenants of domestic properties (with some exceptions) are liable for a banded charge depending on the value of each property. There is a scheme under which those on low incomes are entitled to Council Tax Reduction.

2015/16		2016/17
£'000		£'000
	Expenditure	
1,746	Exemptions	1,706
6,465	Discounts	6,452
7,882	Council Tax Reduction	7,609
67	Relief (Persons with a Disability)	68
56	Prior Year Adjustments	8
1,001	Provisions Against Bad and Doubtful Debts	1,129
<u>17,217</u>	Total Expenditure	<u>16,972</u>
	Income	
<u>71,601</u>	Gross Council Tax Levied	<u>72,308</u>
<u>71,601</u>	Total Income	<u>72,308</u>
54,384	Surplus for Year	55,336
	Appropriated as follows	
<u>54,384</u>	General Fund	<u>55,336</u>

Council Tax Reduction (CTR) was introduced from 1 April 2013 to replace Council Tax Benefit (CTB), which has been abolished by the UK Government as part of its welfare reform programme.

COUNCIL TAX ACCOUNT DISCLOSURES
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(a) Background

Falkirk Council's net expenditure, after deducting income from fees and charges, grants, the non-domestic rates pool and excluding expenditure chargeable against other sources of funding, is met from Council Tax.

Council Tax is payable on any dwelling which is not an exempt dwelling (prescribed by an Order made by Scottish Ministers). The amount of Council Tax payable depends on the valuation band of a dwelling as entered in the Council Tax Valuation List by the Assessor. Discounts and exemptions as specified in legislation can be applied to the gross charge.

By law, Falkirk Council is required to bill and collect water and waste water charges on behalf of Scottish Water. These charges are payable by those persons living in or liable for domestic premises having a public water or waste water connection. These charges are determined by Scottish Water and do not relate to the finances of Falkirk Council.

(b) Calculation of the Council Tax Base (Per 2015/16 Budget)

	Band A *	Band A	Band B	Band C	Band D	Band E	Band F	Band G	Band H	Total
No. of Dwellings	-	22,227	19,366	6,660	8,693	8,563	5,180	2,537	64	73,290
Exempt Dwellings	-	855	467	147	132	94	43	15	1	1,754
Chargeable Dwellings	-	21,372	18,899	6,513	8,561	8,469	5,137	2,522	63	71,536
Disabled Reduction	-	80	98	60	58	75	40	15	-	426
Adjusted Chargeable Dwellings	80	21,390	18,861	6,511	8,578	8,434	5,112	2,507	63	71,536
Discounts (25%)	33	12,579	7,038	2,636	2,502	1,722	645	-	-	27,155
Discounts (due to being second homes)	-	156	119	55	45	37	13	12	3	440
Discount (long term empty properties)	-	248	177	79	65	40	17	12	1	639
Discount (occupied by disregarded adults)	2	12	6	1	8	1	1	-	-	31
Not entitled to discount	45	8,395	11,521	3,740	5,958	6,634	4,436	2,242	46	43,017
Effective Dwellings	71	18,039	16,951	5,785	7,894	7,965	4,935	2,435	58	64,133
Ratio to Band D	5/9	6/9	7/9	8/9	1	11/9	13/9	15/9	2	
No. of Band D Equivalents	39	12,025	13,184	5,142	7,894	9,735	7,128	4,058	116	59,321
Add: Estimated Growth in tax base										246
Less: Dwellings for which collection of Council Tax is considered to be doubtful – 98% collection										1,191
Less: Impact of Council Tax Reduction Scheme										7,609
Budgeted Council Tax Base										50,767

(c) The Council Tax Charge

The actual Council Tax is levied according to the Base Band 'D' charge and weighted in accordance with ratios detailed above. The charges set for each Band for 2016/17 are as follows:

Band	£ per Dwelling
A*	594.44
A	713.33
B	832.22
C	951.11
D	1,070.00
E	1,307.78
F	1,545.56
G	1,783.33
H	2,140.00

* Band 'A' with Disabled Persons Relief

NON-DOMESTIC RATES ACCOUNT

Non-Domestic Rates are a tax levied by local authorities on the occupiers of commercial, industrial and other non-domestic properties within their area, as distinct from a charge for their use of services. The rates charge for each property is determined by the rateable value placed upon it by the Assessor, multiplied by the National Rate Poundage which is set by Scottish Ministers. The Rate Poundage was set at 48.4 pence. The small business bonus scheme provides relief ranging from 25% to 100% for properties with rateable values of £18,000 and less. The cost of the small business bonus scheme was met from a supplement of 2.6 pence on properties with rateable values in excess of £35,000. Although councils bill and collect the sums due, these are paid into the National Non-Domestic Rate Pool and allocated back to councils by the Scottish Government.

2015/16		2016/17
£'000		£000
	Income	
83,753	Rate Levied (including large Business Supplement)	87,230
<u>83,753</u>	Total Income	<u>87,230</u>
	Expenditure	
4,307	Small Business Bonus Scheme	4,530
1,486	Rating (Disabled Persons) Relief	1,532
3,208	Mandatory Relief	3,201
494	Discretionary Relief	467
109	Sports Club Relief	174
3,686	Voids and Empty Periods	2,684
1,073	Write-Off of Uncollectable Debts	1,175
<u>14,363</u>	Total Expenditure	<u>13,763</u>
69,390	Net Non-Domestic Rate Income	73,467
<u>(3,482)</u>	Adjustments to previous years National Non Domestic Rates	<u>(88)</u>
65,908	Total Non-Domestic Rate Income (before Authority Retention)	73,379
<u>(900)</u>	Non-Domestic Rate Income Retained by Authority (TIF)	<u>(1,088)</u>
<u>65,008</u>	Contribution to Non-Domestic Rate Pool	<u>72,291</u>
<u>62,336</u>	Distribution from Non-Domestic Rate Pool	<u>68,031</u>
<u>62,336</u>	Income Credited to the Comprehensive Income and Expenditure Statement	<u>68,031</u>

The Business Rate Incentivisation Scheme (BRIS) permits local authorities to retain half of the NDR Income which exceeds the buoyancy rate target set by the Scottish Government. The BRIS buoyancy rate target as set out in the Scottish Government Local Government Finance Circular is based on audited contributable amounts. The determinant of whether a council has achieved the BRIS target will therefore be based on the audited 'Contributable Amount' figure reported in the Non-Domestic Rates Income Return for 2017/18, which will not be completed until June 2018. Based on figures to date noted in the table below it is calculated that the Council could possibly exceed the target once verified by Scottish Government and if successful will be claimed in 2017/18 annual return.

	%
BRIS target	0.8
Actual Buoyancy rate	1.00
Excess over target	0.2
50% retained	0.1

NON-DOMESTIC RATES ACCOUNT DISCLOSURES

(a) Analysis of Rateable Values as at 1 April, 2016

	No. of Premises	Rateable Value	
		£'000	%
Shops	1,369	39,935	23.2
Hotels and Public Houses	125	4,516	2.6
Offices	946	13,606	7.9
Industrial – Factories, Warehouses, Stores and Workshops	1,304	39,595	23.0
Sports, Leisure, Cultural, Entertainment, Caravans, Holiday Sites	193	4,759	2.8
Garages and Petrol Stations	74	2,299	1.4
Education and Training	83	11,546	6.7
Public Service Subjects	164	7,239	4.2
Quarries and Mines	16	1,647	1.0
Petrochemical	15	26,535	15.4
Religious	154	1,182	0.7
Health/Medical and Care Facilities	154	10,379	6.0
Utilities	31	7,386	4.3
Communications, Advertising and Other	220	1,409	0.8
Total	4,848	172,033	100.0

(b) National Non-Domestic Rates Pool

The contribution to Non-Domestic Rate Pool represents the rates collected by the Council and paid over to the Government. The income credited to the Comprehensive Income and Expenditure Statement represents the sum received from the Government from the National Rates Pool, distributed through the Local Government Finance Settlement.

COMMON GOOD FUNDS

Common Good Funds were inherited from the former burgh authorities of Bo'ness, Denny, Grangemouth and Falkirk in 1975 and are used solely for the benefit of the residents of these areas. Kilns House is part of the former Falkirk Town Council and was revalued at 1 April 2016.

2015/16 £'000		Former Bo'ness Town Council 2016/17 £'000	Former Denny Town Council 2016/17 £'000	Former Grangemouth Town Council 2016/17 £'000	Former Falkirk Town Council 2016/17 £'000	Total £'000
	Income and Expenditure Account					
	Income					
(24)	Rents Received	-	-	-	(23)	(23)
(4)	Interest	-	-	-	(3)	(3)
(28)	Total Income	-	-	-	(26)	(26)
	Expenditure					
11	Depreciation	-	-	-	11	11
-	Other	2	-	-	136	138
11	Total Expenditure	2	-	-	147	149
(17)	(Surplus)/Deficit for Year	2	-	-	121	123
	Balance Sheet					
178	Fixed Assets	-	-	-	168	168
941	Investments	54	6	25	743	828
-	Creditors	-	-	-	-	-
1,119	Net Assets	54	6	25	911	996
	Financed by:-					
178	Asset Revaluation Reserve	-	-	-	168	168
941	Revenue Reserve	54	6	25	743	828
1,119		54	6	25	911	996



Bryan Smail, CPFA MBA
Chief Finance Officer
28 September 2017

GROUP MOVEMENT IN RESERVES STATEMENT

The Group Movement in Reserves Statement shows the movement in the year on the different reserves held by the Council, together with the movements in the Council's share of those entities in which it has a financial interest.

Group Movement in Reserves Statement for the year ended 31 March 2017

	Falkirk Council Usable Reserves £'000	Usable Reserves of Group Entities £'000	Total Group Usable Reserves £'000	Falkirk Council Unusable Reserves £'000	Unusable Reserves of Group Entities £'000	Total Group Unusable Reserves £'000	Total Group Reserves £'000
Balance at 31 March 2016	(42,706)	5,223	(37,483)	(281,716)	2,354	(279,362)	(316,845)
Movement in Reserves during 2016/17							
Total Comprehensive Income and Expenditure	(1,220)	(14)	(1,234)	149,431	1,108	150,539	149,305
Adjustments between accounting basis and funding basis under regulations	1,648	(141)	1,507	(1,648)	141	(1,507)	-
Increase or (decrease) in 2016/17	428	(155)	273	147,783	1,249	149,032	149,305
Transfers to/from Other Statutory Reserves	-	-	-	-	-	-	-
Balance at 31 March 2017	(42,278)	5,068	(37,210)	(133,933)	3,603	(130,330)	(167,540)

Group Movement in Reserves Statement for the year ended 31 March 2016 - Restated

	Falkirk Council Usable Reserves £'000	Usable Reserves of Group Entities £'000	Total Group Usable Reserves £'000	Falkirk Council Unusable Reserves £'000	Unusable Reserves of Group Entities £'000	Total Group Unusable Reserves £'000	Total Group Reserves £'000
Balance at 31 March 2015	(43,243)	2,346	(40,897)	89,276	(127)	89,149	48,252
Movement in Reserves during 2015/16							
Total Comprehensive Income and Expenditure	18,938	3,201	22,139	(389,393)	2,157	(387,236)	(365,097)
Adjustments between accounting basis and funding basis under regulations	(18,401)	(324)	(18,725)	18,401	324	18,725	-
Increase or (decrease) in 2015/16	537	2,877	3,414	(370,992)	2,481	(368,511)	(365,097)
Transfers to/from Other Statutory Reserves	-	-	-	-	-	-	-
Balance at 31 March 2016	(42,706)	5,223	(37,483)	(281,716)	2,354	(279,362)	(316,845)

GROUP COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

The Group Comprehensive Income and Expenditure Statement combines the Income and Expenditure figures of the Council with the Council's share of the operating results of those entities in which it has a financial interest.

Restated Gross Expenditure 2015/16 £'000	Restated Gross Income 2015/16 £'000	Restated Net Expenditure 2015/16 £'000		Gross Expenditure 2016/17 £'000	Gross Income 2016/17 £'000	Net Expenditure 2016/17 £'000	Notes
215,817	(32,855)	182,962	Children's Services	209,631	(29,947)	179,684	
107,681	(34,091)	73,590	Social Work Adult Services	160,890	(92,519)	68,371	
100,463	(35,015)	65,448	Development Services	75,015	(34,570)	40,445	
69,436	(52,820)	16,616	Corporate & Housing Services	86,230	(57,641)	28,589	
52,527	(53,451)	(924)	Housing Revenue Account	56,496	(57,214)	(718)	
1,119	-	1,119	Valuation Joint Board	1,022	-	1,022	
15,596	(2,959)	12,637	Falkirk Community Trust	15,567	(3,859)	11,708	
562,639	(211,191)	351,448	Net Cost of Services	604,851	(275,750)	329,101	
442	-	442	Other Operating Expenditure	-	(3,306)	(3,306)	
94,723	(59,036)	35,687	Financing and Investment Income and Expenditure	91,461	(57,955)	33,506	
-	(365,808)	(365,808)	Taxation and Non-Specific Grant Income	-	(360,865)	(360,865)	
657,804	(636,035)	21,769	(Surplus) or Deficit on Provision of Services	696,312	(697,876)	(1,564)	
		370	Share of the (Surplus) or Deficit on Provision of Services by Associates and Joint Ventures			330	4
		22,139	Group (Surplus) or Deficit			(1,234)	
		(291,423)	(Surplus) or deficit on revaluation of non-current assets			3,276	
		(97,970)	Remeasurements of pension assets/liabilities			146,155	
		2,157	Share of Other Comprehensive Income & Expenditure of Associates and Joint Ventures			1,108	4
		(387,236)	Other Comprehensive Income and Expenditure			150,539	
		(365,097)	Total Comprehensive Income and Expenditure			149,305	

GROUP BALANCE SHEET AS AT 31 MARCH 2017
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The Group Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities of the Group and combines the Council's assets and liabilities with its share of the assets and liabilities of those entities in which it has a financial interest.

2015/16 £'000		2016/17 £'000	Notes
	Non-Current Assets		
991,134	Property, Plant & Equipment	996,124	
178	Investment Property	168	
259	Heritage Assets	266	
2,271	Intangible Assets	2,312	
104	Assets Held for Sale	74	
500	Long Term Investments	500	
8,257	Long Term Debtors	7,970	
1,002,703		1,007,414	
	Current Assets		
847	Inventories	697	
23,723	Short Term Debtors	20,602	
37,659	Cash and Cash Equivalents	29,882	
1,224	Assets Held for Sale	3,348	
63,453		54,529	
	Current Liabilities		
(31,974)	Short Term Borrowing	(26,157)	
(73,116)	Short Term Creditors (including provisions)	(69,742)	
(105,090)		(95,899)	
	Long Term Liabilities		
(218,614)	Long Term Borrowing	(218,606)	
(303,045)	Defined Benefit Pension Scheme Liability	(461,650)	
(115,446)	Other Long Term Liabilities	(109,761)	
(4,713)	Capital Grants Received in Advance	(4,646)	
(2,403)	Liabilities in Associates and Joint Ventures	(3,841)	
(644,221)		(798,504)	
316,845	Net Assets	167,540	
	Usable Reserves		
(42,706)	Falkirk Council Usable Reserves	(42,278)	
5,223	Usable Reserves of Other Group Entities	5,068	5
(37,483)		(37,210)	
	Unusable Reserves		
(281,716)	Falkirk Council Unusable Reserves	(133,933)	
2,354	Unusable Reserves of Other Group Entities	3,603	5
(279,362)		(130,330)	
(316,845)	Total Reserves	(167,540)	



Bryan Smail, CPFA MBA
Chief Finance Officer

The unaudited accounts were issued on 29 June 2017.

GROUP CASH FLOW STATEMENT

The Group Cash Flow Statement shows the change in the year of cash and cash equivalents of the Council and those entities in which it has a financial interest.

2015/16		2016/17
£'000		£'000
22,139	Net (surplus) or deficit on the provision of services	(1,234)
(79,635)	Adjust net surplus or deficit on the provision of services for non-cash movements	(56,996)
25,048	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	29,686
(32,448)	Net cash flows from operating activities	(28,544)
	Investing Activities	
50,536	Purchase of property, plant & equipment, investment property and intangible assets	63,798
(4,305)	Proceeds from the sale of property, plant & equipment, investment property and intangible assets	(9,275)
(25,145)	Other receipts and investing activities	(29,154)
21,086	Net cash flows from investing activities	25,369
	Financing Activities	
(39,350)	Cash receipts of short and long-term borrowing	(24,345)
4,357	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	4,997
26,755	Repayments of short and long-term borrowing	30,300
(8,238)	Net cash flows from financing activities	10,952
(19,600)	Net (increase) or decrease in cash and cash equivalents	7,777
(18,059)	Cash and cash equivalents at the beginning of the reporting period	(37,659)
	Cash and cash equivalents at the end of the reporting period	
(40)	Cash held by Officers	(44)
(1,628)	Bank current accounts	(2,840)
(35,991)	Short-term deposits	(26,998)
(37,659)		(29,882)

NOTES TO THE GROUP ACCOUNTS

1. GROUP ACCOUNTING POLICIES

The Group Accounting policies are those specified for the single entity accounts. The accounting policies of all group members are materially the same as those of the single entity.

Disclosure of Interest in Other Entities

The Council has adopted the recommendations of Chapter 9 of the Code, which requires local authorities to consider their interest in all types of entity to incorporate into Group Accounts.

A full set of Group Accounts, in addition to the Council's Accounts has been prepared which incorporates material balances from identified bodies.

Nature of Combination

The Council has accounted for its interest in its Associates and Joint Ventures by the equity method of accounting.

With regard to Central Scotland Valuation Joint Board, the Council's interest reflects the requisition share paid by the Council. Goodwill has not arisen as no consideration was paid for such interests.

The Council has accounted for its interest in its Subsidiaries using the acquisition method of accounting. In all instances, the consideration paid by the Council equalled the fair value of the assets and liabilities acquired and, therefore, no goodwill arose on acquisition. Falkirk Community Trust Ltd has been consolidated as a subsidiary under IFRS10 (Consolidated Accounts).

All intra-group transactions have been eliminated from the Group Accounts as part of the consolidation process.

2. FINANCIAL IMPACT OF CONSOLIDATION

By including the Subsidiary and Associate bodies (details of which are shown in Notes 4 and 5 below), the effect on the Group Balance Sheet is a reduction in both Reserves and Net Assets of £8.671m. This represents the Council's share of the net liabilities in those entities.

3. COMBINING ENTITIES

For the purpose of consolidation and incorporation within the Group Accounts, the Council has two Subsidiaries (Falkirk Community Stadium Ltd and Falkirk Community Trust Ltd) and two Associates (Central Scotland Valuation Joint Board and thinkWhere Ltd) and a Joint Venture (Falkirk Integration Joint Board).

Falkirk Council administers the Common Good Funds for the four former Town Councils of Bo'ness, Grangemouth, Falkirk and Denny. These funds can only be used for a limited range of purposes. They are not assets of the Council and are not included in the Council's Balance Sheet, however, they have been included in the Group Account Statements and consolidated in full.

The accounting period end for all entities is 31 March 2017. Copies of the most recent audited accounts of the group entities are available from the Chief Finance Officer, Falkirk Council.

Subsidiaries

FCSL (Holdings) Ltd and Falkirk Community Stadium Ltd (FCSL)

The Council owns 100% of the share capital of FCSL (Holdings) Ltd, which in turn owns all of the share capital of Falkirk Community Stadium Ltd. The principal activity of both companies is the operation of a stadium at Westfield, Falkirk which provides a sports area, stadium and conference facilities. The Stadium is a partnership between Falkirk Football Club and Falkirk Council who set up the Falkirk Community Stadium Ltd which provided the funds to construct and run the Stadium. Falkirk Community Stadium Ltd. has a board of 3 directors who are employees of Falkirk Council.

Following the demerger of the original FCSL in 2009 Falkirk Council retained its overall ground lease over all areas of the site, including the areas leased to FCSL and Falkirk Football Club. In addition, the initial loans advanced by the Council to FCSL ceased to exist with the Council receiving assets in lieu of the sum outstanding. The Council has borne the cost of repaying these loans since 2009.

In 2014 a potential alternative delivery model was identified which would effectively transfer FSCL’s interests under the existing lease to Falkirk Community Trust and all the development sites to the Council. Work to facilitate the alternative delivery model is ongoing.

The Stadium’s deficit has been fully consolidated in the Group. The financial results for FCSL (Holdings) Ltd are included in the figures shown for Falkirk Community Stadium Ltd in notes 4 and note 5.

Falkirk Community Trust Ltd and Falkirk Community Trading Ltd

Falkirk Community Trust Ltd was established by Falkirk Council on 1 July 2011 to take responsibility for the management and operation of a range of community sport, recreation, arts, heritage and library services. The company has charitable status and the Scottish Charity Number is SC042403. A wholly owned subsidiary, Falkirk Community Trading Ltd has been established to govern those activities which are not recognised as charitable. Falkirk Community Trust’s Board consists of twelve directors. Six independent directors are drawn from local business, sport, culture, environmental and learning sectors. Five directors are nominated elected Members of Falkirk Council. There is one Employee Director nominated by Trust staff. Falkirk Community Trading Limited has a board of 3 directors drawn from the Trust’s Board and Executive Management. The Board agreed it would maintain an unrestricted reserve to meet unexpected events and this equates to 2% of the Service Payment received from Falkirk Council and the total budgeted expenditure.

Falkirk Council paid the Trust £11.935m for service provision in 2016/17 (£12.660m in 2015/16 restated). The Trust returned a surplus of £0.601m (£0.121m in 2015/16) which has been fully consolidated into the Group. The financial results for Falkirk Community Trading Ltd are included in the figures shown for Falkirk Community Trust Ltd in note 4 and note 5.

Associates

Central Scotland Valuation Joint Board

This Board is jointly administered by the Councils of Clackmannanshire, Falkirk and Stirling and appoints an Assessor for the valuation area who also acts as Electoral Registration Officer. Falkirk Council is requisitioned for 49.2% of expenditure, based on adjusted population.

thinkWhere Ltd

The principal activity of the company is the provision of corporate Geographical Information Services, in principle to Falkirk, Stirling and Clackmannanshire Councils. Control is split equally over the three Councils.

Joint Ventures

Falkirk Integration Joint Board

Falkirk Integration Joint Board (IJB) is a statutory body established to integrate health and social care services between Falkirk Council and NHS Forth Valley. The contribution provided by Falkirk Council in 2016/17 was £59.521m. The IJB Board comprises 6 voting members consisting of 3 elected members from Falkirk Council and 3 non-executive Health Board members.

4. GROUP INCOME AND EXPENDITURE OF ASSOCIATES AND JOINT VENTURES

Share of the (Surplus) or Deficit on Provision of Services by Associates and Joint Ventures

2015/16 £’000		2016/17 £’000
235	Central Scotland Valuation Joint Board	315
135	thinkWhere Ltd	18
-	Falkirk Integration Joint Board	(3)
370	Total	330

Share of Other Comprehensive Income & Expenditure of Associates and Joint Ventures

2015/16 £'000		2016/17 £'000
(881)	Central Scotland Valuation Joint Board	1,108
(385)	thinkWhere Ltd	-
3,423	Falkirk Community Stadium Ltd	-
2,157	Total	1,108

5. GROUP ENTITIES RESERVES

2015/16 Total		Falkirk Community Stadium Ltd	Falkirk Community Trust Ltd	Central Scotland Valuation Joint Board	thinkWhere Ltd	Common Good Funds	Falkirk Integration Joint Board	2016/17 Total
£'000		£'000	£'000	£'000	£'000	£'000	£'000	£'000
	Usable Reserves							
5,223	Revenue Account (Surplus)/Deficit	7,967	(2,141)	(250)	323	(828)	(3)	5,068
5,223	Total	7,967	(2,141)	(250)	323	(828)	(3)	5,068
	Unusable Reserves							
9	Accumulated Absences Account	-	-	8	-	-	-	8
2,918	Pensions Reserve	-	-	4,286	(136)	-	-	4,150
(333)	Share Capital	-	-	-	(333)	-	-	(333)
(240)	Capital Adjustment Account	-	-	(29)	(25)	(168)	-	(222)
2,354	Total	-	-	4,265	(494)	(168)	-	3,603

6. NON-CONSOLIDATION INTERESTS IN OTHER ENTITIES

The Council has a relationship with the following entities which have been set up for specific purposes but have not been consolidated into the Group.

- Trust Funds - Although administered by Falkirk Council, these have been excluded under the quantitative assessment of materiality.
- The Hub Initiative - This was established to aid the delivery of capital investment projects across Scotland. Equity and working capital is split amongst the private sector (60%), the 17 public sector bodies (30%) and the Scottish Futures Trust (10%). Falkirk Council has no particular control or influence and, therefore, their interest is immaterial.
- Community Schools 2008 Charity – This was established to receive and disburse monies contractually received from the NPDO Schools project holding company to voluntary groups and organisations providing recreational facilities in the Council area. Falkirk Council has no significant influence.

GLOSSARY OF TERMS

While much of the terminology used in this report is intended to be self-explanatory, the following additional definitions and interpretation of terms may be of assistance.

- 1. Accumulated Absences Account**
The account holds the monetary value of annual leave accrued but untaken by employees as at the Balance Sheet date. The majority of the balance in this account will be in respect of teachers' annual leave as their leave is fixed and the majority of it falls in July and August each year.
- 2. Associate**
This is an entity other than a subsidiary or joint venture in which the reporting Council has a participating interest and over whose operating and financial policies the Council is able to exercise significant influence.
- 3. Capital Adjustment Account**
The Capital Adjustment Account is the store of capital resources set aside to meet past expenditure. This account is a technical accounting presentation and is not available for distribution.
- 4. Capital Charges**
A charge to service revenue accounts to reflect the cost of fixed assets used in the provision of services.
- 5. Capital Expenditure**
This is expenditure incurred in creating, acquiring or improving assets where the expenditure is normally financed by borrowing with repayment over a period of years, or by utilising the income from the sale of existing assets.
- 6. Capital Grants Unapplied Account**
The Capital Grants Unapplied Account records grants and developers contributions which have been credited to the Comprehensive Income and Expenditure Statement but have still to be applied to fund capital expenditure. Once applied, the value will be transferred from the Capital Grants Unapplied Account to the Capital Adjustment Account.
- 7. Capital Receipts Reserve**
This represents the capital receipts that are available to finance capital expenditure in future years, after setting aside the statutory amounts for the repayment of external loans.
- 8. Employee Costs**
This includes salaries, wages, overtime, bonus, enhancements, employer's pension and national insurance contributions, travelling and subsistence expenses in addition to other employee allowances.
- 9. Entity**
A body corporate, partnership, trust, unincorporated association, or statutory body that is delivering a service, or carrying on a trade or business, with or without a view to profit. It should have a separate legal persona and is legally required to prepare its own single-entity accounts.
- 10. Financial Instruments Adjustment Account**
This is a balancing account to allow for differences in statutory requirements and proper accounting practices for borrowing and lending. This account is a technical accounting presentation and is not available for distribution.
- 11. Capital Financing Costs**
This includes the costs of financing the sums borrowed by the Council to cover the capital repayment of loans, interest charges and debt management expenses, as well as external repayments for operational leases.
- 12. Fixed or Non-Current Assets**
These are created by capital expenditure incurred by the Council. They include property, vehicles, plant, machinery, roads, computer equipment, etc.
- 13. Generally Accepted Accounting Practice in the UK (UK GAAP)**
This is the overall body of regulation that established how company and local authority accounts had to be prepared in the United Kingdom (prior to the transition to International Financial Reporting Standards).

14. Joint Venture

This is an entity in which the Council has an interest on a long-term basis and is jointly controlled by the Council and one or more entities under a contractual or other binding agreement.

15. Pension Reserve

This represents the difference between accounting for pension costs in line with UK Accounting Standards, and the funding of pension costs from taxation in line with statutory requirements, and is equal to the change in the pension liability (i.e. the commitment to provide retirement benefits).

16. Property Costs

This includes rents, rates, insurance, repairs and maintenance, upkeep of grounds, heating, lighting, furnishings and fittings.

17. Revaluation Reserve

This fund is a store of gains on the revaluation of fixed assets not yet realised through sales. This reserve is a technical accounting presentation and is not available for distribution.

18. Subsidiary

This is an entity where the Council has overall control through the power to govern its financial and operating policies so as to obtain benefits from the entity's activities.

19. Supplies & Services

This includes food, materials, books, uniforms, protective clothing, the purchase of equipment, the purchase of tools, the maintenance of equipment or tools, and various services that are conducted by external contractors.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FALKIRK COUNCIL AND THE ACCOUNTS COMMISSION

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 120 of the Code of Audit Practice approved by the Accounts Commission, We do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Report on the audit of the financial statements

Opinion on financial statements

We certify that we have audited the financial statements in the annual accounts of Falkirk Council and its group for the year ended 31 March 2017 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the group and council-only Comprehensive Income and Expenditure Statements, Movement in Reserves Statements, Balance Sheets, and Cash-Flow Statements, the council-only Housing Revenue Account Income and Expenditure Statement, the Council Tax Income Account, the Non-Domestic Rate Account and Common Good Funds, and notes to the Single Entity financial statements and notes to the Group Accounts, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (the 2016/17 Code).

In our opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2016/17 Code of the state of affairs of the council and its group as at 31 March 2017 and of the surplus on the provision of services of the council and its group for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2016/17 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

Basis of opinion

We conducted our audit in accordance with applicable law and International Standards on Auditing in the UK and Ireland (ISAs (UK&I)). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the council and its group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standards for Auditors, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of the Chief Finance Officer for the financial statements

As explained more fully in the Statement of Responsibilities, the Chief Finance Officer is responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the Chief Finance Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FALKIRK COUNCIL AND THE ACCOUNTS COMMISSION (contd.)

Auditor's responsibilities for the audit of the financial statements

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable legal requirements and ISAs (UK&I) as required by the Code of Audit Practice approved by the Accounts Commission. Those standards require us to comply with the Financial Reporting Council's Ethical Standards for Auditors. An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the circumstances of the council and its group and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Finance Officer; and the overall presentation of the financial statements.

Our objectives are to achieve reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK&I) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Other information in the annual accounts

The Chief Finance Officer is responsible for the other information in the annual accounts. The other information comprises the information other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon except on matters prescribed by the Accounts Commission to the extent explicitly stated later in this report.

In connection with our audit of the financial statements in accordance with ISAs (UK&I), our responsibility is to read all the financial and non-financial information in the annual accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Report on other requirements

Opinions on other prescribed matters

We are required by the Accounts Commission to express an opinion on the following matters.

In our opinion, the auditable part of the Remuneration Report has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014.

In our opinion, based on the work undertaken in the course of the audit

- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003; and
- the information given in the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016).

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FALKIRK COUNCIL AND
THE ACCOUNTS COMMISSION (contd.)**

Matters on which we are required to report by exception

We are required by the Accounts Commission to report to you if, in our opinion:

- adequate accounting records have not been kept; or
- the financial statements and the auditable part of the Remuneration Report are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit; or
- there has been a failure to achieve a prescribed financial objective.

We have nothing to report in respect of these matters.



Stephen Reid, for and on behalf of Ernst & Young LLP

Ten George Street
Edinburgh
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29 September 2017